January 13, 2021 – The Silver Shorts' Last Stand?

As regular readers most likely know, I started calculating the financial plight of the 8 big shorts in COMEX gold and silver on a twice-weekly basis around June 2019. Thatâ??s when gold moved higher, first to $1350 and then to $1400 and higher, the highest it had been since 2013. Truth be told, Iâ??m not quite sure what made me focus on this financial scoreboard in the manner in which it developed.

I do remember writing (not exactly when) back then that the big shorts had added quite aggressively to short positions early in the move and that if gold rose $100, the big shorts would be out $2.2 billion. Sure enough, gold did rise that amount and more and the big shorts kept getting deeper and deeper into a financial hole, as Iâ??ve chronicled all along. From the end of the third quarter (Sep 30) 2019 when the 8 big shorts in gold and silver were underwater by $2.4 billion, the losses have progressively worsened over the five subsequent quarters to yearend 2020, when the combined loss hit $14 billon, the most ever.

Certainly, the losses have not grown in a straight line, as at the depths of the historic price decline into mid-March 2020, the 8 big shorts were actually back to even (mostly as a result of silverâ??s price plunge to 10 year lows). But by the end of March and the first quarter, a price snapback had the total loss back to $4 billion. From there, the total losses to the 8 big shorts grew to $14 billion at the recent yearend.

The last time I closely followed the financial fortunes of the 8 big COMEX shorts was in the summer of 2016, when a strong rally in gold and silver prices put the big shorts in the red by $3.8 billion at the price peak (as I recall calculating at the time). But by yearend 2016 (shortly after the US presidential election), not only had gold and silver prices lost all of the gains of that summer, the 8 big shorts were remarkably successful at buying back and covering just about all of the short positions they had added earlier in the year. I believe the big shorts basically broke even on the complete roundtrip in 2016, but getting out even after youâ??ve been in the hole for $3.8 billion counts as a success by most accounts.

And getting out even, after being that deep in the hole, no doubt emboldened the big shorts (as did subsequent trading successes until the summer of 2019) and added to a sense of (over) confidence that emboldened the big shorts, explaining why they shorted again so aggressively starting in June 2019.

But the drastic turn in the financial fortunes for the 8 big shorts is not the only big change that has occurred from the summer of 2019. In a development I believe may be just as, or even more important, is the change in the composition of the big shorts. Simply put, starting with the historic selloff of last March (and likely the driver behind the selloff), the former king of the big shorts since 2008, JPMorgan, broke ranks and completely covered its gold and silver short positions. There were some other isolated occasions in the past few years when JPMorgan periodically eliminated its typically-dominant short positions, but it has now been about 10 months since JPM has held no significant COMEX gold and silver short position, not something witnessed previously.

Of course, it makes sense for JPMorgan to have eliminated its typically-held dominant COMEX short positions, as that allows it to profit on its massive gold and silver physical holdings (25 million oz in gold and 1 billion oz in silver), on which it is, or its affiliates are ahead by $25 billion. But itâ??s not just the profit motive alone suggesting that JPMorgan may have sworn off its manipulative short selling of the past.

As a result of the relative wrist slap of the monetary penalty it agreed to in its recent settlement with the Justice Department and the CFTC (in actuality way less than the $920 million widely advertised), JPMorgan also agreed to a deferred criminal prosecution agreement, which would expose the worldâ??s most crooked bank to untold real penalties should it dare do anything improper for the next few years. The monetary penalty was rinky-dink and far from any real punishment for JPM â?? the deferred criminal prosecution agreement was as serious as a heart attack. JPMorgan has every reason to stand aside and not add to short positions on future price rallies solely based on its deferred prosecution agreement.

Further, JPMorgan is hardly alone in carrying the burden of a deferred criminal prosecution agreement, as these DPAâ??s are getting to be a common occurrence among banks typically thought to be COMEX short sellers, including Scotiabank and Deutsche Bank, along with Merrill Lynch, not thought to be a traditional big gold and silver short seller. In fact, itâ??s starting to get easier to identify those commodity trading banks not yet subject to a DPA. Needless to say, this doesnâ??t exactly strengthen the hand of the 8 big shorts.

For all these reasons and a ton more (like the simple matter of the supply/demand fundamentals in silver), the big shorts, as well as other non-manipulative short sellers, look to be in potential very big trouble. Whatâ??s most remarkable is that the price gains over the past year and a half in gold and the past six months or so in silver have involved essentially no significant short covering by the 8 big shorts yet. Yes, JPMorgan has bought back and covered virtually all its shorts, but that just means the 8 remaining big shorts have had to step up and replace JPM. So not only are the remaining 8 big shorts in the deepest financial hole ever thanks to the price rise to date, thereâ??s a legitimate question as to whether they have been abandoned by JPMorgan and further weakened by the yoke of recently agreed-to DPAâ??s.

