

## July 1, 2020 – A Quarter Like No Other

Yesterday marked the end of the second quarter and first half and what a quarter it was – what with record gains in many stock indices and crude oil and other markets. Of course, the gains followed record losses in the first quarter and some of the stock indices and oil remain lower year to date. No one would deny that we are living through a most volatile market and economic experience.

Gold and silver experienced sharp gains in the second quarter, with gold higher by \$216 (13.6%) and silver up by \$4.35 (30.7%) – but it must be pointed out that gold was also higher in the first quarter by \$64 (4.2%), while silver fell by a very sharp \$3.75 (21%). For the full first half, gold gained \$280 (18.4%), ending the half at \$1800, while silver ended the first half up 60 cents (3.4%) at \$18.50.

Regular readers know I don't usually harp on quarter to quarter or yearend results, as these are just mile markers on a continuing price journey. I raise the results today for a different reason, namely, it goes to the heart of a matter I've focused on for more than a year – the ever increasing losses suffered by the 8 big shorts in COMEX gold and silver. As of yesterday's close, the 8 big shorts were out at least \$9.5 billion in combined realized and unrealized losses in gold and silver, the most ever. Based upon closer calculation, if anything, I may have understated the losses.

Importantly, quarter endings are significant in accounting and financial reporting terms, as this is when books are squared and results are based upon. As I indicated recently, if the big shorts were going to make a stand and drive gold and silver prices lower, it would make sense for them to do so into yesterday's close, not after. Therefore, it is quite notable that gold ended yesterday at its highest price for the quarter (and for 8 years) and silver at its second highest close of the quarter. It almost doesn't matter what prices do in the short term – for reporting purposes, the die is now cast for the second quarter.

As a reminder, I started calculating the 8 big shorts total losses in COMEX gold and silver a year ago. I first included only the 7 largest shorts, trying to separate JPMorgan from the others given its massive gold and silver physical holdings which exempted it from any net losses due to rising prices, but that became unnecessary as JPM came to close out its COMEX gold and silver short positions. My quarter end calculations are as follows –

Sep 30 – \$2.4 billion

Dec 31 – \$3.8 billion

Mar 31 -\$4 billion

Jun 30 – \$9.5 billion

There were clear deliberate price takedowns into the Sep 30 quarter and March 30 quarter ends, but, obviously, no such takedown occurred into yesterday's quarter end. A cursory review would seem to suggest that the big shorts basically held the line on losses through the end of March, but the losses ballooned in the quarter just ended. I would note that according to my calculations and running commentary, JPMorgan succeeded in largely covering its own COMEX gold and silver shorts into the end of March, leaving the remaining big shorts to fend for themselves. So far, at least, the remaining

big shorts wouldn't appear to be fending successfully. Some might even go so far as to suggest the big shorts were double crossed by JPMorgan.

Others might contend that the losses to the big shorts are not "real" losses, since the shorts are commercial traders and as such they are "automatically" hedged and wouldn't dare hold straight speculative short positions. To this day, many observers feel the big shorts are mining companies hedging production, but FASB regulations require mining companies to disclose such short positions and I am not aware of such reporting by any mining company.

I have stipulated that some (but not all) of the commercial shorts may have physical gold holdings against their COMEX short positions and that these commercials are responsible for moving in tremendous amounts of physical gold into the COMEX warehouses for the purpose of making delivery to close out some of their short positions. But they are doing so most reluctantly and must deeply regret having to do so. Even if some do have gold to bring in and deliver against their COMEX short positions, they are giving up their gold at the prices they sold at a year ago and hundreds of dollars per ounce less than what gold is worth today.

This is very reminiscent of the line the gold miners, like Barrick Gold and AngloGold, took 20 years ago when their short gold hedges blew up due to higher prices, namely, that it was some type of "soft" loss. So soft were the losses that they and every other mining company swore off such selling ever again – a vow that has been kept to this day. Likewise, once the dust settles on the mistaken short selling by the big COMEX shorts, I doubt that any who survive the matter will be eager to heavily short gold or silver futures ever again.

In the interim, the most pressing question is when, if ever, will the big shorts throw in the towel and rush to cover their open short positions in COMEX gold and silver? After all, surely they must be close or, at least, closer to the breaking point. And there can be little doubt that the losses are significant enough that even those at the highest levels of the individual organizations holding shorts must be aware of the magnitude of the losses (or soon will be). Why aren't the orders being issued to the traders responsible for putting on the shorts to buy back forthwith?

For the answer, you have to put yourself in the shoes of the person ultimately responsible for making the decision to order a blanket short covering. Such a person would be quite familiar, not only with his company's financial predicament, but also with how markets operate. Such a person would know that a wholesale order to buy back all shorts immediately would have a profoundly bullish impact on price, since the only reason gold and particularly silver prices are as low as they are is because of the concentrated short selling of his and a few other institutions. Aggressive short covering (buying) would kite prices higher, thereby making the losses on existing short positions much worse and risk exposing the manipulation that has existed for decades. Who is going to rush to do that?

