June 3, 2020 – The Return of Precious Metals Leasing

I am going to describe something that, upfront, I know you will likely find far-fetched and will have trouble believing, even after you think it through. Nonetheless, I respectfully request that you persist in trying to grasp what Iâ??m about to describe because if you do you will come to understand something that took me ten years to grasp on my own.

I ask you to imagine that you own an apartment that you rent for income purposes. Your tenant, unbeknownst to you and without your permission, turns around and sells your apartment to an unrelated third party and pockets the proceeds of the sale. Of course, upon learning of this fraudulent transaction, you would take every legal means, including contacting law enforcement officials to undo and rectify the situation.

While Iâ??m sure you would agree that what I just described was so outrageous as to be almost unbelievable in its audacity, what I just described is how precious metals leasing works – with the exception being that the original lender and owner of gold or silver knows its metal will be sold to a third party and that the original owner will receive none of the sale proceeds, just a tiny rental income and a promise for the metalâ??s return someday.

Long-time readers know of my discovery of silver price manipulation by concentrated short selling on the COMEX around 1985, following a challenge from my now departed friend and silver mentor, Israel Friedman. Izzy had asked me to explain how silver could be depressed in price, to around $5 at the time, despite being in a documented physical deficit, where the world was consuming more silver than it was producing. It took me a year to come up with the explanation, and remarkably, that same explanation still applies today.

What long-time readers may be less aware of was my struggle to uncover, even after discovering the mechanism which depressed prices in the face of a physical deficit, how sufficient physical metal was coming to market to balance the deficit and sustain artificially low silver prices. Where it took me a full year to uncover the COMEX short-selling mechanism, it would take me more than a decade â?? ten long years â?? to uncover how enough physical silver was coming to market to satisfy the documented shortfall between production and consumption.

I wonâ??t get into the details, but this was a very trying time for me and, particularly my family, as I was, quite literally, consumed with the puzzle of how enough physical silver was coming to market in sufficient enough quantities to satisfy what was an obvious ongoing shortfall. I tried to put it out of my mind and go on with life in other ways, but just couldnâ??t â?? it was an enigma and intellectual challenge from which there was no escape. All along, I read and contemplated everything I could related to silver. Therefore, I knew it wasnâ??t plain vanilla selling from investors that was satisfying the ongoing physical silver deficit, but I couldnâ??t put my finger on what the actual source of the metal was.

Then in the mid-1990â??s, it dawned on me what the explanation was for the continued flow of physical silver that was coming to market in the face of super-depressed prices. I had been reading about the leasing and forward selling of gold and silver involving central banks, bullion dealers and mining companies, but like most people, I wasnâ??t quite sure what this leasing and forward selling was all about. Then one day, it all clicked in.

The central banks, with vast holdings of gold (and some holding silver as well) had been convinced by the Wall Street and London bullion banks to deploy a portion of their vast holdings which was just sitting in their vaults gathering dust. The central banks couldnâ??t just sell their gold and silver outright as that would require full disclosure, so the bullion banks hatched up a scheme circumventing straight sales of metals and convinced the central banks to lease their metal for a low interest rate. The central banks, relieved of the obligation of having to report the sale of their metal, were more than happy to physically part with the metal leased out in return for a paltry income under the reasoning that some return was better than no return.

Completing the scheme, the bullion banks then persuaded a number of large mining companies, like Barrick Gold and AngloGold to agree to forward sales, which in essence were agreements by the miners to receive the proceeds of the sale of the central banksâ?? leased gold and silver for promising to return the metal someday from future production at the then current price. In essence, the central banks rented their gold and silver (their apartments) for a small rental income and then watched as their metal was sold by the tenants (the mining companies) while the tenants pocketed the proceeds of the sale and promised to return the metal (apartments) someday â?? all overseen and guaranteed by the bullion banks (yeah, including JPMorgan).

While the whole precious metals leasing scheme was as cockeyed and fraudulent as Iâ??ve just described, it was also as real as rain for many years and allowed tens of millions of gold ounces and hundreds of millions of silver ounces to, in effect, be dumped on the market, keeping a lid on prices and balancing any physical deficit in silver. When I thought it through and discovered how wacky and fraudulent the whole business was, I did my best to alert everyone that what was transpiring was simply not only crazy but manipulative to gold and silver prices.

