January 18, 2020 – Weekly Review

It wasnâ??t a particularly impressive week pricewise, certainly compared to the prior week, as gold ended $5 (0.3%) lower and silver ended off by 7 cents (0.4%), resulting in a very slight widening in the silver/gold price ratio to 86.4 to 1. Although the weekly trading ranges were more contained than in the previous week, prices did finish closer to their weekly highs than lows.

As a result of the slightly lower price finish to the week, some small, but not much relief was experienced by the 7 big shorts in COMEX gold and silver futures, as their total combined open loss was reduced by less than $200 million to just over $4.8 billion. This is still a billion dollars more than the record-setting mark-to-market loss of yearend and it is not possible for the chief financial officers and top risk officials of the big shorts not to be fully aware and concerned about the big short position. This is a circumstance that must and will be resolved ahead, although few can know exactly what that resolution will be.

The data in the new Commitments of Traders (COT) report, while mostly inconclusive, certainly did nothing to indicate any strong sign of what the resolution might be. There was an ever so slight increase in the concentrated short position in silver, but not by JPMorgan and a slightly larger decrease in the gold concentrated short position, along with short covering by JPM. Thus, there was no real sign, as of yet, that my main premise was negated in any way. My main premise, of course, remains what the big concentrated shorts do or donâ??t do will dictate future gold and silver prices. More on this in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses rebounded to just under the weekly average over the past near nine years, as just over 4.4 million oz was moved. Total COMEX silver warehouse inventories fell by 0.5 million oz from last weekâ??s all-time high to 319.4 million oz. No change in the JPM silver COMEX warehouse, still stuck at 161.4 million oz.

Speaking of inventories, the level of silver in the worldâ??s largest silver inventory that is SLV, the big silver ETF, has fallen by more than 10 million oz over the past month and now sits at 354.4 million oz. Since conversions from shares to metal in this ETF have been JPMorganâ??s chief method of physical accumulation since 2011, I can only conclude that is still the case and that JPM continues to acquire physical silver.

Turning to the new COT report for gold and silver, I felt a sense of relief in taking a pass on guessing what the report would reveal, as the answer â?? at least on the surface â?? was not much. In fact, the overall weekly changes were definitely on the low side historically, as suggested in the small changes in total open interest over the reporting week. What makes it strange is that the trading volume and price volatility over the reporting week were tumultuous to say the least (the week started with the Iranian missile attack).

The best news was that there nothing in the report that negated in any way the predicament, as I see it, faced by the biggest shorts in gold and silver (excluding, of course, JPMorgan). I donâ??t want to get too excited by the additional short covering reported in gold by the biggest shorts, as the numbers werenâ??t particularly large; but at least there was such short covering for the second reporting week in a row.

Iâ??m also mindful that since the COT report of Dec 17, just as gold was to embark on a new price leg higher, through this reporting week that the concentrated short position of the 4 largest gold shorts is about unchanged, while the short position of the next 5 thru 8 shorts is higher by 10,000 contracts. I always felt it would be the smaller concentrated shorts which might try to head for the exits first, but the data indicate otherwise.

In COMEX gold futures, the commercials reduced their total net short position by 6300 contracts to 349,800 contracts. This is still a nose-bleed high and extremely bearish commercial short position in conventional and historical terms and except for the two prior weeks, would be the highest and most bearish reading in history. But for the usual conventional and historical meme to play out from here, the counterparty longs, the managed money traders, must accommodate the big shorts and sell (and go short) on lower prices. That has not occurred as of yet.

This reporting week, the 4 largest shorts bought back around 3700 contracts of the 6300 total contract reduction in the total commercial short position, while the next 5 thru 8 shorts bought back only about a hundred contracts. Iâ??d peg JPMorganâ??s gold short position to now be 32,000 contracts, down 2000 for the reporting week. Over the past two reporting weeks combined, the 4 biggest gold shorts have accounted for roughly 14,800 contracts of the 16,800 contract reduction in total commercial shorts (with JPMâ??s share being 4000 contracts).

