

December 4, 2021 – Weekly Review

Gold and silver prices fell for the third week in a row, with gold down by a slight \$4 (0.2%) and with silver down a more substantial 58 cents (2.5%). As a result of silver's relative weakness, the silver/gold price ratio widened out by nearly two full points to just over 79 to 1 and up by more than 6 full points over the past 3 weeks. I continue to believe that silver is crazy undervalued, both on an absolute basis and relative to gold.

There were quite a few significant developments this week, including those of the macroeconomic variety, including the new virus variant and a wobbly stock market; as well as things specific to gold and silver, like unusual COMEX delivery patterns and an interesting Commitments of Traders (COT) report.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses approached the average weekly movement over the past decade, as 4.1 million oz were moved. Total COMEX silver inventories rose by 1.8 million oz to 354.6 million oz, not a particular surprise given the past week's arrival of first delivery day. Also, no big surprise was that the holdings in the JPMorgan COMEX silver warehouse rose by the same 1.8 million oz to 181.2 million oz.

Total COMEX gold warehouse inventories also rose by more than 250,000 oz to 33.9 million oz, with holdings in the JPMorgan warehouse rising by 200,000 oz to 12.92 million oz. Anyone notice a pattern here?

There were some very unusual developments in the COMEX gold and silver deliveries on the December contract this week. In Wednesday's article, I made brief mention about how there were still, after two days of deliveries on the active December futures contract, an unusually high number of 6000 December contracts (30 million oz) remaining open in silver. I didn't mention it, but there were also an unusually large number of gold contracts still open – 20,000 contracts (2 million oz).

What made the remaining number of contracts still open appear large is the fact that the open contracts were just that – open legally-binding contracts in which the price had already been set and agreed upon by the buyers and sellers – so it did not benefit in the least the sellers to delay delivery (the sellers always decide when delivery is made) – as any delay just deprives the sellers from receiving the agreed-upon proceeds on a timely basis. There's no good reason for a seller to delay delivery after first delivery day and that's why that day is usually the heaviest delivery day of the month.

In any event, the "mystery" of the still-open contracts was quickly solved as the next day, a very large number of silver and gold contracts were delivered, more than 5000 contracts in silver and nearly 19,000 contracts in gold. The standout feature was that the largest issuer was Bank of America (Merrill Lynch), which issued nearly 5000 silver contracts (25 million oz) and 11,700 gold contracts (1.17 million oz). I found it encouraging that JPMorgan was the largest stopper (taker) of both gold and silver contracts, because, as I think you know, I find JPM to be the primary silver/gold crook and I am always more comfortable when it is taking in deliveries of silver and gold and not putting deliveries out.

There is no doubt that the very large third-day deliveries were unusual, first for the initial delay and then the large size, so allow me to explain why it was unusual by first outlining all the facts as I know

them to be and that can be easily documented and then by some required speculation to tie the facts together. Foremost in the fact department is the official CME Group year-to-date delivery statistics. Seeing as this is a very comprehensive data source, you'll have to scroll down to the appropriate sections dealing with gold and silver. Of course, if you have any questions on the data, please just ask.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

One of the few facts we can rely on is that while the issuers and stoppers of deliveries are only identified by clearing members (and not the individual customers of the clearing members), it is a requirement that clearing firms must identify if their delivery issues and stops are on behalf of customers or the clearing firm itself. This is done by the required classification if the deliveries are for customers or on behalf of the firm itself — which carries the "house" (H) designation.

So, the first fact to observe is that Bank of America issued the near-5000 contract (25 million oz) silver delivery and 11,700 contract gold delivery from its house account, meaning the deliveries were issued on BofA's behalf and not for customers. Secondly, we can also see that, essentially, all the silver and gold delivery issuances that BofA had previously stopped for delivery (in its same house account) over the preceding year were re-issued on one day, for Thursday delivery.

Another fact is that Bank of America held the requisite short positions in COMEX silver and gold futures for some time prior to Thursday's issuances and it chose to deliver on the third day of delivery, not the first day of delivery, which would make the most sense from an economic point of view. Finally, perhaps seemingly unrelated to the above facts is that Bank of America had previously entered into a deferred criminal prosecution agreement with the Department of Justice for COMEX gold and silver spoofing charges involving a couple of its traders on the Merrill Lynch side of its business and for which it paid a fine of \$25 million. Now, for the speculation.

