
June 20, 2020 – Weekly Review

A sharp Friday rally pushed gold and silver prices higher for the week, with gold ending up by \$18 (1%) and silver higher by 25 cents (1.4%). Silver's slight relative outperformance caused the silver/gold price ratio to tighten in by nearly half a point to 98.5 to 1, but it's a bit of an oxymoron to use the word "tighten" when the ratio is still flirting with 100 to 1.

Based upon my method of posting closing prices for the week (relying on late trading and the lead COMEX futures contract), I would note that gold closed at new, near 8 year highs on a weekly basis. I wouldn't call it a decisive breakout yet, as I would reserve that description for say, \$1800 in gold and \$19-\$20 in silver, but underlying conditions suggest something important is occurring beneath the surface of price change. No, I'm not just referring to the swirl of important developments in political and economic events engulfing the US and the world, but events directly related to gold and silver.

Leading the list of developments directly related to the metals is the fact that this week's close added nearly \$500 million to the collective realized and still open losses of the 8 big shorts in COMEX gold and silver futures, bringing the total to just under \$8.3 billion (sophisticated mathematical calculations reveal that's more than a billion dollars each per trader on average). This is the worst running weekly showing for the 8 big shorts since I started calculating their ongoing financial performance a year ago.

I still believe the concentrated short position of the 4 and 8 largest traders on the COMEX is the key to both past and future prices. About 9 months ago, at the end of the third quarter at the end of September, I noted how the big shorts were successful in arranging a sharp selloff which greatly reduced their open losses in gold and silver. Then I marveled at how they were unable to do the same into yearend and finished the year with open losses of more than \$2 billion, the most ever. We did get a monstrous selloff in early to mid-March, and by the first quarter's end on March 31, the big shorts were out "only" \$2.5 billion, having trimmed \$2 billion off their losses into the few days into the quarter's end. (Subsequently, I discovered that it wasn't the big shorts working collusively to drop prices into quarter's end, but almost solely the work of JPMorgan).

So, here we sit, about a week and a half from the close of the second quarter and first half, and the 8 big shorts are out nearly four times as much as they were out at yearend and at the end of the first quarter. There can be little doubt that each and every time the collective loss to the 8 big concentrated shorts has approached or exceeded \$8 billion, they appear to dig in and muster enough selling effort to turn back prices and "save the day", at least temporarily. Therefore, it must be assumed the big shorts are now at such a do or die moment and we should know which it will be very shortly.

But what's different for the big concentrated shorts at this time is also significant. For one thing, JPMorgan is nowhere near as short as it was on Sept 30 or at year end, thus potentially denying to the big shorts their most dependable ally and backup. Without JPM, the big shorts are much weaker. Of course, JPMorgan has its own agenda and we can't be certain what it will or won't do. But should JPM not lend a hand and strong shoulder to the big shorts that would be distinctly bad news for them.

I guess what I'm saying is that this would appear to be a particularly sensitive time for the big

concentrated shorts, what with the ending of the second quarter and first half upon them. It would seem to make a lot more sense for them to smash gold and silver prices going into June 30, as opposed to smashing prices afterwards. The big question, of course, is if they can still smash prices at all.

Certainly, the flow of news from the banks associated with precious metals hasn't be good for them of late and it seems highly improbable that the news is not directly related to the very large and growing losses from being so heavily short on the COMEX. Everything from the large inflows of gold into the COMEX warehouses, the large deliveries and the start of disclosures of large losses to individual banks confirm the connection to the large short position in COMEX gold and silver futures. And how many stories do we have to read about Scotiabank getting out of the precious metals business before they finally get out once and for all?

Therefore, we are at a very critical point, it seems to me that is quite likely to be resolved in the near future. I'm going to return to this theme in a bit, including comment on two very interesting emails received from subscribers this week, after I run through the usual weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained robust this week, as just over 6 million oz were physically moved. Total COMEX silver inventories rose by 2.1 million oz to 317.3 million oz, the highest level in two months, but still within the range of total inventories of the past year. Since we are approaching a major delivery month (July) in silver in little more than a week, it wouldn't be unusual to see COMEX inventories grow into first delivery day (June 30), but, as they say, time will tell. I certainly don't expect the type of silver COMEX warehouse growth witnessed in gold the past few months, but these are strange times. No change in the JPMorgan COMEX silver warehouse, still stuck at 160.7 million oz.

