June 19, 2021 – Weekly Review

In what was one of the largest weekly price declines on record, the price of gold plunged $116 (6.2%), while silver crashed by $2.20 (7.8%). As a result of silverâ??s relative underperformance, the silver/gold price ratio widened out by more than full point to 68.25 to 1, still managing to remain within its five-point, five-month trading range. While Iâ??m looking over my shoulder (and throwing salt for good luck), I am a bit amazed that silver has held up as well as it has, given the plunge in gold prices. Normally (whatever the heck that is nowadays), whenever gold catches a cold, silver gets the flu. So far, at least, not this time.

As for the reason behind the price plunge, which was largely condensed to the 24 hours or so after the Fedâ??s latest announcement on Wednesday and continuing into Thursday, all manner of explanations were readily offered. My own take is that if gold and silver prices rallied sharply on the exact same wording used by the Fed, the collective popular opinion would have been how bullish the statement was. In other words, this was a classic case of price action determining interpretation of the news. Yes, I know that the dollar rose sharply as metals fell, but Iâ??m still of the opinion that the dollar follows the metals and not vice versa.

Rather than debate the same-old case of which came first, the chicken or the egg, or the dollar or the metals, let me try and deal with the real reason why precious metals prices plunged, based strictly upon incontrovertible evidence and not upon that which canâ??t be proven. First and foremost, the selloff had nothing to do with the selling of physical metal or any sudden and dramatic change in actual supply/demand fundamentals. There was no sudden increase in mining or other physical gold or silver supply and no sudden fall off in industrial or investment demand. (Yes, there was some liquidation in SLV, but Iâ??ll get to that in a moment). Certainly, the #wallstreetsilver crowd didnâ??t go on a sudden selling binge.

By the process of elimination, if it wasnâ??t and couldnâ??t possibly be sudden changes in the real physical happenings in gold and silver (and other metals), it had to be something else. That â??something elseâ?•, as is always the case, was dramatic positioning change on the COMEX. The selloff was strictly a COMEX paper positioning event, not just based upon the process of elimination, but on unassailable forensic evidence in the form of past and future government data in the form of the COT reports.

To use an example (that troubles me a bit) to make my point, the US has experienced a rash of mass shootings in recent years and when they occur, teams of forensic technicians scour the crime scenes to fully document all the victims and account for just about every shot fired. However, the motive for the shootings usually remains a mystery because the shooter has suffered, invariably, from some type of mental derangement. But thatâ??s not the case in this or any previous precious metals price plunge.

In every precious metalâ??s price plunge, the data in the COT report consistently show, without an exception for decades, that the COMEX traders classified as the commercials are always the buyers and other traders (the non-commercials) are always the sellers. This is, essentially, incontrovertibleand unassailable forensic evidence. Now, we have to wait until next Friday to review the relevant COTdata, but that data will show that the commercials were the big buyers and the non-commercials werethe big sellers on this price plunge. Whatâ??s this have to do with mass shootings?

While the forensic evidence in both cases is unassailable, there is a big difference when it comes to the motives of each crime. With the shootings, who could ever know what mental deficiencies that trigger an individual to harm random victims. However, with the deliberate price plunges on the COMEX, the motive canâ??t be questioned because it is mercantile in nature. Those responsible for the price plunges, the traders called commercials, are doing it to make a profit or reduce a loss â?? nothing more, nothing less.

While the forensic evidence and the motive behind this and every price plunge in gold and silver canâ??t possibly be clearer, for reasons away from the clarity of the evidence and motive, many (and perhaps most) still canâ??t fully grasp what is a continuing market crime in progress. Chief among the reasons preventing nearly everyone from seeing exactly whatâ??s going on in full view is this â?? how the heck could the big buyers (the commercials) be accused of causing prices to plunge if they are the buyers? Admittedly, it takes some deeper thinking to fully grasp this.