Therefore, a standoff exists, in which the big shorts are damned if they do rush to cover (a quick death) and damned if they don't (a slow death). This offers the most plausible explanation for the lack of a resolution to date – a resolution that must come at some point. It's also important to distinguish the differences in the pending resolutions in gold and silver.

While gold has accounted for the vast bulk of the big shorts' losses to date (some 85% to 90% of total combined losses), the situation is actually more critical in silver. That's because the concentrated short position of the 8 largest COMEX shorts gold shorts, currently around 23 million oz

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(230,000 COMEX futures contracts), while very large in contract and dollar terms (more than \$40 billion in notional terms), is not particularly large in terms of how much physical gold exists or could be acquired.

With close to 6 billion total oz of gold said to exist and 3 billion oz of that thought to exist in bullion form, 23 million oz is less than one percent of all the gold in bullion form. In fact, just over 23 million gold ounces have been deposited into the COMEX gold warehouses over the past several months, no doubt intended to resolve the concentrated short position. I'm not minimizing the long term bullish impact of the big COMEX shorts retreating from the short side after suppressing prices for decades, I'm just pointing out the scope of their total short position in real world terms.

In silver, it's quite different. The 8 big shorts hold a short position of some 375 to 400 million oz (75,000 to 80,000 contracts). In dollar terms, that's close to \$7 billion (compared to \$40 billion worth of gold held by the big shorts), but close to 20% of all the silver bullion thought to exist in the world (compared to the less than 1% held short by big gold shorts). Further, of the 2 billion oz of silver bullion (1000 oz bars) thought to exist in the world, 1 billion oz is in publicly traded silver ETFs and the other billion oz is held by JPMorgan, in the COMEX warehouses and in London in undisclosed holdings (I'll get into yesterday's deliveries on the COMEX momentarily).

The silver in the world's ETFs (one billion oz) is only available by open market purchases and the other billion oz held by JPMorgan is available only by appointment and in terms dictated by this master crook (all the silver you want if you agree to lease return terms). So where do the 8 big shorts propose to get 400 million silver physical oz from? (And likely another 100 to 200 million oz already leased from JPM). You can't get blood out of a stone and you can't get 400 million or more oz of physical silver out of thin air and that's what differentiates the concentrated short position in silver from its counterpart in gold.

Yes, it's frustrating to wait for the resolution in silver for those of us who have been waiting for a long time, but that's just the way it is. At the same time, it has never been a better time for the resolution to unfold (or to buy or hold silver) as everything seems to be falling into place and confirmations of a pending price explosion appear to occur daily. The new amount of physical silver being added to the world's ETFs is nothing short of astounding and indicative of something being up as the buying does not appear to be of the retail investor variety. Then again, the big shorts aren't going down without a fight as indicated by today's rig job to the downside. They have way too much to lose to simply give up.

Astonishingly, all of this is playing out, not only in full view of the primary federal regulator, the CFTC, but also while a supposed criminal investigation by the US Justice Department into JPMorgan and precious metals manipulation is underway. That investigation appears focused on spoofing, a peripheral and about as non-material focus as is possible, compared to what is unfolding in full view.

In another regulatory development, the Supreme Court threw out an appeal from MONEX, denying the coin company and leveraged metals operator's claim that the CFTC has no jurisdiction, thus clearing the way for the agency to proceed in its \$290 million civil case against the company.

<https://www.reuters.com/article/scotus-cftc-idUSL1N2E70L7>

I have been on the record as siding with the CFTC in its case against MONEX and hope the case is

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resolved with MONEX never offering leveraged trading and wish the agency success in its case. At the same time, watching how long this case has taken only cements my feelings that both the CFTC and DOJ are in over their heads in any legal fight with JPMorgan. Of course, I'd love to be proven wrong.

Turning to other developments, there were a record 11,458 silver contracts (57.3 million oz) were issued and stopped in Tuesday's first delivery day (followed by a further 810 contracts today). I always gird myself in anticipating what JPMorgan may be up to and this time no amount of girding would have been sufficient, as the bank issued in its own house account 5975 contracts (29.9 million oz) and another 1713 contracts (8.6 million oz) for clients, a combined total of 7688 contracts (38.4 million oz) or 67% of total silver issuances. Can you spell m-o-n-o-p-o-l-y? JPM was also the largest stopper having stopped 3564 contracts (17.8 million oz) on behalf of clients, or 31% of total first day silver deliveries.

