July 9, 2022 – Weekly Review

For a fourth straight week, gold and silver prices ended sharply lower, with gold down by $72 (4%) and silver lower by 65 cents (3.3%). I suppose some (very) small consolation can be claimed in silverâ??s slight relative outperformance, as the silver/gold price ratio actually tightened in by a very slight amount to just under 90.4 to 1. Still, silver is still cheaper relative to gold than in several years â?? just one of many strong indications that silver is dirt cheap and offers greater promise for future outstanding performance than just about anything else.

The $135 (7.2%) decline in gold prices over the past 4 weeks resulted in the lowest weekly close in more than a year, while the 4-week $2.75 (12.5%) decline in silver prices brought silverâ??s weekly close to the lowest in two years. Going back a little further, to the price highs of each earlier this year on March 8, when gold hit its all-time price high of $2080 and silver hit $27.50, gold is now down $340 (16%), while silver is lower by $8.25 (30%).

A reasonable person interested in uncovering the reasons behind the rather counterintuitive price declines (given the flow of news – war, inflation, stock market weakness, etc.) would eventually be drawn to the positioning changes on the COMEX, particularly considering how much attention is now focused on the weekly Commitments of Traders (COT) report. For someone like me, who has steadfastly maintained that such COMEX positioning is the sole driver of gold and silver prices, I can only marvel at those not seeing this connection.

On Wednesday, I presented an outline that traced the changes in the COMEX positioning between the two main market participants â?? the commercials (mostly banks) and their main counterparties, the managed money traders â?? that proved the point that such positioning determined price movement. I concluded that the unprecedented default in the London Metals Exchange in nickel on March 8 by the largest concentrated short seller sent a wake-up call to the concentrated short sellers in COMEX gold and silver, resulting in them rushing to cover their short positions since then. The changes in this weekâ??s COT report further strengthened the case that continued to occur and that COMEX paper positioning dictates price.

Over the past 40 years, I canâ??t recall an occasion in which gold and silver prices fell sharply and the commercials werenâ??t buyers and the managed money traders werenâ??t sellers. Conversely, I canâ??t recall a single occasion when gold and silver prices rose sharply that the commercials werenâ??t sellers and the managed money traders werenâ??t buyers. All this data, of course, is published by the US federal commodity regulator, the CFTC, and is widely available.

Now, some might conclude that the commercials are simply smarter than the managed money traders to have established what is, essentially, a near-perfect track record in COMEX gold and silver for four decades. But upon deeper consideration that includes the slew of settlements and lawsuits by the regulators against the COMEX commercials (the banks), a reasonable person would conclude that maybe the commercials were more than just smart or lucky for the past 40 years.

Maybe, just maybe, there was some element of cheating or underhandedness on the part of the COMEX commercials in their dealings with the managed money traders that accounted for the commercialsâ?? near-flawless trading track record. Of course, Iâ??m being facetious in suggesting there might be something underhanded in the COMEX commercialsâ?? behavior over the decades or that the regulators wouldnâ??t see this (after it was explained to them), as there is no other conclusion of continuous cheating by the COMEX commercials and of the regulators looking the other way.

However, this is not a lament on my part because the changes in commercial positioning on the COMEX have been so extreme since March 8 and particularly over the past few weeks, that, all things considered, the setup for an epic price rally has never been better in my opinion. Quite frankly, I have been amazed at how successful the largest commercials have been in reducing their concentrated short positions in both COMEX silver and gold. Iâ??ll get into the details in a moment, after a brief review of other factors.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses over the holiday-shortened 4-day week cooled off (slightly) to just over 6 million oz, as total COMEX silver holdings rose by 1.6 million oz to 338.4 million oz. While still down by a good amount (60 million oz) from the highest levels of a year and a half ago, total COMEX silver warehouse holdings are at three-month highs. Silver holdings in the JPMorgan COMEX warehouse rose by 2.3 million oz to 174 million oz, the highest level in a month.

Gold holdings in the COMEX warehouses fell again, this week by 0.3 million oz to 32.7 million oz, another new multi-month low. No change in the JPM COMEX gold warehouse, which remained at 13.65 million oz.

