June 17, 2023 – Weekly Review/A Stunning New OCC Report

After dipping sharply lower in highly-orchestrated trading in the wee hours Wednesday night, gold and silver staged a notable rally on Thursday and into weekâ??s end, although still finishing with minor losses. For the week, gold finished $5 (0.3%) lower, while silver ended 15 cent (0.6%) lower. As a result, there was little change in the silver/gold price ratio, which widened slightly to 81.25 to 1.

I must mention that I was taken aback by not only the extent of the overnight price blast to the downside and subsequent recovery in that the volume of trading on the COMEX was extraordinarily large, while at the same time, trading volumes in SLV and other silver ETFs was quite subdued â?? a rare combination. It appears to be obvious the selloff was completely a COMEX orchestration â?? much like the prior weekâ??s sharp rally and subsequent silver selloff. Someone is zooming someone else in COMEX silver and this only adds to my sense we are quite close to the inevitable upside resolution.

The weekâ??s highlights in precious metals included the rather subdued price change at weekâ??s end, the new Commitments of Traders (COT) report, and a stunning new quarterly OTC derivatives report from the Office of the Comptroller of the Currency (OCC) for positions held by US banks as of March 31, 2023. Iâ??ll discuss the new OCC report, which I stumbled onto as I started to write this review, separately.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses remained strong this week as more than 5.6 million oz were physically moved, now well into the twelfth straight year of annual physical turnover movement of more than 250 to 300 million oz â?? a simply stupendous amount â?? particularly considering this movement is unique to COMEX silver (although it has also crept into silver ETFs as well). Total COMEX silver holdings fell by one million oz to 272.1 million oz. Holdings in the JPMorgan COMEX warehouse rose by 0.5 million oz to 142.4 million oz.

Total COMEX gold warehouse holdings fell by 0.35 million oz to 22.55 million oz, after three weeks of unchanged readings. Holdings in the JPM warehouse fell by 0.22 million oz to 8.55 million oz.

Nothing special to report on the June COMEX gold deliveries, where JPM is the standout stopper, mostly for customers. Over the past week, some attention surrounds the June silver deliveries (a non-traditional delivery month) due to no deliveries and no change in open interest for the past six days, in both the standard contract (5000 oz) and the micro contract (1000 oz). The remaining combined open interest is small, less than 2.5 million oz, but somewhat attention-getting since it suggests an unwillingness by the shorts to deliver the physical â?? always a sensitive subject in silver bug circles â?? particularly with the usually more substantial July deliveries scheduled to start in less than two weeks.

There were continued minor outflows from the worldâ??s gold ETFs, mostly in line with subdued price changes and slightly larger redemptions in the silver ETFs, which still look counterintuitive to me and strongly suggestive of silver being more urgently needed elsewhere.

TurningÂ to yesterdayâ??s COT report, while I made no firm predictions, goldâ??s price weakness over the reporting week ended Tuesday, did result in manged money selling and commercial buying, as suggested on Wednesday, while silverâ??s stronger price action did result in the opposite â?? although not to an alarming degree.

In COMEX gold futures, the commercials reduced their total net short position by 12,100 contracts to 186,100 contracts. This is the lowest total commercial short position since March 28 and 36,000 contracts less than the peak over the interim, so is not to be overlooked. Further, by commercial categories, there was an encouraging sign in that the 4 big shorts bought back a notable 5500 shorts in reducing their concentrated short position to 171,186 contracts (17.1 million oz), the lowest since April 4. Rounding off the commercial categories, the next largest 5 thru 8 traders added 3200 shorts and the big 8 short position fell to 230,735 contracts (23 million oz). The raptors (the smaller commercials apart from the big 8) added 9800 longs to a net long position amounting to 44,600 contracts as of Tuesday.

I have characterized the relatively large concentrated short position of the 4 big gold shorts as the most bearish feature in gold, particularly as compared to the very low comparable position in silver and I believe this has helped to stall and delay a gold rally. At the same time, a 17 million oz gold short position, up by close to 3.5 million oz from the price lows of March 7, may not be all that much in a broader sense. Â With 3 billion oz of gold in bullion form (and another 3 billion oz in non-bullion form), 17 million oz is not all that much, to say nothing of the 3.5 million oz increase in the big 4 short position since March also being rather insignificant in the total scheme of things.

Just to keep things in proper perspective, while I still maintain that COMEX positioning is the main driver of price, that is largely due to a sort of sleight-of-hand, in that the world looks to the COMEX for what the price should be. Even the total commercial net short position of 186,100 contracts is the equivalent of 18.6 million oz in a world where 3 billion oz exist in bullion form. That such a small paper position could dictate prices to the vastly larger physical amount is certifiably nuts, but thatâ??s the way it is, as record over the decades indicate.

