

March 25, 2020 – Cutting Through the Fog

Having already used “Strange Days” as a title a few years back, I’ve picked a new title today; but these days sure are uncertain and strange. I’m sure it’s not an exaggeration to say this holds true for everyone. Not to minimize the overall strangeness that is bombarding us all in every possible aspect of our lives, courtesy of the coronavirus pandemic, I’ll confine my remarks to the strange days we are witnessing in gold and silver. It’s also no exaggeration to say I’m seeing things in gold and silver I’ve never witnessed before, that quite frankly I thought were impossible.

Let’s start with the matter of pricing. Over the past few days, we are being given price reports that I believe can’t possibly be true. To wit, popular price services have been reporting that spot or cash gold prices are trading at extreme price discounts to the nearest active COMEX contracts of as much as \$50. In other words, physical gold is \$50 cheaper than the most active COMEX April futures contract, which begins delivery within a week. (Actually, the cash discount applies to the March contract which is still open for delivery for another day or two).

At the same time, the spreads or price differences between the nearby months in COMEX gold and silver futures tightened noticeably yesterday and appear to be tightening further in overnight and regular hours trading so far today. This suggests a move towards backwardation, a price configuration which appears in times of physical shortage. That the move towards backwardation is occurring at the peak of the April rollover is particularly notable (I’ll update the status of the spreads when I send this article out later), because it favors the longs which get a big break on the rollovers, something not usually the case.

The reason for the tightness or move towards backwardation in COMEX gold and silver futures is the well-advertised physical tightness presently being experienced, on both a wholesale and retail basis. Physical metal deposits into the big gold and silver ETFs have surged over the past two days, with close to 10 million additional ounces being deposited into the big silver ETF, SLV, (following last week’s 20 million oz deposits) and nearly 900,000 oz being deposited into the big gold ETF, GLD. On the retail side, sales of Gold and Silver Eagles from the US Mint have literally exploded and reports from the retail front indicate almost insatiable demand, delivery delays, lack of adequate supplies and growing premiums.

Therefore, it’s no surprise that the move towards backwardation on the COMEX is occurring. But what makes no sense at all is the published big discounts of spot or cash metals prices, particularly gold, from COMEX futures. Craziest of all is that the stories reporting on the cash physical discount to COMEX futures are dutifully giving the growing physical shortage as the reason for the discount. Huh? It makes absolutely no sense for the item that is in a shortage (physical) to be priced at an extreme discount to that which is not in a shortage. There is no shortage of COMEX gold or silver futures and for immediately available physical metal (of which there is a shortage) to be priced cheaper than futures is impossible.

As an old spread trader, specializing in carrying charge spreads, there is a firm limit as to how much a commodity that is re-deliverable can trade at a discount to a futures contract where the commodity can be re-delivered. Gold and silver are such commodities and I would guess the monthly cost to carry gold to be no more than a couple of dollars (based upon interest rates and storage costs). If physical gold

could be bought and re-delivered at any deeper discount than a couple of dollars, to say nothing of discount of \$50, such an arbitrage opportunity would be jumped at. Quite literally, if physical gold could be bought at a \$10 or \$20 (or more) discount to futures, every dollar of arbitrage money from this world and outer space would rush to take advantage of a no-risk and guaranteed profit opportunity.

My conclusion, therefore, about the widely indicated "discount" of physical gold to COMEX futures contracts is that such a discount does not exist and the price quotes suggesting it does exist are bogus and not to be believed. Further, while on one hand I'm somewhat surprised so many (including an outfit like Reuters) would accept the bogus price quotes and discuss them as valid, I guess does show the power of price quotes, in that most accept the prices being quoted as valid without bothering to think things through.

It is this same mesmerizing influence of the price always being correct no matter what that has enabled the COMEX silver and gold manipulation to last for decades and for JPMorgan to have acquired the massive amounts of physical gold and silver all while suppressing prices through COMEX short sales which signaled to everyone not to buy gold or silver for nearly a decade.

