

January 2, 2021 – Weekly Review

On the last trading day of the year (Thursday), gold and silver prices ended the week higher, with gold finishing in very late trading \$19 (1%) higher and with silver up 55 cents (2.1%) for the week. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by three quarters of a point to 71.75 to 1, close to silver's best relative showing of the year.

For the year as a whole, a year decidedly not the best in terms of world health and general economic developments, gold and silver fit in with the great overall financial market returns witnessed. Gold ended the year up \$382 (25%) and at its highest yearend close ever, while silver prices tacked on \$8.55 (48%) and ended at their highest yearend close in 7 years. The silver/gold price ratio ended the year tighter (favoring silver) by more than 13 full points than it ended 2019 and, in fact is close to its best levels favoring silver in roughly 7 years, meaning that anyone switching from gold to silver, a familiar refrain on these pages, is no worse off for following such advice. Short term movements aside, of course, you ain't seen nothing yet.

It's only natural to become reflective and prospective at yearends, so let me finish reflecting on the past year, before looking ahead (interspersed with the customary review of weekly events). It's one thing to tally up the year's price changes, but 2020 was not like any previous year, particularly in silver. For sure, all financial markets sold off sharply in March as word of the coronavirus set in, before recovering sharply over the balance of the year, but none quite like silver (I haven't forgotten about crude oil which plunged to negative numbers in April, but that was a special case of paper manipulation on the NYMEX. To the regulators' eternal shame, no concrete findings or criminal charges have yet to be filed).

Despite the happenings in crude oil, what occurred in silver bordered on the impossible this year, as silver prices fell to 10 year lows in mid-March before recovering within months to 7 year highs. I should say nearly impossible, except we all witnessed and experienced it. Silver's price path in 2020 was even more impossible when measured on the much more objective relative comparison with gold. At the mid-March price lows, silver fell to all-time (5000 year) price lows of 125 to 1 relative to gold, a move that seemed surreal at the time and even more surreal with the passage of time, seeing as the ratio then tightened in by more than 50 full points in a matter of months. Even if every human on the face of the earth was infected with the coronavirus could there be a rational explanation for such absolute and relative price performance as was witnessed this year in silver.

Of course, this begs the question – what did account for silver's impossible price performance? Unless you are reading this analysis for the very first time, I'm sure you have a good sense of what I'm about to say. The only thing that could possibly explain silver's impossible price movement was the artificial price influence of overwhelming paper derivatives positioning on the COMEX and in which JPMorgan played the most dominant role. No explanation involving real world fundamentals could come close to accounting for the price movement seen this year in silver. The bad news is that it happened and that's the good news as well as JPMorgan used the manipulative selloff in March to rid itself of a dominant short position it maintained in COMEX silver (and gold) that it held since taking over Bear Stearns in 2008.

Having extricated itself from the short side of COMEX silver and gold, the attention has shifted to

whether JPMorgan will reenter the short side to cap and contain silver and gold prices in the future. No one knows the answer to that question (except JPM), but the prospective financial rewards for the most crooked bank in the world for not doing so would appear as formidable as the rewards already achieved at yearend 2020. Hard as it is to conceive, back in mid-March, JPMorgan was dead even on its 25 million oz physical gold and one billion oz physical silver holdings (largely as a result of steep \$6 billion losses on silver). By year end, JPM is now ahead by an incredible \$26 billion.

With JPMorgan no longer heavily short, but with a documented concentrated short position still very much in existence, someone has suffered mightily on the short side of silver and gold and none more than the 4 and 8 largest shorts on the COMEX. In the last week of the year, the 8 big shorts in COMEX gold and silver futures added more than \$700 million to a total loss slightly exceeding \$14 billion at yearend. This is the largest quarterly mark to market loss ever, seeing as it's the highest quarterly price close for gold and silver since I began calculating the financial performance of the big shorts in the summer of 2019. That it is also a yearend mark to market, it would seem to take on added significance.

For the year, the big shorts suffered an additional \$10+ billion from the yearend \$3.8 billion loss of 2019. And as was the case with JPMorgan's remarkable gains since mid-March, the 8 big shorts in COMEX gold and silver were even at that time, so their \$14 billion loss has occurred over the past 9 and a half months, with \$4 billion coming over the past month. And with gold closing at its 100 day moving average (\$1902) on the last trading day of the year and that representing the remaining all clear buy signal for moving average technical types, it will be interesting to see if the big shorts can cap and reverse prices.

