

March 26, 2022 – Weekly Review/Beyond Shocking

Following the sharp losses of the prior week, gold and silver prices partially snapped back, with gold ending the week up \$37 (1.9%) and silver finishing higher by 62 cents (2.5%). The slightly stronger relative performance of silver resulted in the silver/gold price ratio tightening to 76.1 to 1.

While there was no shortage of significant developments this week, yesterday's release of the quarterly derivatives report from the Office of the Comptroller of the Currency, which indicated yet another stunning increase in the OTC precious metals derivatives position of Bank of America appeared to top the list and I'll review the results separately in a bit.

It's still a bit surreal in trying to focus on the usual precious metals' developments, what with the human suffering and destruction occurring in the horrific war in Ukraine, but this is not a political news service and I'll focus on silver and gold. One thought I will bring is that there is much discussion about the fate of Russian gold reserves and whether the war and economic sanctions will result in sales or even additional purchases, in the event of a gold-backed ruble.

Time will indicate what it will be, but in the interim, I would point out that no such government-owned sales appear in the cards for silver, since there wouldn't appear to be any government-owned stockpiles of silver – only gold. Some may point to the JPMorgan stockpile of silver, but that's not the same situation as exists in gold (where most central banks own gold) and goes to the question of who's the boss of who – JPM or the USG? One thing's for certain – silver is so cheap that any bulk sale would hardly raise an amount of money remotely resembling the amount of money that significant gold sales would raise. And yes, I consider this a potentially bullish distinction for silver versus gold.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses this week remained slightly below the weekly average of the past 11 years, as 4 million oz were moved this week. Total COMEX silver holdings fell again to new lows going back to Aug 2020, as this week's decline of 2.6 million oz brought total holdings down to 340.3 million oz. No change in the holdings in the JPMorgan warehouse, which remained at 180.2 million oz.

Gold holdings in the COMEX warehouse system increased again, this week by 0.2 million oz to 34.4 million oz, the highest level since last August. Gold holdings in the JPMorgan COMEX warehouse accounted for most of the total increase as these holdings increased to 13.96 million oz. It still appears to me that gold inventories are increasing ahead of next week's start of the April gold deliveries.

In ETF flows, more than one million ounces were added to the gold ETFs this week, mostly GLD and the same would have occurred in the silver ETFs, were it not for a very large and unusual redemption of 14 million oz in the Deutsche Bank silver ETF. I'm not sure if this was a reporting error, since it was equal to a quarter of the holdings in that ETF, but it certainly doesn't look like a plain-vanilla sale and more like a strategic rearrangement of some type. It has been good to see recent notable deposits into the Sprott silver ETF, PSLV, following at least six months of no new deposits.

The new short report on stocks indicated a fairly sharp rise in the short position on SLV of nearly 4 million shares to 37.25 million shares (ounces), as of March 15, about a million shares/ounces less than the peak set last fall.

<https://www.wsj.com/market-data/quotes/etf/SLV>

While the short position on SLV did grow, I had visions of a potentially much greater increase on the order of as much as 15 to 20 million shares, given what I had estimated to there being as much as 30 million oz owed to the trust as a result of the extraordinarily large trading volume on the price rise over the reporting period. Further, I believe the moderate increase in the short position on SLV confirms my recent take that interests connected to JPMorgan had resorted to selling (previously owned) shares of SLV to prevent silver prices from soaring and, effectively, bailing out the shorts.

About 10 million oz of silver did get deposited into the trust, which combined with the 4 million oz increase in the short position equals about half of the 30 million oz I estimated was owed to the trust and suggesting that the sale of previously-owned shares accounted for the difference. Combined with the 17 million oz delivered by JPMorgan in its house account in the March COMEX deliveries, the sale of close to 15 million oz of previously-owned shares of SLV, kept silver prices in check.

