

January 22, 2022 – Weekly Review/Great Gold Mystery Solved

Bucking the downside action in stocks and crypto's, gold and silver finished higher for a second week, with gold up \$19 (1%) and silver up by a much-sharper \$1.35 (5.9%). The pronounced greater relative strength in silver caused the silver/gold price ratio to tighten in by more than three and a half points to 75.4 to 1. For both gold and silver, it was the highest weekly close in 9 weeks, as well as the lowest close in the silver/gold price ratio for that time.

Clearly, this was a significant price week for many markets and, hopefully, marks the start of a pronounced up move in the metals – long overdue, to say the least. There were significant developments in the things typically followed on these pages, which I'll run through. Afterwards, I'll talk about what I see as the solving of the mystery of what I believe to be the greatest – cold case – in the gold market.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses exploded this holiday shortened 4-day work week, as nearly 10.5 million oz were moved – the most in 6 months. Total COMEX silver inventories rose by 2.7 million oz to 356 million oz. Holdings in the JPMorgan COMEX silver warehouse inched up by 0.1 million oz to 185 million oz.

Much continues to be made over the paper classifications of eligible vs registered silver on the COMEX, but no mention is made of the extraordinary and unprecedented physical movement of silver – alone of all commodities – that's occurred weekly for 11 years. I don't get it – why spend time analyzing category classifications (which mean little, in my opinion) and ignoring a literal surge of physical movement in and out of the warehouses?

Total COMEX gold warehouse inventories fell by 0.2 million oz to 33.4 million oz. No change in the JPM COMEX gold warehouse, which remained at 12.77 million oz.

Nothing new to report in the COMEX January deliveries, which are nearly wound down, with the standout feature being the large number of gold and silver stops by Bank of America (more on this later).

Physical metal holdings in the gold ETFs soared, with nearly 900,000 oz being deposited into the big gold ETF, GLD, yesterday. This is exactly as it should be, as gold prices surged on Wednesday on the highest daily trading volume in GLD in more than 6 months. Such price movement and trading volumes are in step with collective net investment buying, which requires new metal being deposited to equal the amount of net new shares created.

Wait a minute, I can almost hear you say, because if it's so normal and in step for surging prices and trading volumes to signify collective net new buying that must result in new net share creation and appropriate new physical metal deposits – then why the heck did more than 4 million oz come out of the big silver ETF, SLV, last night? – Good question.

My best answer, apart from it's almost always different in silver, is that there was net new buying, but it appears that among the buyers of SLV was a singular big buyer which arranged for an immediate conversion of shares purchased to metal, which would result in metal being redeemed, as I've discussed for years. If accurate, it's quite bullish as it implies more buying ahead as the big buyer(s)

is seeking to avoid SEC share ownership requirements. As I know SLV is the ETF many silver observers and commentators love to hate, but it still appears to me that SLV is the silver investor's best friend, despite all the abuse heaped on it.

Turning to yesterday's Commitments of Traders (COT) report, the results came in quite close to expected results, namely, some deterioration (managed money buying and commercials selling) in silver and little positioning change in gold or a slight improvement. Of course, this was based upon the price action in silver being strong (in fact, closing above two of its three key moving averages on the cutoff day for the first time in months), while the price action in gold was punk in comparison.

In COMEX gold futures, the commercials reduced their total net short position by 4000 contracts to 221,100 contracts, another new (bullish) low going back to October. By commercial categories, the big 4 added more than 1400 contracts of new shorts, increasing their concentrated short position to 134,262 contracts (13.4 million oz). Still, this short position is only around 2000 contracts greater than the extreme low-water mark set two weeks ago and remains remarkably bullish on its face. The 5 thru 8 big shorts bought back 2200 shorts and the big 8 short position was 224,309 contracts (22.4 million oz) - the lowest (and most bullish) since Sept 28. The raptors (the smaller commercials) bought 3200 contracts, establishing a net long position of that same amount.