Certainly, I hope Iâ??ve made clear that the concentrated short position in silver is infinitely more critical than the corresponding position in gold. While I still maintain that the concentrated short position in gold is perhaps the most bearish drag on price in place, I would certainly not rule out a substantial gold rally. Sorry for the apparent double-talk, but thatâ??s the kind of world we live in.

The managed money traders were net sellers of a quite significant 18,785 gold contracts, consisting of the sale and liquidation of 10,473 longs and the new short sale of 8312 contracts –Â much more than I expected. The net managed money long position in gold was 74,643 contracts (110,512 longs versus 35,869 shorts), the lowest since mid-March. The roughly 6600-contract difference between what the commercials bought and the managed money traders sold was explained by the net buying of around 3300 net contracts by both the other large reporting traders and the smaller non-reporting traders.

The only real hope for a further sharp reduction in the managed money trader net long position in gold is a sharp increase in managed money shorting on sharply lower prices â?? which appears more and more unlikely, although not impossible.

In COMEX silver futures, the commercials increased their total net short position by 4400 contracts to 38,500 contracts, never a welcomed development, but hardly game-changing. This is the largest commercial position since mid-April. On a straight calculation basis, the big 4 short position increased by 1300 contracts to 36,617 contracts (183 million oz), but that was in the face of what looked to be a

1000-contract short covering the big managed money short â?? which means even larger commercial shorting. Still, the sub-30,000-contract commercial-only component of the big 4 short position is still remarkable low and bullish.

The big 5 thru 8 traders added around 1000 new silver shorts and the big 8 short position rose to 59,849 contracts. Subtracting the 7000 contracts I still believe are held by the big managed money short, the commercial-only component of the big 8 short position is just under 53,000 net contracts â?? which means the raptors sold off 3000 long contracts and now hold 14,500 contracts long.

The silver managed money traders were buyers of 3002 net contracts, consisting of the purchase of 1442 new longs and the buyback and covering of 1560 short contracts. The resultant managed money net long position of 12,997 contracts (38,968 longs versus 25,971 shorts) is similar to the same position in gold, in that the only realistic chance for a big improvement (reduction) in each rests upon the possibility of massive new managed money shorting in each, something possible, although perhaps not likely (he said hopefully).

While always slightly disappointed any time the commercial-only component of the big 4 short position increases in silver, it must be remembered the position is still incredibly low, particularly when compared to the past couple of years. Plus, Iâ??m highly suspicious about that big silver price spike on Thursday of the reporting week, which seemed to be a chess-like move designed in the same vein as this Wednesdayâ??s sharp selloff and resultant recovery. It just feels like these are last-minute positioning changes before a price liftoff â?? but I admit to perhaps over-analyzing things.

Another Stunning OCC Report

I happened to just stumble across the new Office of the Comptroller of the Currency quarterly OTC derivatives report for positions held as of March 31 and, once again it looks like a stunner.

First, a few words on background about the report. This report is published by the OCC, a unit of the US Treasury Department, designed to highlight the Over the Counter (not listed or traded on an exchange) derivatives positions of the largest US banks in a variety of categories; with the largest categories being interest rate and credit derivatives. The purpose of the report is to head off and eliminate any serious risk to the banks and the financial system as a result of too concentrated or risky positions.

One of the categories is precious metals derivatives, largely gold and silver. You may recall, how over the past two years, I uncovered a very large silver derivatives position held by Bank of America which, theretofore, had very limited institutional experience in precious metals. As a result of me contacting the OCC about the unusually large position held by Bank of America, the only result was in it largely agreeing with my contentions (or at least not disputing them) and then with the OCC suddenly changing how it classified precious metals by going back to including gold in the same category as silver. This had the effect, since gold was a much larger market, of obscuring BofAâ??s silver positions.

However, the effect has proved to be short-lived, as theÂ new OCC report makes clear, as both

JPMorganâ??s and BofAâ??s precious metal positions have soared in the new report. Please keep in mind that there is little specificity in the OCC report, other than the individual banks are identified and by overall total notional values of the positions and not by net long or short classification. A general rule of thumb, is that the price change of gold or silver over the quarter has a big influence on what the total notional value is for positions quarter by quarter.

In the new OCC report for March 31, the price of gold had advanced by around 9% ($160) from Dec 31, 2022 to March 31, 2023, so all things being equal and there were no changes in positions over the quarter, all positions should have increased by roughly 9% (silver prices were unchanged form Dec 31 to March 31). Instead of an increase of around 9%, the precious metals holdings of JPMorgan increased by $53 billion (25%) to $253 billion as of March 31, while the derivatives holdings of Bank of America increased by $34 billion to $101 billion, or a stunning increase of 50%. (The increase in Citi Bankâ??s position was only slightly larger than the 9% increase in the price of gold over the quarter).

