January 1, 2020 – An Interesting Pattern

Yesterdayâ??s end to the year and decade would seem to call for reflection on these specific passages of time in terms of gold and silver. Gold did end the year $240 (18%) higher and silver ended up by $2.40 (15%). For the decade, gold ended up by $430 (39%), while silver only gained about a dollar (6%), but that leaves out the run to near $50 in early 2011. Thatâ??s the trouble with time-specific mileposts â?? they leave out what happened in between.

However, Iâ??m going to take a pass on detailed year and decade end reflections and instead comment on different timelines, namely, how the fourth quarter of 2019 ended compared to the how the third quarter ended, back on September 30. My reason for doing so is to pass along a thought that has been on my mind recently that I would like to share. Itâ??s one of those ideas that may not matter so much in the end, but Iâ??ll feel better getting it out, rather than keeping it to myself. My focus will be on the nature of the gold and silver price rallies which erupted in early June and carried gold to its highest price in six years and silver to its highest price in three years.

The price rallies this year really got going in June for gold and not until July for silver. The standout feature and driving force for the rallies, which topped out in September, was the massive managed money buying in COMEX gold of more than 200,000 net contracts (20 million oz) and 100,000 net contracts in silver (500 million oz). Since the price highs of September, relatively little of the managed money buying has been sold, whereas in the past much of the managed money buying would have been sold on the type of price action seen through early December. This has been at the center of my attention, as you know.

Without rehashing the matter unnecessarily today, my main perspective for the extreme market structures that must get resolved at some point centers on the 7 big shorts in COMEX gold and silver futures, including the possibility of a double cross by JPMorgan. Since the summer, I have tallied the running scoreboard of the big 7â??s level of open and unrealized losses, which have ranged as high as over $5 billion at the price highs of September to as low as $1.8 billion in early December. Yesterdayâ??s close indicates that the big 7 ended the quarter and year a bit over $3.8 billion in total combined open and unrealized losses in COMEX gold and silver futures.

Mostly because of my publishing schedule (Wednesdays and Saturdays), I think I missed something that I only recently noticed. The end of the third quarter of 2019, September 30, fell on a Monday. That day there was a steep drop in the price of gold and silver, of around $30 and 50 cents respectively that came to be quickly offset by rallies of those same amounts over the next two days. So by the time I wrote on Wednesday of that week, I didnâ??t draw any significance from the Monday drop.

But in looking back, I see that there was an even deeper drop in the price of gold and silver over the four trading days ended on September 30 â?? of $70 in gold and $1.50 in silver. In fact, the price declines that climaxed at the quarter end were the first time in several months that the key 50 day moving average was penetrated to the downside in each. And it has only been over the last week or so that those same moving averages were penetrated to the upside.

In thinking about this and applying what I believe to be the same consistent narrative of how I view the price-setting process for gold and silver, it occurred to me that the most logical explanation for why prices fell so sharply into the end of the third quarter on September 30 was as a result of an all-out effort by the big shorts in COMEX gold and silver to rig prices lower in order to reduce, as much as possible, the large open and unrealized losses that I had been calculating for months. Open losses and profits are marked-to-market at regular intervals, from daily (for margin purposes) to more traditional times (like quarter and year ends) for tax and risk-auditing purposes.

The $70 drop in gold and $1.50 drop in silver over the four trading days into September 30, allowed the 7 big COMEX shorts to reduce their quarter-end mark-to-market by roughly $2.4 billion, a very sizable sum (almost $350 million per trader on average). The big shorts clearly benefit from the sudden drop in prices, certainly no one would suggest that the longs (mostly the managed money traders) deliberately arranged for gold and silver prices to get smashed into the quarter end.

In addition to the very favorable mark-to-market reductions in large open losses to the 7 big shorts, a significant number of managed money contracts were sold on the big downdraft in price into Sep 30; making it a case of killing two birds with one stone for the big commercial shorts (including JPMorgan). As it turned out, any additional selling by the managed money traders has proved to be limited as time as progressed, but this was not yet evident at the end of September.

There is no question in my mind that the big concentrated gold and silver shorts arranged for the steep price selloffs into Sep 30, as they were the only ones which had the means, motive, opportunity and intent for the price smash back then, as well as being the only ones who benefitted. Itâ??s simply a shame that I am the only one writing about this, in the face of a supposed ongoing investigation into precious metals manipulation by the U.S. Justice Department and CFTC. These guys are bound to damage their vision by so forcefully and deliberately looking away from whatâ??s occurring.

Again, I didnâ??t see this clearly back in September, but I believe this explains the price smash back then. Having come to see this only recently, I began to wonder if the same circumstance might play out in the just-concluded fourth quarter and year end, which occurred yesterday. Obviously, no such price smash developed into Dec 31 and gold and silver prices were quite strong into the quarter and year end, upwardly penetrating the key 50 day moving averages decisively for the first time in months.

Unlike what occurred into the end of the third quarter, when the 7 big shorts saved themselves around $2.4 billion in mark-to-market open losses, the last week of the fourth quarter and year end added nearly $2 billion in open losses. This is about as stark a contrast as it gets and leaves me with two possible conclusions. One is that I stop thinking about such things so intently because I am seeing things that are just not there. Or two, the big shorts were as successful and intent on driving prices lower into Sep 30 as Iâ??ve alleged, but couldnâ??t do so into Dec 31. And if they couldnâ??t do it again â?? why not and what does that portend?

Certainly, I canâ??t think of any reason why the big shorts wouldnâ??t have preferred the type of selloff that occurred at the end of the third quarter to be repeated in the fourth quarter. So Iâ??m left with the thought that they couldnâ??t do it again â?? for the same reasons the big shorts havenâ??t been able to induce the same meaningful managed money selling theyâ??ve always orchestrated in the past. Here I am particularly sensitive to the relatively low level of short positions held by JPMorgan compared to times in the past when the concentrated short positions were extremely large (as they are now).

Time will tell if the big shorts may be in the type of jeopardy suggested by their apparent failure to rig another quarter end price smash or if Iâ??m seeing things that just arenâ??t there. I donâ??t see any practical benefit in keeping my thoughts private and would leave it up to you and the fullness of time to determine whether there is any merit attached.

We are still destined to see a resolution of the extreme market structures in COMEX gold and silver. Whether the managed money traders will fold (and sell) as they always have in the past on a big selloff or if the big commercial shorts will throw in the towel for the first time on an explosive rally remains to be seen. This is the only question that really matters.

I didnâ??t think it was possible for the amount of attention being paid to the COT report and the futures market structure premise to grow to the extent Iâ??ve observed of late, but seeing is believing. It has gotten to the point where it is more noticeable to observe those commentators who donâ??t feature a COT discussion than those who do. Of course, opinions vary greatly on what the current market structure extremes portend for price, including nothing at all. But one thing appears certain â?? regardless of how the current extremes get resolved, weâ??re all likely to learn much from the inevitable resolution.

Once again, the very best of the New Year to you and yours.

Ted Butler

January 1, 2020

Silver – $17.90Â Â Â Â (200 day ma – $16.38, 50 day ma – $17.29)

Gold – $1520Â Â Â Â Â Â Â Â (200 day ma – $1422, 50 day ma – $1483)

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