June 22, 2022 – New OCC Report/Getting From Here to There

The New OCC Report

Yesterday, the new Quarterly Derivatives Report from the Office of the Comptroller of the Currency was released, showing the over-the-counter derivatives positions for US banks as of March 31, 2022. This report excludes listed or exchange-traded derivatives contracts, such as COMEX futures and options contracts and also excludes OTC derivatives contracts held by non-US banks.

Because the OCC reports the US banksâ?? derivatives holdings by total notional value and does not include any detailed breakdown as to whether the banksâ?? positions are net long or short (as is available in the Commitments of Traders (COT) report, even though Iâ??ve reviewed the OCC report for decades, there was never much that I could glean from it â?? other than the names of the US banks dominating the OTC derivatives market (something not available in the COT reports).

All that changed, however, in April 2021, when the OCC report for positions held as of Dec 31, 2020 was released and indicated, out of nowhere, that Bank of America emerged as a major player in OTC silver derivatives, as it held more than $8 billion in such silver derivatives or roughly, 300 million oz, whereas a year or so earlier, Bank of America held virtually no such derivatives. Moreover, BofA had never been a major player in such derivatives and had no known previous experience in precious metals. In an article at the time, I attributed BofAâ??s massive increase in silver derivatives as being the result of borrowing 300 million oz of silver from interests associated with JPMorgan.

https://silverseek.com/article/new-piece-puzzle

Subsequently, since the December 2020 OCC report, Bank of Americaâ??s precious metals position (mostly silver) continued to expand massively, to the point where at yearend 2021, it held $27.32 billion of such derivatives, the equivalent of more than one billion oz of silver. Let me repeat that, over little more than 2 years, Bank of Americaâ??s silver derivatives position had grown from virtually zero to $27 billion, the equivalent of more than one billion oz of silver. Because the scope and size of BofAâ??s position was unprecedented and posed, in my view, a genuine risk to the bank and the financial system should silver prices rise dramatically (BofA was essentially short that much silver), I continued to sound the alarm, both to the regulators responsible (the OCC, CFTC and the SEC) and publicly.

https://silverseek.com/article/more-serious-i-thought

I did receive a response from the OCC when I called upon my local congressman to ask the OCC about the Bank of America silver derivatives position, which I posted publicly.

https://silverseek.com/article/occs-response

The new OCC report published yesterday sheds important new light on this matter. First, I must point out that the new report, for positions held as March 31, 2022, now includes gold in the precious metals category (in addition to silver, platinum and palladium). As a reminder, gold, the largest precious metals market, was taken out of the OCC precious metals category back around 2016 and put into the much larger Foreign Exchange category, which made gold holdings opaque, but which made (inadvertently, I believe) silver holdings, suddenly, quite transparent.

Now that the OCC has decided to put gold back into the precious metals category, my first thoughts were that the switch back would make silver derivatives holdings, once again, opaque and hard to decipher. Further, I thought that my complaints might have had something to do with the OCCâ??s reversal to now include gold back into the precious metals category. But, Iâ??m happy to report that, at least in the new report published yesterday, there is actually greater clarity when it comes to Bank of Americaâ??s silver derivatives position â?? which is beyond ironic.

With the inclusion of gold back into the precious metals category, the OTC precious metals positions held by JPMorgan and Citibank, increased by 10-fold and 15-fold respectively, from the prior quarter, as would be expected and verifying that both of these banks are major players in gold OTC derivatives. Shockingly, the precious metals derivatives positions of the two other US banks listed in the OCC report, Bank of America and Goldman Sachs, increased only modestly.

In the case of Bank of America â?? still the main focus of my concerns â?? there was no real increase at all, since the price of silver as of March 31, 2022 was $25.10, versus the $23.35 price as of Dec 31, 2021, or 7.5% higher. Not coincidently, the Bank of America precious metals position increased by 7.5%, from $27.32 billion on Dec 31 to $29.44 billion on March 31, 2022, likely meaning, unlike JPM and Citi, BofA (and Goldman Sachs) held no gold derivative. Here are the two reports for you to compare (look at table 21 on page 26 of each report) â??

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/files/pub-derivatives-quarterly-qtr4-2021.pdf

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/files/pub-derivatives-quarterly-qtr1-2022.pdf

What this means, in essence, is for first time in two years, the precious metals (silver) derivatives position of Bank of America failed to increase â?? although it remained excessively large, having grown from zero to $29.44 billion (1.15 billion oz) in little more than 2 years. Please remember, that I only really started hooting and hollering about Bank of Americaâ??s OTC silver derivatives position in late December 2021/early January 2022, including writing to the regulators some six months ago and I was quite curious to learn if such complaints would persuade BofA from further increasing its silver derivatives position. The verdict, it would appear to me, is now in and shows that Bank of America did blink and stopped increasing its reckless silver derivatives position.

