March 7, 2020 – Weekly Review

On the heels of one of sharpest weekly selloffs in the prior week (with gold down $60 and silver by $1.80), gold prices roared back by gaining $88 (5.5%) and silver by a less impressive 69 cents (4.1%) on the week. For gold, it was the highest weekly close in 7 years. Of particular note was that both gold and silver prices sold off sharply early Friday, only to recover the steep intraday losses, a price pattern practically unheard of until very recently.

The continued relative outperformance of gold compared to silver pushed the silver/gold price ratio wider yet again, this time by more than a full point to just over 96.5 to 1, yet another new record, effectively, since man first walked the earth. What gives with goldâ??s pronounced relative strength or, conversely, silverâ??s continued relative weakness?Â Before I tell you what it is, let me tell you what it is not. It is not the dumping of silver in order to buy gold. Considering how many ounces of silver it takes to equal one ounce of gold, itâ??s almost absurd to think that is occurring in the slightest.

I donâ??t think the widening price ratio even has anything to do with the intentional buying of gold and selling of silver on a highly leveraged margin basis on the COMEX, because that will prove to be a dumb trade, even if the ratio continues to widen. If one is convinced gold is going higher (including me), then just buy gold â?? why complicate the trade by selling silver short? Is there anything of substance to be gained by shorting silver at current price levels? I know the COMEX may give a margin break of sorts on the spread versus an outright long position on gold, but so what? What real downside protection does silver offer when it is priced at or below its marginal cost of production and the cheapest it has been to gold in thousands of years?

So what accounts for silver being dirt cheap relative to gold? Exactly the same thing that accounts for the absolute price levels of each metal, namely, futures positioning on the COMEX. Yes, Iâ??m well-aware of the major issues of the day, including a developing worldwide pandemic, economic uncertainty, wildly fluctuating stock markets and declines in interest rates never before experienced. It would be impossible not to be aware of such things. But more than ever, the near sole driver of gold and silver prices is futures contract positioning on the COMEX. And more specifically, the positioning that is directly tied to the fate of the seven big shorts in COMEX gold and silver futures and the unusual role of JPMorgan.

Case in point – last weekâ??s near epic decline in silver prices is more than fully explained in yesterdayâ??s new COT report (which coincided with the decline), as more than 32,700 net silver contracts were dumped by the managed money traders, in response to JPMorganâ??s and the other commercialsâ?? rigging lower of the price. Thatâ??s the equivalent of more than 163 million oz of silver being dumped on the market â?? nearly two and a half months of world mine production, the most intentionally induced selling in history. How could silver prices not collapse under the onslaught of such deliberately induced selling?

Iâ??ll get into the details of yesterdayâ??s historic silver COT report momentarily, but unlessJPMorgan and the other commercials can induce continued managed money selling, silver priceswonâ??t continue to decline and are now much better positioned for higher, not lower prices. As for the silver/gold price ratio, it will decline sharply when the deliberately induced selling on the COMEX is completed and that turn is at hand, or close enough for all practical purposes.

As far as the all-critical matter of the fate of the 7 big shorts, the $2.5 billion reprieve they enjoyed last week on the sharp plunge in gold and silver prices, was erased this week nearly to the dollar and they are back to being $7.2 billion in the hole or more than $1 billion each on average. I know $7.2 billion may not sound like much when compared to the tens and hundreds of billions of dollars emanating from the Federal Reserve in repo transactions or the trillions of dollars that have vanished in stock market valuations in less than a month, except for two things.

One, it was an open loss of one or two billion dollars that caused the failure of Bear Stearns (unless anyone has an alternative explanation for why Bear failed on the same day gold and silver prices hit their highs in 2008). Two, $7.2 billion is more than double the previous record financial hole the big shorts were underwater in 2016 and almost double the yearend market to market loss of $3.8 billion, the largest in history. Yes, I know no bodies have floated to the surface yet, but unless losses and margin calls no longer matter in this world no matter how large they grow, bodies are bound to surface sooner or later. And yes, JPMorgan is now better positioned for a double cross than it has ever been.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 5.7 million oz this week, slightly above the weekly average of the last 9 years, meaning more than 2.2 billion oz have been physically moved in and out from the COMEX silver warehouses since 2011, even though there appears to have been some sort of law passed that no one is allowed to comment on it. Total COMEX silver inventories fell a slight 0.6 million oz from last weekâ??s record level to 323.1 million oz. There was a very slight 31,000 oz removed from JPMorganâ??s COMEX silver warehouse, reducing the inventories there to a rounded 160.8 million oz. Best I can guess on the slight drop is that it might be related to settling a bet on a basketball game or for expenses for an employee party.

