December 5, 2020 – Weekly Review

Following three weeks of lower prices, gold and silver prices snapped back to the upside this week, with gold ending $52 (2.9%) higher and with silver tacking on $1.55 (6.8%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by three full points to 75.8 to 1. Coincidently, this is the strongest silver has closed relative to gold in 11 weeks. And with the ratio down an incredible 50 points from the all-time extremes of silver undervaluation to gold this past March, itâ??s even more incredible how cheap silver remains relative to gold at this point.

There were absolutely extraordinary developments in yesterdayâ??s release of the Commitments of Traders (COT) report in gold that Iâ??m still trying to fully process, but let me run through the usual weekly format before getting to the COT report.

The turnover or weekly physical movement of metal either brought into or removed from the COMEX-approved silver warehouses was slightly below the average weekly movement of the past near decade, at 3.9 million oz for the week. Most of it was of the â??inâ?• variety, as total inventories rose by 3.6 million oz to 390.9 million oz, another new all-time high. Silver inventories in the JPMorgan COMEX silver warehouse rose by 0.6 million oz (a truckload) to 192.8 million oz, also a new record high.

I canâ??t call the increases surprising given that we are in a big traditional delivery month (December) and my most plausible takeaway is that silver needed to be brought in to satisfy delivery demands because what was already there wasnâ??t sufficient. Iâ??m not trying to invent bullish interpretations for every development â?? thatâ??s just the most plausible explanation to me.

Total gold holdings in the COMEX warehouses fell a slight 0.1 million oz to 37.3 million oz, thus preserving the pattern of flat inventories for more than three and half months. In the four months before that, of course, COMEX gold warehouse inventories increased phenomenally, growing by nearly 30 million oz. A reasonable person following gold market developments would be struck by that verifiable but completely unprecedented physical inventory pattern and would seek the most plausible explanation. Iâ??ll leave the judgment of whether I am such a reasonable person up to others, but I continue to believe the big inflow of gold was related to the concentrated short position of the 8 largest shorts in COMEX gold futures, but am open to other explanations. Total gold inventories in the JPMorgan COMEX warehouses fell by 0.126 million oz to 13.15 million oz.

Nothing extraordinary to report on the ongoing gold and silver deliveries against the big December COMEX contracts. At this point, it does look like thereâ??s a slight cooling off in the pace of total gold deliveries which have been torrid this year and Iâ??m not particularly surprised that customers of JPMorgan are among the biggest issuers and stoppers (stopping nearly 4000 more contracts than issuing) in gold, as well as JPM stopping 851 contracts in its house account. After all, when you dominate the gold and silver markets, it would be out of place not to be dominating deliveries as well.

In silver deliveries, customers of JPMorgan have issued more than 1500 deliveries and stopped more than 4200, with the house account of JPM issuing 100 contracts, out of 7889 total issuances so far. Of special note is that Scotiabank, after long insisting it was getting out of the horrid precious metals business has been the largest issuer so far in silver in its house account with 3327 deliveries. It will bea grand day indeed when the door finally smacks these crooks in the butt â?? whenever they do leave.

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

Nothing special to report in ETF developments this week, other than the outflow of metal from SLV appears to have abated, while there are still some withdrawals in gold ETFs (GLD). However, overall physical demand for silver appears to remain strong, including quite strong demand for US Silver Eagles. Of course, all physical demand for gold and silver takes a back seat to paper positioning on the COMEX as far as being a price influence. That leads me to this weekâ??s COT report.

As a bit of background, the basic nuts and bolts of the COT report as far as price movement and any predictions I may ever make for what the next report might indicate or of prospective price movement have largely been predicated on the behavior of the technical funds in the managed money category. These traders have long been the main counterparties to the commercials and what made the managed money traders so predictable was that they have always bought as price rose and sold as the price fell, with special influence as key moving averages have been penetrated.

Because the pattern of behavior by these managed money traders was always so predictable, more observers and commentators have included this behavior in their analyses. Certainly, the behavior was noted and taken advantage of by the commercial counterparties who sold on the way up and bought on the way down, nearly always making a profit off the managed money traders for decades and never absorbing big realized losses. Fading the managed money traders for the commercials was like shooting fish in a barrel.

Of course, the pattern changed starting in the summer of 2019 in gold and this year in silver when, for the first time, the commercials and in particular the largest 8 shorts experienced massive losses on a scale that was unprecedented, as prices kept rising and didnâ??t fall as had previously occurred after the commercials had taken on a big short position. The plight of the 8 big shorts became even worse as a result of the former leader on the commercial shorts, JPMorgan, abandoning the short side.

With that brief background, my expectations for the reporting week that ended Tuesday were guarded, considering that gold and silver prices had been quite weak over the first three trading days of the four day Thanksgiving-holiday trading week, but had turned sharply higher on the Tuesday cutoff. Gold, in fact, had downwardly penetrated its important 200 day moving average early in the reporting week for the first time since March, before rebounding back above that average on the cutoff day.