I'm not going to launch into a diatribe today, but it has been more than 9 years since the physical movement in COMEX silver warehouse inventories suddenly and persistently surged to levels amounting to 250 to 300 million oz annually, or a cumulative total of 2.5 billion oz since April 2011. In trying to come up with the most plausible explanation for a phenomenon that has existed only in silver, I claim the movement is tied to JPMorgan, which skimmed off around 10% or more of the total movement as one of its acquisition methods for accumulating one billion oz of physical silver over this time.

Whether I'm right or wrong is somewhat beside the point of what is behind an undeniable and easily verifiable occurrence over the past 9 years. I remain dumbfounded how not another analyst or commentator appears to have noticed something that is unprecedented in the world of commodities. Go figure.

The flow of physical metal into the COMEX gold warehouses continued this week as another million oz were added, bringing total COMEX gold inventories to 31 million oz, up 22.5 million oz in little more than 3 months. A couple of months back, when it became obvious that unusually large quantities of gold were flowing into the COMEX warehouses, I speculated that the total increase might amount to close to the amount held short by the 8 big shorts, or close to 25 million oz. Time will tell.

The JPMorgan COMEX gold warehouses added around 150,000 oz and now contain 11.46 million oz or 37% of total COMEX gold holdings, as opposed to just over 50% of total COMEX silver inventories in the JPM silver warehouse. I still maintain that JPMorgan holds more than 80%, or 250 million oz of

all the silver in the COMEX warehouses, when its holdings in other COMEX warehouses are included, a fact that could be affirmed or refuted by the CFTC, CME or DOJ in a heartbeat.

There was very large deposit of 750,000 oz yesterday in the big gold ETF, GLD, and a withdrawal of about 850,000 oz from the big silver ETF, SLV, but the real ongoing story is how much silver has been coming into the silver ETFs, led by SLV. In the space of about three months, close to 200 million oz have been added to the world's silver ETFs, with more than 130 million oz having been added to the SLV.

While a large amount of gold has been added to the world's gold ETFs, close to 15 million oz or so, the real standout in gold has been the very large additions (22.5 million oz) to the COMEX warehouses. By contrast, the record additions of physical metal to the silver ETFs, has been accompanied by no increase in COMEX silver inventories. As to where all the physical silver is coming from that is finding its way into the silver ETFs, I maintain it is coming from JPMorgan in the form of leases, as opposed to straight sales.

It is my sincerest hope that others will weigh in on this very important issue (unlike the silence that has accompanied the 9 year physical movement in the COMEX silver warehouses). And before the rants from the peanut gallery emerge that everything about the SLV is phony, download the actual bar list which contains the pertinent detailed data on the close to 500,000 individual 1000 oz bars but allow yourself a good amount of time and download capacity.

I'm going to make the review of this week's Commitments of Traders (COT) report brief and not just because the results were different than what I expected, but because the changes weren't particularly significant, which was expected. Even though gold prices ended flat over the reporting week, with silver prices a bit lower, there was enough two-way price movement to allow for the managed money buying that was reported, particularly considering the low level of managed money longs going into the reporting week.

In COMEX gold futures, the commercials increased their total net short position by 14,600 contracts, to 258,000 contracts. Despite this week's increase, the total commercial net short position over the past three weeks is still low and down nearly 130,000 contracts from where it was in late February (before the discontinuous event of mid-March I wrote about on Wednesday). The 8 big shorts increased their short position by 6500 contracts to 211,000 contracts, so no time wasted on trying to figure out how they may have reduced their short position this week (by deliveries or buy backs) because they added shorts. The smaller gold commercials added 8000 shorts and I'd estimate JPMorgan sold about a thousand contracts, reducing its long position to 4000 contracts.

The managed money traders bought 13,511 net gold contracts, nearly matching the commercial selling, consisting of the purchase of 9528 new longs and the purchase and covering of 3973 short contracts. Despite this week's buying, the managed money net long position of 104,688 contracts (135,945 longs versus 31,257 shorts) is very low historically, considering that gold prices are much closer to recent highs than lows, and therefore must be considered bullish.

Although I've commented on it recently in general terms, I just happened to notice something that I missed until now. While I have mentioned that the other large reporting traders have held unusually large long positions relative to the managed money traders in gold, it dawned on me that the other large traders' gross and net long positions are, in fact, larger than those in the managed

money category for the past few weeks. While this has occurred in times past, those occasions have always been marked by relatively low gold prices and with the managed money traders positioned for lower prices, not with prices above the moving averages and close to highs.