As far as deliveries for the July COMEX futures month (a non-traditional month in gold and a traditional delivery month in silver), gold deliveries have picked up this week, but are still historically light as just under 4000 total deliveries have been made, with customers of JPMorgan, as usual, dominating both issues and stops to the tune of 1974 issues and 2698 stops. In silver, on the quite low total deliveries of just under 2000 total deliveries, itâ??s the same pattern with customers of JPM issuing 484 contracts and stopping 1134 contracts. No issues or stops for JPMorgan in its house account for either metal.

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

In ETF flows, around 800,000 oz were redeemed in gold ETFs, primarily in GLD, in apparent reaction to the declines in gold prices, while in silver, 23 million oz were redeemed in the big silver ETF, SLV â?? truly a large amount. I suppose itâ??s possible this was due to some plain vanilla net investor liquidation in response to the sharply lower silver prices and wouldnâ??t necessarily be bearish if it was due to investor capitulation. But Iâ??m much more convinced this was a case of intentional conversions of shares to metal for the purpose of eliminating large share ownership reporting requirements on future large purchases. Either way, the large redemptions strike me as bullish for future silver prices.

Turning to yesterdayâ??s COT report for positions held as of Tuesdayâ??s close, the only surprisewas under the hood in gold. Considering that gold prices fell as much as $60 and silver by $2 over the4-day reporting week, it was nearly guaranteed that there would be commercial buying and managedmoney selling, with the only limit to such positioning being the already-extreme positioning going intothe reporting week. It was an epic decline in gold and silver prices over the reporting week and hadthere not already been massive previous commercial buying and managed money selling,undoubtedly, this weekâ??s positioning would have been even more extreme.

In COMEX gold futures, the commercials reduced their total net short position by 16,400 contracts to 165,600 contracts. This is the lowest (most bullish) total commercial net short position in gold in just over three years, back to when gold was priced around $1300. Undoubtedly, given the sharp price decline on Wednesday, the day after the cutoff for the reporting week, it must be assumed that the total commercial net short position is even lower (and more bullish).

But the truly exciting and most bullish news in gold was that a managed money trader entered into the ranks of the 4 largest gold shorts, most likely starting last week. While this wouldnâ??t change the total commercial net short position, it does affect the true commercial-only component of the 4 and 8 largest shorts.

As you know, aside from the never-varying manipulative pattern of the COMEX commercials always buying on selloffs (and selling on rallies), the other issue I have beaten to death over the decades is the concentrated short position of the 4 or 8 largest traders, mostly in silver, but also in gold. Iâ??ve always maintained the existence of the largest concentrated short position in COMEX silver is prima facie evidence that silver prices were manipulated, with gold not that far behind. Up until now, I saw no evidence that a managed money trader had infiltrated the ranks of the biggest shorts in gold, only in silver. The past two reporting weeks have changed that in COMEX gold.

Over the past two reporting weeks in gold, the position of the 4 largest shorts has increased slightly, to this weekâ??s 123,058 contracts (12.3 million oz). But a review of the categories in the disaggregated COT reports indicates the only new short selling was by the managed money traders â?? making it mathematically impossible for the big 4 short position to have increased without the inclusion of a managed money trader having entered into the ranks of the big 4.

Further and while somewhat necessarily subjective, Iâ??d peg the size of the new managed money short at close to 25,000 contracts. This, effectively, reduces the true commercial-only net short position of the 4 largest shorts to 98,000 contracts (9.8 million oz). Â At the same time, this weekâ??s net short position of the 8 largest gold shorts, based upon a strict arithmetic calculation, indicates a big 8 short position of 203,270 contracts, but by subtracting the same 25,000 contract managed money short position in the big 4, reduces the big 8 commercial only component to 178,000 contracts (17.8 million oz).

One unavoidable consequence of the inclusion of a managed money trader into the ranks of the 4 and 8 largest shorts is that it affects the calculation of the smaller commercials, the raptors. Assuming the existence of a managed money trader now in the ranks of the big shorts, the 178,000 true commercial-only component of the 8 big gold shorts, means that the raptors would be net long to the tune of less than 13,000 contracts.