I want to rectify some comments I made on Wednesday, thanks to an alert subscriber (thanks Turner). In talking about the concentrated short position in silver, I indicated that the average loss to the 4 and 8 big shorts shouldn't be looked at in average losses per trader terms, since the largest short had losses twice as large as the 8th largest short. My mind, obviously, was elsewhere as the size of the largest silver short, along with any losses, is closer to ten times larger than that of the 8th largest short.

Here's another item that needs clarification (also pointed out by Turner). Based upon data in the Bank Participation Report, the 8 big shorts in COMEX gold and silver are not exclusively banks (although largely so). The 8 big shorts do still appear to be in the "commercial" category (as opposed to traders categorized as non-commercials) and my best guess is that there may be a big foreign mining company or two heavily on the short side. It would most likely have to be a mining company not subject to SEC and FASB reporting requirements of disclosing such short positions and guesses would include a large Mexican miner (like Fresnillo) or perhaps the Polish miner KGHM. If my guess is close to correct, it is reminiscent of the time 20 years or so ago, when a couple of big silver miner shorts (Pasminco, the big Aussie zinc producer) and APEX silver got hooked on the short side of silver.

Then and now, if some of the big COMEX shorts are foreign silver miners, then I would bet my bottom dollar that those miners were hoodwinked into going heavily short by the Wall Street sharks. If this line of thinking is correct, namely, that a foreign miner or two has been tricked (again) by the bullion banks into going heavily short, then it strikes me that the whole price manipulation I allege emanates from the COMEX is being run by the criminal Wall Street banks (no real surprise) rather than a consortium of central banks, particularly since it is more pronounced in silver, a non-monetary metal. It's hard for

me to imagine central banks persuading mining companies to heavily short silver. Imagining Wall Street banks doing the same? Not so much. Finally, if a mining company or two are big silver (or gold) shorts, how likely would the government be in bailing them out, as opposed to big banks?

Quickly covering the week's typical developments, the turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses increased slightly this holiday shortened week, as 4.2 million total ounces were moved. Total COMEX silver warehouse inventories increased by 0.6 million oz to 396.5 million oz, yet another new all-time high. The holdings in the JPMorgan COMEX silver warehouse, not coincidentally, also increased by 0.6 million oz to 192.2 million oz, also a new record.

For the year, COMEX warehouse silver inventories increased by more than 75 million oz, with JPM accounting for close to half that increase. COMEX gold warehouse inventories closed the year at all-time highs, as did JPMorgan COMEX gold warehouse holdings, although both were unchanged this past week, at 38.2 million oz and 13.59 million oz respectively. For the year, total COMEX gold warehouse holdings were up close to 30 million oz to 38.2 million oz with JPM responsible for 12 million oz of the total increase.

One thing I have continued to try to point out is that any increase in COMEX silver and gold inventories should not be considered bearish to the price of either metal, but may have neglected to explain why that would be the case. If the inventories of any other metal or commodity grew to record levels, I would agree that all things being equal, that would be considered bearish. But because gold and silver are investment metals, the increases in inventories, particularly this year, appear driven by investment demand and that can hardly be considered anything but bullish. As and when investment demand dries up and reverses, perhaps inventories can be considered to be turning bearish, but that time is not at hand.

Physical holdings in the big silver ETF, SLV, increased by close to 4 million oz this week, a bullish sign and the holdings in GLD, the big gold ETF, have stabilized, also on the bullish side.

As far as what to expect in Monday's delayed COT report, I wouldn't expect much positioning change, regardless of whether the report is cutoff on Monday, Dec 28, or the next day, as is customary. Slight decreases in total open interest in both COMEX gold and silver and fairly flat price changes might even result in slight improvements (managed money selling and commercial buying) in the market structures of both markets. I plan on brief comments late Monday, mostly looking for any special category changes.

One interesting category change I have noticed but haven't commented on specifically has been that of the raptors (the smaller commercials) in silver. Unlike their counterparties in gold, which have been net short by varying amounts, the raptors in silver have been consistently net long for most of the past 3 or 4 years. The last time the raptors in silver have been net short was in mid-2016 to early 2017 and then by amounts rarely larger than 5000 to 10,000 net contracts. It's not that the silver raptors are net short now, but in the last COT report (as of Dec 21), their net long position had decreased to 4000 contracts, the lowest in quite some time.