Iâ??m also more convinced that Bank of America is dumber than a bag of dirt and that its silver derivatives position is largely due to it borrowing more than a billion oz of physical silver, for which it stands about as much chance of being able to repay as would you or I, namely, no chance at all. Iâ??ve never heard a peep from Bank of America for alleging it was involved in a dangerous and quite dumb venture involving, effectively, shorting a massive quantity of physical silver at dirt-cheap prices. I canâ??t help but believe that BofA would sound as pitiful as Fredo telling Michael in the â??Godfatherâ?• that he was smart, not dumb, for dealing with enemies of the family, if it tried to defend its silver derivatives position. You can be sure that Bank of America knows of my allegations from my complaints to the regulators.

One other thing I learned from the new report yesterday is that I was wrong to speculate that Bank of America had borrowed and sold a massive quantity of gold, in addition to its borrowing silver, because any such gold borrowings would have resulted in a massive increase in BofAâ??s precious metals position as was the case for JPMorgan and Citi. I apologize for my faulty previous speculation about BofA and gold and will always adjust my take as the facts change.

As far as what this all means going forward, among the conclusions Iâ??d offer is that all the parties involved, including the OCC, CFTC, and SEC, as well as Bank of America, will not comment on this matter further and things will play out as they will. They all had an opportunity to point out how my take was wrong and having failed to do so, are not likely to comment further. This makes no difference and we will all witness the result of Bank of America committing what I consider to be the greatest financial blunder in history. Who, in their right mind, would agree to essentially, sell short more than a billion oz of silver at this time and price?

Ironically, Bank of America has yet to feel the sting of its monumental blunder, as I believe its average price of shorting silver is still in the vicinity of $23, meaning it is actually ahead at this point by more than $1 billion to $1.5 billion. Only in the fullness of time will we see just how smart or dumb Bank of America turns out to be.

I donâ??t wish to overwhelm readers, but I did have another article planned for today, but wanted to comment on the new OCC report when it came out, so let me include what I planned originally now. Sorry about any information overload.

Getting From Here to There

First, some definitions. â??Hereâ?• refers to the current price of silver (under $22). â??Thereâ?• refers to what the price is likely to be after some undetermined period of time. From everything Iâ??ve read, there seems to be near-universal agreement that a revisit to the old former highs of $50 will come at some point, so for the sake of discussion, letâ??s settle on that number. Finally, â??gettingâ?• refers to the manner and time of the move in silver prices to $50 (and beyond).

Only after I started this article and tried to save it in Microsoft Word, did I realize that this is the second time I have used this particular title for an article, the first time being back on June 5, 2019 (in the archives). Back then, silver was under $15 and gold $1333 and both metals were embarking on a price advance that would see silver double to $30 and gold jump by $700 (50%) by August 2020, some 14 months later (but not before prices were smashed lower in March 2020). There can be no dispute that silver and gold prices didnâ??t advance from June 2019 to August 2020, nor dispute that since then, prices have pulled back through today.

In my original article, my main point was that the rally from June 2019 would largely be shaped by the actions of JPMorgan, which I had chronicled as having accumulated some 850 million oz of physical silver and more than 20 million oz of gold (and more since) and how it would be in JPMâ??s best interests to let prices rise at some point. It wouldnâ??t be until the March 2020 epic selloff that JPM would completely buy back and cover its controlling short positions in COMEX gold and silver futures (and settle up with the regulators for watered-down manipulation charges), but seeing now that is in the rear-view mirror, I believe my premise of JPMorgan pulling back from being the lead silver and gold price manipulator has largely been fulfilled.

The best thing about JPM abandoning the short side and, in effect, double crossing the remaining big commercial shorts on the COMEX is that it took so much time for this (the physical metal accumulation, abandoning the short side and settling with the regulators) to occur that JPM is home free at this point â?? in position to profit mightily with no regulatory blow-back should prices explode. So, what is the basis for how I see things unfolding from here, now that JPMorgan appears to be completely exposed to a long (physical) position?

Based upon the current market structure on the COMEX, namely, the extremely bullish positioning between the commercial traders and the managed money traders and the realities of the physical market, particularly in silver, how we â??getâ?• to the higher prices upon which most agree, is what matters most.

Those who think we will advance to $50 or so in silver, say within a few years, are concluding the rally will be mostly along the lines of any rally in a free market â?? a series of two steps up and one step back, as the forces of supply and demand work in typical fashion. To be sure, such a move â?? more than a double (100%) in three years â?? would imply an annual return of more than 35% annually; a gain no one could complain about.