Where the 8 big shorts have been â??luckyâ?• so far, if you can call it that, is that their predicament doesnâ??t yet seem widely recognized. Iâ??m sure that a small number of sophisticated investors are aware of the plight of the 8 big shorts and have been taking advantage by buying serious quantities of both gold and silver. After all, prices wouldnâ??t have risen as much as they have had the buyers not been more aggressive than the sellers. But the simple truth is that there has been absolutely no mention whatsoever of the concentrated short position in COMEX gold and silver futures by any mainstream media source.

Even on the Internet, the concentrated short position is hardly mentioned. Actually, itâ??s quite ironic in that there seems to be a growing groundswell of opinion that silver is the cheapest asset around (it is) and destined to move sharply higher (ditto) and Iâ??m even starting to hear some ask why silver is so cheap to begin with? Let me make it easy for you â?? the only reason silver is as cheap as it is, is because of the concentrated short position of the 4 biggest traders, who held more than 312 million oz short, as of the latest COT report (and combined with the next 4 largest traders, the concentrated short position grows to nearly 404 million oz).

In a world that is beginning to recognize that silver is the cheapest asset around and destined to climb sharply in price, a handful of short sellers on the COMEX hold the largest short position of any commodity or asset. The connection couldnâ??t be more direct or simple, namely, silver is the cheapest because its short position is the largest.

Over the past year and a half, the biggest damage to the 8 big shorts has come from gold, but more recently silver has begun to add substantially to the loss mix. At current prices, silver accounts for as much as $3 billion of the total losses to the 8 big shorts, way more than any previous time. Every $8 move higher in silver will cause that loss to increase by a further $3 billion, regardless of what greater damage a proportionate move higher in gold would bring. A move to $50 silver, commonly bandied about, would bring the 8 big shorts an additional $10 billion in losses from silver alone.

What happens if the 8 big shorts move to cover and buy back their silver short positions in order to avoid the potential of such potentially catastrophic losses? Best I can tell, all any such attempted short covering would accomplish is to accelerate the timeline of the price rise. Mathematically and mechanically, thereâ??s no way the sole cause of the depressed price of silver can be removed from the equation and reversed without the most drastic price move in history. At the same time, this is the explanation for why the big shorts havenâ??t rushed to cover until now. I believe they finally grasp the extent of the bind they are in. Itâ??s a case of damned if they do try to cover because that will set the price on fire and damned if they donâ??t because they continue to bleed even as they add new shorts.

The only alternative for the big silver shorts is to try and buy time and postpone the inevitable by arranging sharp selloffs, like last week in the hopes of buying back as many short positions as possible. But thatâ??s not a real solution, only the stalling behavior of someone with his back to the wall. Trying to appreciate the desperate plight of the big shorts in silver (and gold) where all they can do is try to rig selloffs in the hopes of inducing others to sell to them, I canâ??t rule out such price rigs at any time.

But complicating the plight of the big shorts is that they have buying competition on rigged selloffs. Itâ??s not enough to just slam prices lower, the big shorts must also buy back shorts, something they have been decidedly unsuccessful at up until this point. Thatâ??s why I must conclude that we are at the point of the big shortsâ?? last stand. The only difference between the big silver shorts of today and General Custer of yesteryear, is that historical records suggest Custer didnâ??t realize he was trapped until the relative last moment. My guess is that the big silver shorts now know they are doomed and are just delaying the inevitable. Iâ??ll get into the all-important COT report on Friday after discussing a few recent developments.

I was encouraged that the sharp selloff last week and into Monday resulted in hardly any metal flowing out of the big gold ETF, GLD, and was even encouraged that less than 5 million oz of silver appears to have come out of the big silver ETF, SLV, in the face of extraordinarily large volume on the selloff. Less than one percent of the silver held in the SLV was redeemed on the selloff, where I was bracing for at least twice that amount or more.

And while there was some increase in the short positions of SLV and GLD in yesterdayâ??s short report on stocks as of December 31, the increases were less than I expected. There was a fairly strong rally in the two week reporting period of some $50 in gold and more than $2 in silver, so it was reasonable to anticipate increases in the short position. But the one million share increase in the short position of SLV to 14.4 million shares (ounces) still left the total short position as a percent of total shares outstanding at under 2.4% (GLD at 3%). I would imagine the short positions are less now given the selloff from yearend.

https://www.wsj.com/market-data/quotes/etf/SLV

Press reports indicate that Gary Gensler, chairman of the CFTC from 2009 to 2014, has been nominated by President-elect Biden to be the chairman of the Securities and Exchange Commission. I had extensive comments about Gensler in the weekly review of Nov 28 and articles bracketing that review. Original press reports had him being nominated as Under Secretary for the Treasury, but it seems what clinched the higher-profile nomination as SEC chair was the Democratic sweep of the two Georgia senate seats on Jan 5, which gave the Democrats effective control of the senate. The sad truth is that had the Democrats not gained an effective majority, Gensler wouldnâ??t have stood a chance of senate approval â?? the banks would have killed his chances.

