December 30, 2020 – Hanging Tough or Hanging On?

Feedback from a couple of subscribers this week provided much food for thought. Their thoughts were similar and revolved around the plight of the 8 big shorts, including whether they could sustain continued big losses and continue avoiding publicly reporting them. Letâ??s see if I can unbundle the questions.

If youâ??ve noticed, I stopped reporting on the open and unrealized portions of the losses and the realized and closed out losses for two reasons. One reason is that US tax regulations deem all open and unrealized losses (and gains) for derivatives (futures and options contracts) be marked to market as of the end of December (or designated alternative fiscal) yearend. At that point, there is no distinction between unrealized and realized losses or gains. In addition, as much time as has rolled by since the big shortsâ?? losses started to accrue (in the summer of 2019), the continuous roll over of futures contracts would automatically convert unrealized gains and losses into the realized variety.

This leads to the follow up questions of why havenâ??t the big losses been publicly reported? My answer is largely similar to the answer Iâ??ve given for how JPMorgan has been able to avoid reporting its and its affiliates massive physical holdings of silver and gold, namely, banksâ?? balance sheet reportingâ??s are mostly what the banks want to report. Since the big shorts are mostly banks, just donâ??t hold your breath waiting for the public reporting and recognition of such losses.

In fact, Iâ??ve noticed a concerted effort on the part of the banks to leak stories to the press about what a great year the bullion banks are having in gold and silver dealings. Talk about duplicity. The simple fact is that government data clearly document the concentrated short positions in COMEX gold and silver futures and all thatâ??s needed at that point is the simple arithmetic of multiplying the number of contracts held by the price change â?? not exactly rocket science. We do know derivatives are a zero sum game, namely, what the long side makes or loses is the mirror image on the short side with no exceptions. All the planted stories in the press wonâ??t change that equation.

Itâ??s not difficult to grasp why the big bank gold and silver shorts would seek to hide and distort knowledge of their predicament, as an honest and open admission of their plight would serve as an open invitation for the worldâ??s investors to join in on a few big whalesâ?? vulnerability. The choice between deceiving to buy time or giving up and facing certain immediate additional massive losses is not difficult to comprehend. The big shorts simply have no practical alternative than to pretend that nothing is amiss. The problem is those pesky facts of government position reporting and the movement of price.

Other quite thoughtful questions raised are how long the deliberate misreporting of losses accrued can continue and whether the losses, properly reported or not, threaten the financial viability of the big shorts involved? These questions are more difficult to answer. I suppose itâ??s up to the regulators to decide when financial reporting is deliberately misleading and itâ??s hard at this point to depend on the regulators doing the right thing. The important point is intentional misreporting wonâ??t change the underlying reality of the losses.

As to whether the losses threaten the solvency of the shorts involved, I donâ??t think so, based upon my measure of what the losses amount to and the public financial profile of banks in general. Even with the average losses to the 8 big gold and silver shorts around $1.75 billion each, the overall financial circumstances for such institutions wouldnâ??t seem life-threatening, but what the heck do I (or anyone) know for sure? I do know the losses are not distributed evenly and that the largest short most likely holds losses at least double and likely more that of the smallest of the 8 big shorts. In fact, these are the questions I spend the most time contemplating.

I do know that the losses accruing to the 8 big COMEX gold and silver shorts are the largest in history and a sudden and quite dramatic turn from the very reliable results achieved by these traders for decades. Please remember, the big shorts never lost when loading up on the short side (against the managed money traders) for decades. Doing something consistently profitably for close to 40 years has to influence one into continuing that behavior. It also most plausibly explains getting hooked into a position as threatening as the position the big shorts now find themselves in.

Therefore, itâ??s no real surprise that the big shorts have hung tough to this point (aside from the brief burst of short covering that sent gold and silver prices to new highs in early August). The latest COT report indicated that the 8 big shorts in gold and silver held their largest concentrated short positions since March, so there has been no overall short covering to this point. The big exception, of course, is the behavior of JPMorgan, which for all practical purposes has eliminated completely its formerly dominant short positions.

With there being no question that the 8 big shorts are still massively short, the question becomes are they hanging tough or hanging on? While thatâ??s a question that will only be definitively answered in the fullness of time, since it holds the key to future prices, in my opinion, it is the one question worth pondering. Complicating the matter is whether JPMorganâ??s retreat from the short side is permanent or whether the master gold and silver criminal will reenter the short side and attempt to bail out the big shorts? The answers to these questions are all that matter.

The good news is that the answers will be provided in future data and price reporting, with the bad news being we must await those verdicts. For my part, since this ever-present concentrated short position, particularly in silver, is the sole explanation for the continued suppressed price that so many are starting to recognize (the suppressed price, not necessarily the concentrated short position), I canâ??t help but have an optimistic take. After all, silver is about the only investment asset still about 50% below its former price highs of 40 and 10 years ago. In a world where new and dramatic price highs have been seen in just about everything connected to the investment world that largely accounts for the gushing of forecasts for $50+ silver in the fairly immediate future.