However, while I wonâ??t complain either should such a move unfold, thatâ??s not the way I see it. In fact, given what I perceive the market mechanics and plumbing to be, I have trouble envisioning an orderly, free-market two-steps up, one step-back move up in silver to $50 over the next few years. The only way for this to occur is if the 4 big commercial shorts continue to add aggressively to short positions as silver prices rally and then buy back the added shorts on the one-step back when prices retreat. While many would contend that this would be merely a continuation of what has occurred for decades, starting in June 2019, there was a radical change in COMEX gold and silver trading in which the 8 big shorts began to experience large losses on their short positions for the first time in history.

Should the 4 big shorts add aggressively to existing short positions on any unfolding two-step up rallies and partially buying back on the one-step declines, not only would this involve ever-increasing overall losses as the price up moves evolve, it will be easy to document in future COT reports. The only way to argue that the 4 big COMEX silver shorts could add aggressively to shorts on price rallies and buyback on selloffs without incurring increasing total losses is if prices donâ??t double in three years or soâ?? which is at odds with the case of prices doubling.

The market mechanics point to the 4 big COMEX silver shorts not adding aggressively on any silver rally quickly leading to a doubling in prices (or more). In fact, itâ??s hard for me to imagine any significant silver rally developing â?? forget to $50 or more â?? accompanied by aggressive increases along the way in shorting by the 4 big shorts. It just seems that big increases in big 4 shorting and a doubling in silver prices are simply not compatible. Instead, what seems much more doable is a doubling in silver prices accompanied by no big increase in big 4 shorting.

However, and this is the key point, if we do see a sharp increase in silver prices accompanied by no big increase in the concentrated short position of 4 largest COMEX shorts, then what would seem impossible at that point would be for the price move higher taking years, or even months. Without the 4 big COMEX shorts adding aggressively to silver short positions to cap and contain prices, it seems impossible to me that prices wouldnâ??t quickly double (or more) in a matter of weeks, not months or years. And thatâ??s the essence of what Iâ??m trying to convey today â?? the manner of â??gettingâ?• to â??thereâ?• in silver should occur in an incredibly short period of time â?? certainly not years.

It is interesting to note that the concentrated short position in COMEX silver futures has been progressively lower since year end 2019, when it stood at near 75,000 contracts (375 million oz) and JPMorgan was a big component of that short position. This was still the case as late as the end of February 2020, when it stood at 73,000 contracts, just as the epic selloff to below $12 commenced and as JPM bought back its entire short position by the end of March 2020.

With JPM no longer a big COMEX short seller in either silver or gold thereafter, it wasnâ??t until the height of the silver squeeze run-up in price into Feb 2, 2021 that the concentrated short position in COMEX silver reached what has been the subsequent high point of just over 65,000 contracts (325 million oz). In the latest COT report of June 14, 2022, when adjusted for the presence of a managed money trader having entered into the ranks of the 4 big shorts, the true commercial component of the concentrated short position is around 41,000 contracts (205 million oz), close to the lowest levels of the past couple of years.

Thus, the stage is set, in fairly stark terms, for the big 4 concentrated short position to increase sharply on the next silver rally, should the big commercial shorts decide to add new shorts, particularly when accounting for the certainty that the managed money technical fund currently in the big 4 short category will buyback short positions as prices rise. At the same time, this is the ideal opportunity for the would-be big commercial short sellers to refrain from adding new shorts aggressively.

It’s also a virtual certainty that it will be one or the other â?? either the big 4 commercial shorts will add new short positions like crazy to contain a silver price rally or that they wonâ??t. Iâ??d define â??like crazyâ?• to be 10,000 new short contracts or more – something, I might add, that has always occurred on all significant past silver rallies. Itâ??s important to understand that any talk of aggressive new short selling being of the legitimate hedge type selling by silver miners is bunk â?? any and all new potential short selling will be by the usual crooked COMEX banks (sans JPM, in my opinion).

If the usual COMEX commercial crooks do add aggressively to their silver short positions, it is probable they might succeed in capping and containing what will undoubtedly be a several dollar silver rally to that point. However, if the big manipulative short sellers refrain from aggressively adding new silver short sales, then hold your horses and Katie, bar the door, because silver prices should explode. Whatever it will be will be observable in both price and subsequent COT report data, although I suppose some variation might be possible, such as some initial big 4 commercial short selling that is quickly reversed.

