

February 19, 2022 – Weekly Review

Gold prices surged this week, up by \$40 (2.2%), to nine-month highs, while silver struggled to keep up, ending higher by 35 cents (1.5%) and at one-month highs. Gold's relative outperformance caused the silver/gold price ratio to widen out slightly to 79.3 to 1.

It's quite rare for silver to underperform, even slightly, on big up moves, but one of the few benefits of this recent performance is that, largely as expected, there was far less deterioration in silver's COMEX market structure compared to gold's structure in yesterday's Commitments of Traders (COT) report. Details in a moment.

The concern, of course, with a deteriorating market structure (managed money buying and commercial selling) is that it increases the likelihood of a sudden sharp selloff as the commercials collude to rig prices lower to flush out the managed money buyers. At the same time, however, it can be quite a while – depending on outside influences – before the commercial collusion on the COMEX succeeds in causing a significant selloff. For example, the COMEX gold market structure was more negative than it is currently for months from the spring of 2020 until the highs of August of that year.

Certainly, in the current general atmosphere, including the showdown in Ukraine, strong inflationary trends and shaky financial markets, to say nothing of a greater political divide in any of our lifetimes, would seem to set the stage for forces away from the usual COMEX-price fixing to govern prices. To those asking if now is a good time to lighten up a bit in anticipation of the usual rig job lower, let me answer with a firm – I don't know. I admit to being prejudiced in not wanting to miss out, at this late stage (for me), on the explosive move I know is coming, particularly in silver, so my personal response for some time has been to take my chances and ride it out – especially considering the macro setup. But to each, his or her own, and we all pay our money and take our chances.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses snapped back this week to 5.8 million oz, slightly above the weekly average for the past 11 years – a shockingly high and unprecedented commodity warehouse turnover. Total COMEX silver inventories fell by 1.3 million oz to 350.9 million oz, just slightly above the lows of the past year. Holdings in the JPMorgan COMEX silver warehouse fell by 0.8 million oz to 183.5 million oz.

Turnover in the COMEX gold warehouses was particularly quiet this week and total holdings were unchanged at 32.7 million oz. No change in the holdings in the JPM warehouse, stuck at 12.74 million oz.

Deliveries against the COMEX February gold and silver contracts are winding down, with total deliveries in the traditionally large gold contract much lighter than in typical months over the past year and longer. Of the nearly 18,000 gold contracts issued, Bank of America has stopped more than 5600 for its house account, but I am more heartened by JPMorgan stopping nearly 2500 gold deliveries for its house account (yeah, I admit to having a hang up on JPM). BofA has also stopped 430 of the 1835 silver contracts issued, with JPM standing aside in its house account.

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

For physical metal flows in the ETFs, I continue to be surprised at the lack of greater deposits into

GLD, following last Friday's surge in trading volume; although yesterday's deposit of 160,000 oz (plus other assorted gold ETF deposits) made sense. There were much heavier deposits into the silver ETFs of another 7 million oz this week, most of which went into SLV, which remains, to me, the most-hated but best friend of silver investors. Over the past few weeks, more than 26 million oz have been deposited into SLV.

Turning to yesterday's COT report, it was a near-perfect split in my expectations a bit better on the commercial selling side in both gold and silver and a bit wider on the managed money side, but within published contract numbers (I'm not aware of anyone else offering predictions by contract numbers). Of course, for the reporting week, predicting managed money buying and commercial selling was a snap, since prices were strong in both metals and it is this positioning that drives prices.

Before I dig into the details, please allow me to point out, just as occurred on the recent sharp price take down of two weeks ago, on this week's price rise, the crooked COMEX commercials behaved just as collusively as they did on the deliberate take down only this reporting week the commercials were near uniform sellers. Some may try to argue that the commercials were merely functioning as market makers but that's hogwash. These commercial crooks were actively capping prices, not making markets. The COMEX is supposed to be an open auction market, not run by a collusive group of manipulating banks and where not one mining company legitimately hedges.

Considering what's going on in the world, including the real possibility of a full-fledged economic dislocation should Russia attack Ukraine and that leads to a series of escalating countermeasures and retaliations, it's not hard to envision a genuine panic in financial markets. In light of this, the regulators should not be allowing more potential fuel to be put on the fire in the form of sitting by and allowing the COMEX commercials to load up on the short side of gold (and silver).