Therefore, Iâ??ve started to think of the 8 big shorts as silverâ??s new BFFâ??s. So am I off my rocker to suggest that silverâ??s newest best friends forever are none other than those meanest of mean girls, the 4 and 8 largest COMEX shorts? How conceivable is it that such a transformation could be possible? Letâ??s face it, I wouldnâ??t begin to argue that the biggest of the silver (and gold) shorts have turned a new leaf and have begun to approach the markets in an honest and aboveboard manner. That would be like a tiger changing his stripes â?? it isnâ??t possible. Then what the heck am I talking about?

Itâ??s not any deliberate change of heart that is about to transform the former metals bad guys into good, itâ??s something much more basic. Like it or not, the big shorts appear close to having exhausted their reign of terror and price suppression that has endured for more than 35 years due to mechanical market realities.

Short (as well as long) derivatives positions are very much open positions that need to be closed out in time. Until open positions are closed out, any resultant losses caused by price movement must be deposited on a daily basis (with gains available for withdrawal). So even though the 8 big shorts have been able to avoid any public disclosure of their losses to date, they have had to deposit every penny of their massive losses with the COMEX clearing house. There are no exceptions to this, as this is what guarantees the continued viability of the CME Group. No matter what is publicly reported, you can be sure that the big shorts have deposited funds sufficient to cover all open losses.

As a result, the big shorts are clearly caught in the bind of not wanting to publicly disclose their massive open losses (out of fear of alerting the investment world to their predicament and vulnerability) and the financial reality of continuing to fund those losses as they accrue and grow â?? making their predicament worse. Either the big shorts must mount a desperate goal line stand (with or without the aid of JPMorgan) and turn prices down sharply and induce the massive amount of outside selling that would enable them to buy back a good number of their short contracts or they will fail to do so. Remember, they must do both, rig prices sharply lower and induce outside selling. One without the other is not enough. The big shorts did succeed in rigging prices lower temporarily into Nov 30 (and reducing their total losses to $9.8 billion), but not in inducing sufficient outside selling. Somewhat close, but still no cigar.

The only apparent method for the big shorts to stop their financial hemorrhaging is to move to buy back or deliver against their big short positions and delivering physical metal in the case of silver looks highly unlikely, to say the least. And any move by the big shorts to buy back short position looks almost certainly to light a new fire under prices â?? a fire not seen, well, ever before.

At such a time, itâ??s hard for me not to think of my old departed friend and silver mentor, Izzy Friedman. I can almost hear him lecture me about the big shorts being about to get their full pants pulled down. Izzyâ??s vision of the big shorts being overrun to the upside never faded, despite them always being able to snatch victory from the jaws of defeat on more times than I care to recount. While I always allowed for the possibility of the big shorts being overrun, I never shared Izzyâ??s fervor. Putting aside the most dangerous words in the financial world, this time sure looks different.

For one thing, the big shorts have never been this deep in the financial hole, with their previous worst high-water marks (prior to this year) being in the summer of 2016 and yearend 2019, both times being out close to $4 billion. Aside from the hole being much deeper at this time, the absence of JPMorgan on the short side and in position for the most massive double cross in history is something Izzy never got to realize, but make his premise all the more compelling. Should the big shorts begin to buy back shorts and send silver on a price journey of the ages, Izzyâ??s vision will live forever â?? at least to me.

With only one trading day left for 2020, Iâ??ll report on the 8 big shortsâ?? final tally in Saturdayâ??s review and am planning on COT report comments late this Monday when the report (most likelythrough Monday, Dec 28) is released. However, I can report on the big 8 shortsâ?? status as oftodayâ??s publishing deadline.

At todayâ??s prices at publication time, the 8 big shorts are out an additional near-$600 million from Fridayâ??s close, putting their total loss at $13.9 billion. Thatâ??s a cool $10 billion more of a loss than occurred at last yearâ??s end (and the previous worst showing in the summer of 2016). Todayâ??s close also puts JPMorgan ahead by about $26 billion on its physical gold and silver holdings, to say nothing about the billions of dollars it extracted in COMEX paper trading over the past 12 years. And if JPM did lease out several hundred millions of silver ounces and significant quantities of gold, while it wouldnâ??t necessarily enhance JPMâ??s total profits, it would sure add to the borrowing shortsâ?? losses, as and when that metal had to be returned.

I would peg the 100 day moving average in gold as being at $1904 (basis the lead February contract) and this still remains what I believe to be is the technical fundsâ?? â??all clearâ?• buy signal. (The 100 day moving average in silver is now at $25.26 and in the rear view mirror at this time).

See you next year (in three days), and with the best of wishes in the New Year to you and yours.

Ted Butler

December 30, 2020

Silver – $26.60Â Â Â Â (200 day ma – $21.44, 50 day ma – $24.54)

Gold – $1894Â Â Â Â Â Â Â Â (200 day ma – $1827, 50 day ma – $1871)

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