The entry of a big managed money trader into the ranks of the big 4 and 8 gold shorts, reduces the commercial-only component to its lowest level in years and is in complete conformity with my contention that the big COMEX gold and silver shorts have moved heaven and earth to reduce their concentrated short positions since the sudden and quite-rude wake-up call provided in the LME nickel default of March 8. Iâ??ll refresh the total changes since then momentarily, after finishing the review of this weekâ??s COT report.

On the sell side of gold this week, the managed money traders were net sellers of 19,060 net contracts, consisting of the sale and liquidation of 7378 long contracts and the new sale of 11,690 short contracts. There was also net selling by the non-reporting traders of around 4500 contracts (mostly new short selling) and the explanation for why such selling didnâ??t result in even greater commercial buying was net buying by the other large reporting traders of more than 7000 net contracts (mostly new buying).

I could also spend time describing how many individual commercial and non-commercial categories in gold recorded bullish extremes dating back years, but that would be overkill and redundant. This is a shockingly bullish gold market structure, now undoubtedly even more bullish as a result of trading since the cutoff. I suppose itâ??s possible for the crooked and collusive COMEX commercials to rig even lower prices in order to hoodwink even greater managed money selling, but there is every indication that weâ??re running out of road in the commercial quest to rig prices lower for such purposes.

In COMEX silver futures, the commercials bought and reduced their total net short position by 6900 contracts to 11,600 contracts, yet another new three-year bullish extreme. But whereas a managed money trader in gold just entered into the ranks of the biggest shorts over the past two reporting weeks, that phenomenon has existed in silver for longer and with at least two managed money traders now in the ranks of the big 4 and 8 in silver. Again, this does â??mess upâ?• my usual breakdowns, but that aside, it is so much more bullish that it must be considered wonderful news.

That usual straight way of mechanically computing the big 4 short position in silver this week comes to there being 43,403 contracts held short, down 3400 contracts from the previous week. But the presence of a manged money trader holding at least 12,000 short contracts, lowers the commercial-only component of the big 4 short position to little more than 31,000 contracts (even better than the 33,000 contracts I had been hoping for). Likewise, the presence of another managed money trader in the big 5 thru 8 category, lowers the computed short position of the 8 biggest shorts from the 65,034 contracts indicated, to no more than 50,000 contracts, in terms of the commercial-only component, a truly shocking bullish level.

If my calculations concerning the presence of at least two managed money traders now being in the ranks of the 8 largest silver shorts, it suggests the raptor net long position increased ever so slightly to around 38,400 contracts (50,000 commercial-only big 8 short contracts minus the 11,600 contracts posted as the commercial total net short position). If accurate (as I believe to be the case), this means for a second week running, the biggest commercial-only shorts were the biggest buyers â?? same as occurred in gold. I find this particularly bullish.

The managed money traders were the biggest sellers in silver, selling 9490 net contracts, consisting of the sale and liquidation of 1717 long contracts and the new short sale of 7773 contracts. Explaining the difference between what the managed money traders sold and the commercials bought was net buying of around 3500 contracts by the other large reporting traders. As was the case in gold, it would get monotonous to catalogue all the multi-year records set indicating extreme bullishness, including another multi-year low in net long position by the smaller non-reporting traders

Iâ??ve spent too much time and attention to the concentrated short position in COMEX silver (and gold) over the decades, not to be blown away by the current low level of the commercial-only component of the current readings. In particular, the move by the largest COMEX commercial shorts in both gold and silver to aggressively buy back shorts since the March 8 default by the largest concentrated short in LME nickel looms even larger as the prime motivation for the highly unusually-aggressive short covering by the largest shorts.

Updating the numbers, I cited on Wednesday to include the new COT report, in gold, since March 8, on the $340 decline in price, there was a total of 141,000 commercial contracts (14.1 million oz) bought, of which the 4 largest commercial shorts accounted for 90,000 contracts of the total. In COMEX silver, on the $8.50 price decline since March 8, the total commercial buying amounted to 58,000 contract (290 million oz), of which the 4 biggest shorts accounted for 22,000 contracts (110 million oz).