For those closely studying the disaggregated gold COT report, the big increase in both the gross long and short positions in the Producer/Merchant category appears to be spread related, as this is the one large trader category that doesnâ??t break out spread positions. Once you subtract the roughly 14,000 spread contracts added in that category, the net buying of 2600 contracts was what prompted me to reduce JPMorganâ??s concentrated short position by 2000 contracts.

Also on the buy side of gold, the managed money traders seemed to take the week off, as these traders bought an ultra-low 702 net contracts, comprised of 1319 new longs, as well as adding 617 new short contracts. The big sellers this week were the other large reporting traders and the smaller non-reporting traders, which combined, accounted for around 7000 contracts of net selling. The resultant managed money net long position was 230,459 contracts (262,402 longs versus 31,943 shorts) is still very bearish in conventional and historical terms, same as it has been for months.

In COMEX silver futures, the commercials increased their total net short position by 1200 contracts to 92,400 contracts, with the concentrated short position of the 8 largest traders increasing by less than 900 contracts. While I would have preferred no increase at all, this was not a particularly large increase and was made better by my conclusion that JPMorganâ??s short position remained at 15,000 contracts. It must be mentioned that JPMorganâ??s short positions in both COMEX gold and silver futures is still only a fraction of what it had been in the past at times of extremely large total and concentrated commercial short positions. This canâ??t be an accident or coincidence.

On the buy side of silver, the managed money traders bought even less net contracts than they did in gold, but the gross numbers were larger. These traders bought only 165 net silver contracts, comprised of new longs of 2763 contracts, as well as 2598 new short contracts. The resultant managed moneynet long position of 57,179 contracts (90,678 longs versus 33,499 shorts) is just as bearish as it hasbeen for months in conventional historic terms and we still await the eventual and inevitable resolution.

In thinking about what may be going through the minds of the top officials at the institutions which are the big shorts, Iâ??m reminded of a thought I believe I raised previously, but not very recently. Having become aware of the adverse financial predicament the big shorts would appear to be in, it is most natural for the top officials to review the original genesis of the trade, as well as what to do about it now.

The bulk of the commercial and concentrated short position in gold was assemble fairly quickly â?? mostly from May 28 to July 2, as gold prices rose from $1280 to over $1400 over that time. On a very rough basis, Iâ??d peg the average price of the additional commercial shorting to be near the $1380 level or so. At the time, it looked like a standard commercial sell short into managed money buying operation, along the lines of the typical wash, rinse and repeat price operations that had become common and recurring on the COMEX. In other words, the commercials were looking for a typical price flush out back below the 50 day moving average in gold, which had only been penetrated to the upside in very late May.

Had the commercial shorts gotten their way (as they usually have in the past) back in late-June to early-July and fully succeeded in rigging gold prices back below the 50 day moving average and flushing out the managed money traders, I estimate they would have made somewhere on the order of $300 to $500 million collectively for their efforts. Thatâ??s not bad for an operation they have been able to arrange and pull off for at least two times per year over the past few decades. But at this point, that type of potential gain looks woefully inadequate when measured against the $5 billion open loss the big commercial shorts are now staring at down the gun barrel of current prices.

I canâ??t help but imagine that this is the kind of thinking currently being considered by the top financial officials at the big shorts. Everything financial institutions (as well as individuals) do in placing capital at risk revolves around the prospective risk/reward particulars of the trade or investment in question. Thereâ??s no way that the traders who put on the big gold (and silver) short positions had any intention to end up billions of dollars in the hole in the hopes of making a tenth of that risk or less. Clearly, this was a miscalculation of epic proportions at this point, regardless of whether the big shorts manage to pull their chestnuts out of the fire or not.