Here are the links for the new report just published, as well as the previous report for comparison purposes. Donâ??t be intimidated by this report as only one page matters for our purposes. The trick to viewing and comparing the data is to download each report and then scroll down to table 21 in each report â?? which for positions as of March 31 is on page 25, while table 21 for the report of Dec 31 is found on page 26. Remember, the reports are delayed for three months, so the data for March 31, is published under the date of June 15, 2023.

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/index-quarterly-report-on-bank-trading-and-derivatives-activities.html

Let me give you my quick notes and please feel free to ask me for further clarification. Please remember, the data published is rather a sketchy overview Â and requires a good deal of subjectivity and speculation, but please know that I am not hiding behind the lack of greater detail in the OCC report in order to weave fantasies and would welcome compete transparency on the part of the OCC. Lacking that clarity, Iâ??m forced to draw from data outside whatâ??s disclosed to fill in the blanks.

Already convinced that the sudden emergence of Bank of America as a big player in OTC derivatives, basically out of nowhere a few years back, I concluded BofAâ??s position was essentially a short silver position of a billion oz, in which JPMorgan was the counterparty long and that the position was due to a lease and short sale of physical metal. Later, after silver was once again lumped together with gold in the OCCâ??s precious metals category, it became convincing that BofA also held as much as a 25 million oz gold short position, with JPM as the long, also as a result of gold lease and short sale arrangement.

The new OCC derivatives report as of March 31, would appear to increase the existing positions. Because it seems highly improbable that there can be much, if any, physical silver left to lease and sell short, it looks very much like the $50 billionÂ increase in JPMorganâ??s precious metals holdings and the $34 billion increase in BofAâ??s derivatives positions must be gold related.

For BofA, this means (to me) that of the $101 billion it held in total notional precious metals derivatives, subtracting the $24 billion that a billion oz of silver would represent, leaves roughly $75 billion for gold or 37 million oz (at March 31 prices of just under $2000). This is up substantiallyÂ from the 25 million oz I had previously calculated BofA was short in gold derivatives and making BofA short a billion oz of silver and 37 million oz of gold in OTC derivatives. Iâ??m not so much concerned with JPMorganâ??s even larger derivatives position, which looks to be long because Iâ??m convinced that just like cockroaches would be the only survivors of a nuclear holocaust, JPM looks able to withstand (and profit) from anything of a similar financial disaster. Â Bank of America, on the other hand, is no such sure thing.

Even though there is no way that I know of to predict prospective OCC derivatives reports, this new one really stunned me. As youâ??ll recall, gold and silver prices hit their lows for the year in early March, only to climb by close to $200 in gold and $4 in silver into March 31. Â At the price lows of early March ($1800 in gold and $20 in silver), Bank of America was actually ahead on its gold and silver OTC derivatives positions â?? by as much as $3 billion â?? based upon an average price of its estimated Â gold position ($1800) and silver basis ($23). As of now and March 31, it is back in the red for close to $7 billion ($6 billion in gold and $1 billion in silver).

I donâ??t know how much Bank of America could have bought back at the price lows of early March, likely not much, but at this point it looks like it didnâ??t even try to reduce its short OTC position. Thatâ??s what makes the new OCC report so shocking. These are big numbers. If (as seems reasonable to me) Bank of America increased its 25 million oz gold short OTC position by 12 million oz to 37 million oz, it means these positions tower over equivalent COMEX positions. 37 million oz is the equivalent of 370,000 COMEX gold contracts or double the total commercial net short position, while one billion oz of silver is equal to 200,000 COMEX silver contracts or five times the total COMEX commercial silver short position â?? and held by a single and highly inexperienced bank.

If you are not troubled by these numbers, you are likely on some very strong medications (which I could use on big down days) â?? but all joking aside, are based upon US Government data. Iâ??ll probably not petition the OCC again, because all it is likely to do is to stick precious metals into the interest rate derivatives category to further muddy the waters or some such thing. Â This new OCC report only heightens my sense that something big has been brewing and about to become unchained in silver and, now, perhaps in gold as well.

Ted Butler

June 17, 2023

Silver – $24.25Â Â (200-day ma – $22.32, 50-day ma – $24.59, 100-day ma – $23.48)

Gold – $1971Â Â Â Â Â (200-day ma – $1851, 50-day ma – $1997, 100-day ma – $1952)

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