As way of review, the main difference between the other large traders and the managed money traders, both for classification purposes and in more general terms, is that the other large reporting traders are trading for their own accounts, where the managed money traders (as the term implies) are trading on behalf of others — generally passive investors in registered CTA (Commodity Trading Advisors) investment programs. While I don't wish to appear to be unnecessarily demeaning to the managed money traders by asserting that the other large reporting traders are more interested and concerned about their trading because it is their own money, let me make a related point.

I have observed and commented in the past that many or most of the managed money traders are technically oriented and I have referred to these traders as the technical funds. While that is largely the case, trading technically (on moving averages) is not a requirement for being classified as a managed money trader — managing other peoples' money is. The problem and reality is that most of the managed money traders do adhere to a technical trading approach because in order to gain proper diversification and remain objective doing otherwise is simply impractical. No one or no one fund is capable of adequately evaluating the supply/demand fundamentals of every commodity. Such a fundamental approach calls for intensive study of the commodity involved — not something easily done.

Therefore, most managed money traders were forced to adopt the technical approach by default. That is not something of concern to the other large reporting traders, as these traders answer to themselves and are not bound by trading rules promised to outside investors (as is largely the case with the managed money traders). Specifically, the other large reporting traders in gold have their own reasons as to why they are so heavily long at this point.

I can't say, of course, that these traders will prove to be correct and gold prices will continue higher, but I can say that the track record of the other large reporting traders in gold appears to me to be much better than the managed money traders. I can also say that the other large reporting traders haven't been whipsawed into and out from positions as have the managed money traders over the years. Do the other large reporting traders see how vulnerable the big shorts are at this point and how JPMorgan runs the show? I would tell you, but then I'd have to kill you — in other words, I don't know, but wish I did. All things being equal, I'd much rather have the other large traders heavily long than the managed money traders — which is the case presently.

In COMEX silver futures, the commercials actually reduced their total net short position by 1100 contracts, to 49,000 contracts. This was as I expected, but the reduction was not due to managed money selling, as I also expected. There was a very slight increase in the concentrated short position of the 4 and 8 largest traders, as the raptors added around 1400 long positions. JPMorgan appears to have added a thousand contracts to a short position I'd now estimate at 4000 contracts, but there were 3 new traders in the Producer Merchant category, so it's possible JPM didn't add shorts.

The managed money traders bought 4216 net silver contracts, comprised of the purchase of 3191 contracts of new longs and the purchase and close out of 1025 short contracts. Accounting for the selling this week in silver, the smaller non-reporting traders sold nearly 4400 net contracts and the other large reporting traders chipped in with nearly another thousand contracts of net selling.

Trying to keep things in perspective, the commercials are still 50,000 contracts less net short in silver than they were at the end of February, just before the discontinuous downside price event in silver and gold. And JPMorgan is still 15,000 net contracts (75 million oz) less short in silver and 50,000 less net gold contracts than it was back then. Which leads me to the first subscriber email I'd like to comment on.

Alex asked me why I hadn't mentioned, in discussing the discontinuous price plunge of mid-March, my longstanding contention that before silver would take off for real to the upside, we were likely to see a hellacious selloff first. Certainly, the plunge in a matter of days to price lows not seen in a decade would seem to qualify as the final selloff before the blast upward. No beating around the bush I plumb forgot in the heat of the moment (Hey, I am old and getting older by the day).

The contention that we would see an all-inclusive final selloff before launching upwards for good is a belief that goes back decades to my very earliest discussions with my silver mentor and dear departed friend Izzy Friedman. In fact, the contention of a final cleanout to the downside before the inevitable price explosion predates JPMorgan's involvement by decades (maybe that's why I forgot about it).

But also perhaps contributing to my memory lapse were the slightly different circumstances surrounding the original premise formed in the late 1980's. It was always my belief that the big concentrated commercial shorts acted with tight collusion in luring the managed money technical funds into and out from positions. What else could account for the repeated trading successes of the commercials against the technical funds? As such, I always assumed the commercials were all on the same page and in on the scam. Back then, I never conceived that the commercials weren't all as tight as thieves in the crooked den of the COMEX.