In addition, deliveries for the first two days of the big December contracts further muddled any predictions I may have had. Finally, I had been convinced that the market structures in both COMEX gold and silver were â??washed outâ?•, meaning there wasnâ??t a lot of room for significant managed money selling (unless, of course, these traders decided to add large numbers of new short positions). More or less, I wasnâ??t expecting too much from the managed money traders, so I wasnâ??t particularly surprised when the new COT report didnâ??t feature much positioning change by the managed money traders in either gold or silver.

But there were two other positioning changes in gold that were quite extraordinary, involving the 8 big shorts and the other large reporting traders (Iâ??m still wondering who the heck these guys are?). Let me run through yesterdayâ??s report.

In COMEX gold futures, the commercials increased their total net short position by 8400 contracts to 293,300 contracts. Thereâ??s nothing particularly extraordinary about this weekâ??s headline change or total overall commercial short position, but the same canâ??t be said about the commercial category breakdown. The 8 largest shorts accounted for more than all the total commercial selling in adding 13,794 new short contracts to a concentrated short positioning now amounting to 263,103 contracts. This is the largest concentrated short position since March 31. The smaller commercials (the raptors) bought back 5300 short contracts and now hold their lowest net short position since May 5. JPM looks to have sold a couple of thousand gold contracts and looks flat. Iâ??ll come back to what makes the behavior of the 8 large shorts so special in a moment.

The managed money traders didnâ??t do squat, in buying a scant 195 net gold contracts, consisting of the sale and liquidation of 3057 longs and the covering and buyback of 3252 short contracts. Thus, the net managed money net long position remains quite low (and bullish) at 85,543 contracts (134,446 longs versus 48,903 shorts). Once again, the big buyers were the other large reporting traders which bought an astounding 16,217 net gold contracts, consisting of the new purchase of 7077 new longs and the buyback and covering of 9140 short contracts. The smaller non-reporting traders sold nearly 8000 net gold contracts to balance things off between the commercials and non-commercials.

Of the two extraordinary developments in this weekâ??s gold COT report was the aforementioned new short selling by the 8 big gold shorts and the big new buying by the other large reporting traders. In fact, more and more, it is looking like the key determinant for gold prices ahead is the outcome of the matchup between the 8 big shorts and the other large trader longs.

As of Tuesday, the other large reporting traders held a net long position of 174,771 contracts (189,898 longs versus 15,127 shorts). It wasnâ??t that far back (a few months) when I first noted how unusual it was that the other large reporting traders came to hold a slightly larger net long position than the managed money traders. Now the net long position of the other large reporting traders is nearly twice as large as the manage money net long position, which I find as almost incredible. Let me finish up with the silver COT report before returning to this matter.

In COMEX silver futures, the commercials added 1000 contracts to a net short position of 61,200 contracts. By commercial categories, the 8 big shorts sold nearly 2000 contracts and now hold a concentrated net short position of 76,186 contracts (381 million oz). The smaller commercials (the raptors) bought 1000 contracts and JPM appears to have sold a couple of thousand contracts and now may be short that amount.

The managed money traders in silver bought just over 1000 net contracts and the other large traders bought nearly 1200 silver contracts. Even though the changes in the gold COT report were more extreme and unusual this week, please keep in mind that the concentrated short position in silver is still twice as large as its counterpart in gold in terms of world production. And in terms of the concentrated short positions compared to existing world bullion inventories, silverâ??s concentrated short position is 20 time larger than goldâ??s. When it comes to concentrated short positions, nothing compares to silver.

Getting back to gold, itâ??s not just this weekâ??s increase in the concentrated short position of the 8 largest traders or the sharp increase in net buying by the other large reporting traders that stands out. In a truly â??man bites dogâ?• affair, this weekâ??s new concentrated short selling occurred on, essentially, lower prices (save for the rally on the cutoff day). Moreover, itâ??s not just a one-week development. As I reported on Wednesday, the 8 big gold shorts have been selling short on declining gold (and silver) prices since the price highs of early August (while the other large reporting traders have been buying on those lower prices and the managed money traders have stood pat). Stop the presses!

What I just wrote would seem to be impossible, yet there can be little doubt that it has occurred. The pattern for decades has been that the managed money traders buy and the commercials sell short to them on higher prices. Thatâ??s what made including COT report analysis part and parcel of just about every commentary out there. But this week and for the past four months that is no longer true.

Adding on to my comments on Wednesday, the 8 big shorts have now added 53,000 net contracts (5.3 million oz) to a short position amounting to 263,000 (26.3 million oz) from 210,000 contracts on Aug 4, as gold prices declined by $300. This is the very first time the big concentrated shorts have added significant numbers of new shorts on a substantial price decline. Now, I know why the 8 big shorts have added so many new gold shorts â?? because the other large traders have bought almost exactly as many new longs â?? but put that aside for a moment and focus strictly on the 8 big shortsâ?? substantial new shorting. How in the world can this new shorting be considered legitimate?

