

February 29, 2020 – Weekly Review

In a price plunge that can only be described as historic, gold prices fell \$60 (3.6%) for the week, while silver fell an incredible \$1.80 (9.8%) and the actual print price lows were even lower than the closing prices. The bulk of the losses occurred on Friday on what for all intents was record COMEX trading volume and the trading volumes in the two big gold and silver ETFs, GLD and SLV, were also among the highest ever.

The silver/gold price ratio blew out by more than 6 full points to over 95 to 1. Yes, I know that there were a couple of occasions in a history that goes back thousands of years, in which silver may have been slightly cheaper relative to gold than it is now, but let's call it as it really is – silver is beyond crazy cheap compared to gold and everything else in the world. Will it get even cheaper? Ask JPMorgan.

That the gold and silver price smash occurred against a background of plunging stock prices and interest rates and genuine threats of economic upheaval due to a developing coronavirus pandemic is beyond otherworldly – it's a temptation for voluntary drug addiction to escape the near impossibility of intelligently reconciling all the facts. Most amazing is the near-instant explanation that physical gold and silver were dumped to fund margin losses on stocks. That's akin to residents in a just-designated cone of severe hurricane warning dropping everything to call their insurance companies to cancel their windstorm insurance.

Of course, there had to be a reason for the historic plunge in precious metals prices and only those completely unaware or in take-it-to-the-grave deniability about the COMEX positioning manipulation could fail to see it. Included in this category are the regulators, the CFTC and Justice Department, which stand by, literally twiddling their thumbs. About the only good news is that neither were included in the task force on the coronavirus, otherwise surely we would all be doomed.

I could spend a lot of time bemoaning the injustice and failure of the regulators to deal with an obvious price manipulation, but that wouldn't be constructive. Instead, let me deal with what just occurred as clinically as possible and what is likely to come next. Certainly, the extreme price plunge, as distasteful and financially damaging as it was, wasn't completely unexpected. In fact, it was one of only two possible resolutions discussed on these pages for many months, going back to last summer.

The extremely bearish market structure in COMEX gold and silver futures had to be resolved one way or another, namely, with the 7 big commercial shorts succeeding in inducing the managed money longs to sell on sharply lower prices or failing in that attempt and getting overrun to the upside. I would add another slightly different version to those two outcomes, as I'll describe as I continue.

First, are we done with the price plunge or is there still a lot more to go? I don't know. If there has been anything we've been wrong about over the years, it has been concluding that price flush outs to the downside have been completed, only to see deeper price lows. In my defense, prices always (as I recall) rose above what were my perceived original lows, but not before much personal anguish as new lows were made. The only protection against that is the rule of holding nothing on margin.

On Wednesday, I held out the possibility of a two dollar selloff in silver, not expecting in the slightest that prices would drop as much as \$1.50 in two days, leaving not much room to be embarrassed. At

least both the 50 and 200 day moving averages were decisively penetrated to the downside, which formed the basis for my \$2 downside possibility and there is no doubt that there was massive managed money selling. Which is constructive in terms of improving the market structure, but hardly constructive to one's finances or mental stability, particularly if there's a lot more to go.

In gold, I held out the possibility of as much as a \$250 selloff, should gold's 50 and 200 day moving averages be penetrated. Yesterday, gold's 50 day moving average was touched, but not penetrated and gold is still about \$100 above its 200 day moving average. Am I saying gold must decisively penetrate both moving averages by moving sharply lower or has enough managed money selling occurred to this point? Again, I don't know, but will outline the facts as I see them to be.

One thing I am sticking to is my belief that once this intentional price plunge is completed that the 7 big shorts will not sell short aggressively into the next rally, thus clearing the way for gold and silver prices to truly explode.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 4.8 million oz this week, very close to the average weekly movement of the past 9 years (250 million oz annually). Total COMEX silver inventories rose by 1.2 million oz to 323.7 million oz, a new all-time high. I guess I have to acknowledge that silver prices were savaged this week as total COMEX inventories rose to a new record, but I hope no one suspects that was the reason for the price plunge. It is normal for inventories to increase into the start of traditional delivery months and that would appear to be the case presently. No change in the JPMorgan COMEX silver warehouse, still at 160.9 million oz.

Nothing special to report of the COMEX March silver deliveries, which effectively look over for the month, even though nearly a full month remains. No issues or stopping of deliveries from JPMorgan in its house account, although clients of JPM were net stoppers to the tune of nearly 1000 contracts.