This is not to say there aren't logistical impediments causing some dislocations in the normal COMEX delivery process, but it is impossible for physical gold and silver to trade at a severe discount to futures months which can be delivered into. Anyone could buy physical metal and deliver at a guaranteed profit with no risk if the actual physical were available for purchase. The price may say the physical metal is available but common sense says it isn't and all the convoluted stories suggesting otherwise are just as bogus as the price feeds. Most ironic of all, is that it is the paper COMEX metal that is supposedly trading at a big premium to physical metal (if you believe the price quotes). Who would have thunk it?

So what's really going on in gold and silver? I'm sure lots of things are changing day to day, but some things remain constant. More than ever, it's necessary to rely on the facts that can be verified and to remain leery of that which cannot be verified. While it may sound like a contradiction from my long-standing allegations of manipulation on the COMEX, when it comes to comparing the COMEX to the LBMA in terms of legitimate data, the COMEX is akin to Mother Theresa where the LBMA is of ill-repute. I wouldn't trust anything coming from the LBMA because none of its data are transparent or documentable, whereas the data on the COMEX are transparent. The COMEX may be crooked, but at least it provides accurate data showing it is crooked. The LBMA? Not so much.

Therefore, stories emanating from the LBMA offering to help the COMEX in terms of relieving a physical delivery crunch are not believable to me. Perhaps I'm clinging to something others don't see, but I question my findings constantly and solicit any criticisms of them from all. I still believe the story is centered on the 7 or so big shorts in COMEX gold and silver futures.

As of Friday's close, these big shorts had completely eliminated the \$7.2 billion in open losses they held as a result of a two week price collapse of historic proportions, in which gold fell as much as \$200 (12%) and silver by a mind-boggling \$5 (30%). But, as I reported on Saturday, the big 7 closed out relatively little of their total net short position in COMEX gold and silver, as other traders, including JPMorgan and the raptors (the smaller commercials), including traders in the speculative categories bought aggressively.

This left open the possibility that the 7 big shorts would then buy back and cover their open short

positions at lower prices, booking profits or something else. The "something else" was the possibility the 7 big shorts wouldn't be able to buy back their short positions at lower and profitable prices, but would instead get hooked to the upside (double crossed by JPMorgan and others). I pointed out that it looked like the 7 big shorts might get hooked and double crossed due to the large amount of managed money long liquidation that had already occurred.

It is possible that more big 7 short covering occurred in the reporting week that ended yesterday, particularly during the early days of the reporting week when gold and silver made new price lows, but prices turned around to move higher into yesterday's cutoff. As such, I don't feel comfortable predicting what Friday's new COT report might indicate, but will be absorbed in deciphering the details.

While I'll adjust the big 7's short position accordingly when Friday's new COT report is published, using the data as of last Tuesday, the rally on Monday and Tuesday increased the total combined open loss to the big 7 to about \$4 billion from zero on Friday. Clearly, the dollar loss swings are extreme, so extreme as to continue to suggest to me that this is still the central issue, as I have maintained since last summer. I'll be sure to update the big 7's total open loss when I send this missive out later.

Witnessing the predicament that the 7 big shorts are still in and the fact that they didn't cover more of their shorts on the price plunge that occurred through last week, I think it only fair to conclude that the recent severe price plunge was not principally orchestrated by the big 7. Yes, they did see more than \$7 billion in open losses get evaporated on the price plunge, but they certainly didn't appear to take advantage of it in terms of buying back many more shorts and getting themselves off the hook. I think it reasonable to conclude that those traders which did take advantage of closing out shorts and adding longs (certainly including you know who) were the principle architects of the price plunge.

And while I may be clinging to a premise I've maintained for quite some time, I think the recent price plunge (and snap back) fits like a glove to the COMEX positioning sets the price argument. The net result of the severe price plunge was to cause selling by weak hands and buying by strong hands. As far as weak hands in gold, in addition to the managed money traders holding their lowest long position since the rally began last summer, the smaller non-reporting traders are also at close to their lowest long positions since then. On the strong hands side in gold, in addition to the other large reporting traders holding a record long position, JPMorgan's short position is very much on the low side.