This does raise the question, as some subscribers have asked, as to whether JPMorgan intends to keep silver prices suppressed indefinitely. There's no way of knowing the answer at this point, but I am inclined to think that this is a temporary maneuver by JPM, rather than a long-term plan. I base this on the fact that it's hard to imagine JPMorgan going to the time and trouble of accumulating the 1.2 billion ounces of physical silver I claim it acquired over the past decade (along with 30 million oz of physical gold) in order to suppress the price indefinitely. That's not how these greedy pigs usually operate.

In addition, if JPMorgan continues to subsidize the increasingly obvious physical shortfall in silver, I think that will be hard to disguise. I would remind you that such continued supplying of silver is inherently illegal as any such sales could easily be shown to be manipulative, since the purchase or sale of any commodity for the purpose of influencing price is in violation of the core of US commodity law.

Turning to yesterday's Commitments of Traders (COT) report, we did get the improvement (commercial buying and non-commercial, mostly managed money, selling) expected in fact, a bit more than expected, hinting that last week's report may have been understated. After all, there were much larger price drops in the prior reporting week, than in the week just reported, yet greater position changes this week. Of course, it's hard to classify the resultant market structures in gold and silver as being bullish, despite the two-week improvement.

In COMEX gold futures, the commercials reduced their total net short position by 15,800 contracts to 281,600 contracts. By commercial categories, the 4 biggest shorts accounted for 5500 contracts of the short covering, reducing the big 4 short position to 179,137 contracts (17.9 million oz). The next 5 thru 8 largest shorts bought back around 2500 shorts and the big 8 short position fell to 269,915 contracts (27 million oz). The raptors (the smaller commercials apart from the big 8) bought back 7800 contracts, reducing their short position to 11,600 contracts. It was a thoroughly collusive commercial affair, as is most often the case.

On the sell side of gold, it was largely, but not exclusively, a managed money affair, as these traders sold 11,405 net contracts, comprised of the sale and liquidation of 13,008 longs and the buyback and liquidation of 1603 short contracts. Net selling of close to 2000 contracts by the other large reporting traders accounted for most of the difference between what the commercials bought and the managed money traders sold. No change in the gold whale's position still locked around 40,000 contracts.

In COMEX silver futures, the commercials reduced their total net short position by 3000 contracts to 64,600 contracts. As was the case in gold, it was mostly a collusive affair, as the 4 biggest shorts bought back around 1200 contracts, reducing the big 4 concentrated short position to 51,611 contracts (258 million oz). The big 5 thru 8 bought back 100 short contracts and the big 8 short position fell to 73,064 contracts (365 million oz). The raptors were the biggest buyers, in adding 1700 contracts to a net long position amounting to 8500 contracts.

On the sell side of silver, it was mostly a managed money affair, as these traders sold 4225 net contracts, consisting of the sale and liquidation of 4631 longs, as well as the buyback and liquidation of 406 short contracts. Net buying by the other large reporting traders and smaller non-reporting traders balanced the equation. No change in the silver whale's long position of around 15,000 contracts.

While the reduction of the total commercial net short positions in COMEX gold and silver of roughly 25,000 contracts in gold and 5000 contracts in silver, over the past two reporting weeks is welcome, the respective short positions had grown by 105,000 contracts in gold and 37,000 contracts in silver to the recent peak in prices leaving, potentially, a lot more liquidation ahead. One potential bright spot is that the concentrated short position of the 4 largest silver shorts is now less than 5000 contracts of the net 32,000 contract increase in the total commercial net short position. (In gold, the big 4 still account for 39,000 contracts of the net 80,000 contract increase in the total remaining commercial net short position).

Therefore, the conventional and historic market structure analysis still calls for a resolution to the downside, as does this Thursday's close to the first quarter. It is a resolution I am largely ignoring personally for a number of reasons, but nonetheless is something possible, if not probable. Since I first started compiling the status of the big 8 COMEX gold and silver short position in June 2019 (when JPMorgan was still a card-carrying and leading member of the big 8), there have been 6 quarter ends (leaving out June 30, 2019 and the quarter to end this Thursday). Of those six quarterly finishes, three have resulted in substantial price selloffs, while the other three quarters ended non-conclusively.

