July 4, 2020 – Weekly Review/Partners in Crime?

In holiday-shortened trading, the price of gold and silver finished the week slightly higher, although down a bit from Tuesdayâ??s end of quarter close. For the week, gold ended $3 higher (0.2%) and at a fresh near-8 year record weekly closing high, while silver ended 35 cents (2%) up for the week.

As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by nearly two full point to 97.7 to 1. It has now been about 8 weeks that the price ratio has closed below the 100 to 1 level, after spending the prior ten weeks above that level and reaching nearly 125 to 1. I remember commenting that when the ratio first closed below the 100 to 1 level that it may never move above that again, although that must be taken with a grain of salt. What can be taken as the near gospel truth is that the current levels of relative undervaluation of silver to gold will not stand in the long run and any switch from gold to silver at current levels will be rewarded amply in time.

The 8 big shorts in COMEX gold and silver futures did enjoy a modicum of relief from Tuesdayâ??s end of quarter and first half close of being $9.5 billion in the hole financially, and I would calculate (with some overall adjustment) that at weekâ??s end they were $9.2 billion underwater on both a realized and unrealized basis.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained high, as nearly 6.4 million oz were moved and total warehouse inventories rose by 3.6 million oz to 323.6 million oz. This puts total COMEX silver inventories at the tippy-top of all-time levels, but still largely maintaining the 305 to 324 million oz band of the past year or so.

This weekâ??s heavy deliveries on the July silver contract still seems to be the catalyst for the surge in COMEX inventories, along with switches in inventory categories from eligible to registered. Iâ??m still of a mind that the increase in COMEX silver inventories and category changes point directly to there not being enough available silver in the COMEX warehouses to meet delivery demands so that new stuff had to be brought in. No change in the JPM COMEX silver warehouse, still stuck at 160.7 million oz, or 50% of total COMEX silver holdings (excluding the 100 million oz I claim is held by JPM in other COMEX warehouses).

There was another 750,000 oz added to the COMEX gold warehouses this week, increasing to another new record total gold inventories of 32.45 million oz. JPMorgan accounted for more than 300,000 oz of the increase, as its COMEX gold warehouses now hold 11.95 million oz, or 37% of total COMEX inventories. Total COMEX gold inventories have now increased by 24 million oz over the past several months, not that far from what was the concentrated short position of 25 to 26 million oz at the outset of the inflow.

Total COMEX silver deliveries against the July contract have cooled off from the 11,458 contracts issued on Tuesdayâ??s first delivery day and now total 13,040 contracts. JPMorgan hasnâ??t issued any more silver deliveries in its house account since its first day delivery of 5975 contracts, but there are still around 3500 open contracts in July, meaning the delivery process is far from complete. And there have been unusually large deliveries in the COMEX July gold contract, not a traditional delivery month in gold, of close to 5000 contracts, with plenty of time remaining before the delivery period ends at month end.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

By far, however, the big story continues to be the surge in deposits of physical metal into the worldâ??s gold and, particularly, silver ETFs. This past week, more than one million oz of gold were added to the worldâ??s gold ETFs, but in silver the amount added to the worldâ??s silver ETFs, blew the doors off, as more than 28 million ounces were added (this does not include the 3.6 million oz added to the COMEX warehouses).

Annualized, this weekâ??s total deposits into the worldâ??s gold ETFs comes to more than 50 million oz, or 50% of total annual gold mine production. In silver, the 28 million oz deposited this week in world silver ETFs (10 million oz into SLV) is the annualized equivalent of nearly 1.5 billion oz or nearly twice as much as total annual mine production and twice as much as total world silver inventories once ETF and COMEX inventories are excluded. Clearly, the pace of physical flows into the ETFs canâ??t possibly continue at this rate, since there doesnâ??t exist enough silver in the world to support it.

Instead, another question should spring into your and every other mind with an interest in silver, namely, how the heck is it possible that so much physical silver can be bought and deposited into the worldâ??s ETFs without any noticeable great impact on price? That, as they say, is the multi-billion dollar question.

Partners in Crime?

As longtime readers know, my analytical methodology is to rely strictly upon the public data and then assign the most plausible explanation for that data. Thatâ??s what led me to discover, in 1985, that the reason why silver was depressed in price was due to the concentrated short position in COMEX silver futures. This same approach, relying on the public data and then assigning the most plausible explanation for that data, is what led me to countless other discoveries, not the least of which is that JPMorgan emerged as the prime silver (and gold) price manipulator upon its takeover of Bear Stearns in 2008.

The trick, if any in my approach is to focus on the most important data and not get sidetracked by other data not particularly relevant to the big price picture. All sorts of data are presented daily, so itâ??s not always easy to determine what the data that matter most are. Other times, the public data are so compelling that they are impossible to ignore. The recent data concerning the flows of physical metal into the worldâ??s silver ETFs (exchange traded funds) are the most significant development in quite some time.

