

February 15, 2020 – Weekly Review

A late week rally powered gold to its 2nd highest weekly close in nearly seven years and pulled silver back from losses to a slight weekly gain. Gold ended the week higher by \$13 (0.8%), while silver ended 5 cents (0.3%) up for the week. Gold's relative outperformance caused the silver/gold price ratio to widen out by a half point or so to 89.5 to 1. In brief, silver, already dirt cheap, just got cheaper.

Perhaps I'm deluding myself, but I continue to be more encouraged by the ongoing beating that the 7 big shorts are taking, clearly more of a beating as a result of gold's much greater price rise than I am by silver's inability to behave as it has in the past, namely, outperforming gold on rallies. That's because I continue to believe the 7 big shorts in gold and silver are largely the same or nearly so and the enemy of my enemy is my friend and all that jazz.

The 7 big shorts ended the week a further \$350 million in the hole from last Friday, pushing their combined open and unrealized losses to more than \$5.2 billion from last week's \$4.9 billion open loss. The open losses on gold represent more than 80% of the combined open loss.

A recent report indicated that the incredible price run up in shares of the electric car maker, Tesla, inflicted \$8.4 billion in losses to the short sellers in that stock. While that amount is even greater than the losses I attribute to the big shorts in COMEX gold and silver futures, there is absolutely no hint that the short sellers in Tesla are anywhere near as concentrated as they are in gold and silver. That makes all the difference in the world.

Admittedly, there is not the same rigid reporting on the breakdown of short sellers in stocks as there is in futures trading (thanks to the COT report), but that's the point – the US Government, in the form of the CFTC, reports every week, to the contract, what the concentrated long and short positions of the largest traders are in every commodity. The agency does so to monitor whether price manipulation is evident, since manipulation is impossible without a concentrated position. The problem, of course, is that the concentrated short positions in COMEX gold and silver are beyond any reasonable level pointing to manipulation, but the agency doesn't do squat about it.

There are a few recent developments I'd like to dig into, suggesting we are at a critical junction for gold and silver prices, but let me run through the usual weekly format first.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this week to more than 7.1 million oz, the highest weekly physical turnover in 4 months. Total COMEX silver inventories rose 0.9 million oz to 321.4 million oz, less than a million oz below the all-time record set a few weeks back. No further change in the JPMorgan COMEX warehouse from what I reported on Wednesday, when 0.5 million oz were removed, leaving the amount there at 160.9 million oz.

I'm not going to delve into it today, but the continued unprecedented physical movement of cold hard metal swirling into and out from the COMEX silver warehouses, alone among all commodities, is simply astounding. The fact that the unprecedented physical movement has been shockingly consistent for nearly nine years now does tend to dull the senses with the passage of time, but it shouldn't. Even if there weren't other signs that the silver physical supply chain is highly strained and indicative of tightness, this COMEX warehouse turnover would be more than enough. How it has

escaped wider attention for nearly a decade is one of the greatest mysteries of all time (right up there with what women really want).

Turning to the new Commitments of Traders (COT) report, the headline number changes were certainly in keeping with expectations, in that the changes were quite minor. But there was one detail under the hood in silver that caught my eye.

In COMEX gold futures, the commercials increased their total net short position by a fairly insignificant 6100 contracts to 337,800 contracts (the managed money changes were larger, but not excessively so). Still, it has now been more than six months (since August 6) that the commercial net short position has been above the 300,000 contract level, a level that must be considered extremely bearish and is the longest such stretch in history. It is no coincidence that the concentrated short position of the 8 largest COMEX traders (all commercials) has been close to 90% of the total commercial short position overall this time.

This week, the concentrated short position of the 8 largest traders was 293,479 contracts, 87% of the total commercial short position. I know many believe that because the big short traders are classified as "commercials" by the CFTC that somehow that translates into these traders being hedged and immune from losses on the large rise in gold prices since early last summer. But that is balderdash, largely promulgated by those with no real understanding of how markets work or with hands-on professional experience in futures trading. I'd peg JPMorgan's short position in gold to be 34,000 contracts (3.4 million oz) and am quick to add that JPM is the one large short which is fully-hedged by its 25 million oz ownership of physical gold.

On the buy side of gold, the managed money traders bought 14,061 net contracts, comprised of the buying of 7737 new longs and the buyback and covering of 6324 short contracts. That's a bit larger than what the commercials sold, but keep in mind that the managed money traders sold more than 38,000 net contracts in the previous reporting week. The resultant managed money net long position of 195,671 contracts (231,499 longs versus 35,828 shorts) must still be considered extremely bearish in conventional terms, but what the heck is conventional these days? The other large reporting traders did sell 5893 contracts of net longs, but they had bought more than 8000 net contracts in the prior reporting week and still hold an extraordinarily large net long position, which I consider quite bullish.

In COMEX silver futures, the commercials increased their total net short position by a fairly scant 1100 contracts to 92,500 contracts. While there was absolutely no hint at anything unusual in the disaggregated COT report, the concentration data indicated an unusually large reduction in the concentrated short position of the 4 largest shorts of some 4300 contracts. In this case, "unusually large" is an understatement. Either the concentration data was in error or there is some other explanation.