As far as waiting until the third day to make delivery, the most plausible explanation is that BofA really didn't want to deliver all the prior deliveries it had acquired over the past year and waited until the last practical moment until being forced to deliver. It waited, I believe, to see if the longs standing for delivery would really follow through with their delivery demands or would instead liquidate or rollover their December positions (as usually occurs), thus relieving BofA from having to deliver as many contracts as it did deliver. As far as BofA waiting even longer to issue delivery (shorts have until the end of the month), the delay until the third day was unusual enough as the large remaining open interest after the first two days was starting to draw attention. Observers would be very sensitive to such a large number of contracts remaining open until month end, so in a real sense, BofA waited as long as it could have.

You may recall that about a year and half ago, I speculated that JPMorgan had leased out much of the 400 to 500 million oz of silver that had found its way into the world's silver ETFs and into the COMEX warehouses and the eventual publication of the OCC derivatives report seemed to confirm that BofA was the principal borrower of some 300 million oz of silver. So, when BofA started stopping silver and gold deliveries earlier this year, it looked to me that it was stopping those deliveries in preparation for the eventual metal loan repayment process to JPM.

The sudden redelivery of all the silver and gold that Bank of America had stopped over the past year in one fell swoop on Thursday suggests something has changed, particularly since prices seemed to be higher as the metal was taken for delivery than from where it was sold and delivered. I don't think

repayment of the silver it borrowed from JPMorgan was involved, as Bank of America could have simply transferred its silver (and gold) holdings to JPM, without going through the highly visible COMEX delivery process.

What I find most strange is that BofA had to establish the futures short positions which obligated it to deliver the physical metal and I can conceive of no legitimate purpose for why it would be short at all if it did, as I contend, borrow at least 300 million oz of silver from JPM. The borrower in a metals lease is, essentially, short, and only a fool or a crook would short against a previously established short position. I'm also concerned that Bank of America would show its hand as such a big metals stopper and issuer in light of its fairly recent criminal prosecution agreement with the DOJ.

BofA was never that big of a COMEX delivery participant prior to its settlement with the Justice Department and I find it more than curious that it would become a major participant this past year. Finally, what the heck is Bank of America even doing with such a heavy involvement in COMEX metals in its house account? How does that blend in with its normal businesses? To be sure, I can't help but conclude that somehow and, in some way, JPM just tightened the noose on its epic double cross of the other commercials.

A notable amount of gold and silver was redeemed in the world's gold and silver ETFs this week, but I can't tell if it was plain vanilla collective investor liquidation in reaction to the lower prices, or if it involved conversions of shares for metal in the case of SLV, the big silver ETF. In the overall scheme of things, this is not a top line concern at this time.

Turning to yesterday's COT report, which I wisely refrained from offering specific contract predictions (mainly because I feel I missed pretty badly the week before), there were some developments that I feel were quite significant. There was managed money selling and commercial buying in silver, as expected, and in gold as well, where I was more non-committal, but there were also some potential surprises. Let me run through the details and then explain what I think it all means.

In COMEX gold futures, the commercials reduced their total net short position by 9200 contracts to 258,600 contracts. Thus, we are "only" down around 30,000 net contracts from where we were two weeks ago, and not at a number I would normally consider bullish, but that certainly is less bearish than the market structure was back then.

By commercial categories, the big 4 bought back a rather significant 8700 short contracts in reducing their concentrated short position to 144,136 contracts (14.4 million oz). The next 5 thru 8 big gold shorts actually added 3800 new shorts and the big 8 short position came in at 242,000 contracts (24.2 million oz). The big 5 thru 8 short position hasn't been this large, at nearly 98,000 contracts since last December. Finally, the raptors (the smaller commercials apart from the big 8), bought back 4300 shorts, reducing their net short position to 16,600 contracts.

On the managed money side, these traders sold 13,254 net gold contracts, comprised of by the sale and liquidation of 14,804 longs and the unusual buyback of 1550 short contracts (more on this in a moment). For what it's worth, the managed money traders have liquidated 48,000 long contracts the past two weeks combined, not that far from the 50,000 I had expected in net selling in last week's report (yeah, perhaps I'm groping for some redemption after last week's miss).