There have been big trading volumes in the two big precious metals ETFs, GLD and SLV, even before yesterday's near-epic volumes, as well as increases in physical deposits and withdrawals, although I doubt yesterday's off-the-charts volume explosion is reflected yet in physical terms. This week, the data on the short positions, as of Feb 14, indicated a slight reduction in the short position of SLV, but that covered a period of slight price change and trading volumes. Trading volumes and price volatility exploded into yesterday's end of month and short reporting periods and with fairly big net deposits of physical metal into SLV, I wouldn't know what to expect in the next short report. All I know is that compared to what has occurred in COMEX futures positioning, nothing else really matters.

Turning to yesterday's Commitments of Traders (COT) report, I wasn't sure what to expect since gold and silver prices rose strongly into Monday's highs, only to fall sharply just after the official early afternoon close and into the Tuesday cutoff. I sensed there was strong managed money buying and commercial selling into the Monday price highs and the opposite late Monday into Tuesday.

I refrained from specific contract predictions given the two-way trade and, quite frankly, by yesterday's release of the report I had resigned myself to yesterday's report being a throw-away considering the extreme price action and trading volume yesterday. However, upon further reflection of the COT report published yesterday, some important data were revealed that appear quite meaningful.

That's not to say that next Friday's reports (there will be a Bank Participation Report as well) will

not be critical, but that there was a wealth of unexpected data in yesterday's report that closely jibed with the price action since Tuesday and fully confirmed some previous long held opinions.

One thing that's important to remember is that the COT report is a snapshot of positioning as of the close each Tuesday. Normally, there are not much dramatic positioning shifts over a typical five day reporting week, but the reporting week that ended Tuesday was far from typical in that there was big managed money buying through Monday's close and big managed money selling into Tuesday's close. Therefore, it's important to keep in mind that this reporting week, the actual positioning extremes were much greater than the week to week snapshot change would suggest. In other words, on Monday's close, the managed money traders were a lot more net long than indicated in this week's report, meaning they sold more enormous quantities into Tuesday than might be suggested in the current COT report.

In COMEX gold futures, the commercials reduced their total net short position by 7800 contracts to 375,100 contracts. Since this is the second largest commercial net short position in history (after last week's all-time record), it must be considered extremely bearish and the subsequent price plunge yesterday can't be considered out of line.

Despite the slight reduction in the total commercial net short position, the concentrated short position of the 4 largest traders increased by nearly 2200 contracts, made even more unusual by the reduction in the concentrated short position of the 5 thru 8 largest traders. I quickly concluded that JPMorgan had increased its gold short position by 4000 contracts to 44,000 contracts (based upon changes in the Producer/Merchant category) and went on to other thoughts. Later, it dawned on me what I believe the data actually indicated, namely, a masterful move by JPMorgan to double cross the other big commercial shorts.

The most unusual feature of this week's COT report was that while JPMorgan had increased its gold short position by 4000 contracts, the other commercial shorts (in the swap dealer category) had bought back 14,565 net short contracts, including the short covering of 16,839 gross contracts. Now, I do believe that the commercial short covering was likely done at a profit, as a result of the buyback of short positions sold at higher prices through Monday's price highs, but it's still very much an outlier that JPMorgan added new shorts as the other commercial shorts were buying back short positions, particularly considering the price action after Tuesday.

My conclusion is that JPMorgan knew it was going to lower the boom on gold (and silver) prices and loaded the boat with additional short positions beforehand, even as the other commercials were buying back short positions. It was the finishing touch on a double cross that had been in the works for quite some time. Simply put, JPMorgan was singularly responsible for this week's price smash. I'll return to this theme in a moment.

On the sell side of gold, the managed money traders sold a net 7700 contracts, nearly matching the total commercial buying contract for contract, consisting of the sale of 15,068 long contracts and the buyback and covering of 7368 short contracts. There was some unusual net buying and selling between the other large reporting and non-reporting traders that basically evened out. The resultant managed money net long position of 230,846 contracts (263,218 longs versus 32,372 shorts) was extremely bearish, as has been the case for months and is less than that as of yesterday.

In COMEX silver futures, the commercials reduced their total net short position by a scant 1400

contracts to 99,400 contracts, which was only slightly less than last week's multi-year bearish extreme. As was the case in gold, the concentrated short position of the 4 largest traders increased by a fairly hefty 2900 contracts.

At first, I was inclined to calculate JPMorgan's silver short position as unchanged at 15,000 contracts, based upon only a slight change in the Producer/Merchant category, but after a deeper examination of what occurred in gold, I'm much more inclined to believe that JPM increased its silver short position by 3000 contracts to 18,000 contracts which perfectly positioned this perfectly-corrupt bank for the price carnage to come. Let there be not the slightest doubt that JPMorgan is the most corrupt market force to ever exist. Gee, I hope I don't get into trouble by saying this.