It was about that time that I became introduced to the Internet and the first or one of the first things I published on the Internet was a copy of a letter I sent to Alan Greenspan, Chairman of the Federal Reserve and Robert Rubin, US Treasury Secretary, about precious metals leasing 23 years ago. While I did receive replies from both Federal Reserve and Treasury officials, metals leasing persisted.

https://www.gold-eagle.com/article/letter-alan-greenspan

I also wrote to every regulator I could think of, including the SEC and CFTC, as well as Barrick Gold and its auditors, Price Waterhouse â?? all to no avail. Eventually precious metals leasing/forward selling blew up in the practitionersâ?? face, as it had to, with both Barrick and AngloGold losing $10 billion each and other mining companies many billions more because, essentially, this leasing was little more than undisguised and unlimited short selling. Leasingâ??s end ushered in and was largely responsible for the bull markets in gold and silver that lasted into 2011. However, it wasnâ??t that leasing died some type of dramatic death where the regulators came in and declared it as fraudulent â?? the players just lost too much money and it ended on an ignominious note â?? best forgotten and hopefully never to return.

So why have I subjected you to this walk down the memory lane of precious metals leasing? Because the beast has returned from the dead, only this time with a different purpose and intention. Before I get into whatâ??s driving the rebirth of precious metals leasing, please allow me the opportunity to explain why it is inherently fraudulent and why many canâ??t see the fraud. Again, Iâ??m not chastising anyone who canâ??t see it, after all, I just confessed that it took me a full decade to grasp it.

The main problem is with the word â??leaseâ?•. We all know what a lease is and it would be rare if any of us hadnâ??t been involved in renting or leasing a car or an apartment or in leasing an apartment or house to others. Leasing is an integral component of modern life and all manner of real estate as well as every type of train, plane, automobile or piece of equipment is leased regularly.

The underlying commonality of all these things is that they are useful assets that are expected to be constructively used and returned in time. Even where use results in wear and tear (cars, planes and equipment) as opposed to real estate, the lease payments would reflect that (as anyone paying extra mileage charges on a leased car would attest).

Now, think of a bar of gold and silver, neither of which are useful assets in the sense of the assets typically leased as indicated above. You canâ??t drive a bar of gold or live in a bar of silver. The only â??usefulâ?• purpose for a bar of gold or silver is to convert it into cash by sale or, in the case of jewelry or industrial consumption, to convert or destroy the bar. No one is going to borrow a bar of gold or silver simply to hold those bars and leave them intact. The only value to a bar of gold or silver is to sell it to someone else or convert it into some other form, essentially destroying the bar â?? but neither of those uses is consistent with our understanding of the word â??leasingâ?•.

Therefore, the whole concept of precious metals leasing is absurd. Once it dawns on you how absurd the concept is, then you can advance to understanding whatâ??s really going on, which is something entirely different from what one thinks when hearing the word leasing. About the closest true comparison of what precious metals leasing really represents is short selling in the stock market, where stock is borrowed from an owner and the borrower then sells the security to an independent third party. Because the borrower isnâ??t the real owner of the securities sold, the transaction is required to be recorded as a short sale.

But no such requirement exists in gold and silver when someone borrows metal to sell it short. Instead, the crooks on Wall Street have been able to disguise this clear form of short selling of precious metals by pulling a more cryptic term out of thin air â?? leasing. Moreover, while there are regulatory requirements regarding the reporting and governance of stock short sales, to my knowledge there is not a single regulatory agency even aware that precious metals leasing and short selling is occurring. Think Iâ??m kidding? Then ask the CFTC, the SEC or any US bank regulator who tracks and governs precious metals leasing/short selling. These are strictly private transactions between banks and reported to or governed by no one. Precious metals leasing/short selling is no more monitored or regulated than the $50 you might loan to a co-worker until pay-day.

That ends the general discussion and history of precious metals leasing, next up is its unfortunate return. Starting about two or three months ago, two highly unusual developments began to appear. One was a sudden, heretofore unexplained sharp discount of cash or spot physical gold and then silver to the lead month in COMEX futures trading. I had never seen such a sharp discount of cash to futures, which was particularly puzzling since all known developments suggested the opposite should be occurring, namely, that spot or cash prices should be selling at a premium to futures, not a discount. I believe I was clear in admitting to not being able to explain the phenomenon, as well as not uncovering any plausible explanation by others.

