

January 25, 2020 – Weekly Review

It was mostly a flat to lower price week, particularly in silver, until Friday, when both gold and silver prices surged to end the week higher, with gold ending \$14 (0.9%) higher and silver up by 8 cents (0.4%). As a result of gold's relative outperformance, the silver/gold price ratio widened out by another fraction to 86.75 to 1.

Based upon the late Friday closing prices I adhere to, the weekly close on gold was the highest in 7 years, while silver closed at a new nearly 4 month closing high. Of course, my main thoughts remain focused on the financial condition of the 7 big shorts in COMEX gold and silver futures and this week's close increased the combined total open and unrealized loss to these traders by \$400 million to \$5.2 billion or an individual average loss to each trader of nearly \$750 million.

This is the largest total open loss since the beginning of September when the open loss stood at \$5.7 billion, the highest in history, and just as the big shorts were able to rig prices lower into the quarter end of Sep 30, when the open loss fell to close to \$2 billion. Will the big shorts be able to pull some rabbits out of their hats again and arrange for the sharply lower prices they desperately need to avert what could be the most pronounced short-covering rally in history? I'll consider the prospects in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses totaled 3.4 million oz for another 4 day work week. Total COMEX silver inventories rose a strong 2.6 million oz to 322 million oz, yet another all-time record high. I still maintain that the level of total COMEX inventories is less important than the physical movement and this week, yet again, prices ended higher (OK, not by much) in the face of higher inventories. I've just about given up on wondering why more don't focus on the movement, since it has been both consistent for nearly nine years and is still unprecedented among all commodities. No change in the JPMorgan COMEX warehouse, still stuck at 161.4 million oz.

There was a very large deposit yesterday of nearly 6 million oz into the big silver ETF, SLV, following what had been a monthly decline in this inventory of 10 million oz until yesterday. Since there is not enough data available to make a specific conclusion, I won't even try. Instead, I would like to use the deposit to segue into something I've been meaning to comment on for some time.

Upfront, I know it is an issue on which many have strong preexisting feelings that may clash with what I'm about to say. Being sensitive to those feelings, I'm not trying to rile anyone up, but I am convinced there are important price-influencing forces in the bargain, particularly as concerns the two big precious metals ETFs, GLD in gold and SLV in silver.

I know many look â?downâ? on these ETFs as simply fictitious paper derivatives vehicles mainly used by the big shorts as manipulative devices used in the ongoing suppression of price. I've always concurred when it comes to the shorting of shares, particularly in SLV, and believe I have established a solid record of speaking out against excessive short selling (to the point of being threatened by lawyers from BlackRock, the sponsor of SLV, a number of years back). But excessive short selling isn't currently and hasn't been a problem for quite some time.

As far as these ETFs being phony and holding non-existent metal, I'm not in that camp, mainly

because the serial numbers, hallmarks and weights of individual bars are published (in the case of SLV, at my urging to Barclays Global Investors, SLV's sponsor at the time). I'm a staunch believer in the prudence of holding physical metal in hand, but also know that for many, one's ability to effectively store as much physical metal as one is able to afford can quickly become a problem (mainly because you get too much metal for the money when it comes to silver). Direct ownership or purely allocated storage with a legitimate warehouse is best, but not the easiest option for most people.

My point is that there will come a time in the future when great numbers of investors will collectively attempt to buy gold and silver. I can't tell you when that time will arrive (it always seems imminent to me), just that it will arrive, most likely as prices have already started to move higher. When that time arrives, the now-long existence and smooth and efficient workings of GLD and SLV will no doubt make it a no-brainer for anyone with a stock brokerage account (essentially everyone) to click the "buy" button and immediately invest any sum into gold or silver. With recent changes, most online brokerages no longer even charge a commission.

Whether those investors clicking the "buy" button know or care, a purchase of GLD or SLV necessitates the deposit into these trusts the equivalent physical metal according to the prospectus of each trust. As such, the buying of shares will result in physical metal purchase and deposit, with the effect of causing prices to rise (all things being equal). This is not just something that will occur, it is something that has already occurred. The chief price driver of silver to near \$50 into April 2011, was the widespread and collective net buying of close to 60 million oz of silver in SLV over the preceding months.

My point today is that the latent collective buying power in gold and silver will erupt at some point and much of that buying power will be funneled into the two most recognized ETFs in this space. Whether investors buying these ETFs realize it or not, all net new buying requires the deposit of physical metal without regard to what impact that might have on the physical market. I know many look upon these ETFs with suspicion, but despite that, I think it is closer to the truth that these ETFs will be the gold and silver investors' best friend and ally in the end.