Of particular interest in the gold report was the continued short covering by the other large reporting

traders, which after buying back 12,600 shorts last week, bought back another 6055 short contracts this week, the largest two-week short covering by these traders in memory. There's no question these traders handled the gold price decline beautifully (and profitably).

The big 4 concentrated long position increased by a minor 400 contracts or so, indicating that the gold whale stood pat at 38,000 net contracts long, strongly suggesting he or she is in it to win it (for the long term) about as I expected. Yes, the \$100 move up, then down in gold made and then lost more than \$350 million for the whale, but that's simply a function of the size of the position. And seeing as the position is so large (and still unmentioned by virtually everyone), I've come to the conclusion it is not likely to be increased from this level, out of a genuine concern of not getting too big so as to invite or warrant regulatory attention.

In COMEX silver futures, the commercials reduced their total net short position by 5000 contracts to 52,000 contracts. By commercial categories, the big 4 bought back nearly 1000 short contracts and now hold 46,921 contracts net short (nearly 235 million oz) and still up by 600 contracts for the past two weeks. The next largest 5 thru 8 silver shorts bought back 800 shorts and the big 8 short position stood at 64,171 contracts (321 million oz). The raptors were the largest buyers and bought 3200 new longs, increasing their net long position to 12,200 contracts.

On the managed money side of silver, these traders sold 2289 net contracts, consisting of the sale and liquidation of 5837 longs and the surprising buyback and covering of 3548 short contracts. Explaining the difference between what the commercials bought and the managed money traders sold was net selling by the smaller non-reporting traders of 3300 contracts.

So, what does this all mean? Potentially, quite a lot. Among the standout features in both gold and silver, was the surprising short covering this week by the managed money traders in both silver and gold. Over the past two reporting weeks, the price of gold fell by nearly \$80 and silver by a sharper more than \$2, with both metals decisively penetrating downward all the key moving averages. This normally results in substantial managed money long liquidation (which did occur) and new managed money short selling (which didn't occur). In fact, this is a key takeaway.

Over the past two reporting weeks, as mentioned above, the managed money traders liquidated 48,000 long gold contracts, but only added around 2300 new shorts. In silver, the managed money traders liquidated 10,754 long positions and actually bought back close to 3000 short contracts — simply unheard-of behavior. Whenever gold and silver have dropped sharply in price, particularly with a decisive move below all three key moving averages, one could count on two things — managed money long liquidation and new managed money short selling. Not this time. Why is this potentially profoundly bullish?

For longer than I care to remember, I've pounded on two central themes — one, whether the 4 big silver shorts would add aggressively on price rallies and whether the managed money traders would add to short positions on price declines. Let me deal with managed money shorting first. I've always contended that if the commercials could snooker and hoodwink the managed money traders into going short heavily, prices must be expected to fall until the new managed money shorting was exhausted.

Admittedly, it was aggravating to no end as to why the managed money traders would allow themselves to be tricked into going short into a price hole in both silver and gold, since they never collectively profited when getting heavily short. Still, as recently as the last couple of months, the

managed money traders did add aggressively to silver and gold shorts and just as always had occurred, ended up buying back the added shorts at a loss. This looney behavior had gone on for many years with always the same expected result of the managed money shorts being bought back at a loss as prices rallied.

Over the past two reporting weeks, at least, the managed money destructive behavior shows real signs they may have wised up to them being the suckers at the poker table, being taken for a ride by the commercials. Obviously, it may be too soon to proclaim that the managed money traders may have awoken to the ride on the short side the commercials always took them on, but if the refusal of the managed money traders to go short over the past two reporting weeks on an extreme price selloff is a harbinger of them waking up and smelling the coffee, then the game will have changed in a quite profound way.

If the managed money traders have given up their foolish short selling on price smashes, then the impetus and motivation for lower prices just went out the window. I'm not saying that the crooked commercials can't rig selloffs - what I'm saying is that if the managed money traders continue to refuse to go short on a further price selloff, then the motivation for lower prices no longer exists and any price declines shouldn't stick as they have in the past. This is a matter of profound importance to price and the way the game has been played for decades.