On the sell side of gold, the managed money traders sold 2517 net contracts, consisting of new longs in the amount of 510 contracts and new shorts of 3027 contracts. The other big sellers were the other large reporting traders which added another near 3000 new shorts (following last week's addition of nearly 5000 new shorts). There was another slight decline in the concentrated long position of the 4 largest longs of 1000 contracts, but it still appears to me that the big gold whale is sitting tight with 40,000 net contracts long - based upon the lack of long liquidation in the other large reporting traders long category.

In COMEX silver futures, the commercials increased their total net short position by 4200 contracts to 41,500 contracts. Considering that silver prices closed above two of its three key moving averages and at two-month highs on the cutoff day, the market structure looked better than I would have expected (true in gold as well). Still, I was a little concerned with increase of more than 2200 contracts in the big 4 short position, as this week it had to be by the commercials. I don't know if this represents the start of a big buildup in commercial concentrated short positions, but there is quite a way to go before it becomes alarming. The next 5 thru 8 largest shorts went the other way and bought back around 1000 short contracts, but that looked to be the work of a managed money trader in that category. The raptors (the smaller commercials) sold off around 3000 longs.

On the buy side of silver, the managed money traders were the big buyers, as they bought 5914 net contracts, consisting of new longs in the amount of 2827 contracts and the buyback and covering of 3087 short contracts. Somewhat unfortunately, in that it messes up an accurate assessment of the true commercial component of the big 4 and big 8 short position, there still remains a large short position of more than 29,000 contracts by managed money traders.

Of course, this is bullish as much of this short position will be covered and bought back on higher prices (and that may have already occurred on the rally since the cutoff), but it still messes up my usual calculations (the nerve of these people). I'm fairly certain that sooner or later, we will return to an all-commercial concentrated short position in silver (as already exists in gold) and we will be able to judge if the 4 big silver shorts are containing and manipulating prices as they have in the past.

The bottom line in terms of market structure in gold and silver is that both are still extremely bullish, despite some expected deterioration since the Tuesday cutoff. Based upon what is happening in the world at large and the discovery of Bank of America's massive silver OTC short position, I have real questions if the market structure concerns will matter as much in the long run. Please allow me to add a potential new chapter in the ongoing BofA saga.

The Great Gold Mystery Solved

If there is one mystery in the gold market that I believe has eluded analysts and commentators (certainly including yours truly), it is a compelling explanation for the unprecedented and massive inflow of physical metal, more than 30 million ounces, that came to be deposited in a matter of months, starting around April 2020, into mostly the COMEX-approved gold warehouses, but also into the big gold ETF, GLD. The physical gold inflows were so large that many wrote about it extensively at the time, but none of the explanations seemed to be on the mark — my own included.

Remembering that special time, now approaching the two-year mark, there were so many unprecedented developments around that massive physical gold inflow, including a blow out in COMEX spread differentials in both gold and silver futures, so as to defy simple economics. For a short time back then, the impossible occurred, namely, the contango (the near month discount to more deferred months) grew so extreme that a significant real return was guaranteed with no risk for the first time ever (to this old-time spread trader).

Now nearly two years later, it has dawned on me what occurred back then that explains the most unusual time period ever in both gold and silver. It has occurred to me that the simple explanation for all the strange occurrences in the gold market back then was that Bank of America borrowed and sold short as many as 30 million ounces of gold and not just the 800 million oz of silver I've been writing about. BofA borrowing and shorting gold fits like a glove with it doing the same in silver, as I hope to explain.

Upfront, while I discovered BofA borrowing and selling short 800 million oz of silver from the Office of the Comptroller of the Currency's quarterly derivatives report and fitting that into what transpired in real world silver events, no such verification (or rejection) is possible in the OCC report for gold. As I've previously explained, the OCC moved gold into the FX derivatives category back in 2015, making it impossible to track gold OTC derivatives because the FX category is so large — measured in the trillions of dollars — so as to obscure gold developments in the same category. (At the same time gold's removal from the precious metals category made it really simple to detect changes in silver derivatives).