While itâ??s never happened that the 4 big commercial short sellers havenâ??t added new shorts aggressively on any silver rally that decisively penetrated all the key moving averages, the odds concerning such an unprecedented occurrence of them not adding appear better than ever before. Contributing to these new odds include the remarkable clarity of the big COMEX commercial shorts never covering but always adding to short positions on rallies and the inability of the CFTC or CME Group to argue otherwise. Remember, it was only a bit more than a year ago when the Commission wrote to me that it was passing along my complaints about the concentrated short position in silver to its Enforcement and Market Oversight Divisions, choosing not to defend the practice for the first time in decades.

Perhaps the biggest incentive for the big COMEX shorts not to aggressively add to new silver shorts is that not doing so when they are holding close to minimal (for them) short positions would seem to be most logical should they (or some of them) recognize how they have manipulated silver prices for decades. When the concentrated short position is lower than it typically has been, like now, that would involve less total loss in covering than would covering with a full short position (Izzyâ??s full pants down premise).

Finally, all indications from the physical world of silver point to a physical tightness more extreme than Iâ??ve ever seen and not shorting into a physical market bordering on acute shortage would seem hard to argue against. Price manipulations are rarely grounded in logic and sound reasoning to begin with, but somewhere along the way, the quest to minimize losses (and perhaps avoid jail) would seem to be strong. If you are going to quit a manipulation, it would seem quitting when it is most advantageous would make the most sense â?? particularly when the odds are great against being able to replicate the current relatively small concentrated short position in the future.

Turning to other matters, I do recall writing back when Bitcoin was trading near its highs last year how one Bitcoin, of which there were close to 20 million in existence, seemed particularly overpriced relative to one 1000 oz bar of silver (of which there were about 2 million in existence or 2 billion oz), as one Bitcoin got to be worth more than 2.5 times the price of one 1000 oz silver bar. This meant that one Bitcoin was worth 2500 ounces of silver six or seven months ago.

Recently, one 1000 oz bar of silver was trading at close to or more than one Bitcoin, meaning that over the past 6 or 7 months, silver â?? even though itâ??s down in price, has vastly outperformed Bitcoin and cryptocurrencies. Truth be told, I did expect the evening-up process to involve a combination of Bitcoin coming down and silver moving up, and not that Bitcoin would even-up the price comparison by dropping much more than silver.

While Iâ??d still much rather own a 1000 oz bar of silver than one Bitcoin today, it occurs to me that at current prices, one Bitcoin is still worth roughly 1000 times more expensive than a single ounce of silver â?? meaning to me that Iâ??d rather own one ounce of silver than one Bitcoin on a pure relative performance basis if I couldnâ??t undo the choice for the next five or ten years. Iâ??m not saying one ounce of silver ten years hence will be worth more than one Bitcoin (although it could), just that such a comparison at a later date would have favored holding silver on a dollar-for-dollar basis over Bitcoin. Then again, maybe itâ??s just a case of my upbringing as a commodity guy â?? more interested in and attracted to hard commodities than digital assets.

I guess the main thought driving my conviction that silver will outperform Bitcoin is that Bitcoin seems to have experienced a number of up moves qualifying as bubble-type moves which attracted as many or more than 100 million people worldwide. After all, wide participation based mostly on new investors chasing ever-increasing prices is the prime hallmark of a bubble. And should Bitcoin experience yet another massive influx of new investors chasing higher prices, I suppose weâ??ll see another iteration of a bubble in Bitcoin.

Silver, on the other hand, hasnâ??t come close to ever attracting anywhere near such collective investment demand in all the decades I have studied it. Â Since I find the silver story to be so compelling and underappreciated, a bubble developing in silver seems almost a sure thing. Should such a bubble develop in silver, as seems quite reasonable or even inevitable to me, no one could imagine how high prices could go.

As far as what to expect in Fridayâ??s new COT report, on the, effective, four-day reporting week ended yesterday, both gold and silver prices rallied by as much as $50 in gold and a dollar in silver, the normal prescription for managed money buying and commercial selling. Therefore, some deterioration in market structure should be expected, offset somewhat by lower-than-normal trading volume. Considering the overall extremely bullish market structures that exist in both gold and silver, I wouldnâ??t expect (hope) that any such deterioration to be significant.

As far as how the 8 big COMEX gold and silver shorts have fared since Friday, todayâ??s prices indicate that there was only slight improvement for them as their total losses remained close to $7.6 billion. There might be some incentive for the big 8 shorts to keep pressure on gold and silver prices through next Thursday, June 30, which is the end to the 2nd quarter.

Ted Butler

June 22, 2022

Silver – $21.40Â Â (200 day ma – $23.44, 50 day ma – $22.68, 100 day ma – $23.57)

Gold – $1840Â Â Â Â Â (200 day ma – $1843, 50 day ma – $1875, 100 day ma – $1890)

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