Eight or fewer commercial traders hold more than the entire commercial net short position in COMEX gold and nearly double the net commercial short position in COMEX silver. In light of current circumstances, this level of concentration is nothing short of irresponsible on the part of the regulators, primarily the CFTC and the designated industry self-regulator, the CME Group. I suppose, considering past history, the collusive and concentrated COMEX commercials may succeed in rigging prices lower (yet again), but what if they fail and the price control finally eludes them? Then there could be a market panic to the upside, along with all the recriminations and finger-pointing that could have been avoided if the regulators did their job and prevented the concentration on the short side that has plagued gold and, particularly, silver for decades.

In COMEX gold futures, the commercials increased their total net short position by 27,400 contracts to 238,900 contracts (I had estimated 30,000 to 40,000 contracts and came closer to the upper end in the managed money category). Of course, since the Tuesday cutoff for the reporting week, gold prices continued to surge amid another large increase (43,000 contracts) in total open interest, so it's obvious there has continued to be significant further deterioration in market structure (although Izzy's Full Pants Down premise has suddenly been resurrected).

By commercial categories in gold, the 4 big shorts added 12,200 new shorts to a concentrated short position of 155,303 contracts (15.5 million oz) as of Tuesday the largest (most bearish) since the important price top on Nov 16 (and undoubtedly higher in trading since the cutoff). The 5 thru 8 next largest shorts actually bought back 1100 shorts and the big 8 short position was 242,452 contracts

(24.2 million oz) as of Tuesday. The raptors, the smaller commercials sold off 16,300 longs, leaving them net long to the tune of 3600 contracts as of Tuesday and most likely net short in trading since the cutoff.

On the buy side of gold, it was all a managed money affair, as these traders bought 38,239 net contracts, consisting of the new purchase of 34,296 longs and the buyback and covering of 3943 short contracts. Considering the price action since Tuesday, the managed money traders must be significantly more long by now. Does this increase the chance of a sharp selloff sometime soon? You bet it does. Does it also increase the odds of a blowup in price if any of the collusive commercials get into trouble? Again, you bet it does.

Explaining the difference between what the commercials sold and what the managed money traders bought was significant new shorting by the other large reporting traders of nearly 11,000 contracts. This particular group of traders has been on the money of late and serves as another vote on the coming selloff side, if things suddenly get resolved on the world stage. No change in the holdings of the gold whale, which I'd still peg at 35,000 to 40,000 contracts, including recent deliveries. Not that it's our money, but at yesterday's close, I'd peg the gold whale to be ahead by close to \$900 million, the most since acquiring the position late last summer.

In COMEX silver futures, the commercials increased their net short position by 3800 contracts to 36,300 contracts (definitely on the low end of my 5000 to 10,000 contract range, but with managed money buying coming in at 7300 contracts). While there has been continued deterioration since the Tuesday cutoff, the price gains continued to be more muted than in gold and the total open interest increase since the cutoff is also more muted at around 6000 contracts. Also, one expectation that came through was that there was significant spread creation of around 12,700 contracts in the reporting week and perhaps a bit more since the cutoff. Spreads don't matter in terms of net positioning.

By commercial categories, the 4 big shorts added lightly, by less than 400 contracts, to a short position totaling 47,247 contracts (236 million oz) as of Tuesday. The big 5 thru 8 bought back around 1000 shorts and the big 8 short position was 64,514 contracts (323 million oz) as of Tuesday, down 600 contracts on the reporting week. The raptors (the smaller commercials) sold off 3200 longs so, aside from the slight shorting by the big 4, there was little actual new shorting by the COMEX commercials as a whole unlike the more aggressive new shorting by the big 4 in gold. The increase in the total commercial net short position in silver was the mathematical effect of long liquidation by the raptors. Finally, I think we're down to just one managed money trader is the big 5 thru 8 short category.

On the buy side of silver, the managed money traders bought 7304 net contracts, consisting of the new purchase of 1022 longs and the buyback and covering of 6282 short contracts. I was encouraged that so few new longs were added and not surprised by the short covering (at a loss) by the managed money shorts since I can't recall a single instance over the decades that these traders ever profited collectively when heavily short. It's one of the few truisms I've come to learn that seems inviolate.

Explaining the difference between what the managed money traders bought and the commercials sold was the net selling of more than 3000 contracts by the other large reporting traders, similar to what occurred in gold. The difference here is that I don't recall the other large reporting traders in silver being as on the mark as their counterparts in gold, at least recently. No change in the long position of

the budding whale in silver which holds about 15,000 contracts and is in the swap dealer category.