Over the past three and a half months, more than 200 million physical oz have been bought and deposited into the worldâ??s silver ETFs, led by the biggest silver ETF, SLV, where silver deposits have grown by 40%, from 360 million oz to 502 million oz. Over the past week, more than 28 million oz have been deposited into the worldâ??s silver ETFs, an annualized rate of nearly 1.5 billion oz, or much more than is thought to exist in non-ETF holdings and official COMEX warehouses.

Obviously, the rate of physical silver purchased and deposited canâ??t continue at this pace, but the important point is something else, namely, how can this verified physical purchase not have caused the price of silver to soar? Any silver analyst or commentator worth his salt should be laser-focused on this specific question and little else. For what itâ??s worth, contemplating this question occupies most of my time.

Some other facts around the record purchase and deposit of physical silver into the worldâ??s silver ETFs (Death Stars) include that the metal is coming from JPMorgan, since no other entity in the world holds anywhere near as much silver to account for the flow of more than 200 million oz over the past few months. This, of course, is separate and distinct from the mega-delivery of 30 million silver oz on the first day of the July COMEX futures contract this week from the house account of JPMorgan, but which also confirms the bank holds vast amounts of physical silver.

Another thing we know from observation is that the buying of silver ETF shares does not appear to be of a broad, plain vanilla rush by retail investors to plow into silver. Yes, sales for silver retail items are on the upswing and premiums have persisted, but the premiums seem more a result of the inability of the US Mint to keep up with demand for Silver Eagles than anything else. (Yes, the Mint is required by law to produce enough coins to meet demand, but the coronavirus trumps the law).

Certainly, the silver ETFs are not (yet) on the radar of the kid day traders at Robinhood Markets and other no-commission online brokerages. In my opinion, that day is coming and when it does arrive, it promises to light a separate and distinct fire under the price of silver. Therefore, since the massive buying in the silver ETFs is not due to broad retail buying, the only remaining possibility is that the buying is some form of informed institutional buying â?? along the lines of a friends and family program of JPMorgan, as recently discussed. With the end of the quarter this week, we may learn more shortly as hedge funds and others report holdings.

So what we do know is that more than 200 million oz of physical silver have been bought and deposited by the worldâ??s silver ETFs over the past few months, the metal has been provided by JPMorgan, the buying appears to be by well-informed large investors and that the price has not reflected the record amount of physical metal purchased. Trying to reconcile these facts, the most plausible explanation I have been able to come up with is that JPMorgan has been leasing the bulk of the metal to other banks which in turn sold it to the ETFs. That would explain the lack of an immediate sharp price increase, but strengthen the long term price outlook and fit with JPMorganâ??s established profile of greed and duplicity that knows no bounds. And that is still the most plausible explanation to me.

However, there is a difference between facts and explanations, even of the most plausible variety. The facts are beyond question, but there is one other possibility to explain JPMorganâ??s release of so much physical silver, away from my take that it is leasing the silver. The only other explanation is that

JPMorgan is straight out selling the silver, not leasing it. Therefore, this is very much a black or white issue – it has to be one or the other â?? either JPMorgan is leasing the silver or selling it outright.

If it turns out that JPMorgan is selling the silver and not leasing it (and retaining a hidden ownership), then the question becomes its motivation for selling. No one would argue that JPMorgan is selling the silver because it turned a new leaf and is seeking to bestow its generosity upon the world. That leaves the only alternative motivation that JPMorgan is being forced to sell the silver and the only entity capable of ordering the bank to dispose of its silver hoard is the US Government in the form of the US Justice Department and the Commodity Futures Trading Commission.

To be sure, Iâ??m not saying the US Government has definitely ordered JPMorgan to dispose of its illegally-acquired silver hoard, Iâ??m just saying that if the bank is not leasing the metal, then that is the only other possibility. This issue came up at the outset of the Justice Departmentâ??s criminal investigation of JPMorgan and precious metals a couple of years ago and I opined then that if the DOJ did find that JPM had illegally depressed prices and acquired physical metal as I alleged, the only equitable solution was to seize the metal from JPM, not to order its sale. The worst solution, at least temporarily, would be an order for JPMorgan to sell and further depress the price of silver.

It has now been 12 years since the CFTC has offered any public or private response to the growing body of evidence that silver has been manipulated in price by concentrated short selling on the COMEX and that JPMorgan had been the main short seller and also accumulator of physical metal at artificially depressed prices. I donâ??t blame the agency for this avoid-the-discussion-at-all-costs approach, it had no alternative of reasonable rebuttal. But now the issue has reached such new extremes that continued silence from the agency looks to work against it.