I always treat the COT data as being reported accurately, but sometimes errors are made. Fortunately, reporting errors are extremely rare, but do take additional reports to ferret out. Working on the assumption that all the data (individual category and concentration data) were reported accurately this week, then the only explanation I can come up with to explain the unusually large reduction in the concentrated short position of the 4 largest traders is some type of "stealth" short covering by one of the large traders that was met with new shorting by another large short.

I admit to being predisposed to think of one particular player capable of effecting such a stealth

operation and it is the same one which I hold to be engaged in an ongoing double cross of the other silver shorts. Therefore, I would conclude that JPMorgan may have reduced its short position in silver by some 4000 contracts or the concentration data is in error. So either JPM is now short less than 13,000 contracts or is still short as many as 17,000 contracts. Neither level is much considering that JPM is physically long the equivalent of 180,000 COMEX contracts (900 million oz), but if it did pull off a stealth short covering this week, then that is pretty big news.

On the managed money side of silver, these traders bought a very slim 511 net contracts, consisting of the sale and liquidation of 693 long contracts and the buyback of 182 short contracts. Apropos of the discussion about a possible stealth short covering by JPMorgan, I had raised the question of whether last week's unusually large (11,438 contracts) of managed money short covering was a reporting error and can now say with this week's report, no such error occurred. Whether that will also prove to be the case with this week's concentrated short data will only be known with next week's release.

Among the new developments I wanted to discuss is the unusually large increase in the total open interest in gold over the past two days of more than 30,000 contracts (although yesterday's increase is preliminary and subject to revision on Tuesday, as Monday is a holiday, Presidents Day). The sharp increase in total gold open interest has every indication of being "real", as opposed to being spread-related and artificial, since we just finished the spread or roll over season in gold., where total open interest first gets artificially increased and then artificially reduced. (In contrast, silver is now in its peak rollover season and I'm hesitant to attribute yesterday's 5000+ contract increase in total open interest in the same vein as in gold but it could be).

The most plausible explanation for the sharp increase in total gold open interest is additional net managed money and other speculative buying accompanied by additional commercial short selling. Usually, this would translate into an even more extremely bearish market structure. While that is a completely rational conclusion, the market structure has been extremely bearish for many months and there has been no resolution along the lines of what has been observed in the past, namely, with the managed money traders capitulating and selling aggressively on lower prices. While that outcome is still possible, of course, it increasing appears that the big shorts are the ones most likely to capitulate, based upon the deep financial hole they have dig themselves into.

Thus, the very large increase in total gold open interest these past couple of days strongly suggests that the big shorts are digging their financial hole even deeper. That they are doing so precisely at a time when outside world macroeconomic developments point to higher gold and silver prices is not only notable, but also strikes me as particularly reckless. If it does turn out that the big shorts have miscalculated and are about to panic and get double crossed by JPMorgan, my only regret, aside from having to wait so long for it to occur, is that my dear departed friend and mentor, Izzy Friedman (and others), didn't live long enough to witness it firsthand.

Among the macroeconomic developments on the forefront is the combination of sky-high stock market values and the prospects for some strong economic headwinds, heightened by growing concerns of the coronavirus. I don't comment often on such matters, as I don't see my voice as adding constructively to the discussion and who needs another unqualified opinion tossed into the ring designed to enflame emotions? But I'd be lying if I said I wasn't deeply concerned about such matters. And nothing I see looks at all negative to silver in the long run.

Among those whose opinion I respect would definitely include Chris Martenson and Adam Taggart at Peak Prosperity, which were on the coronavirus potential quite early and have been measured in their (dire) assessment. It's been many years, but I believe I did an interview that may have been among their very first podcasts.

Someone else whose opinion I have come to respect is Scott Miner, the Global Chief Investment Officer of Guggenheim Partners, an investment house with a reported \$275 billion of clients' assets under management. I first mentioned Miner about a month ago when I ran across a short interview he did with Bloomberg at Davos. What shocked me about the interview was at the very end, after discussing the main world economic and market issues at the time, he concluded by mentioning that silver was his best investment idea, which was surprising to say the least. Now, Mr. Miner has just published a letter he sent to clients which encapsulates his take on the current state of world markets. I believe it is worth the short time it takes to read and I am hard-pressed to find anything I disagree with (even if I don't regularly articulate such things).

<https://www.guggenheiminvestments.com/perspectives/global-cio-outlook/coronavirus-impact-on-the-global-economy>

Mr. Miner doesn't mention silver in this letter to clients, but nothing he writes detracts from his original opinion of it being his top pick. In truth, I'm not sure why he prefers silver as I've not seen his reasons laid out, but wouldn't be surprised that it was because of the tremendous value silver offers. One thing I'm fairly sure of is that he isn't aware of silver's long term price suppression due to concentrated short selling on the COMEX and JPMorgan's role, including its accumulation of 900 million physical ounces.

How can I be so sure that Miner is not aware of these things, even though they are fairly easy to prove? Easy - he couldn't possibly handle it without obsessing on them. Had he been aware of these facts, he wouldn't just hold silver out as his top priority pick, he would be so insanely bullish that he would end up sounding like a blithering maniac (kind of like someone I think you might recognize).

Ted Butler

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Silver – \$17.73 (200 day ma – \$16.81, 50 day ma – \$17.63)

Gold – \$1586 (200 day ma – \$1454, 50 day ma – \$1536)

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