The net result is that if Bank of America did borrow and sell short 30 million oz of gold, as I contend, the roughly \$50 billion in cash proceeds that BofA ended up with as a result, wouldn't show up in the OCC report, as BofA has held between \$4 and \$5 trillion in FX/gold derivatives positions since Dec 31, 2019 and \$50 billion in gold derivatives simply wouldn't stand out. Therefore, my contention that Bank of America borrowed and sold short 30 million oz of physical gold in the April-June 2020 time period can be neither proven nor disproven by the OCC report alone. Then what am I basing my contention on?

First is a bit of common sense. When it comes to the idiocy and fraud of precious metals leasing/short selling, gold is always the preferred metal to borrow and sell short. This was true back in the last precious metals leasing/short sale fiasco of 20 years ago and remains true in today's massive blunder by BofA. That's because the gold price is so much higher than the price of silver, that it takes much less in ounce terms to borrow and sell short gold than silver. By borrowing 30 million ounces of gold, BofA ended up with around \$50 billion in cash proceeds (30 million oz X \$1700). BofA had to borrow and short sell 800 million oz of silver to end up with \$18 billion in cash proceeds (800 million oz X \$23).

Let's face it, as dumb and dangerous as it is to borrow and sell short precious metals, there is somewhat of a perverse logic in borrowing and selling short gold rather than silver. That's because there are billions of ounces of gold bullion in the world, 3 billion oz to be precise (plus another 3 billion oz in non-bullion equivalent form) and the 30 million oz I contend BofA is short is only 1% of all the gold bullion in the world. In silver, the 800 million oz I contend BofA is short is close to 40% of the two billion oz of world silver in 1000 oz bars — making it much more difficult to buy and deliver silver than gold.

Sure, a hundred dollar move up in gold will cost BofA \$3 billion in adverse mark to market, but the gold market is deep enough to make it more feasible that Bank of America could limit the damage if it put its mind to it. But how the heck would it buy back 800 million oz of silver in a world where only two billion oz exist and pronounced shortage seems around the next corner?

To be fair, while the 30 million oz gold short position that I claim Bank of America holds in the OTC market is small relative to total world bullion inventories, it is still large enough that, by itself, it is much greater than the entire net commercial short position on the COMEX, the world's leading precious metals derivatives exchange. BofA's 30 million oz short position is equal to 300,000 COMEX gold contracts, substantially larger than the 221,000 contracts of the total commercial net short position — meaning one bank may be holding a larger short position than the combined net short position of all the commercials on the COMEX.

One of the more recent things that points to Bank of America having borrowed and gone short 30

million oz of physical gold is that it has been, for more than a year, a big stopper of gold and silver deliveries on the COMEX in its house account (but was a big net issuer of both in December). In meaningful terms, Bank of America has, quite literally, burst upon the precious metals scene starting a year and a half ago, after never really participating in this market before – strongly suggestive its debut was due to a sudden and massive borrowing and short selling binge.

I continue to believe Bank of America was duped into its current predicament of being short 30 million oz of gold and 800 million oz of physical silver. No one, no matter how dumb or misinformed, would do such a thing after careful and objective due diligence. There's no way BofA senior management woke up one day and decided to put the organization in potential harms way by borrowing and selling short gold and silver in the quantities I claim – it had to be tricked in some way.

As to who did the hoodwinking of BofA, you should know by now the only possible answer is JPMorgan, which also happens to be the only entity capable of such a feat. After all, I have chronicled how JPM accumulated 1.2 billion oz of physical silver and 30 million oz of physical gold on these pages over the past decade or so. And please understand that when I say JPMorgan has done this or done that, that anyone would be hard-pressed to find an ounce of silver or gold on JPM's books – it's all held in affiliate and nominee names. JPM knew when it embarked on its physical silver and gold accumulation plan that it must conceal and camouflage what it was doing and took great pains to hide its actual ownership from the get go.