I would contend that this is the way the top financial people at the big shorts are looking at the situation â?? or, at the very least, should be the way they are looking at it. I donâ??t imagine that any of them have much idea, if any what JPMorgan has done to protect itself (by buying gobs of physical gold and silver), but the top guys should have some idea that just about every high-profile and extremely successful investor in the world has been openly proclaiming the merits of gold and how its price should soar ahead. If the top financial officials put two and two together in an objective manner, they should quickly come to the conclusion that only the very biggest shorts on the COMEX have anything to gain should gold prices decline – and everything to lose should prices keep rising.

I donâ??t expect that all the top financial officials to quickly recognize that it has been the traders at their institutions that have been responsible for preventing gold prices from moving much higher to this point, but itâ??s possible some might come to that conclusion. If any do come to that realization, that canâ??t possibly result in anything but a stronger conviction to get the heck out of such dangerous open short positions. One thing for sure is that this only strengthens my conviction that the big shorts have lost their incentive to ever get as large short in the future as they are now. Thus, we all continue to await the final outcome of this world class drama.

The price spike in palladium this week is further proof that this market, like has just been experienced in rhodium, is running on physical shortage considerations and not due to paper market positioning. Thatâ??s not to say that previous futures market positioning on the NYMEX (another market owned and run by the CME Group) hadnâ??t caused much lower palladium prices in the past and how we are now seeing the results of that past artificial price suppression today. I contend that the stage for todayâ??s physical shortage of palladium and soaring price owes its roots to aggressive and concentrated commercial short selling of the past.

Over the decades, COMEX silver futures have had the largest concentrated net short position of any commodity in terms of world production. This, I claim, is what accounts for silverâ??s almost unbelievable low price, both on an absolute, as well as relative basis when compared to any and everything else. But there was an exception, about 5 or so years ago, to silver having the largest concentrated short position of all commodities, when the concentrated short position in palladium came to exceed even silverâ??s egregiously large short position.

I didnâ??t think much of it at the time, since I donâ??t follow palladium closely, but after observing what has transpired since, Iâ??m certain that the current obvious shortfall of physical palladium supply in relation to demand, owes its origin to years of artificial price suppression on the NYMEX. Thatâ??s why price manipulation is the most serious market crime possible, namely, because it can mess up the balance of world production and consumption for years to come.

I would further conclude that the current physical shortage in palladium is a precursor of what will occur in silver. Since the price of silver has been kept artificially depressed for many years, it is virtually impossible that physical mine supply is not less than what it would have been in the absence of price manipulation and someday that will become obvious – just like is now occurring in palladium, complete with the same industrial user inventory buying panic being reported in palladium.

The only big difference in silver compared to palladium (aside from the price manipulation still ongoing in silver) is that silver is very much an investment asset as well as industrial item, where palladium does not have such a dual demand profile. Right now, industrial palladium users appear to be panicking and attempting to stockpile physical inventories, but there is scant evidence of a widespread palladium investment panic. The coming physical silver shortage will feature both an industrial user and investment panic â?? count on it. I still donâ??t see an industrial user buying panic in gold, since there are so few industrial gold users, but thatâ??s not meant as a knock on gold, as it has plenty going for it â?? just that itâ??s not an industrial commodity destined to go into the same type of physical shortage every consumable commodity is capable of.

In summary, no cold water was thrown on the potential for a concentrated short covering buying panic as a result of the new COT report. As I indicated previously, we will only come to learn the ultimate fate of the big COMEX shorts through the passage of time and flow of the data. I donâ??t want to jump up and celebrate the small additional short covering in gold this reporting week, but neither was I disappointed by the reduction in short positions. While I am as anxious as you are to push the fast forward button to see how this all will be resolved, all we can do is watch and wait.

Ted Butler

January 18, 2020

Silver – $18.03Â Â Â Â (200 day ma – $16.55, 50 day ma – $17.35)

Gold – $1557Â Â Â Â Â Â Â Â (200 day ma – $1437, 50 day ma – $1496)

Date Created
2020/01/18