

January 15, 2022 – Weekly Review/Anticipating the Answer

Despite price weakness over the last two trading days, gold and silver prices ended the second week of the New Year higher, with gold up \$21 (1.2%) and silver up by 61 cents (2.7%). Still, for the New Year, both are a bit lower on balance. Silver's relative outperformance this week caused the silver/gold price ratio to tighten in by 1.2 points to 79 to 1, also a bit wider from the yearend finish.

The highlights for the week included a surprisingly bullish Commitments of Traders (COT) report and fresh reports from the retail front of widespread reports of retail product unavailability (to go along with persistent evidence of wholesale silver tightness).

No, you are not alone in wondering why silver prices are not skyrocketing in the face of concrete proof of demand overwhelming supply, but when you learned of the law of supply and demand in Economics 101, there was nothing in the curriculum dealing with the COMEX paper manipulation. Plus, I have some new thoughts on the Bank of America's situation, but let me run through the weekly format first.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses snapped back this week (following two weeks of below-average movement), as nearly 5.8 million oz were physically moved. Total COMEX silver warehouse inventories fell by a million oz to 353.3 million oz, while the holdings in the JPMorgan COMEX warehouse bucked the trend by increasing by 0.2 million oz to 184.9 million oz.

Not much to report (again) in COMEX gold warehouse movement, as there was some slight turnover, but at week's end, no change in total holdings of 33.6 million oz. There was a very slight downtick in the gold holdings in the JPM warehouse, which slipped slightly to 12.77 million oz.

Deliveries in the non-traditional January COMEX gold and silver contracts are certainly a bit larger than typically, with the standout feature being Bank of America being the largest stopper (taker) of both gold and silver contracts. I sense a connection to BofA's unusually large precious metals derivatives position in OTC dealings, but can't pin down any direct conclusions away from this bank never being prominently featured in COMEX deliveries before the last year or so. Certainly, if BofA is attempting to take delivery on enough silver contracts to cover what I believe is an 800 million oz OTC short position, the less than 7.5 million oz it has stopped so far this month, leaves an awful lot left to go.

Holdings in the world's gold ETFs increased slightly this week (by 85,000 oz), in keeping with the firmer prices, but metal holdings in the big silver ETF, SLV, fell by 3 million oz, despite slightly firmer silver prices. As a result, the logical conclusion is that the redemptions were conversions of shares for metal by a large holder(s) for the purpose of increased buying ahead. Obviously, whoever is scooping up physical silver via this share to metal conversion is aware that silver is dirt cheap (because of the manipulation) and is putting that knowledge into play as so should we all.

Turning to yesterday's surprisingly bullish COT report for both gold and silver (I was looking for a neutral report in gold and slightly bullish results in silver), what made the report so bullish was that there was only one "down" day in gold and silver Thursday, Jan 6 bracketed by four "up" days in the reporting week ended Tuesday, Jan 11.

Granted, the one down day was a lulu, with gold falling more than \$35 and silver down by a full dollar that day and it was known that on that one big down day the commercials were buying like crazy and the managed money traders were tricked into selling like crazy. After all, this is the essence of the decades-old ongoing COMEX price manipulation, namely, the crooked COMEX commercials always buy on down days – no exceptions ever. Moreover, in gold the Thursday price smash put prices back below all the key moving averages, so you knew the managed money traders had to be selling.

What caused my expectations to be wide of the mark was that both gold and silver prices rallied pretty strongly on the three reporting days following the Thursday price smash, leading me to the conclusion that the subsequent price rise, including a move in gold back above its key moving averages, should have resulted in managed money buying and commercial selling, largely neutralizing the big commercial buying on that Thursday.

The funny (bullish) thing is that there had to be managed money buying and commercial selling on the three subsequent up days – which means (if the report is correct) that there was a lot more commercial buying on the big Thursday down day – making the new COT report even more bullish than reported and suggesting the Thursday price smash may have been the “grand finale” to the downside – the last down move orchestrated by the commercials just before the price rocket launch.

In COMEX gold futures, the commercials reduced their total net short position by 12,500 contracts to 225,100 contracts, the lowest (and most bullish) this position has been in months and more than 62,000 net contracts less than at the Nov 16 highs for both gold prices and the total commercial net short position. Again, it wasn't the sheer numbers that were so impressive this week, but that there was a reduction in the commercial short position after three pretty strong up days to cap the reporting week.

In terms of commercial categories, it was nearly a mirror-image of what occurred last week, when the big 4 and big 8 shorts did all the short-covering. This week it was mostly a raptor (smaller commercial) affair, as these traders bought back their entire 11,300 contract short position and are now flat. The big 4 shorts added a slight 600 new shorts and hold 132,803 contracts short, just slightly above their near-record low position of the prior week. The big 5 thru 8 short traders bought back 1700 shorts and the big 8 short position dropped to 225,165 contracts (22.5 million oz), the lowest it has been since Sep 28. In essence, an already bullishly configured gold market structure got even more bullish this reporting week.

