June 25, 2022 – Weekly Review

Gold and silver prices finished lower for a second week, with gold ended $12 (0.7%) lower and with silver finishing down by 50 cents (2.3%). The continued relative weakness in silver caused the silver/gold price ratio to widened out by more than a full point and a half to 86.5 to 1. This is the most undervalued (cheapest) silver has been relative to gold in two years.

Moreover, the absolute price of silver equaled its lowest weekly close in two years, whereas the price of gold has held up much better and well-above its price lows over the past two years. Therefore, a reasonable person would conclude that there had to be a primary cause for silverâ??s pronounced price weakness, both on an absolute and relative basis compared to gold. By â??reasonable personâ?• I am excluding the knee-jerk response of looking for imaginary reasons to justify silverâ??s standout price weakness simply because the price has been weak. Remember, when most people look at pronounced price weakness in a commodity, like silver, the default reaction is that there must be some type of oversupply.

Yet, no one could reasonably contend that oversupply is causing silverâ??s price weakness. After all, world mine production has been flat to down for years, industrial consumption has held up and silver investment demand has been through the roof. Further, every conceivable reason thought normally to be bullish, whether that reason is exploding inflation, war, energy shortages, financial instability and weakness in other markets have been present like never before and yet the price of silver has swooned. What gives?

What gives is crooked and manipulation pricing on the COMEX as is evident in COT report data and, as Iâ??ll expound on later, the utter stupidity of Bank of America in the over-the-counter derivatives market.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained â??white hotâ?• this four-day workweek, as nearly 9.3 million oz were physically moved and total COMEX silver holdings fell by a sharp 3 million oz to 333.8 million oz. Â Silver holdings in the JPMorgan COMEX warehouse fell a slight half million oz to 169.1 million oz.

Save for one week two months ago, total COMEX silver inventories are now lower than they have been in nearly two years and will undoubtedly be cited as being extremely bullish in some circles. Admittedly, that sounds reasonable (declining inventories suggest a silver shortage may be developing), but goes to the point I just made, namely, all the signs that would normally be considered bullish stand in stark contrast to actual price performance.

Here we are, close to the lowest levels of COMEX silver inventories in two years at precisely the same moment we are at the lowest silver prices in two years. How can that possibly make sense? The only way it could make sense is if the lower inventories, just like everything else thatâ??s bullish, like flat production and increased consumption, inflation, energy shortages, etc., are being overridden by something else â?? with that something else being price manipulation on the COMEX.

Gold holdings in the COMEX warehouses continued their sharp recent declines, as another 0.5 million oz came out this week, reducing the total holdings in the COMEX gold warehouses to 33.3 million oz, a fresh three-month low. Holdings in the JPM COMEX gold warehouse fell by around 150,000 oz to

13.73 million oz. I still contend that there is a world of difference in comparing COMEX gold and silver warehouse holdings when compared to the total world bullion inventories in each, as COMEX silver holdings represent close to 15% of total silver bullion inventories, while the holdings in the COMEX gold inventories are around 1% of world gold bullion inventories.

Holdings in the worldâ??s gold and silver ETFs, continued to decline this week, along with the physical holdings on the COMEX, although I detect more â??conversionsâ?• in silver relative to gold, whereby ETF shares are deliberately converted to physical metal to avoid (legally) share reporting requirements.

Turning to yesterdayâ??s Commitments of Traders (COT) report, the results were largely in the direction expected, but perhaps a bit more in silver than anticipated. There was a price rally within the reporting week ended Tuesday of as much as $50 in gold and $1 in silver and such rallies, when combined with large managed money short positions, particularly in silver, typically lead to the managed money shorts rushing to buyback and cover those short positions and thatâ??s exactly what transpired this reporting week.

The main point I would make on these periodic managed money short-covering rallies is that they must be factored into the overall domination of the COMEX commercials (mostly the smaller raptors) taking advantage of the managed money shorts on a very short-term basis, in addition to the longer-term price manipulation scheme being run on the COMEX. Roughly speaking, the near-7,000 silver short contracts bought back by the manged money traders this reporting week â?? almost all at the height of the full dollar rally â?? cost the managed money short coverers around $35 million from where these short contracts were established.

What this means, is that in addition to the overall profits to the commercials and losses to the manage money shorts that will accrue whenever silver heads north in a meaningful way, there are also substantial losses on a short-term interim basis suffered by the managed money shorts on these shorter-term rallies.