That also means neither I nor Izzy ever conceived that one commercial could ever come to bamboozle the rest of the commercial thieves. Sadly, Izzy passed before he could examine the evidence pointing to JPMorgan emerging as double crossing the other commercials just over two years ago. Had he not passed, I'm sure he would have reminded me, as did Alex, of the significance of the discontinuous selloff of mid-March. Everybody needs a little help from their friends. From my vantage perspective, the mid-March selloff certainly qualifies, to this point, as the final selloff.

The second email was unintentionally related to the first email, although I didn't see it that way initially. Paul said he was skeptical that the big commercial shorts could be so naïve as to allow themselves to be put in the position of vulnerability that I proclaim them to be. Specifically, he was skeptical that the other banks could fail to recognize that JPM has skated out from its COMEX short positions and that other banks would lease the metal from JPM to sell to the ETFs.

Paul has every right to be skeptical. Then again, the history of finance is largely a repetitive story of massive miscalculations by large institutions, more so than miscalculations by individuals. Moreover, I'm not sitting around trying to dream up scenarios amenable to silver going higher. First and

foremost, I rely on the data and only then try to fit that data into the most plausible explanation. I just admitted that for many, many years, I assumed (and was wrong) that the commercials were thick as thieves and all in on the mutual skinning of the technical funds.

It was only by close observance of the data in the COT report (with particular emphasis on the concentration data) that I began to pick up on the financial stress growing among the 8 largest shorts in COMEX gold and silver starting a year ago. Certainly, recent developments in the form of massive inflows of metal into the COMEX gold warehouses and subsequent deliveries, as well as news reports of growing losses and plans to exit the precious metals business are in synch with the growing loss profile of the shorts on the COMEX. Likewise all the known data about JPMorgan, from physical metal accumulation to its dominance of precious metals trading is confirmed by the public data, including the open investigation by the Justice Department.

It does seem improbable that the big commercial shorts could be so blindsided by their current predicament, but it's also true that years and even decades of uninterrupted trading success on the COMEX could dull the senses of those on the winning side. Since when does anyone learn more from success than from failure? How inconceivable is it that the continuous trading success over the decades against the technical funds may have lulled the kid traders at the commercial banks into a position of great potential harm — not to themselves — but to the institutions they represent? What's the worst that happens to a kid trader at a bank who messes up, aside from getting fired (and leaving the bank with massive losses)?

As far as the banks leasing physical silver from JPMorgan to sell to the silver ETFs, will the traders arranging the loans even be around when the physical metal is due back? More importantly, I'm not asserting that what I am alleging is the gospel truth, but that it is the most plausible explanation to describe how so much physical silver can come into the ETFs without any discernable effect on price. I've yet to hear a plausible alternative explanation. Here's to hoping it won't take as long as hearing a plausible alternative explanation for the physical turnover in the COMEX silver warehouses for the past 9 years, as I'll really be old by then. No telling what the heck I'll be forgetting at that point.

Summarizing, we sure do seem to be at a critical point in the precious metal price equation. The worst weekly losses to the big 8 shorts, a favorable COT market structure (unfavorable to the big shorts), JPM in position to massively double cross its former collusive partners in crime and coming off what qualifies at this point as the final selloff long thought to be a prerequisite for the final silver blastoff. (It's just taken so darn long, that I needed to be reminded of it). All made even more interesting by the rapid approach of the end of the second quarter and first half.

Finally, late last night, US Attorney General William Barr announced the resignation of the Geoffrey Berman, US attorney for the Southern District of New York, to be replaced by Jay Clayton, currently chairman of the Securities and Exchange Commission. As it turns out, Mr. Berman has denied he had resigned or has any intention of doing so, promising to set off another legal and political kerfuffle — not something in particular short supply.

<https://www.justice.gov/opa/pr/attorney-general-william-p-barr-nomination-jay-clayton-serve-us-attorney-southern-district>

While it's too soon to see how this will get resolved and has no outward bearing on gold or silver, I

am still perplexed by the apparent sudden resignation of Brian Benzckowski, Assistant Attorney General and head of the Criminal Division, announced last week. I can't help but wonder if his resignation was as politically motivated as appears to be the Berman resignation and further wonder if it had anything to do with Benzckowski's investigation into precious metals manipulation getting too close to JPMorgan. So many possibilities and such little needed input available to consider them all.

Ted Butler

June 20, 2020

Silver – \$17.82 (200 day ma – \$17.00, 50 day ma – \$16.62)

Gold – \$1755 (200 day ma – \$1585, 50 day ma – \$1726)

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