My prime concern has been and is whether the 8 big shorts in gold and silver will add aggressively to new shorts on higher prices. I must confess that them adding aggressively to new shorts on substantially lower prices was never seriously considered because it makes no legitimate sense. We know that the new short selling isnâ??t coming from mining companies (try naming one) and it makes no sense for a legitimate owner of bullion to sell short on lower prices, particularly when such selling will only depress prices â?? not what any real owner would ever do.

At this point, it should hit you â?? the only reason for the new aggressive concentrated short selling by the 8 big gold (and silver) shorts on lower prices â?? is to depress prices. Thatâ??s as far from legitimate and as close to manipulative as it gets. In fact, it canâ??t get any more manipulative and illegitimate than this. Iâ??ve always claimed the concentrated short selling by the 8 big shorts on higher prices was manipulative (and I still do) â?? but try coming up with a non-manipulative explanation for concentrated short selling on declining prices as well and youâ??ll win a Noble Prize – mainly because such an explanation is impossible.

Think of it this way, these big traders have sold short aggressively no matter which way prices moved â?? up or down â?? does that make any sense? I should ask, does that make any legitimate sense, because I can easily come up with an illegitimate reason for selling short aggressively on lower prices, namely, to temporarily keep prices under pressure and prevent higher prices from creating massive losses on an existing excessively large short position. But as with all such cockeyed schemes â?? where and how does all this end?

Do the big concentrated shorts plan to add shorts to infinity, no matter what prices and the underlying circumstances may be as recent developments suggest? And where the heck are the regulators from the CFTC and CME Group while all this verifiable concentrated short selling on now lower prices is occurring? Before I forget, let me add that the new Bank Participation Report indicates that the new shorting is likely coming from US banks and not non-US banks. And also that the recent explosion in trading volume in the 10 ounce micro gold contract is mostly uneconomic day trading in which there is zero commercial participation and, therefore, not the slightest hint of the possibility of legitimate hedging, only pure speculation, which is against why Congress allows futures trading. Therefore, the crooks at the CME Group have introduced and sanctioned a contract completely devoid of economic legitimacy. Way to go guys.

For decades, I have railed against the concentrated short position in silver and, by extension, in gold. As testimony to that effort, I did succeed in getting the CFTC to publicly respond twice to the issue in 15 page public letters, in May of both 2004 and 2008. Later in 2008, I succeeded in getting the CFTC to initiate a formal five year investigation by their Enforcement Division due the unusual concentration by a US bank (JPMorgan) in COMEX silver and gold, as revealed in the Bank Participation Report of August 2008. True, the letters were nonsensical and the investigation went nowhere, but the fact remains the CFTC reacted because the issue of concentration on the short side was that important.

Since then, of course, the CFTC has chosen not to touch the issue at all, regardless of how egregious the short side concentration becomes. I guess if you canâ??t possibly come up with a legitimate sounding explanation, itâ??s best to remain silent. But recent data, since August and into this latest reporting week is making the CFTCâ??s ostrich-like head in the sand approach look increasingly more ridiculous. Aggressive new concentrated short selling no matter which way prices move and the most compelling explanation being that the big shorts buying time against a coming conflagration to the upside? Has it really come to this?

Even more perplexing and outrageous is the failure by about every precious metals analyst and commentator to even mention the concentrated short position (with Ed Steer being a notable exception). Is it because the slightest bit of hand calculation is required (simple multiplication) that prevents the many commentators who have come to embrace the COT report from recognizing the manipulative effect of the concentrated short position in COMEX gold and silver? Let me put it bluntly â?? any commentator who overlooks the concentration data should in turn be overlooked or at least have a good explanation for ignoring the concentration data.

For my part, nothing could be more important than the concentrated short position in COMEX gold and silver, particularly including the recent sharp increase in such shorting on lower prices. This is a very dangerous market situation that, for sure, will end in sharply higher prices in time, especially in silver. As to how it plays out in the short term is, of course, less certain, but if these 8 big traders are adding significant amounts of new shorts on lower prices for the reason most apparent (to prevent prices from inflicting massive mark to market losses), then they are only tightening the noose already around their necks. And through all this, the super crooks at JPMorgan must be smiling like it is in the catbirdâ??s seat (which itâ??s in).

For the week, the 8 big shorts, following three weeksâ?? of relief from lower prices (in hindsight due to their own manipulative new shorting), suffered a setback â?? additional losses of $1.8 billion, bringing their total losses to $11.6 billion, along with a larger short exposure.

As a reminder, Iâ??m now using the February COMEX contract in gold and March in silver for closing price purposes. One final observation – while we are at or slightly through the 50 day moving average in silver, I believe a decisive upward penetration of the 100 day moving average (now at $25) might be required for an â??all clearâ?• buy signal by the technical funds. In gold, Iâ??d venture that the equivalent all clear price is upwards of $1915. (Look at me, I sound like an agnostic quoting the Scriptures).

Ted Butler

December 5, 2020

Silver – $24.30Â Â Â (200 day ma – $20.76, 50 day ma – $24.19)

Gold – $1842Â Â Â Â Â Â Â Â (200 day ma – $1806, 50 day ma – $1883)

Date Created
2020/12/05