Some may wonder how it is that these managed money traders can continue to sustain losses in silver (and gold) on both a very short-term and longer-term basis, but the fact of the matter is that, overall, the managed money traders have had their best six months, performance-wise, ever. Certainly not in silver and gold, but in overall results for all markets combined, the managed money traders are knocking them dead and are not, in my opinion, the least bit concerned about the relatively minor losses to date in silver and gold. One of the leaders in the managed money world, Cliff Asness, head of AQR (my guess for the big managed money short in silver) gave a series of interviews this week on CNBC.

https://www.cnbc.com/video/2022/06/22/watch-the-full-interview-with-aqrs-cliff-asness-on-the-market-strategy.html

The other big consideration is that this weekâ??s managed money short covering occurred into the close of the reporting week on Tuesday. Since then, silver has come under considerable price pressure and itâ??s a near-certainty that most, if not all of the managed money short positions covered in the reporting week are now reinstated on the short side. Thatâ??s the problem with buying high and selling low, as the managed money traders are conditioned to do â?? it leaves them wide open to the same results they have always experienced in silver and gold.

In COMEX gold futures, the commercials increased their total net short position by 8400 contracts to 186,900 contracts. This is still a remarkably bullish figure, only slightly higher than last weekâ??s bullish blow-out number and was even more bullish when I consider the commercial categories.

The 4 big gold shorts actually reduced their concentrated short position by 1800 contracts to 121,067 contracts (12.1 million oz), another multi-year low. The next 5 thru 8 largest commercial shorts did add about 1500 new shorts, but the big 8 short position still fell by 300 contracts to 206,614 contracts (20.7 million oz). The gold raptors were the big sellers, selling off 8600 long contracts, reducing their net long position to 19,700 contracts.

The managed money traders were the big gold buyers, in buying 12,898 net contracts, consisting of the new purchase of 4,109 longs and the buyback and covering of 8,789 short contracts. The other large reporting traders were net sellers of more than 4000 contracts, explaining the difference between what the commercials sold and the managed money traders bought, although there was no reduction in the concentrated long position of 4 largest longs.

In COMEX silver futures, the commercials added 5200 contracts to a short position measuring 27,300 contracts as of Tuesday and undoubtedly less, in trading since. Â The concentrated short position of the 4 largest shorts did increase by about 750 contracts to 50,148 contracts, while the concentrated short position of the 8 largest shorts fell by 350 contracts, to 71,079 contracts.

With the aforementioned large short covering by the managed money traders, the only way I can reconcile this is by assuming the largest managed money short still holds close to 8000 contracts short and, therefore, didnâ??t buy back aggressively this week. This thought is supported by the sharp decrease of 9 traders in the managed money short category this week to 35 traders from 44 the prior week. Bottom line is that there is now only one managed money trader in the big 8 category, which is in the big 4 category and is still short 8000 contracts.

This also means the raptors were the sole commercial sellers and held around 36,000 contracts long as of Tuesday and more in trading after the cutoff â?? likely back to 40,000 long contracts as of this time. I donâ??t wish to spend too much time on the market structure as of Tuesday, since itâ??s quite probable weâ??re back to the same position of the week before â?? with the managed money traders which did cover shorts this reporting week having reestablished those shorts at a net cost of $35 million, now comfortably residing in the silver raptorsâ?? bank accounts.

Therefore, the market structures in both COMEX silver and gold are now much closer to what they were before this reporting weekâ??s managed money short covering and right back to the white-hot bullish set up that existed in the COT report of June 14.

Instead, Iâ??d like to spend some time further discussing this weekâ??s Office of the Comptroller of the Currencyâ??s quarterly derivatives report which I wrote about on Wednesday and in this public article a day later â??

https://silverseek.com/article/new-occ-report

While I wouldnâ??t change anything in the article, it does occur to me that I did not fully convey the true significance of the OCC report and I would like to address that today. I had been writing about

Bank of Americaâ??s strange emergence as a giant player in OTC silver derivatives since April 2021 and would now like to put these developments into broader perspective. In order to do this, itâ??s necessary for me to start more than a dozen years earlier. Â Most of this will be familiar to long-term readers, as it should be â?? as there shouldnâ??t be drastic revisions in oneâ??s basic long-tern premises.

After JPMorgan took over Bear Stearns in 2008 and inherited the role of largest silver (and gold) short seller on the COMEX, JPM completely dominated and suppressed prices until early 2011, when a developing physical shortage in silver, mostly as a result of physical buying in SLV and other silver ETFs, caused prices to rise sharply, eventually hitting close to $50 by the end of April 2011. JPMorgan, which had held a large short position throughout the rally (but did not add to it), finally regained control of the silver price and largely effected a dramatic price decline which saved it from incurring billions of dollars in losses had it been unsuccessful in capping and containing the silver price increase.

Not content to have weathered a near-fall into the financial abyss successfully, JPMorgan, perhaps the most successful financial operators of all-time, also came to realize back in April 2011 just how critical was the limited amount of physical silver in the world and put in motion a plan so genius that I didnâ??t pick up on it until a couple of years after JPM put it into play. It wasnâ??t until 2013 or so that I picked up on JPMorganâ??s criminally-genius final solution to ever getting squeezed on the short side of silver again.