In silver, the setup is largely the same as the weak hands, including the managed money traders hold a gross long position that is the lowest in a couple of years, with the smaller non-reporting traders also holding their lowest long position over that time. On the strong hand side of silver, in addition to JPMorgan holding one of its lowest short positions over the past decade, the other large reporting traders hold their largest long position in more than a year. These things don't happen by accident or happenstance.

Therefore, I find it glaring that the 7 big shorts didn't participate more in the strong hand buying on the price plunge in both gold and silver. And when one looks at a chart, the sudden plunge in prices that just happened to downwardly penetrate the 200 day moving average in gold for the first time in nearly 2 years looks highly suspicious. In silver, the depth of the price plunge below its 50 and 200 day moving averages looks more severe than any on record.

Most suspicious of all is that the dramatic price plunges in gold and silver occurred precisely at the same time when world markets started to react to the coronavirus pandemic and a growing rush to safety that coincided with the start of the growing physical silver and gold shortage. What I'm saying is that the price plunge was rigged and orchestrated by those that bought heavily into it, led by JPMorgan. By definition, I have to exclude the 7 big shorts from the deliberate price smashers, since they hardly took advantage of it in terms of buying back short positions. Maybe that will change a bit in Friday's COT report, but we'll read the data and conclude appropriately.

What I am saying is that considering the extensive and deliberate positioning change caused by the dramatic price plunge, the path to higher prices appears cleared and set. And not only is the COMEX market structure pointing to higher prices, in my opinion, we now have the tailwind of a developing physical rush.

So far, at least, we have the makings of a V-shaped rally in gold and silver, since the price plunge has been met with a very sharp price rally. In gold, the sudden and precipitous plunge below both its 50 and 200 day moving averages has been completely reversed in quicker time by the \$200+ rally of the past few days that penetrated the moving averages to the upside. Silver has yet to come close to re-penetrating its 50 and 200 day moving averages to the upside (both around \$17), but it has rallied more than \$3 from the depths of its price lows late last week. Based upon market structure considerations, both gold and silver have a great deal to go to the upside.

In addition, there is a measure of good news in the abject lack of regulatory involvement into what was one of the most egregious and deliberate COMEX-caused price smashes in history. Seeing how the CFTC stood by with their thumbs in their mouth (or elsewhere) while prices collapsed for no good reason (other than manipulation), it seems highly improbable it can say squat if, as and when prices surge. And as hard as it seems to imagine, despite the \$2+ rally in silver so far this week, silver prices are still an incredible \$4 below prices of a month ago. What, is the CFTC going to start looking for evil longs manipulating prices higher if we get back to month ago prices (amidst a bona fide physical shortage)?

As the trading day wore on, the intense tightening in the COMEX gold spreads eased quite a bit into the close of the day session, although the tightness did persist and the spreads closed tighter than they did yesterday in both gold and silver.

In somewhat of a new twist, it would appear that silver has contracted today a bit of the mispricing bug that has plagued gold in that spot prices appear to be trading below the active May contract, which means the mispricing bug is now appearing in silver. Many were quick to come up with the plausibly-sounding (but meritless) excuse in gold that it had something to do with there being plenty of 400 oz gold bars in London, while the COMEX calls for 100 oz gold bars. Wonder what they'll come up with in silver, where 1000 oz bars are standard grade everywhere?

As far as I'm concerned, I think everything is connected to the growing recognition by the 7 big shorts that they are trapped and about to get scalped. I believe this also accounts for the intraday price volatility as liquidity seems to have dried up and existing positions are being closely held in preparation for what I believe will be a large up move ahead.

Based upon the prices at publication time, the 7 big shorts still seem to be holding about \$4 billion in

combined open losses in COMEX gold and silver, up from zero losses as of Friday's close. It's still my contention these big shorts are in for a world of hurt ahead.

Ted Butler

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Silver – \$14.67 (200 day ma – \$17.00, 50 day ma – \$16.91)

Gold – \$1637 (200 day ma – \$1504, 50 day ma – \$1586)

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