Over the past few years, the silver raptors have been net long as much as close to 90,000 to 100,000 contracts (500 million oz) and have achieved a remarkably successful track record of being most net long right into major silver market bottoms. Therefore, I confess to a bit of concern that the silver

raptors are as little net long as they are currently configured because of their former successful track record. However, upon closer examination, another pattern seems even more plausible in explaining the raptors' previous exemplary positioning success, aside from them just sensing important silver price bottoms.

The pattern I now see is that the silver raptors previously got most net long (over the past few years) as the managed money traders built up large gross (and sometimes net) short positions in silver. As I've pointed out over the years, whenever the managed money traders got heavily short on either a gross or net basis, it was almost a certainty that they would end up losing collectively when the dust settled. That is, after the managed money traders sold heavily short, it was just a matter of time before they would be forced to buy back most of those added shorts at higher prices than they sold short at. The big question on most observers' minds is how could the managed money traders persist in such consistently losing behavior?

As it has turned out, it looks like the managed money technical funds which previously shorted silver heavily and always lost have finally stopped doing so, as of a year or so ago and until the present. Whether that continues remains to be seen, of course, but in the interim, it appears that this lack of shorting by the managed money traders is more responsible for the silver raptors being as light net long as they are currently.

In other words, the silver raptors never appear to have really made any deep analysis about silver being cheap and about to rally - it was simply a function of going long into managed money shorting and knowing, as everyone else knew, that the managed money trader shorts were destined to be bought back at higher prices at some point. Now that the managed money traders haven't gone short, there's been no reason for the silver raptors to go heavily long.

If my analysis is correct, then concerns about the small net long position of the silver raptors are misplaced and, in fact, might tilt towards the bullish side. That's because one of the key commercial selling forces over the past few decades has been, in addition to new manipulative short selling by the biggest commercials, the selling out of long positions by the silver raptors on price advances. In the past, the raptors have sold tens of thousands of silver contracts on rising prices after acquiring same from short selling by the managed money traders. Thus, it would follow that the silver raptors are not as likely to sell the tens of thousands of contracts they formerly sold on previous silver rallies since selling at this point would involve new raptor short selling, not something they have engaged in regularly.

Of course, we'll observe how this all plays out in the fullness of time, but I can't help one final comment on all of this. If what I'm suggesting is close to the actual workings of the market (as I believe it to be), then something else strikes me. If the silver raptors - commercial traders mostly risking their own capital to participate in a market they are considered to be experts in and they are operating in rote behavior in response to what the managed money traders do or don't do - then even they have no real concept of what's really going on in silver.

I want to be careful in how I say this, so as not to imply that the silver raptors didn't make the many tens (and hundreds) of millions of dollars I acknowledge they did make over the years, because I fully acknowledge they did make those many tens and hundreds of millions of dollars, courtesy of the managed money traders. I'm just saying that it now appears to me that the silver raptors were incredibly narrow-sighted in that the only thing that motivated them to buy silver was managed money

shorting, not the incredibly undervalued nature of silver. This is also verified by the quickness and aggression of the raptor selling on rising silver prices being motivated by managed money short covering and not by what the price of silver might be at the time.

My bottom line conclusion to all this is that a strong sense of what I preach on these pages, including the manipulative effect of COMEX paper positioning, the leading role of JPMorgan over the past more than a decade and the current plight of the 8 big COMEX shorts is lost completely by the market as a whole and including the prime players on the COMEX. And the more I think about it, the more this seems to be the case. Ask yourself how many comments you have seen (away from these pages) about the concentrated short position and the increasing losses to the big shorts or that JPMorgan has accumulated 25 million oz of physical gold and one billion oz of physical silver or even once in any mainstream publication?

As such, all these thoughts are as far removed from the thinking of those most actively involved in the markets as is possible. However, if my take is generally correct, it matters little if there is widespread awareness of same, as the net effect on prices in the future will not be guided by simple awareness. The big shorts have their work cut out ahead and even if most are in the dark, they will come to learn the real story in time and, I might add, the hard way. In fact, it seems much more bullish to me that all the things I write about are not widely understood.

As a reminder, the 100 day moving average in gold is \$1902, where we closed in late yearend trading. (The 100 day moving average in silver is \$25.23). Brief COT report comments late Monday.

Ted Butler

January 2, 2021

Silver – \$26.50 (200 day ma – \$21.58, 50 day ma – \$24.60)

Gold – \$1902 (200 day ma – \$1831, 50 day ma – \$1870)

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