That solution was for JPM to begin to acquire as much physical silver (later, gold) as it could â?? at the extremely depressed prices it created with its dominant and controlling paper short position on the COMEX. By the time I picked up on what JPM was up to in 2013, it had already accumulated more than 200 million oz of physical silver through a variety of means â?? skimming off the COMEX warehouse physical turnover, conversions of shares to metal in the SLV (of which it was the custodian, along with a number of other silver ETFs), as well as accumulating Silver Eagles and Maple Leafâ??s for melting into 1000 oz bars.

Since 200 million oz was the equivalent of 40,000 COMEX silver contracts and that number was also about the largest JPMâ??s short position has ever grown to at past extremes, I reached the erroneous conclusion that that meant JPMorgan was fully insured against losses on the short side of silver and I began anticipating that silver prices would soon soar. Instead, JPMorgan continued its massive physical silver (and gold) accumulation, thereby converting what I believe was originally designed as a defensive maneuver for protection against an exploding silver price into a highly efficient offensive maneuver.

All told and as highlighted on these pages for years, JPMorgan continued to accumulate physical silver and gold to the point where it had acquired more than 1.2 billion oz of silver and 30 million oz of physical gold oz over the course of a decade or so. Having come to control 60% of all the physical silver in the world (in 1000 oz bar form) and completely eliminating its COMEX short positions in early 2020 and since it would be impossible for JPM to acquire more physical silver than that without driving prices skyward, I then thought the liftoff in silver prices could erupt at any point. But then again, Iâ??m not a criminal genius, like JPMorgan, and it had something very different in mind.

Not content to be satisfied with holding 1.2 billion physical oz of silver (and 30 million oz of gold), none of which is in its own name, JPMorgan, knowing where prices would go eventually, thirsted for more. But having had the advantage of accumulating the physical metal it did hold at the shockingly depressed prices it created while being the biggest COMEX short seller, JPMorgan looked to replicate its criminal-master feat of acquiring silver on the cheap. Enter Bank of America.

There was no way that JPMorgan could pick up another billion oz of silver at super-depressed prices without resorting to another scam of some type. JPM picked up its first billion oz by buying 100 million oz of more per year over the same ten years it was the largest short seller on the COMEX, but it couldnâ??t do that again. So, it scammed Bank of America instead into borrowing a billion oz of silver. JPMorgan knew how precious metals loans worked (something that Bank of America didnâ??t know) and knew that BofA would have to sell the metal it borrowed from JPM, in order to convert the loan into cash.

Thus, JPMorgan knew that BofA would need to sell immediately the physical silver it borrowed and knowing this meant that interests associated with JPM were more than willing, ready and able to buy every ounce that Bank of America sold. In the end, JPMorgan paid for two billion oz of silver (at a total cost of around $40 billion) and in turn ended up with more than two billion oz of silver â?? half in its physical possession and half in the form of a receivable from Bank of America. BofA, in turn, ended up with around $23 billion in the cash proceeds of its borrowing and short sale of the billion oz of silver and the obligation to return the billion oz at some point in the future, price to be determined at the time of loan settlement by mutual agreement.

I continue to maintain that Bank of America is the fall guy and dummy in this transaction, but that will only be known in the fullness of time. In the interim, I would remind you that, to my knowledge, Bank of America has absolutely no prior institutional experience in precious metals, whereby if you donâ??t know that JPMorgan is the all-time master of all things precious metals, you still need to learn quite a bit. Maybe some really sharp hedge fund operators got the best of JPMorgan in the London Whale episode a decade ago, but Bank of America is not in the class of those hedge fund operators. Against JPMorgan, I canâ??t believe Bank of America stands much of a chance of coming out ahead.

I know many object to me calling Bank of America incredibly misinformed and dumb in this matter, but thatâ??s the way I see it. Certainly, if BofA has any such objections, it is free to counter what I claim. I would remind you that I am relying on public data in official government documents. I would also remind you that as soon as I started complaining vocally to the regulators and publicly, around yearend 2021, BofAâ??s OTC derivatives position suddenly stopped increasing in real terms for the first time in two years, suggesting this was the first time that BofA and the regulators realized the folly of what this bank was doing. As always, however, if anyone does have a markedly different take from mine, based upon the public record, please donâ??t hesitate to let me know, as disseminating incorrect information is the last thing I would want.

Of course, if what I suggest here is close to the truth (as I believe it to be), then this is incredibly bullish for the future price of silver (and gold). In combination with the ultra-bullish market structures on the COMEX, itâ??s hard for me to envision how it could get even more bullish â?? although that is something I recall saying in the past.

At weekâ??s end, the lower gold and silver prices reduced the 8 big COMEX gold and silver shortsâ?? total loss by $400 million to $7.3 billion, with all eyes on how we end on Thursday, the end to the second quarter and first half.

Ted Butler

June 25, 2022

Silver – $21.13Â Â Â (200 day ma – $23.39, 50 day ma – $22.44, 100 day ma – $23.53)

Gold – $1828Â Â Â Â Â Â (200 day ma – $1844, 50 day ma – $1867, 100 day ma – $1891)

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