It has to do with how the buying and selling on the COMEX is conducted. In this trading venue, almost all the trading is short term computer-generated where the non-commercials (mostly traders classified as managed money) are trading on a technical, or price-sensitive basis. This means they follow technical signals like moving averages. No one knows better how the non-commercial technical traders are likely to react to technical signals than their commercial counterparties â?? after all, this is, in essence, the commercialsâ?? basic business. No one knows better how the technical traders are likely to react to particularly dramatic changes in technical signals than the commercials.

The price plunges this week featured what are arguably among the most dramatic technical sell signals in history. I realize that may sound like a bit of hyperbole, but please consider this – I canâ??t recall any previous instance where all three key moving averages (the 50, 100 and 200-day maâ??s) in both gold and silver were, essentially, penetrated to the downside on one day. Such an event occurring to trading entities guided by and dependent upon such things had to be considered to be the equivalent of a hundred-year flood. Â For sure, such a highly unusual occurrence was just about guaranteed to set off monumental selling by technical fund type traders â?? how could it not?

Technical traders, by their nature and trading discipline, donâ??t pay attention to supply/demand considerations or anything away from technical price signals. That includes Fed talk. These traders sold en masse based solely on the highly unusual and near-unprecedented technical sell signal generated by the one-day downward penetration of all three key moving averages in both markets. That it happened to coincide with a Fed meeting was just a convenient distraction. Convenient for who? The commercials that did most of the buying.

Going back to unassailable forensic evidence and motive, both are undeniable in the commercials being behind the price plunge â?? unless, of course, one believes the sellers, the technical fund type traders, colluded and conspired among themselves to deliberately lose money and the commercials just got lucky. Yes, I can see where many would not look this deep to see what really just happened, but there can be no question that the keepers of the unassailable forensic data, the CFTC and the CME Group, know full well what just transpired.

The sudden and deliberate price plunge hurt just about every investor in gold and silver, including those invested in physical metals, ETFs or mining shares. All told, many tens of billions of dollars were erased from investorsâ?? holdings. But the deliberate price plunge did bring around $3.3 billion in relief to the 8 big shorts in COMEX gold and silver, reducing their losses to $9.9 billion. With the approach of the second quarter and first half end in about a week and half, another motive (as if another one was needed) would appear to be driving the big shorts to rig prices lower in order to result in a better mark to market.

No, I did not predict this price plunge, but that doesnâ??t render it impossible that I canâ??t explain it. As far as what may come next, let me take a break and cover the usual weekly developments, before returning to that and what just happened. One thing missing this week was the surprise and last-minute delay of the yesterdayâ??s scheduled COT report until Monday, due to the just-enacted new official national holiday, Juneteenth.

Since Iâ??m planning to return to Maine over the next few days, I had planned to skip next Wednesdayâ??s article as Iâ??ll be on the road. Given the surprise delay in yesterdayâ??s COT report, I will post brief comments on the new report from the road, most likely later on Monday than typically, but there will be no report on Wednesday in any event.

Speaking of Mondayâ??s report, trading events since the Tuesday cutoff have now overshadowed and taken much of the drama away from Mondayâ??s COT report, but Iâ??m still anxious to uncover what was behind the big (9500 contract) increase in total silver open interest over the reporting week. As previously discussed, the increase had to be due to either a sharp increase in non-commercial buying and commercial short selling or due to new spread creation or some combination of the two. While I still lean towards new spread creation as the explanation, should it turn out to be new commercial short selling, that would only add more incontrovertible evidence that the commercials intended to smash prices and succeeded.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses amounted to 6.5 million oz this week, as total COMEX inventories fell 0.5 million oz to 355.6 million oz. Despite the overall reduction, holdings in the JPMorgan COMEX silver warehouse rose by 0.6 million oz to 187.5 million oz. While most eyes are focused on the total level of COMEX silver inventories, the real story over the past decade has been the incredibly unusual physical turnover. This week, the turnover exceeded the net change by 13-fold. That has not and is not happening in any other commodity.