The worst quarterly finish for the big 8 was the end of the fourth quarter and yearend of December 2020, when the big 8's total loss was \$14 billion (and JPM was no longer a member). Since then, the four subsequent quarter ends (thru Dec 2021) have seen big 8 total losses ranging between \$8

and \$10 billion, with this past December quarter end at \$9.5 billion. With 4 trading days to go before the first quarter's end on Thursday, as result of the price gain this week, the big 8's total loss, as of yesterday's close, stands at \$13.4 billion. Unless the big shorts succeed in smashing gold and silver prices in the days ahead, to say nothing about an increase in prices through Thursday, the 8 biggest COMEX gold and silver shorts are looking at the largest mark-to-market losses at quarter's end in more than a year and, possibly, ever — should prices end higher by next Thursday.

Perhaps I'm not looking at this correctly, but financial institutions, as opposed to individual traders, are more concerned with mark-to-markets at quarter end. Even the managed money traders, which mark-to market regularly, wouldn't seem to be terribly concerned with this coming quarter's end — as much as the big mostly bank shorts on the COMEX. (By the way, the managed money traders have done particularly well in the first quarter on a variety of trending markets, notwithstanding the situation in LME nickel). Therefore, I still consider quarter ends, particularly the one this week, to be most important to the 8 big COMEX gold and silver shorts. It will also speak volumes if the big 8 fail in their attempt to smash prices by Thursday

Beyond Shocking

The new Office of the Comptroller of the Currency's Quarterly Derivatives Report was released yesterday for positions held as of Dec 31, 2021. The report covers Over-The-Counter derivatives positions, including precious metals derivatives held by US banks, meaning the listed futures and options contracts on the COMEX are not included in this report. Unlike the COT report, which never identifies traders by name, the OCC report does name the top four US banks in each category (where applicable).

I started focusing closely on the OCC report a year ago, when it became obvious that Bank of America had suddenly started to build a massive position in precious metals derivatives, which according to the OCC, only includes positions in silver, platinum and palladium — meaning that gold positions are not included (gold positions have been included in the much larger foreign exchange category since 2016). Generally speaking, it is thought silver makes up most, if not all of the precious metals' derivatives positions in this report.

The prior OCC report, for positions held as of Sep 30, 2021, indicated a shocking increase in Bank of America's precious metals derivatives position of \$8 billion to \$18.266 billion, an unprecedented increase. The new report indicates an even larger increase in BofA's precious metals position of \$9 billion to \$27.32 billion. (Table 21 on page 26).

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

As I have previously explained, the OCC reports derivatives positions by total notional dollar amount, with no indication as to whether the positions are net long or short or how much of the precious metal category is silver or includes platinum and/or palladium. Using closing prices as of the date of the report will convert the notional dollar amount into ounces of precious metals. As I explained in —More

Serious Than I Thoughtâ?•, converting the Sep 30, 2021 figure of \$18.266 billion into equivalent ounces of silver indicated that if BofAâ??s entire position was in silver, then some 800 million oz of silver was involved (I believe on the short side), but I was open to a clarification of the matter by the OCC (a division of the US Treasury Dept) or Bank of America â?? a clarification still not forthcoming.

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

The new report, for positions held as of Dec 31, 2021, indicates an even larger increase in Bank of Americaâ??s precious metals derivatives position of just over \$9 billion, to \$27.32 billion. (The new report also indicates a sharply increased position for Goldman Sachs of \$4.81 billion, up from less than \$1 billion in the prior quarter). Using \$23.35 as the closing price of silver on Dec 31, BofAâ??s position, were it exclusively silver-related, would equal 1.17 billion oz of silver. (And if Goldman Sachsâ?? position was all silver, it would equal 200 million oz). Â Even if there were platinum and/or palladium derivatives included, my previous contention that the prior quarter suggested that BofA was, effectively, short 800 million oz, suddenly seems much more realistic now.

Other features of the new report indicate JPMorganâ??s position of \$28.2 billion was largely unchanged when adjusting for the slightly higher silver prices over the quarter and that the decline in Citibankâ??s position suggests it woke up to what was occurring and may be trying to beat it out of silver town.