Turning to the new Commitments of Traders (COT) report, it was mostly a non-event, with even less net change in the combined headline numbers than seen in the prior reporting week. This week's report did nothing to signal how the extreme market structures will get resolved. I imagined some managed money selling (which there was, more in gold than in silver) and commercial buying (which there wasn't, but also in small quantities). The report was like kissing your sister - not bad, but not good either (for the record, I have two great sisters). I'm going to run through the results quickly.

In COMEX gold futures the commercials increased their total net short position by 2100 contracts to 351,900 contracts. This is still a very large and extremely bearish commercial short position in conventional and historical terms, the same as it has been for months. The selling can be attributed to the 4 largest shorts which increased their total net short position by 2500 contracts (after buying back about 14,800 contracts in the two previous COT reports). I'd peg JPMorgan's gold short position to be 33,000 contracts, up 1000 for the week.

The managed money traders sold 6627 net gold contracts, comprised of the sale and liquidation of 4133 long contracts and the sale of 2494 new short contracts. The other large traders and non-reporting traders were net buyers of around 8500 contracts. The resultant managed money net long position of 223,832 contracts (258,269 longs versus 34,437 shorts) must still be considered extremely

bearish in historical and conventional terms, but whether this leads to a large selloff is, obviously, still in question.

In COMEX silver futures, the commercials increased their total net short position by 1900 contracts to 94,200 contracts. The 4 big shorts bought back around 500 contracts, while the big 5 thru 8 shorts added 1300 new shorts. I'd peg JPMorgan's short position to be 16,000 contracts, up 1000 for the week.

The managed money traders sold 621 net silver contracts, consisting of the sale and liquidation of 2221 longs and the buyback of 1600 short contracts. The resultant managed money net long position of 56,558 contracts (88,457 longs versus 31,899 shorts) is still historically bearish and yada, yada, yada â?? except it might not be this time around.

The resolution of the extremely bearish market structures in COMEX gold and silver still amounts to whether the 7 or so big commercial short sellers will be able to turn prices around and down and induce the managed money and other traders to sell aggressively on lower prices. Both factors â?? lower prices and actual selling by others at those lower prices â?? are required for the big shorts to eliminate the large open losses and get out of harmâ??s way.

So far, as I have been reporting on for nearly 9 months, the big shorts havenâ??t succeeded. Yes, they did a pretty good job of rigging prices lower into the end of the September mark-to-market quarter end and in somewhat reducing short positions for the nearly two and a half months that gold and silver prices traded below the 50 day moving average until mid-December. But the late December price surge into yearend gave the big shorts the largest mark-to-market losses (\$3.8 billion) ever and things have only gotten worse in the New Year, as another \$1.4 billion has been added to open losses. (Why do I keep hearing that background music from the TV cop show â?? bad boys, bad boys, whatcha gonna do when they come for you?) .

Obviously the pressure on the big shorts hasnâ??t relented and it would appear things are different from what they were in early September when the open losses hit a record of \$5.7 billion. Over the three months beginning in June and ending in late August/early September, gold climbed by nearly \$275 and silver by \$5 â?? thatâ??s what accounted for the record \$5.7 billion open loss to the 7 big shorts. Following that record open loss, the big shorts brought the open loss down to nearly \$2 billion, but didnâ??t close out that many, or any of their shorts (maybe because they didnâ??t want to book realized losses or maybe because they couldnâ??t).

Since December 23 or so, the \$90 rally through yesterdayâ??s close in gold has brought the big shorts back to \$5.2 billion in open losses, a much steeper pace of increasing open losses than occurred into the previous peak in losses. And the environment appears different as well, what with every well-known major investor openly advocating gold and a macroeconomic background much more friendly to gold than in early September. Importantly, JPMorgan is also much less short gold and silver than it was at the September peaks.

In fact, when trying to objectively conjure up the mechanism for how the big shorts can get themselves off the hook and not get dragged into a bonfire of short covering to the upside, the only real way out for the big shorts appears to me to be JPMorgan â?? either by it adding aggressively to short positions or by â??donatingâ?? enough of the physical metal it has accumulated since 2011 to avert any developing physical shortage. Only JPMorgan has the ability to add new shorts to prevent a short squeeze or to

come up with enough physical gold or silver to head off a physical shortfall.

