

January 4, 2020 – Weekly Review

The surprising assassination of a top Iranian military official contributed to what already was a strong up week for gold and powered the metal to fresh six and a half year weekly closing highs. Gold ended the week up \$40 (2.6%), while silver appeared to tag along reluctantly, ending higher by 27 cents (1.5%). As a result of gold's relative outperformance, the silver/gold price ratio widened out by nearly the same full point it had tightened in by in the prior week, ending at 86 to 1.

In a year where the price ratio has remained above 80 to 1 for the first time in more than 25 years (and before that never), it's easy to get used to the idea that silver will remain dirt cheap relative to gold forever. However, I'm convinced that notion is beyond absurd and not to load the boat with silver here will come to be one of the greatest "coulda, woulda, shoulda" missed opportunities in history. To those who have already loaded the boat – just remember it will be better to have been too early rather than too late.

Ironically, it is gold, or more correctly gold's recent performance that may turn out to be silver's best friend and the catalyst for the coming silver moonshot. With no Commitments of Traders (COT) report until Monday afternoon, I'll comment on my expectations for the report later. Before I get into what I believe to be the most important factors in gold and silver, let me just mention the goings on in the COMEX-approved silver warehouses.

This four day week, just over 4.9 million oz were physically moved, either into or out from the COMEX warehouses. Total inventories rose by 0.4 million oz to 318.2 million oz, yet another all-time high. Lately, it seems every nudge up in total COMEX silver inventories has been accompanied by higher prices. I'm not suggesting that higher inventories cause higher prices (that would be inane) – I'm suggesting it is not a price factor at all, same as always. No change this week in the JPMorgan COMEX warehouse – still at 161.4 million oz.

The sharp move higher in gold this week added significantly to the open and unrealized losses of the 7 largest traders in COMEX gold and silver futures. From the closing prices of a week ago, some \$1.2 billion was added to a total open and combined loss now amounting to \$4.9 billion – or an average loss per trader of \$700 million each. In a matter of little more than two weeks, the big 7's total open loss has ballooned by more than \$3 billion.

On Wednesday, I noted how the year and quarter ended with a \$3.8 billion loss having to be recorded on a mark-to-market basis, the most in history. I also pointed out how this was starkly different from what was experienced at the close of the third quarter, when gold and silver prices were hammered sharply lower into the third quarter's end, to the great benefit of the big shorts. I also went back to observe price performance into previous quarter ends and seemed to notice more instances of sharp selloffs than rallies. The only traders which would seem to benefit by selloffs into quarter ends would be the shorts.

If I could be a fly on the wall and observe what may be taking place behind closed doors in the inner sanctums of the 7 big shorts, here's what I think I would observe. On the price run ups into early September, when the big 7 were briefly in the hole for more than \$5 billion, the top managers and financial officials of those organizations short (mostly banks) were seriously alarmed at the extent of

open losses and were all over the traders responsible for the big short positions. The traders, in turn, reminded the top managers that they had experienced many prior instances of big open losses in the past but were always able to work off those open losses into break evens at worst and would do so again. For a while, it looked like the short traders would prevail once again.

From the September price highs into the close of the quarter at the end of the month, the big short traders seemed to be on their way to a break even once again and had trimmed what was an open loss of more than \$5 billion, down to \$2 billion or so, a \$3 billion relief. From that point, gold and silver prices were largely contained into early to mid-December and with the downward penetration of most of the important moving averages, it looked like only a matter of time before the managed money longs would succumb, as they always had in the past, and sell aggressively on still-lower prices and Presto — the big shorts would be able to buy back most of their shorts and break even yet again.

But then a funny thing happened by mid-December, namely, the managed money traders didn't sell as they always had sold before (for some still-unknown reason) and instead of gold and silver prices selling off, they embarked on a fairly spirited rally into quarter and year end which culminated in the year end \$3.8 billion mark-to-market loss by the big 7, the largest in history. Please remember, the year ended last Tuesday and there have only been two work days since then, so I'm talking in about as up to date terms as is possible.

Back to being a fly on the wall. Now the top managers and finance people at the organizations (mostly banks) which hold the big short positions have much different circumstances in their conversations with the traders who put on the shorts. It would seem to be much harder for the traders to smooth away the top managers' concerns, seeing how things have turned starkly negative in just ten trading days. Now, the largest mark-to-market losses ever have been recorded and things have only gotten worse into the first two days of the New Year, given yesterday's gold price surge.

Instead of the problem being solved as originally intended and assured to by the traders as recently as mid-December, now there are much bigger losses and margin demands from the clearing corp. What are top financial managers saying or doing now? As I said, I wish I was a fly on the wall. But I'm not a fly on the wall and I can only speculate as to what comes next.

I believe I do have an appreciation for how the big gold and silver shorts got into the predicament it appears they are firmly entrenched in currently. For years, I have written how JPMorgan and the other big COMEX gold and silver shorts had never realized big losses when adding to those short positions. Yes, there were countless times when the big shorts were forced to hold short positions that temporarily moved against them as they assembled and put on enough new shorts to meet and satiate the buying by the managed money traders on ever higher prices. The open losses that accrued to the big shorts were an unavoidable and necessary consequence of how the commercials traded.

But sooner or later, the managed money traders bought all they could buy and having exhausted their buying power, were then at the mercy of the big shorts who then rigged prices lower and induced the managed money traders into selling at much lower prices that they originally bought at on average. The big commercial shorts were so skilled at this repetitive fleecing of the managed money traders that they achieved a perfect trading record of never taking a loss in the end. Sometimes, like the run up in 2016, the big commercial shorts only ended up breaking even after holding big open losses, but most times, the big shorts made actual realized profits.