Total COMEX gold warehouse holdings increased by nearly 0.3 million oz this week to 35.1 million oz. Total holdings in the JPMorgan COMEX gold warehouses grew by more than half the total increase or by 160,000 oz to 12.62 million oz.

Nothing special to report in the ongoing deliveries in the June COMEX gold and silver contracts and attention is increasingly focused on the upcoming traditional July COMEX silver delivery and what role JPMorgan may play.

In gold and silver ETF holdings, there was a highly unusual deposit yesterday in the big gold ETF, GLD, of 355,000 oz, which was counterintuitive in the face of the pronounced gold price weakness. My best guess was that the deposit was made to reduce the short position on GLD, in accord with the commercial short covering taking place on the COMEX. Unfortunately, it wonâ??t be reflected in this Thursdayâ??s new report on short positions, as the deposit came after cutoff of the report.

There was a redemption this week (over the last two days) of around 7.2 million oz from the big silver ETF, SLV. Given the absolutely massive trading volume over the past few days, I had expected even more of a redemption and wonâ?? be surprised if we get more. In contrast, there was a large deposit (400,000 oz) yesterday into the PSLV, strongly suggesting that the #wallstreetsilver crowd is still buying that fund (as well as every conceivable retail form of silver) and is not selling in the face of the deliberate price plunge. I think this is great.

However, Iâ??m not dismayed by the redemptions in SLV, which do look like plain-vanilla net investor liquidations, rather than the conversions of shares for metal that occurred earlier this year. The trading volume in SLV runs anywhere from 5 to 10 times larger than PSLV, so the SLV attracts a much larger share of price momentum type trading. When prices surge on high volume, there is collective net investment in SLV, which necessitates more physical metal being deposited. Likewise, on heavy volume price declines, there is most likely collective net investor selling, which necessitate redemptions of physical silver in appropriate amounts. This is how the trust is required to operate.

The important point is that the redemptions of physical silver from SLV on net investor selling doesnâ??t mean that silver is dumped on the streets of London, un-owned and unloved. The physical silver that is redeemed from the trust is owned by someone, just no longer by someone in the trust. I would venture that these redemptions from SLV are every bit as deliberate and intended to secure the ownership of the redeemed silver as is the deliberate price plunge on the COMEX to allow the commercials to buy as many paper contracts as can be arranged. And Iâ??d bet that JPMorgan is the new owner of the silver that was redeemed and most likely not moved an inch from where it was before the redemptions.

Since I canâ??t discuss the COT report for the reporting week ended this past Tuesday until the report is published on Monday, let me turn to what likely occurred positioning-wise through yesterdayâ??s trading from the Tuesday cutoff. Iâ??ll be quite surprised if next Fridayâ??s COT report doesnâ??t feature close to one of the largest combined net positioning changes for gold and silver on record.

As I indicated above, the downward penetration of all three key moving averages in both gold and silver in little more than a day signifies an all-out effort by the commercials to buy as many gold and silver contracts as possible as quickly as possible. My best guess is that next Fridayâ??s report will feature significant commercial net buying, on the order of 35,000 to 50,000 gold contracts and some 15,000 to 20,000 net silver contracts. Â As always, the more the better.

Such dramatic positioning changes, it must be remembered, come at a time when the existing market structure in both gold and silver was more neutral than bearish. Should we get the positioning improvements I expect, it will mean that on a combined basis, the market structure in both gold and silver will be close to the most bullish it has been in more than a year. The only conceivable way for the market structures in gold and silver to improve significantly beyond what I believe has already occurred is if the managed money traders embark on a short selling spree similar to what their short positions were prior to June 2019. Â While I donâ??t think that is likely to occur, one canâ??t take my â??I donâ??t think soâ??sâ?• to the bank.

Unfortunately, neither can I offer any assurances that there is not more to go on the downside, both in terms of price and positioning changes to come. The only assurance I can offer is that once the supply of paper contracts available to be sold by the non-commercials, either by long liquidation or new short selling, is exhausted (as it will and must be at some point), then the incentive for further price rigging by the commercials evaporates. In many ways, this is the same old wash, rinse, repeat cycle of the past 40 years. Yet, paradoxically, the game has changed radically in many observable ways. What ways?