There was a very large deposit in the big gold ETF, GLD, of more than 677,000 oz. Thatâ??s the dollar equivalent of more than $1 billion. I donâ??t have any special insights, except to note that trading volumes in GLD have been very large for weeks as gold has advanced in price and the most plausible explanation is that there has been a large infusion of net investment buying in GLD, and as mandated by the trustâ??s prospectus, physical metal must be deposited to match the net new investment buying. Investors have always been endowed by a collective gene to buy any and everything as prices advance and that seems to be in play in gold. That collective investment gene also exists in silver and when silver prices do rise, the impact of the gene will prove much more dramatic to price given how little physical silver exists to match up with the expected buying in SLV and other silver ETFs.

Turning to yesterdayâ??s Commitments of Traders (COT) report, I had expected substantial net poisoning changes, featuring massive managed money selling and commercial buying, given the sharp price declines and tumbling total open interest in both gold and silver. I was also keenly focused on how many short contracts JPMorgan bought back, as I attributed the sharp price declines as being orchestrated by the bank.

Simply put, my expectations were fully met in silver, but fell somewhat short in gold. A postmortem review of the data left me convinced the data were correct and highly encouraging, particularly for silver.

In COMEX gold futures, the commercials reduced their total net short position by 24,600 contracts to 351,000 contracts. At first, I was somewhat disappointed that more commercial net short contracts werenâ??t bought, seeing as the total level of commercial shorts is still deeply in extremely bearish market structure territory. But then I realized this has largely been the same story for going on ten months and after all that time youâ??d think I would have been more in tuned and less surprised at this weekâ??s results. The same story, of course, is the continued reluctance of the managed money traders to sell contracts on gold price selloffs.

Since it would take massive managed money selling to enable the commercials to buyback massive numbers of their short contracts, itâ??s important to put the horse ahead of the cart. No massive managed money selling means no massive commercial short buybacks. The big commercial shorts, including JPMorgan, did buy back whatever shorts the managed money selling afforded them, but not to impressive levels. JPMorgan did buy back around 4000 contracts, reducing its gold short position to 40,000 contracts (4 million oz). The 8 big shorts (including JPMorgan) accounted for more than 80% of the total commercial buying, in buying back 20,000 net gold contracts. (For those compiling the running results of the big 7, Iâ??m calculating their total net short position as 252,000 net contracts or 25.2 million oz).

The 7 big shorts may have booked some realized losses, but not that much since they didnâ??t buy back all that many shorts overall (16,000 contracts, excluding JPM). And I wouldnâ??t fret about JPMâ??s short position being larger that I was hoping for. After all, the 25 million oz of physical gold that I believe the bank holds (at a minimum) indicates an open profit of nearly $12 billion at yesterdayâ??s close. For all intents, JPMorgan has already double crossed the other big commercials, whether those other commercials realize it or not.

On the sell side of gold, the managed money traders sold much less than the commercials bought, as these traders sold â??onlyâ?• 15,485 net contracts, comprised of the sale of 20,297 long contracts and the buyback of 4812 short contracts. The difference between the managed money selling and commercial buying was the large amount (nearly 8500) of net selling by the smaller non-reporting traders, which has to be considered bullish. The resultant managed money net long position of 215,361 contracts (242,921 longs versus 27,560 shorts) is still extremely large and, prior to this past June, thought to be as extremely bearish as the large commercial net short position.

But that has certainly not proven to be the case since June, as the gold managed money traders have, essentially, refused to sell on commercially-arranged price selloffs. On the sharp gold selloff during the reporting week, prices only touched the 50 day moving average before bouncing and only came within a hundred dollars of the 200 day moving average, so I suppose the case can be made that gold didnâ??t fall sharp enough for the managed money traders to be truly tested. Then again, gold did trade consistently below its 50 day moving average from the beginning of October through mid-December, without big managed money selling.