The next unusual development was the absolutely mind-boggling massive flow of physical metal into the worldâ??s metal ETFs, particularly in silver, and the tepid price response to a flow that had never been larger or quicker. Here, I was able to come up with the explanation â?? the leasing of metal, especially silver, by JPMorgan to other banks who borrowed the metal and sold it short, thus putting those borrowing banks even deeper into a short hole than they were previously.

Now I can add that precious metals leasing/short selling is also responsible for the first great imponderable â?? the sharp discount of spot of cash metal to COMEX futures. It took me a while, but at least not a year or decade this time. The only reason spot gold and silver have traded at a discount to futures is due to the dumping of physical metal that necessarily results from leasing. Further, the leasing all seems to be coming from JPMorgan.

Unlike the precious metals leasing of a quarter century ago, which featured central banks, bullion banks and mining companies, the current reincarnation of the absurd and manipulative practice involves just JPMorgan and the hapless banks JPM is hoodwinking into borrowing gold and silver and going short. At least thatâ??s my take. Having focused on JPMorgan for more than a decade, I am both appalled but not surprised by the audacity and brazenness of what has to be the biggest criminal ever to participate in gold and silver.

Of course, I am sending this article to JPMorgan, as well as the key officials at the CFTC and CME Group, but I also intend to make this article public so as to openly go on the record. I am torn about accepting payment from private subscribers while turning around and making public what you paid for, but I do feel it is in everyoneâ??s best interest to let all of this see the light of day. Besides, I rarely make public more than one of the 8 or 9 articles I publish each month.

Certainly, I solicit any and all disagreement with any of the contentions Iâ??ve made today. This whole matter needs public scrutiny and be made to cease if what I am alleging is true. And if I am falsely accusing JPMorgan of engaging in illicit and illegal activity, that needs to come out as well.

None of this should be interpreted in any way except as being very bullish to the future course of gold and, particularly silver prices. It explains why prices havenâ??t surged higher until this point, but promises to result in more pronounced advances in time.

Turning to other matters, the sharp selloff yesterday and today appears to be just another deliberate price smash intended to improve the market structure on the COMEX. Certainly, I detect the heavy hand of JPMorgan, but thatâ??s nothing new. One thing that does stand out to me is that over the past two days, the discount of spot silver process to futures has narrowed quite a bit. Does this suggest the intentional leasing (dumping) by JPMorgan is drawing to an end? Youâ??d have to ask those crooks yourself, as they donâ??t respond to me.

As far as what to expect in this weekâ??s COT and companion Bank Participation reports, I would imagine managed money buying and commercial selling in silver, given the rather sharp rally (as much as $1.25) at the price extremes during the reporting week, as well as the nearly 11,500 contract increase in total open interest. Iâ??m less sure in gold, despite the near $50 run up in price at peak levels. Total open interest in gold collapsed by close to 44,000 contracts, but that had much to do with the heavy deliveries so far in June. Open interest is extinguished on a contract for contract basis as deliveries are made.

As indicated previously, Iâ??ll be more concerned with the details, especially whether the concentrated short position in gold further contracted following last weekâ??s surprising short covering. No doubt there was substantial managed money selling and commercial buying today in gold, as the 50 day moving average was penetrated for the first time in 3 months, but this wonâ??t be reflected in Fridayâ??s reports.

As far as the financial standing of the 8 big shorts, the price weakness into today brought them measurable relief. At publication time, the sharp drop in gold and silver this week erased nearly $1.2 billion from the combined open and realized loss of $7.8 billion as of Fridayâ??s close ($700 million in realized losses and $7.1 billion in open losses). The combine figure as of publication time was $6.6 billion ($700 million realized and $5.9 billion in open and unrealized losses).

Ted Butler

June 3, 2020

Silver – $17.96Â Â (200 day ma – $17.01, 50 day ma -$15.78)

Gold – $1701Â Â Â Â Â Â (200 day ma – $1572, 50 day ma – $1705)

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