Now that the largest commercial shorts in both COMEX gold and silver have bought back and covered more short contracts than in recent years â?? and on the mandatory decline in prices that has typified and proven the ongoing manipulation â?? what comes after the process is complete? Does it make any sense for the largest COMEX commercial shorts to turn around and sell short aggressively on the next gold and silver rallies â?? only to put themselves right back in the position of the big concentrated LME nickel short back on March 8? That outcome seems most implausible to me, considering just how much time and effort it took for the biggest silver and gold commercial shorts to reduce their short positions to levels not seen in years.

Instead, what seems most plausible is for the former largest silver and gold shorts to do what is in their best interests on the inevitable next rally in silver and gold, namely, to not sell short or, quite literally, do absolutely nothing. Itâ??s not often doing nothing is the preferred course of action, but for the former biggest shorts in COMEX silver and gold, doing nothing by not selling short aggressively from here on out would be just what the doctor ordered. Not only will it remove these traders from a future potential regulatory quagmire should they persist in capping and manipulating prices, it will save them from the fate of the big LME nickel short â?? whose fate seems to have motivated the unusually large gold and silver short covering. Besides, the current less than 10 million gold oz concentrated short position and 160 million oz silver short position (or less) for the largest COMEX commercial shorts is infinitely easier to hedge against than if these positions were larger.

Therefore, it would seem the very best outcome for the former biggest shorts in COMEX gold and silver would be to stand aside and refrain from aggressively adding new shorts on the next rally â?? possibly even buying in the initial stages of the next rally to whittle down their already-low short positions further. Such a plausible and logical course of action would, necessarily, have profoundly bullish implications for price.

Simply put, if the largest former shorts in COMEX gold and silver do happen to stand aside on the next rally, then those rallies will take on a character not seem on all past rallies. Since new aggressive short selling in COMEX gold and silver has always capped and contained all previous rallies over the decades, the absence of such new short selling will allow prices to behave as never before, namely, rising faster and more sharply than ever seen.

Thursday marked the start of the trial to decide on criminal liability for the JPMorgan traders not included in the bankâ??s settlement for the $920 million settlement for spoofing in the precious metals and other markets two years ago. The trial is expected to take six weeks and will feature a variety of expert witnesses testifying on behalf of the prosecutors from the Justice Department and from the defense. A key government witness is John Edmonds, the original trader charged four years ago, who has cooperated with the DOJ.

https://www.bnnbloomberg.ca/jpmorgan-s-big-hitters-of-gold-market-face-trial-over-spoofing-1.1788940

The trial, long-delayed due to the COVID pandemic, seeks to determine the guilt or innocence of three former JPM traders, including the former head of the precious metals desk, Michael Nowack, for the short-term manipulation of COMEX gold and silver futures contracts, by the illegal practice of spoofing – the placing of orders to buy or sell that were immediately canceled and were not intended to be executed, but solely to influence other traders and artificially move prices.

The linked article is fairly comprehensive, so Iâ??ll not repeat the details. I had contacted the Justice Department in early 2018, alleging a long-term silver price manipulation by JPMorgan in early 2018 and had assumed that the charges filed later that year were related to my earlier contact. However, much to my disappointment, I quickly learned that the Justice Department was sticking to what I considered to be the very narrow charges of spoofing and not the much broader manipulation that I remain convinced underscores the heart of the matter.

Therefore, the charges at the core of the original settlement with JPMorgan, as well as the eventual outcome of the current trial are to my mind, inconsequential and miss completely the main issue of price manipulation in COMEX silver. As a result, Iâ??m ambivalent concerning the eventual verdict in the trial. That said, I would like to share some thoughts, both old and new that I have on this issue.

First, Iâ??m more convinced than ever that in the original settlement and in the current trial, the Justice Department chickened out by limiting the charges to short-term spoofing and by not admitting that spoofing was merely a tool that aided and enabled the long-term price manipulation by JPMorgan and its traders.

Week after week, for years on end, Iâ??ve tried to prove that the intentional and deliberate positioning of paper contracts on the COMEX is the sole determinant of silver, gold and other prices. The commercials, like JPMorgan, hoodwinked and snookered the managed money traders into buying and selling futures contracts, through a variety of dirty (and illegal) trading tricks, designed to trick the managed money traders into buying and selling to the commercialsâ?? advantage. This is all proven in the weekly publication of the Commitments of Traders (COT) reports. Spoofing is but one of the dirty trading tricks used to fool the managed money traders into buying price breakouts and selling price breakdowns.