Almost immediately, however, the question shoots into my mind of why the heck would JPMorgan bail out the other big shorts? Just because it is capable of rescuing the big gold and silver shorts is different from it actually doing so. I credit JPMorgan as being genius in its decision to scoop up as much physical gold and silver as it could at the same very depressed prices it created by aggressively selling short on the COMEX; but the most plausible explanation for why it did so was to make a financial score â?? not to bail out competitors which massively miscalculated in shorting so many gold and silver contracts.

As I mentioned previously, despite JPMorganâ??s insistence that it was only doing the US Government a favor in taking over Bear Stearns in 2011 and how it came to regret the takeover, I suspect something very different, namely, that JPMorgan orchestrated the collapse of Bear Stearns or at the least pushed it into failure at the very end. Thatâ??s just the way these boyz roll. Therefore, Iâ??m hard pressed to see how the 7 big shorts come to extricate themselves from a mess they have helped create for decades. Certainly, there is more than enough karma to be repaid should the big shorts start to panic and buy back short positions.

Itâ??s natural to become numb to the increasingly staggering amounts of money being funneled here and there â?? hundreds of billions of dollars in Federal Reserve operations and trillions of dollars in terms of government debts. But when it comes to financial miscalculations by individual firms, hundreds of millions and billions of dollars are still plenty big â?? with the largest of derivatives failures in history measured in these amounts, not hundreds of billions or trillions of dollars.

Therefore, in no way is it possible that the current open losses to the big shorts is a matter of small or no concern to those in charge of such things for these firms. While itâ??s true that there have been scant signs (perhaps some) of actual short covering to this point, it is also true that the big shorts are still very much on the hook, as these are open short positions. The only effective way to close out these open positions is to buy back the short contracts. Itâ??s not even a case of physical deliveries at this point (which it could turn into) because the paper gold and silver longs donâ??t appear to be demanding physical delivery.

These longs appear content to hold their paper long positions and even without them demanding physical delivery, the shorts appear to be in real trouble, at least according to my simple mathematical calculations for how much they are out in terms of open losses. Itâ??s kind of remarkable when you think about it. For many years, decades actually, I always assumed, as did my departed friend and mentor, Izzy Friedman, that the big shorts would get their comeuppance when they couldnâ??t supply all the physical metal that was needed to satisfy physical delivery demands. That was always Izzyâ??s â??Moment of Trueâ?•.

But the big shorts sure seem to be in trouble, not based upon any inability to meet physical delivery demands, but on the growing paper losses unrelated, at this point, to physical delivery demands. I still believe itâ??s only a matter of time before there are physical delivery demands that canâ??t be met in silver (just as has occurred in palladium and rhodium) and can only hope to be around to witness them; but I do have a bit of a hard time understanding how the big shorts appear to be in trouble even before a physical crunch had arrived.

My only explanation is the massive miscalculation made by the big shorts in amassing such an

excessively large concentrated short position in the first place. I suppose the years and decades of success enjoyed by the big shorts (in never taking a collective realized loss) lulled them into such a strong sense of false security that they never once considered how they might ever have to buy back short positions on higher prices. But what sane person gets massively short on anything without considering the risks of being wrong?

And if it is a case (as I believe it to be) of the big shorts being lulled by a sense of complacency into excessively shorting gold and silver starting in June; I'm as certain as I can be that none of these big shorts were aware in the slightest that JPMorgan was tightening the noose around their necks in its accumulation of physical gold and silver since 2011. I would imagine the big shorts do have a growing awareness of their predicament today (they are, after all, required to post sufficient additional collateral to cover open losses), but sensing you might be in trouble and actually doing something about it are two different things.

The only real solution for the big shorts is to not be short gold and silver in a big way. But getting to there from where they are now is no simple or painless task. I suppose something out of the blue might come along to bail them out and get them off the hook they appear to be on is always possible, but I can't articulate what that something might be. I do know (or think I know) that the most practical and perhaps only legitimate way to close out an open short position is to buy back the position. If that occurs, prices head sharply higher in a manner that should shock us all.

Suddenly, there appear to be more catalysts than ever suggesting the path for gold and silver prices is higher, including the potential black swan of the coronavirus. But none of these catalysts detract in any way from the key factor in gold and silver that is the concentrated short position of a few large traders on the COMEX.

Ted Butler

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Silver – \$18.11 (200 day ma – \$16.61, 50 day ma – \$17.42)

Gold – \$1571 (200 day ma – \$1442, 50 day ma – \$1504)

Date Created

2020/01/25