This makes sense, as I described Gensler as being no friend of the big US banks, despite the feelings of many in the gold and silver community of him being under banker control. As far as Iâ??m concerned, nothing could be further from the truth than Gensler being big buds with the banks and I recall during his CFTC tenure how he was identified as the banksâ?? public enemy number one. Itâ??s quite true that Genslerâ??s efforts to enact position limits and curtail the banks during his time at the CFTC ended in failure, but it wasnâ??t for his lack of trying, which is the true measure of a man.

I am sure Gensler was disappointed for coming up short, as was I and many of you, but I am sure we all have learned from the experience and none more than Gensler. That he finds himself in a position to do something constructive about it and is in position to redeem himself in the bargain bodes well for the public and markets as a whole. In my opinion, you wonâ??t find a smarter or a more ethical public servant and itâ??s fitting that he will head an agency seven times the size of the CFTC, not that size alone is the true measure.

Iâ??m also certain that Gensler knows better than anyone how JPMorgan was his chief nemesis while at the CFTC and he will soon be in a position to exert some long-overdue pushback against one of the worldâ??s most criminal banks. Not that it will ever come out publicly, but I hope Gensler checks out my allegations about JPMorgan gaming the US Mint by buying a massive amount of Silver Eagles from 2011 to 2016 in a manner unintended by the program. Not necessarily to charge JPMorgan (as it should be charged), but as a potential cudgel in future SEC clashes with the bank.

Let those with a different take on Gensler believe what they will, but for me his nomination is decidedly good news coming from Washington, DC, not a source of good news lately. And I hope the good news continues with Commissioner Dan Berkovitz soon being nominated as chairman of the CFTC.

Turning to the new Commitments of Traders (COT) report on Friday, itâ??s hard not to imagine an improvement of some significance (managed money selling and commercial buying) given the sharp and deliberate selloffs in both gold and silver. After closing at new 4 month daily price highs on the prior Tuesday cutoff (Jan 5), gold and silver prices fell sharply in the reporting week ended yesterday, gold by as much as $130 and silver by more than $3.

In the process, gold penetrated its 3 most important moving averages (the 50, 100 and 200 day moving averages) in a single day, while silver penetrated two of its key moving averages (the 50 and 100 day maâ??s) intraday, before recovering going into the close on both days. As a result of the dramatic selloffs, itâ??s almost impossible for there not to have been managed money selling and commercial buying â?? the only questions being by how much and by which specific categories.

As far as how much, additional clues include reductions in total open interest of 13,000 contracts in gold and 6000 contracts over the course of the reporting week. My sense is that the net positioning changes were much larger than that in gold (as much as double) and as much or moderately greater in silver and I hope more in both.

As far as category changes, I would imagine the 8 big shorts did a fair amount of short covering, but there are too many variables as far as other commercial and speculative buyers to predict. Itâ??s entirely possible, for instance, for the other large reporting traders in gold or the raptors in silver to have stepped up aggressively on the buy side. Then again, JPMorgan could have been an aggressive buyer. Much more important than whatever Fridayâ??s report may indicate, I have the strong sense that whatever speculative selling and commercial buying took place through yesterdayâ??s cutoff, it is largely complete. I may regret those words in the very short term, but not for too long.

The insidious nature of the ongoing manipulation is that since the commercials are always big buyers on selloffs, they completely evade any overt criticism, as who can blame anyone who is a big buyer on down days as doing anything wrong? Thatâ??s why and how this manipulation has lasted so long â?? the commercials only buy on selloffs. One must look deeper to see the commercials first rig prices lower through a variety of dirty tricks to induce others to sell before the commercials then buy big â?? but few look that deep, including the regulators. Thatâ??s the simple explanation for how this scam has persisted for so long â?? decades, in fact.

But that was then and this is now and what has changed is that the big shorts have played this scam for too long and now have boxed themselves into a corner by a variety of factors listed above. Their losses have grown to massive levels and there are too few contracts likely to be sold to them on lower prices, due to buying competition. Finally, JPMorgan has completely outfoxed and double crossed the remaining big shorts and left them fully exposed. Now with the world waking up to the fact that silver is the cheapest asset of all and soon, perhaps, to realize why silver is so cheap â?? it wouldnâ??t appear to be a good time to be a big short.

At prices prevailing at publication time, the 8 big shorts werenâ??t able to rig prices lower from Fridayâ??s late close and further reduce their total losses. Call the total losses at $12.2 billion up $100 million from Friday.

Ted Butler

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Silver – $25.50Â Â Â Â (200 day ma – $22.03, 50 day ma -$24.89, 100 day ma – $25.18)

Gold – $1854Â Â Â Â Â Â (200 day ma â?? 1842, 50 day ma – $1869, 100 day ma – $1896)

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