On the sell side of silver (apart from JPM), the managed money traders sold 4263 net contracts, comprised of the sale of 2259 longs and the new sale of 2004 short contracts. You can be absolutely certain that at Monday's close, the managed money traders were net long by a much wider number of contracts than the 61,689 contracts (86,886 longs versus 25,197 shorts) they were net long on Tuesday's close. And, it goes almost without saying that they are long a heck of a lot less net contracts than they were on Tuesday.

Returning to the theme of JPMorgan double crossing the other big commercial shorts, seeing how it emerged as the biggest (sole) short seller in gold and silver through Tuesday and, therefore, the largest single beneficiary of the spectacular price plunge into yesterday, I'd like to raise anew a thought previously discussed. As dramatic as was yesterday's price plunge, it didn't come close to eliminating the total open and unrealized loss of the 7 big shorts in gold and silver. On yesterday's close, the total open loss was reduced by a very large \$2.5 billion from last week's \$7.2 billion, to a new total open loss of \$4.7 billion.

While this was one of the biggest weekly reductions in the big 7's total open loss, \$4.7 billion is still not exactly chump change, particularly after such a sharp price plunge. Yes, we may be far from done in the price rig job to the downside (I promise I would tell you if I knew for sure), but the thought I would like to re-raise is the matter of the big shorts being extremely reluctant, to this point, to book actual realized losses. They have no problem taking profits, as is evident in this week's COT report on gold, but aside from some recent minor booking of realized losses, the big shorts have been reticent in booking actual losses.

This created a potential opportunity for JPMorgan in that despite the very sharp selloff in gold and silver, there may have been a certain degree of reluctance on the part of the 7 big shorts to aggressively buy into what had been very aggressive managed money selling, since any short buybacks, particularly in gold, would still result in the booking of large realized losses. I'm not saying that there was no short covering by the 7 big shorts, but that JPMorgan may have been able to buy back a disproportionately large number of shorts into what was certain aggressive managed money selling, given the reluctance of the other big shorts to book realized losses.

Considering the dramatic price plunge and the large amount of trading volume and declines in total open interest (on a preliminary basis) for yesterday, this is exactly the type of market condition in which JPMorgan could have bought back more short contracts than typically. The fact that it added new shorts as the other commercials were covering shorts in this week's COT report fits better for my premise than any glove worn by OJ Simpson. Does this mean we're done with the selloff? I can't say that, but these are unprecedented times and anything is possible. I haven't sold and am not

about to, saving my last bit of speculative option funds (famous last words) until I see the whites of their eyes (yet again).

I do find it interesting that among the precious metals carnage this week, the two metals with the highest concentrated short positions in terms of world production (silver first, platinum second) suffered the greatest losses in that these were the only two metals to have deeply penetrated both the 50 and 200 day moving averages. Even though gold and palladium sold off sharply, neither penetrated either of their 50 or 200 day moving averages (yet). The two precious metals where the concentrated shorts had more to gain (or lose) depending on price movement saw prices decisively plunge and penetrated both key moving averages. Funny how that works (not that I'm laughing).

I also found it interesting that against a background of plunging stock markets and palpable fears of an economic slowdown, the commodity with a PhD in economics, copper, while lower, was down only marginally compared to the precious metals. What gives? What gives is that while the precious metals (silver, gold and platinum) had very large managed money net long positions and equally large concentrated commercial short positions, copper already had a very large and near record managed money net short position, was already deeply below its key moving averages and, therefore, didn't have the same downside potential as did its precious metals counterparts. I'm not saying what copper might do in a genuine worldwide economic collapse, I'm just saying that this week, its economic doctorate appears to have been purchased via the managed money mail order correspondence school of moving averages.

Obviously, we're at a most critical juncture in gold and silver. More than ever, that critical juncture is defined by the same thing that has defined gold and silver for decades, namely, COMEX futures positioning and the role of JPMorgan over the past decade. No matter what happens in the short term, the long term (anything beyond the next few days and weeks) looks explosive to the upside, most likely due to whatever suits JPMorgan. It was all JPMorgan this week and I can't see how that's about to change.

(On a housekeeping note, I'm switching to the May COMEX silver contract for closing price purposes, from the March, which is now the current spot delivery month, which temporarily adds about 8 cents to the price).

Ted Butler

February 29, 2020

Silver – \$16.65 (200 day ma – \$16.96, 50 day ma – \$17.84)

Gold – \$1586 (200 day ma – \$1479, 50 day ma – \$1564)

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