None of this should come as a surprise to subscribers, as I've described and analyzed just about every "wash, rinse, repeat" cycle on a twice weekly basis to the point of being redundant. In fact, it is this repetitive COMEX cycle that forms the basis of the market structure premise which has only grown in popularity because the data doesn't lie. The biggest takeaway, however, I believe is lost to most market observers.

A close study of the concentration data, not something that most do, proves that the big commercial shorts have never taken big realized losses, even after holding large open losses in the course of assembling massive short positions on a scale up price basis. What is most clear when one objectively studies the concentration data is that never, never, never have the big shorts collectively bought back short positions on higher prices. Did I say never because that's what I mean.

In fact, that's the key to the COMEX price manipulation scam and fraud, namely, that the big shorts have never been forced to buy back short positions en masse on higher prices. I've written about this countless times in the past, but I would ask you to consider this anew. It's so simple, I admit, that it seems improbable. But look at it this way - of all the commodities or investment assets in the world, gold and, particularly silver, are probably the most unsuitable for holding massive short positions. I, for one, could not sleep at night at just the thought of being short silver or gold.

Yet the 7 biggest shorts hold and have held massively large short positions in each because they know the traders on the other side - the managed money traders - will eventually buckle and sell in the end. There has to be a reason why the big shorts would risk holding such large short positions in gold and silver and I just gave you the reason - the big shorts know (or think they know) that the managed money traders will chicken out and sell in the end (since they always have in the past). Let's face it - never losing for years, decades actually, on end would lead to cockiness and a sense of infallibility to anyone.

And, I believe, that explains why the big shorts went back on the short side of gold and silver early this summer and why the traders responsible for these positions were able to persuade their superiors that they had everything under control when prices spiked into early September. Just give us time and we'll be able to eliminate the open losses and get the short positions closed out. Now, however, it would appear things may not be working out as planned.

Instead of seeing the traders' assurances that things were under control, the top financial managers at the organizations holding the short positions are faced with giant mark-to market year end losses and still growing open losses and margin calls in the days since year end. The noted economist, Herbert Stein, sagely remarked that things that couldn't continue would end one day. I can't tell you that the silver and gold manipulation jig is up here and now, but I can tell you that the idea that the big shorts in COMEX silver and gold would be able to maintain a perfect trading record forever of never taking big realized losses when engaged in the inherently risky activity of shorting gold and silver is impossible. That's not to say the whole thing blows up in the immediate near future, but it could, based upon the facts at hand.

I fully stipulate that I always thought the big commercial shorts would know when the precious metals suppression would be close to ending and would therefore allow prices to soar when they refused to sell short and were holding minimal short positions. My dear departed friend and silver mentor, Izzy Friedman, always insisted that these big shorts would get caught with a full pants down short position.

The recent flow of evidence points strongly to Izzy being right (and he wasn't even factoring in JPMorgan double crossing the other big shorts).

I'm not suggesting that the open losses are large enough to cause insolvency to the big shorts; after all we are talking about banks and large financial organizations. But at some point (and we now might be at that point), top management at those entities which are short must take action to rein in and control future losses on a trade that has gone bad. Unless I'm missing something very basic, the only way to eliminate future losses on a massive short position is to close out that short position. The traders may plead for more time, but at some point, the adults must take control of the situation.

If the adults (senior management) take control and order the short positions closed out, that will represent a shock to the system. Even if only one or two of the big 7 move to buy back shorts, that will force the remaining big shorts to assume the short positions of those bailing out and risk setting off a cascade of further short covering. Let's face it, without the concentrated short position, gold and silver prices would be significantly higher. How much significantly higher can only be answered when the short positions are closed out. What has been a no lose proposition for decades could and should turn into the biggest loss in history for the big shorts. That's how these things work.

Look, I can't know if we are on the verge of a price melt up or if the big shorts will be able to pull some crooked rabbit out of their hats and arrange for one last selloff, so please be guided accordingly. But the data and price action point to an unusual set of circumstances heretofore not experienced. And as I've indicated in the past, I'm not particularly concerned that gold has very recently outperformed silver, since the big financial damage to the shorts has come from the gold side.

This week, for instance, the \$40 rise in gold accounted for nearly \$1.1 billion of the combined \$1.2 billion increase in the total combined open loss. Should any of the big shorts decide to buy back gold short positions, I doubt very much they will do any different in silver. The damage being done to the big shorts in gold is nothing but good news for silver investors. The enemy of my enemy is my friend and all that jazz.

As far as what to expect in Monday's COT report, gold was higher by as much as \$25 over the four day reporting week ended Tuesday, Dec 31 and ended about \$18 higher for the week. Silver wasn't as strong, ending higher by less than a dime, although it had been higher by as much as 35 cents at the intra week highs. Both gold and silver traded above their 50 day moving averages every day of the reporting week, a moving average first penetrated the week prior. Finally, total open interest in gold increased by more than 36,000 contracts over the reporting week and in silver by more than 6600 contracts.

I get the feeling that spread trading accounted for much of the increase in total gold open interest and to a lesser extent in silver. Therefore, I don't believe the increase in total open interest in gold entirely reflects pure new net managed money buying and commercial selling, but at the same time, I would be surprised if we didn't set new records in gold for the commercial net short position, since we were only less than 5000 contracts shy of the record in last week's report. I do expect new record concentrated short positions for both gold and silver as far as the 8 largest traders are concerned. That's not saying much since last week's report indicated a new record in gold and silver was only 500 contracts or so shy of a record. I do plan on comments on the COT report sometime around 6 PM EST Monday.

Ted Butler

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Silver – \$18.10 (200 day ma – \$16.41, 50 day ma – \$17.32)

Gold – \$1555 (200 day ma – \$1424, 50 day ma – \$1485)

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