I suppose the bottom line on all this is that the market structure in gold is much more negative than in silver, given the "silver lining" that price wise, silver has performed nowhere near as strong as gold until now. Therefore, since I am reluctant (in principle) to take chips off the table in gold (since I have none to speak of), I am even more reluctant to lighten up in silver. Yes, I know that when gold sneezes, silver usually catches a cold, but the lack of significant deterioration in the silver market structure should serve as an immunity this time around (he said hopefully). Relative to the market structure in gold, silver's market structure looks downright bullish.

I received a timely and I'm sure widely-shared question of many from a long-time subscriber (and friend) that I thought I'd share with you. I did respond to Pat right away but told him I'd likely expand on my answer. Here's his email:

"Can you concoct the selling arguments, facts, statistics, etc. that the geniuses at JPM used to convince the smart investment heads of BOA to do the short? I would love to hear that presentation. How was it even possible?"

Let me first state upfront that my writings on this issue are reasoned speculation based upon the facts as I see them. The best way of settling this is to hear from the Office of the Comptroller of the Currency or Bank of America, as I've urged all along. The OCC report clearly indicates that BofA's precious metals derivatives position increased by more than 100 times or 10,000% in a matter of 18 months and that fact, in and of itself, is so extreme and unprecedented, so as to warrant a fuller explanation without any prompt from me. Just because the OCC and Bank of America have failed to provide an alternative explanation from mine, does that render the issue moot.

I'm not so sure it was solely a masterful selling job by JPMorgan, although that had to be a big part of it. Also included had to be a motivation by BofA to get its hands on \$70 billion for use as it saw fit. Back at the time when my claim that Bank of America borrowed and sold short massive quantities of gold and silver, the world and US were in the throes of the developing COVID pandemic and the US economy and stock market were in a free fall. The stock of BofA and most other stocks had fallen to multi-year lows and the government had not yet begun to inject the trillions of dollars it would provide to pump things up. Therefore, I can easily envision a need for BofA to get ahold of a good chunk of cash in a hurry for a wide variety of purposes - making it highly susceptible to getting lured into a pitch to borrow metal to sell short to raise that cash.

In other words, had overall conditions been different from what they were in the spring of 2020 - say, like today - Bank of America would never have entered into this crazy leasing/short sale travesty. The times and circumstances played a large roll.

As I've maintained all along, Bank of America had no real experience in precious metals and for that reason, I can easily envision it considering the depressed prices of gold and silver for the years up to the leasing/short-selling transactions as proof there was an over-abundance of gold and silver and it would be easily possible for it to secure the physical metal in the future to return and close out the transaction. What better proof of plenty than prolonged low prices? The thought that gold and silver prices were depressed because of an ongoing price manipulation didn't occur to BofA.

Besides, look at how easy it was for Bank of America to borrow hundreds of millions of physical ounces

of silver and tens of millions of physical ounces of gold ??? how could that be if there wouldn't always be an endless supply of physical metal?

So, sure, JPM (through its friends and family) hoodwinked BofA, but it can be argued that BofA allowed itself to be hoodwinked and that was big part of the equation. Look at it another way ??? why was BofA the only bank to plunge headlong into the transactions I allege and that are supported by OCC data? I would argue this was the case because all the other banks (except perhaps Citibank) had prior experience with precious metals leasing 20 years ago and wanted no part of it. As a general observation, the last few years have seen a literal exodus or attempted exodus of banks running away from precious metals dealings as a result on the non-stop regulatory and civil litigation they have had to endure. And here pops up Bank of America, the new kid on the precious metals block, diving headlong into an arena I'd bet dollars to donuts it deeply regrets now. Again, if the OCC and Bank of America have a radically-different take on this, both should speak up.

In closing, as a result of the continued sharp rally in gold this week, the 8 big COMEX gold and silver shorts suffered an additional \$1.1 billion loss, increasing their total losses to \$11.2 billion. Separately, if my speculation about Bank of America is correct, its OTC gold and silver short position is underwater to the tune of \$6 billion in gold (30 million oz at \$1700) and another \$800 million in silver (800 million oz at \$23).

Ted Butler

February 19, 2022

Silver – \$23.95 (200 day ma – \$24.40, 50 day ma – \$23.00, 100 day ma – \$23.28)

Gold – \$1900 (200 day ma – \$1810, 50 day ma – \$1818, 100 day ma – \$1806)

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