Well, for one thing, this is the first genuine price smash in more than a decade in which JPMorgan has not been the big, dominant short. Plus, the big gold and silver shorts have been operating with massive total losses for the first time ever (albeit with relief this week). For another thing, this price smash is occurring in the face of a more pronounced physical shortage in silver than ever before, both on a retail and wholesale basis. Finally, the CFTC is no longer dismissing out of hand allegations that the concentrated short position in silver, larger than in any other commodity, has nothing to do with suppressing the price â?? an about face as abrupt as it gets.

One thing interesting about this price smash and certain commercial buying, is that it reaffirms a key element of the ongoing price manipulation, namely, that the commercials only buy as prices fall and only sell and sell short as prices rise. Once one gets beyond the trap of seeing that as â??good tradingâ?• (buying low and selling high) and recognizes how easily the technical traders can be played, the realization sets in that selling short in unlimited quantities is a manipulative market crime and not virtuous trading.

Despite the obvious commercial buying on this price plunge, the key feature still remains whether the biggest shorts will add to short positions on higher prices, particularly in silver. That these big commercials are buying on lower prices not only doesnâ??t negate, but accentuates the key factor of whether they will sell short whenever prices rally. Hereâ??s a specific prediction which should emphasize this point.

Regardless of what Mondayâ??s COT report shows, next Fridayâ??s COT report is likely to show significant short covering by the 4 big shorts in silver. If my hunch is correct, next Fridayâ??s report is likely to indicate that the 4 big silver shorts hold the lowest concentrated short position in 8 months or longer (less than 53,000 contracts). If that is the case that will mean the 4 big shorts went from holding the largest concentrated short position on the price highs into Feb 2, to the lowest short position after the selloff this week. That is not the result of astute trading, clean living or good luck; it is the result of manipulative positioning â?? selling short what you donâ??t own in unlimited quantities and then buying those short positions back under crooked trading tricks.

Worst of all is that the CFTC knows this better than anyone, yet it sits back and allows ordinary and innocent investors to be harmed by the commercialsâ?? dirty trading tricks and deliberately disruptive practices. I know this canâ??t last indefinitely, but thatâ??s not good enough â?? it shouldnâ??t be allowed to happen at all. Still, everything must be put into proper perspective. Of all the things that are wrong about the commercialsâ?? abuse behavior â?? and there are more than you can shake a stick at – there is one constructive feature that will come out of this in the end.

That one good thing is that the market structure has improved immeasurably and at some point, gold and, especially silver prices will soar once all the speculative selling that can be induced is induced. I wish I could tell you (or myself) when that will occur in advance, but I canâ??t. I can tell you that as painful as the selloff and market structure improvement process is, itâ??s a lot less painful when you hold fully-paid for positions and not on margin, as the chance of being forced from positions by margin calls is eliminated when you donâ??t hold on margin.

As odd as it may sound, I believe this deliberate price plunge put into play by the commercials enhances the odds of them not adding aggressively on the short side whenever prices turn higher; rather than increase the odds that they will add shorts. The same game has been played for far too long and significant changes have occurred. Iâ??ll let others debate the ultra-high-level conditions that may or may not be behind whatâ??s going on (the Fed, Basel III, geo-political developments) as that will likely never be known. Instead, Iâ??ll concentrate on the forensic evidence that canâ??t be refuted in the COT reports.

(Again, Iâ??ll have comments on Mondayâ??s COT report late that day, with no report on Wednesday and the usual Weekly Review next Saturday)

Ted Butler

June 19, 2021

Silver – $25.85Â Â (200 day ma – $25.85, 50 day ma – $27.06, 100 day ma – $26.68)

Gold – $1764Â Â Â Â Â (200 day ma – $1842, 50 day ma – $1830, 100 day ma – $1796)

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