The other key feature that I have, quite literally, nearly beaten to death is whether the 4 big silver shorts (and to a lesser extent in gold) will add aggressively to their short positions on a rally. It was a major reason I raised the issue with the CFTC continuously for decades, never changing my tune in the slightest. It was also a key subject of my petitioning the CFTC (through elected officials) earlier this year. As I've recounted, this time the Commission didn't disagree with me for the first time ever, suggesting to me that the CFTC may have had a change of heart about my contentions.

A funny thing has happened that has never been witnessed previously, namely, for the better part of this year, at least for the last ten months, the big 4 short position in silver hasn't increased sharply on silver rallies and today is still close to 20,000 contracts less than it was on Feb 2. I can't say the big 4 short position will never increase in the future, but I can say this is the longest stretch ever where it hasn't increased.

Therefore, the two things that I have focused on exclusively for eons, the big 4 short position and the managed money traders adding to short positions on lower prices, have undergone a profound change of late - the big 4 short position for 10 months and the managed money short position over the past two weeks. I suppose the radical changes in these two trends may not continue to play out as they have, but if they do, then get set for unusual price action.

These two changes may have been subconsciously on my mind in my recent articles. Two weeks ago, in the weekly review of Nov 20, I couldn't help but comment on the quite bearish market structure that had developed in both gold and silver, as gold had risen by more than \$100 and upwardly penetrated all its key moving averages, as the managed money traders bought heavily. Silver had also rallied but had not decisively penetrated its key 200-day moving average, as the managed money traders were big buyers. As a result, I girded for a selloff, although I had chosen to ride it out and add to long positions should a selloff occur.

The next two days featured sharp selloffs in both gold (\$75) and silver (\$1.50) and closed well below all

the key moving averages on what appeared to be substantial volume and I issued a tentative "all-clear" in an early Tuesday report on Nov 23. I apologized in advance if I turned out to be too early (as I often am) and silver did continue lower from that point, ending yesterday a dollar lower than on Nov 23. Gold has fared much better, and after trading higher and lower by more than \$20 in either direction since then, ended very marginally lower yesterday by \$5 or so from where it was on Nov 23.

Even though I was disappointed when the new COT reports came out indicating nowhere near the level of managed money selling (both long liquidation and new short selling) that I was expecting, the more I consider the price action and the details of the reports (no new managed money shorting), I'm more convinced to ride it out and continue to add new silver long positions should prices continue to move lower.

Going into yesterday's trading, I had a strong fear that the commercials were about to lower the boom on gold, attempting to generate significant managed money selling, particularly of the new short variety, since managed money long positions in gold and silver look rather low and washed out. I thought that gold price weakness would likely spill over into silver, which had been much weaker than gold. While silver did make new price lows early yesterday, gold was quite resilient and ended the day higher, although still slightly below all its key moving averages, whereas silver is quite a bit lower than all its moving averages, although it did rally as the day wore on.

Even though the initial COT reports didn't support my expectations of the much greater managed money selling and commercial buying that I had anticipated, the lack of new managed money shorting persuades me to believe the worst may be behind us although admittedly for reasons I hadn't fully contemplated in my "all-clear" of Nov 23. (Sometimes, God looks out for and protects drunks and fools and even good people, too). I admit it's always possible for the commercials to rig prices lower (as that's what these crooks do), but this lack of new managed money shorting is not something I can ignore, particularly since it is so integral to my analysis. The managed money long position is low enough to suggest not much further liquidation on lower prices, making potential new managed money short selling all the more critical.

While it may turn out that the managed money traders will still short heavily on even lower prices after not selling so far, that would really be dumb on their part. It just seems so much more likely that these traders finally realize they were always snookered when the commercials induced them into shorting on low prices that they have quit their formerly foolish ways. A bigger potential change is hard to imagine (other than the big 4 not adding to shorts on higher prices). Should both changes play out, as appears most likely at this point, then it's Katie bar the door (whatever the heck that means). Color me bullish.

The relatively slight selloff in gold this week and larger selloff in silver enabled the 8 big COMEX gold and silver shorts to reduce their total losses by \$300 million from last Friday, to \$8.3 billion.

Ted Butler

December 4, 2021

Silver – \$22.56 (200 day ma – \$25.19, 50 day ma – \$23.57, 100 day ma – \$23.87)

Gold – \$1784 (200 day ma – \$1792, 50 day ma – \$1792, 100 day ma – \$1793)

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