On the sell side of gold, the managed money traders sold 5197 net gold contracts, less than half of what the commercials bought, and consisting of the sale and liquidation of 4955 longs and the new sale of 243 short contracts. The net long position of the managed money traders fell to 74,000 contracts, still quite low and bullish, particularly when considering that gold appears quite close to a major upside breakout and is above all its key moving averages.

Explaining the difference between what the commercials bought and the managed money traders sold was new shorting by the large other reporting traders of close to 5000 contracts, which is somewhat puzzling considering recent activity by these traders.

Also, there was a fairly large drop of around 3500 contracts in the concentrated long position of the 4 largest traders, following a 4500 contract decrease in the prior reporting week. Naturally, my thoughts

were centered on the big gold whale and whether he may have peeled-off some of his 40,000-contract long position. After all, he had ridden the price of gold higher several times from his average cost of around \$1770, only to see prices retreat a few times. Therefore, peeling off 5000 contracts on a \$50 up move would result in the booking of a \$25 million profit which could be deployed on a gold price selloff.

While that's certainly possible, in further analyzing the data, while the concentrated long position of the 4 largest longs did decline by nearly 8000 contracts over the last two reporting weeks, the long position of the other large reporting traders (where the gold whale resides) declined by less than 3000 contracts over these same two weeks, while the gross long position of the managed money traders declined by more than 11,000 contracts – making it more feasible that the gold whale is holding long and strong.

In COMEX silver futures, the commercials reduced their total net short position by a hefty 6,600 contracts to 37,400 contracts, quite close to the recent lows of the past few months and, obviously, bullish. As was the case in gold, the raptors, the smaller commercials, were the big buyers, buying the bulk of the commercial contracts bought. While my usual breakdown is still impossible due to there being a managed money trader in both the big 4 and big 5 thru 8 short categories, that's incredibly bullish, if statistically muddled.

The managed money traders added nearly 2700 new shorts this reporting week, while the managed money longs sold off nearly 1300 longs. A surprising bullish development this week was the net selling of more than 3200 contracts by the smaller non-reporting traders. These smaller traders now hold close to their lowest net long position (less than 10,000 contracts) in 5 years. What makes this bullish is that in recent years these smaller traders have held net long positions of more than 20,000 and even 25,000 contracts, meaning it is not unreasonable to conclude this one category could be net buyers of 10,000 to 15,000 silver contracts over time on higher prices, putting additional pressure on the traditional 4 big shorts to add new short positions or stand aside and let my people (prices) go.

Please don't be put off by my inability to breakdown big 4 and big 8 short positions as I typically do (both were down slightly this week), because the inclusion of managed money shorts in this category is bullish beyond description and makes the issue of whether the 4 big traditional commercial silver shorts will add to short positions on higher prices more critical than ever (I'm still betting no).

Anticipating The Answer

Sooner or later, the Office of the Comptroller of the Currency and/or Bank of America will have to respond to the unprecedented and massive increase in BofA's position in OTC precious metals derivatives of some 10,000% over the 18 months ending Sep 30, 2021. The answer may not come directly to the public, but it should come to lawmakers with direct supervision and responsibility to oversee banking matters. It's also quite possible that whatever the answer may be, it might not reflect how the OCC and BofA truly see the matter and what may be undertaken behind the scenes.

Since it's always important to put yourself into the shoes of the other guy in anticipating what the explanation may be, today I'd like to suggest what it is the OCC and BofA might be tempted to

say. After all, there is zero chance either will acknowledge that the situation is as serious as I contend it to be, so the guess is how either will attempt to confuse things or muddy the waters. My best guess is that, as some have already suggested, the regulators and the bank will try to defuse the matter by noting that despite the massive surge in BofA's precious metals derivatives position, it still is miniscule compared to the bank's total derivatives position.

BofA's total derivatives position as measured in the OCC report is close to \$20 trillion, while its precious metals derivatives position is only \$18.3 billion, making the percentage of precious metals derivatives to total derivatives as 0.1%. This comparison implies, on its face, that compared to BofA's total derivatives position, the portion held in the precious metals category is insignificant and much to do about nothing. Nothing could be further from the truth, as I hope to show.

Just like apples and oranges are both classified as fruits, they are also vastly different. For instance, not only do they look and taste differently, there is a reason why oranges are grown in Florida, while apples are grown in Maine. The same goes for derivatives, in that while the vast bulk (71.4%) of the total OTC derivatives measured in the OCC report (\$184 trillion) are interest rate derivatives and the portion in total precious metals derivatives is only \$68 billion or 0.04% of total derivatives, both interest rate and precious metals are derivatives in the same general sense that apples and oranges are fruits. But not to recognize the critical differences in the general classifications can be downright misleading.

The biggest difference in interest rate and precious metals derivatives is the manner in which they are accounted for. All derivatives in the OCC report are tallied by total notional value or the full-face value of the derivatives contract. What this means is that a one-million-dollar interest rate derivative is counted the same as a one-million-dollar silver derivatives contract. But a closer look reveals that this is an absurd comparison.