Iâ??m more inclined to believe that the 7 big shorts failed to rig the gold selloff they desperately needed to avoid financial ruin and Fridayâ??s snap back rally was a further indication of that coming

ruin. Iâ??m particularly mindful of the lack of an overall increase in total open interest since the Tuesday cutoff, including yesterdayâ??s highly unusual big drop (20,000 contracts) in total open interest, which is suggestive of the big shorts starting to throw in the towel (he said wishfully).

In COMEX silver futures, the commercials bought back an extremely large 30,900 contracts, reducing their total net short position to 68,400 contracts. I donâ??t feel like searching through my notes to see if it was the biggest weekly decline in the commercial net short position in history (because it doesnâ??t really matter), but if it wasnâ??t the single largest weekly reduction it was certainly among the very largest. So while I may have been somewhat disappointed that there wasnâ??t more commercial short covering in gold than I expected, there was no such disappointment in silver. Then again, gold only touched one of its key moving averages, while silver obliterated both its key 50 and 200 day moving averages and is still trading below its 50 day ma.

And while I harbored a dream about JPMorgan completely buying back its entire short position in both silver and gold (you should dream big if youâ??re going to dream at all), it appears to me that JPM cut its silver short position in half, from 18,000 contracts to 9000 contracts, based upon this weekâ??s COT report and the companion monthly Bank Participation report. I maintain this is prima facie proof that JPM orchestrated the price plunge over the reporting week, since buying back 9000 contracts (45 million oz) was the single best thing JPMorgan could have done to benefit itself. But please keep that to yourself so as not to wake the regulators (the CFTC and DOJ) from their self-induced slumber.

Unlike the case in gold, the big commercial shorts didnâ??t account for a large percentage of the unusually large total commercial short covering. The 8 big shorts (including JPMorgan) bought back less than 13,400 contracts of the 30,900 total commercial contracts bought and, as just reported, JPMorgan accounted for 9000 of the 13,400 contracts bought by the big 8. That the 7 big shorts only bought back 4400 short contracts tells me they were reluctant to book realized losses (as was the case in gold) and that other commercials, which I have called the raptors in the past, jumped strongly to the long side on the price plunge in silver.

In the prior reporting week, the raptors were only long around 9000 silver contracts; this reporting week, the raptors pumped up their net long position to 26,700 contracts. So maybe I should characterize the price plunge in silver as having been orchestrated perhaps not solely by JPMorgan, but strongly aided and abetted by the raptors which were (obviously) lying in wait for aggressive managed money selling. No matter how I slice it, it comes out looking very bullish to me.

On the sell side of silver, the managed money traders (as mentioned) were net sellers of 32,718 contracts, comprised of the sale and liquidation of 28,980 long contracts and new sale of 3738 short contracts. The resultant managed money net long position of 28,971 contracts (57,906 longs versus 28,935 shorts) is now a heck of a lot less bearish than it was just a week earlier and months before that. Is there more managed money to go? Only if new prices lows are established and even if those price lows are created, it looks certain that JPM and the raptors will be waiting with open buy arms.

I also should point out that the other large reporting traders bought an impressive amount of net silver contracts (6228 in total) on the very large price plunge of the reporting week (their gold counterparts were basically flat) and now hold their largest net long position in a year and a half. Finally, like their counterparts in gold, the smaller non-reporting traders in silver sold a large 4500 net contracts. I consider the big purchases by the other large reporting traders and the large selling by the smaller traders in silver to be both quite bullish and unexpected by me. If there was anything not bullish or

extremely bullish in this weekâ??s silver COT report, then I missed it.

I know silver price performance has been stinking up the joint, but also know that when the turn comes, silver can and will take off like a scalded cat to the upside. This weekâ??s COT report just sets the stage for a quicker and sharper run. I continue to cheer on the rise in gold as it is putting tremendous pressure on the 7 big shorts to give up the ghost and begin to cover shorts in earnest. I also continue to believe this is really all that matters and freely admit to the irony that it will be the same paper sword wielded by the big shorts that has controlled and manipulated prices for so long that will provide for their comeuppance.

Ted Butler

March 7, 2020

Silver – $17.34Â Â Â Â Â Â (200 day ma – $17.02, 50 day ma – $17.84)

Gold – $1674Â Â Â Â Â Â Â Â (200 day ma – $1488, 50 day ma – $1580)

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