I haven't raised the matter in some time, but how the heck did we get to the point where JPMorgan has such a strangle hold on silver and gold? And in gold, on Tuesday's first delivery day on the non-traditional July COMEX gold contract, JPMorgan issued 1990 contracts from its own house account, plus another 50 contracts from clients, of the 3316 total contracts issued or 62%. JPM also stopped 1264 gold contracts on behalf of clients or 38% of total gold contracts.

It was no real surprise that JPMorgan transferred just under 30 million oz in its COMEX silver warehouse from the eligible category to registered in order to arrange for delivery, but at the same time the size of the one-day transfer was stunning. It will be interesting to observe if this silver is subsequently moved and, if so, what that may say about overall tightness in the wholesale physical market. Most stunning of all, of course, was the fact that JPMorgan disposed of so much silver after having done nothing but accumulate silver (and gold) over the past 9 years (although it did deliver nearly 10 million oz from its house account in the May delivery). So the obvious question becomes has JPMorgan flipped into a distribution mode on silver, with the obvious price implications if it has?

I claim that JPM has leased out 100 to 200 million oz of its one billion accumulated oz to counterparties which have in turn sold it to the world's silver ETFs, which has blunted any immediate price surge, but sets up for a much larger surge when the leased silver is returned or called in. But a straight delivery on the COMEX, the likes of which JPMorgan just engaged in, is not a lease, but an apparent clean transfer of ownership. So is JPMorgan signaling with its stunning one-day delivery of 30 million oz that it intends to dispose of its physical silver hoard?

Simply put, it's too soon to tell. While we must stay alert to such a drastic change on JPM's part, there are some extenuating circumstances. By issuing 6000 contracts, JPMorgan automatically reduced its COMEX short position by that same amount - this is a simple mechanical process. I had been estimating JPM's COMEX silver short position at around 5000 contracts and it could easily been a bit more, so as a result of the big one day delivery, I'd peg JPM as now flat on the short side. In other words, JPMorgan gave up 30 million physical ounces but reduced its paper short position by that same amount - a wash and no big deal.

Of course, if JPMorgan continues to deliver large amounts of physical silver from its house account via COMEX deliveries, the situation must be reviewed, but at this point, not much has changed as a result of the first day's deliveries. Certainly, nothing that has occurred, the large deliveries and category change, as well as the massive amount of silver flowing into the world's silver ETFs, in any way challenges anything I've had to say about JPMorgan over the past 12 years and in fact, confirms

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just about everything I've claimed. If, as and when changes become apparent, I'll acknowledge and address them.

There won't be a COT report published on Friday, due to the July 4<sup>th</sup> holiday, so I'll address prospective changes in Saturday's review and likely publish separate brief COT report comments late Monday, when the report is published. There did appear to be fairly aggressive managed money buying and commercial selling yesterday and a reversal of that positioning today although today's reversal won't be in Monday's report.

As indicated above, yesterday's quarterly close is more important to the 8 big shorts than any relief gained today. Of course, I'll continue to calculate the changes in total losses to the 8 big shorts as they occur, but the results for the second quarter are now booked and unalterable. The most important feature is still the open and unresolved nature of the concentrated short positions. I've reasoned that the gold short position would appear much easier to resolve than the position in silver, but the fact remains that neither has been resolved.

The concentrated short position in gold has only come down around 4 million oz from the end of the first quarter to last week's COT reading of 22.5 million oz, despite record COMEX warehouse inflows and three months of record COMEX deliveries. All in a quarter when gold rose by more than \$200 and JPMorgan had conveniently covered all its gold short positions at the end of March. In silver, the concentrated short position of the 8 largest traders actually increased to 385 million oz over the quarter on a better than \$4 increase in price, with JPMorgan also having covered its short position as the second quarter began. Yet the CFTC and DOJ are hot on the trail of spoofing.

It's not likely that the CFTC and Justice Department will resolve the issue of price manipulation (even though it is their prime mission) and it increasingly looks more likely that the issue will be resolved by the 8 big shorts' loss of appetite in playing a game that has brought them unprecedented losses. I suppose it's always possible for the big shorts to make one final stand and rig prices low enough to generate some measure of meaningful speculative selling. But it would appear that the days of getting out even for the big shorts have passed and the best they can hope for is some meaningful reduction of what will still be, in the end, staggering losses. And I would imagine their appetite for aggressive new short selling has disappeared.

At publication time, today's sharp price declines did bring some relief to the 8 big shorts, as they recovered around \$600 million from yesterday's \$9.5 billion loss. On today's close, I'd peg the 8 big shorts as being \$8.9 billion in the hole.

(On a housekeeping note, I'm switching to the September contract from July for silver, which adds about 8 cents to the price).

Ted Butler

July 1, 2020

Silver – \$18.27 (200 day ma – \$17.00, 50 day ma – \$16.95)

Gold – \$1779 (200 day ma – \$1594, 50 day ma – \$1732)

**Date Created**

2020/07/01