A one-million-dollar interest rate derivatives position on a 30 day or three-month interest rate instrument has maybe a \$100 actual risk/reward outcome, because it covers only the potential interest rate fluctuation, not any risk to the underlying principle of a \$1 million credit instrument. Yet the derivatives position in the OCC report will record the actual \$100 risk/reward as a \$1 million derivative. In the case of a one-million-dollar silver derivatives contract, should the price of silver rise by \$23, an actual \$1 million dollar risk/reward will be seen on this derivatives contract, a far cry from the \$100 actual risk/reward on a similarly recorded interest rate derivative.

In a very real sense, interest rate derivatives contracts are way overstated because of their reporting by full notional value. \$184 trillion sure sounds like a lot when the total notional principal amount is recorded, but much less so when you realize the method of calculation. The same thing is true in exchange traded interest rate derivatives (not included in the OCC report). For instance, there are more than 11 million contracts of total open interest in the CBT's three-month Eurodollar interest rate contract, where each contract covers a \$1 million underlying instrument. According to the OCC, were this an OTC position, it would have a total notional value of \$11 trillion. It would be a serious overstatement to suggest the real risk/reward on this combined and collective position came anywhere near close to \$11 trillion - a few millions or tens of millions of dollars would be more like it.

Therefore, any such comparison between interest rate and precious metals derivatives contracts is bogus and I sure hope the OCC and the BofA don't resort to this attempt to deflect and obfuscate, because that will only signify the situation is even more serious than I fear. The OCC and the Bank of America need to address the matter of BofA's stunning and unprecedented increase in precious

metals derivatives positions forthwith and in a straight forward manner – anything less could have disastrous consequences to each in the end. In these types of issues, it's not the original mistake or error that matters as is the attempt to cover up.

I continue to believe that Bank of America didn't and wouldn't deliberately intend to artificially manipulate the price of silver lower by engaging in the massive borrowing and short selling of physical silver that I allege, nor that the OCC would deliberately sit by twiddling its thumbs while this occurred, if it truly comprehended what it was reporting. That's why I contend that both were clueless about what was actually transpiring. – Let's face it, Bank of America has absolutely no tradition or experience in dealing in precious metals or silver until this ill-founded venture of the past year or two. It is this lack of experience that most plausibly explains how both it and the OCC could have found themselves in this unfortunate predicament.

Ask yourself this – who is more likely to find themselves on the losing end of a major bet – someone lacking any real depth of knowledge and long-experience in precious metals (like BofA) or an entity that cut its teeth on exploiting the unwary in precious metals for many decades (like JPM)?

It is now less than three weeks since I started writing of this issue for subscribers and less than that since my public articles on this matter. Particularly as regards a regulatory timeline, this is the equivalent of the blink of an eye in terms of expected official proclamations. After all, when I wrote to the CFTC last year about the concentrated short position, it was a good two months before I got a response (thanks to the follow up pressure applied by the alert staff of my local congressman).

So, while this BofA development is hot off the press and, therefore, it is perhaps too soon to have expected any official response by now – at the same time, the serious nature of issue, including potential systemic risk and specific serious risk to Bank of America, is such that any dawdling by the OCC and BofA could turn out to be counterproductive from each's perspective. Any delay at this point in responding to this matter – or heaven forbid, any attempt to obfuscate as outlined above – could exacerbate the situation.

At some point, considering the serious nature of the revelations in the OCC report and my interpretation of what the data really mean, any prolonged delay by either the OCC or BofA to respond could easily be taken by investors, large and not so large, as a green light to load the silver boat. As I have intoned from the beginning (decades ago) and more recently in this BofA matter, the absolute last thing I would ever want to do is to disseminate false information, so no one is more interested in seeing if the OCC or BofA disagrees with my conclusions and, most importantly, why.

Certainly, it's not as if silver needs for my interpretation about the OCC report and BofA's position to be correct in order to move sharply higher, as that is destined to happen regardless. It's just that the BofA development fills in and confirms so many previous speculations so as to fit like a glove and making it more imperative than ever for the regulators and the bank to respond pronto.

The selloff in gold and silver prices over the past two days, was not enough to prevent prices from rising for the week as a whole and, accordingly, the total losses for the 8 largest COMEX gold and silver shorts (adjusted for the managed money traders now in these ranks in silver) did rise by more than \$600 million from last Friday to stand at \$9.1 billion.

A number of subscribers have asked that I calculate the running total for how Bank of America is faring

on what I contend is an 800 million oz short position in silver in the OTC market (separate and distinct from COMEX positions). This is a much simpler calculation. I estimate the average price of BofA's short position to be around \$23, the same as yesterday's close and putting the mark-to-market for BofA to be dead even with every dollar move higher or lower in silver worth \$800 million to the bank. Of course, since this is an open short position that must be closed out someday, of more importance is what the price will be as and when BofA closes out this epic short.

Ted Butler

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Silver – \$23.00 (200 day ma – \$24.71, 50 day ma – \$23.22, 100 day ma – \$23.31)

Gold – \$1817 (200 day ma – \$1802, 50 day ma – \$1808, 100 day ma – \$1795)

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