So much physical silver has been bought and deposited into the worldâ??s silver ETFs, with such a minimal impact on price that a prime tenet of the law of supply and demand has been turned on its head. If there were clear and compelling data that showed, effectively, that all the worldâ??s production and above ground inventories of any commodity, such as crude oil, or copper or soybeans, was being sold by one entity and purchased by a few other, possibly related entities, would not the CFTC and Justice Department immediately address the issue? Of course, they would â?? unless they were already involved, by ordering the one entity doing the selling to dispose of the commodity. But if thatâ??s the case, clearly the selling entity (JPM) has tipped off insiders to buy that which it has been ordered to sell.

This would all be conjecture and fantasy on my part if it werenâ??t for those stubborn things known as facts. The public data show that more physical silver (200 million+ ounces) has been bought over the past few months than has been mined in this time (given reported coronavirus interruptions) and more silver has been bought than in history. Yet the price of silver, as you know, is largely unchanged year to date and at close to 5000 year lows relative to gold despite the record silver buying. This would be an impossible set of facts in a free market and could only exist in a highly manipulated market.

As for JPMorgan, its silence in the face of continued allegations of illegalities, is something weâ??ve grown accustomed to, but that hardly makes it normal. Like the CFTC and the Justice Department (and CME Group), JPMorgan has decided to ignore the allegations of wrongdoing, since, like the others, it canâ??t refute them. But this is still unprecedented and, in fact, the issue of protecting the bankâ??s reputation rises to the board of director level. Itâ??s as if, twice a week for a decade, I have thrown a brick through the plate glass window of the bankâ??s main Park Avenue branch and it refuses to press charges out of fear the real facts on silver might become known.

As for what happens from this point, the record physical silver buying is a sign that some type of informed-investor rush has occurred. It does not appear to be the little guy buying (yet). I know the buying has occurred, as evidenced by the public ETF data and also know that there has been little impact on price, contrary to the law of supply and demand. I canâ??t know if the buying will continue, but if it does, it will come to gobble up all the worldâ??s silver in time, in the purest Death Star tradition.

Therefore, it seems the most prudent course of action is to buy and hold as much silver as possible. Thereâ??s always a risk of short term selloffs, as this is still a highly manipulated market and the big shorts will not give up easily, but the temporary risk of a short term selloff must be measured against the much greater likelihood of tremendously higher eventual prices. Something is definitely â??upâ?•, what with the highly unusual recent record ETF buying.

The thought occurred to me that this may be somewhat of a silver dÃ©jÃ vu moment. I became a broker at Merrill Lynch nearly 50 years ago, I believe in 1972 (who can remember that far back?). I didnâ??t have much of a particular interest in silver (or anything else), but I do remember another new broker trainee that did have an interest in silver and as a result, I remember the price being around the $1.29 level, the price more or less pegged by the US Government at the time. As it turned out, a couple of good old boys from Texas took a liking to silver and within a decade, the price had soared by nearly forty-fold.

It just seems to me that the circumstances in silver today are quite similar to those of 1972. After a pronounced period of price suppression, then at the hands of the US Government and today at the hands of JPMorgan and the 8 big shorts, enough new investment buying emerged to cause prices to soar. I believe we had a mini-silver melt up in 2011, a trial run as it were, and are now configured for the real move. I canâ??t say we will replicate the forty-fold move from 1972 to early 1980, but given all the facts as I see them, a ten-fold or greater move seems quite doable. Those facts, I would submit, include there being much less silver in the world today than there was in 1972 to 1980 and a heck of lot more investment buying power and investment vehicles (ETFs) today that no one even conceived of back then.

As previously mentioned, I plan on posting some brief comments after the new Commitments of Traders (COT) report is publish on Monday, say around 6 PM EST. The cutoff for the reporting week was Tuesday, June30, also the end of the second quarter and first half. Since gold and silver closed sharply higher into that day, the odds-on bet is that there was significant managed money buying and commercial selling. Complicating matters is that open interest that day featured a sharp reduction for the first delivery day in the July contracts, particularly in silver, muddying expectations.

Hereâ??s an interview I did with Reluctant Preppers, in which I covered topics discussed today.

https://www.youtube.com/watch?v=1cdG6Dgfim8&feature=youtu.be

Not to sound too much like a chart reader, I would note that silverâ??s 50 day moving average upwardly penetrated its 200 day moving average for the first time in a year and that is considered by some moving average mavens of being a bullish development. A similar penetration last summer did lead to a rally to $19.50, a move of several dollars. Then again, a similar penetration in early 2019, went nowhere and led to a multi-month decline to $14.50. As Will Rogers would say, â??only buy it if it goes up, but if it doesnâ??t go up, then donâ??t buy itâ?•.

Ted Butler

July 4, 2020

Silver – $18.30Â Â Â Â Â Â (200 day ma – $17.00, 50 day ma – $17.07)

Gold – $1787Â Â Â Â Â Â Â Â (200 day ma – $1597, 50 day ma – $1735)

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