One of the most shocking features of the new report is that Bank of America is now within a whisker of being the largest US bank precious metals derivatives holder from, quite literally, holding zero precious metals derivatives positions as recently as just over two years ago. In fact, over the 21 months into Dec 31, 2021, BofAâ??s OTC precious metals derivatives position has increased by an astounding 158 times or 15,800%, from \$173 million to \$27.32 billion. Â In terms of such an extremely large increase in any derivatives category, there has never been anything like this in OCC reporting history.

As I have maintained all along, perhaps Iâ??m mistaken in concluding, based also upon the public data showing unprecedented inflows of physical silver (and gold) starting in the spring of 2020 into the ETFs and into the COMEX warehouses, that BofA was involved in a massive precious metals lease/short sale and is, therefore, short silver (and gold) in the OCC report. Thatâ??s still the case and the only entities that can set the record straight (if Iâ??m wrong) is the OCC or Bank of America â?? with both entities refusing to speak up to date.

About the only good thing (and I do believe it is a very good thing) about the new and even more shocking report is that the OCC has not attempted to lie or deceive in this new report. I did hold some private fears that the OCC might try to â??fudgeâ?• the numbers in this new report and, while I was not necessarily expecting an increase, particularly such a shockingly large increase, at least no possible allegations of deliberate misreporting can be raised. Separately, I feel the same way about COT report data. And while I still believe the CFTC and now the OCC have not reacted as they should have to the data both provide; I grow weary of those who insist everything from the US Government is not to be trusted.

I have no reason to question the data reported in the COT report or in the OCC report – my gripe is that both indicate something being very wrong, yet the regulators in each case ignore what is obvious. The reason the CFTC tracks and reports concentration data is because when concentration becomes extreme, the likelihood of manipulation becomes front and center. The fact that COMEX silver has had

the largest concentration on the short side of any commodity (and for decades) in real world terms is prima facie evidence of a short side price manipulation.

In the case of the OCC reporting the truly shocking increase in Bank of America's precious metals derivatives position - why bother to compile and report the data if it is not going to do anything about it when the data goes off the chart? In a previous email exchange with the OCC back in January, I made the analogy that if the OCC was the NORAD missile defense system, it failing to do anything about the shocking and unprecedented increase in BofA's position was akin to the computer watchdogs at NORAD ignoring a radar screen full of incoming missiles. Why bother monitoring for such things if you end up doing nothing when the sirens are screaming and all the red lights are flashing?

In the case of the OCC and its monitoring of derivatives positions of the US banks, the purpose is to identify positions that may signal potential trouble at individual banks and, most importantly, to the financial system itself. Suddenly, along comes Bank of America, with no known history of dealing in precious metals on its own behalf (and operating under a deferred criminal prosecution agreement with the Justice Department for precious metals spoofing at its Merrill Lynch unit) and within two years it is tied with JPMorgan as the leading holder of precious metals derivatives. WTF?

Instead of jumping on this like white on rice, the OCC sticks its head in the ground, pretending there is nothing to see. Nothing to see? If Bank of America is, in fact, short a billion ounces of silver (and 30 million oz of gold), as its new report may suggest, then a run up in prices could easily bankrupt the second largest bank in the US, requiring a gigantic taxpayer bailout. That, I would submit, is a heck of a lot more than nothing to see. Again, if there's a simple alternative explanation for Bank of America's activities (now along with Goldman Sachs), then the OCC and/or BofA should have already provided that alternative explanation. Time's a wasting.

Again, while I am forced to speculate at times, all my analysis and allegations are largely based upon the regulators' own public data. That has been my history in silver (and gold) - relying on public data to answer the most unusual case of explaining why silver is so darn cheap in the face of actual supply/demand statistics that would argue for substantially higher prices. I do intend to try and force the OCC into answering via elected representatives.

Ted Butler

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Silver – \$25.72 (200 day ma – \$24.10, 50 day ma – \$24.29, 100 day ma – \$23.76)

Gold – \$1957 (200 day ma – \$1818, 50 day ma – \$1887, 100 day ma – \$1847)

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