Despite the blatant deliberate positioning that has benefitted the commercials and worked to the managed money tradersâ?? disadvantage and the ease of proving the commercialsâ?? collusion and illegal intent, the federal regulators, the CFTC and DOJ, as well as the industry self-regulator, the CME Group, have all looked the other way when it comes to cracking down on the much more serious long-term price manipulation in COMEX silver (and gold) for one simple reason â?? cracking down on the main perpetrators of the manipulation, like JPMorgan and other large banks would, taken to its logical conclusion, mean, most likely, bringing to the point of insolvency financial institutions deemed to be systemically important to the financial system, including the CME Group.

Never in a million years would any government regulator willfully force any systemically important financial institution into insolvency. After all, government regulators determine which financial institutions are considered systemically important for the purpose of insuring that such institutions never fail. Unfortunately, this means the silver and gold manipulations will never be directly confronted by the regulators sworn to prevent or end such price manipulations. Regular readers will recognize this is nothing new compared to my past writings, and should explain my ambivalence as to the trialâ??s outcome. Should the government or the defendants prevail as to the fates of these individual traders, so what?

The trialâ??s outcome will have zero real impact on spoofing, as it still continues to this day â?? minus the immediate cancellation feature that has proven to be the undoing of those engaged in the still-illegal practice. Any observer of the price gyrations in silver and gold to this day, will know that nothing has really changed despite the settlements by JPMorgan and other banks.

The sudden and counterintuitive bursts of price weakness designed to generate managed money selling are just as strong, or stronger than previously. The current trial will result in phony feathers in the caps (and future employment opportunities) of the prosecutors or defense attorneys, mostly meaningless to everyone else. Yes, itâ??s all just a dog and pony show designed to divert attention from being placed everywhere except where it should be.

I did have one new thought about the current trial that can only be defined as troubling. Among the proposed witnesses to be called by the defense were prominent traders from well-known and generally highly regarded trading organizations such as Tudor Capital, Moore Capital and Soros Capital. Such traders wouldnâ??t be called upon by the defense to do anything but testify that what the traders from JPMorgan did was aboveboard and legitimate.

What troubles me is that these traders will be underscoring and trying to legitimize trading practices that necessarily work against the best interests of the market. I find it offensive that it is easy to prove that the price of silver has been manipulated on the COMEX for decades and despite that, the US Government is putting on a scam of a trial in which the minor details of the scam will be put on center stage and not the manipulation itself. Talk about seeing the trees, but missing the forest.Â A pox on both houses.

One last thought related to the wide array of traders affiliated with professional trading organizations seeking to legitimize what it is that they do in the largely mindless daily trading on the COMEX that frustrates both the non-COMEX investor and the actual producers of metal. How did it get to the point where those not particularly involved in the actual metal have come to completely dominate the price? It is precisely because all these professional â??tradersâ?• are engaged in paper trading that has nothing to do with actual silver that the pricing function is so screwed up. It seems that every day I get questioned by sudden moves in silver and my answers are always the same, namely, the trading is mindless and not related to the actual fundamentals. I find it shameful that traders from Tudor, Moore and Soros Capital will seek to legitimize trading practices that are so harmful to the general public and the market itself.

The decline in prices this week, along with the reductions in the concentrated short positions of the 8 big commercial shorts in COMEX gold and silver, served to reduce the total, loss of the biggest commercial shorts by $1.4 billion to $5.3 billion. No doubt the big commercial shorts have every intention of further reducing their total losses and the size of their short positions â?? as long as the managed money traders are willing and able to cooperate by further increasing their short sales.

Along these lines, I found it interesting that while COMEX copper prices continued to decline sharply this reporting week to new lows, there was relatively little net new selling by the managed money traders â?? suggesting to me that the managed money traders had reached the limit of what they were capable of selling. The implications for COMEX gold and silver would appear to be the same.

Ted Butler

July 9, 2022

Silver – $19.25Â Â Â (200 day ma – $23.25, 50 day ma – $21.54, 100 day ma – $23.26)

Gold – $1740Â Â Â Â Â (200 day ma – $1844, 50 day ma – $1838, 100 day ma – $1888)

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