As to why JPMorgan would go out of its way to entice and hoodwink Bank of America into borrowing and then short selling 30 million oz of gold and 800 million oz of silver, the answer is so obvious and straightforward as to be self-evident – to greatly benefit JPM primarily and, secondarily, to damage a competitor.

The benefit to JPMorgan is for it to be able to vastly increase its overall silver and gold long position in the only manner possible. By lending BofA the physical gold and silver it borrowed, JPM knew full-well that BofA would immediately short sell the borrowed metal (that's how these nutty precious metals loans work) and knowing this, you can be sure that the same JPM interests which loaned the metal were in place to buy all the metal sold short by BofA. This is so criminally genius that only JPMorgan could have devised and implemented the scam. By the way, it is interesting to note that more than two-thirds of the 30 million oz inflow into the COMEX warehouses in 2020 came into just two warehouses, Brinks and, drumroll ..the JPMorgan warehouse.

Of course, I'm not suggesting that JPM and its friends and family could actually increase the amount of physical metal they owned, as they are criminal geniuses not magicians of alchemy, but the net effect was that JPM owned the same amount (more or less) of physical metal after BofA sold it short (unknowingly) back to JPM as it did before the transactions – but with a giant kicker. JPMorgan as a result of its criminal cunning and duplicity, greatly increased its physical holdings by a derivatives bonus of up to 30 million gold oz and 800 million silver oz – courtesy of the dingbats at BofA. In other words, interests related to JPMorgan ended up owning the same amount of physical metal as they did all along, put augmented by a new massive derivatives position – courtesy of BofA. In terms of criminal genius, no one comes close to JPMorgan.

As with all of the things that I've discovered over the decades, my imagination is nowhere near fertile enough to have dreamed up any of them on a whim. All, including this massive snookering of Bank of America by JPMorgan, are borne out in the continuing flow of public facts and data. Hard to

believe, but that's the way it is.

Perhaps the most important takeaway from the solving of a mysterious "cold case" in gold, namely, explaining how 30 million oz of gold suddenly got deposited in the Spring of 2020 into the COMEX warehouses, also explains another great mystery of the recent past. Many (most) have scratched their heads looking for an explanation for why gold and silver prices have performed so poorly over the past year or so in the face of record surges in the price of just about every asset class there is – from stocks and real estate to cryptocurrencies and collectibles of all types – including virtual reality collectibles called NFTs. Well, scratch your heads no more – the "dumping" of 30 million oz of physical gold and 800 million oz of physical silver should explain why gold and silver prices did nothing while everything else – including inflation – soared.

Of course, what I just described, the dumping and market adjustment to such massive amounts of physical gold and silver is now completed and reflected in past price performance. Now all that remains is the "other side" of leasing/short selling in which the borrower, Bank of America, must seek to "undo" its ill-conceived venture into precious metals. For gold and silver investors, that should represent the start of very good times.

As always, if Bank of America or the Office of the Comptroller of the Currency have a radically different explanation from mine, I would encourage both to offer that explanation.

The rally in gold and silver prices this week added around \$800 million to the 8 big COMEX gold and silver shorts, bring their total losses to \$9.9 billion. Separately, if Bank of America is short the 30 million oz of gold and 800 million oz of silver I contend, then using \$1700 as its average price for shorting gold and \$23 for silver, it would appear BofA is in the "red" for close to \$5 billion on these positions. But please remember, at last year's price highs, the amount it was in the red was much higher.

Ted Butler

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Silver – \$24.35 (200 day ma – \$24.69, 50 day ma – \$23.21, 100 day ma – \$23.32)

Gold – \$1836 (200 day ma – \$1804, 50 day ma – \$1810, 100 day ma – \$1797)

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