

November 7, 2020 – Weekly Review

In what is potentially a sign that the months-long period of consolidation has come to an end, prices of gold and silver surged to six week highs, as gold closed \$74 (3.9%) higher and silver a full \$2 (8.4%) higher for the week. As a result of silver's pronounced relative percentage outperformance, the silver/gold price ratio tightened in by more than three full points to 76 to 1, also a six week extreme favoring silver.

This week's large price gains still leave gold and silver shy, by around a hundred dollars in gold and around three dollars in silver, of the weekly closing price highs of early August, but there are a confluence of reasons to believe that continued large price gains may occur. I'm still of the mindset that the ongoing presidential election drama is much more of a cover story or excuse for sharply higher prices and see enough more compelling signs that promise sharply higher prices in the immediate period ahead. I guess I'm just a dance with the girl you brought to the prom kind of guy (until convinced otherwise).

The compelling signs I see continue to be the COMEX market structure, the increasingly dismal prospects for the 8 big shorts, the continuing and future role of JPMorgan and signs of increasing physical demand, particularly for silver. While it is always possible for the long expected dramatic price surge to be somehow further delayed, I don't recall seeing so many "green lights" flashing for the price surge to be upon us. Certainly, any delay, if one occurs, will be due to push back from the 8 big shorts, with or without collusion from JPMorgan in adding illegitimate new COMEX short positions. Nothing else seems capable of delaying a genuine price surge.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled dramatically this week as only 2 million oz were moved, the lowest weekly turnover since July 2019. This week's low movement was almost exclusively of the "in" variety, as total COMEX silver inventories rose by 1.9 million oz to 383.7 million oz, a new all-time record. I continue to maintain that the total level of COMEX inventories is not materially related to the price direction for silver, as I would hope this week's inventory increase and surge in price would demonstrate. No change in the JPMorgan COMEX silver warehouse, still at 190.8 million oz, the highest it has ever been.

It has only been about 4 weeks that the turnover in COMEX silver warehouse stocks has fallen from the white-hot pace of the three months prior, when close to 12 million oz per week was turned over, first to around 5 million oz weekly and this week to only 2 million oz. What does this mean? While it's way too soon to know for sure, I get the feeling that it suggests a lack of available physical supplies, perhaps a most bullish omen. I confess to being hyper-bullish at this point, but there are other signs pointing to tightness in the wholesale physical silver market. You have to ask yourself, with all the visible goings on in the world (and leaving aside my unique signs of bullish indicators), who would willingly sell and part with great quantities of physical silver at this point and time?

This week there was, once again, no change in the COMEX gold warehouse inventories, still stuck at 37.5 million oz. It has now been more than 3 months that COMEX gold inventories have remained, essentially, unchanged after surging by around 29 million oz in the prior three or four months to all-time record highs. Not to be a broken record, but it still looks like the 29 million physical ounces of gold

brought in is directly related to the concentrated short position of the 8 largest COMEX paper traders.

While the inflow of physical gold into the COMEX warehouses largely matches the size of the short position of the 8 largest shorts, in silver the total increase in COMEX inventories is closer to 60 million oz, a far cry from the 370 million oz the 8 big shorts hold in COMEX futures. I suppose one could make the case that the 8 big shorts in gold may have brought in enough physical metal to offset their paper short positions, but such a proposition wouldn't seem possible to make in silver.

I'm going to gloss over the continuing deliveries in COMEX gold and silver futures in the non-traditional delivery month of November for two reasons - they are a bit less than recently and I'm not sure I can establish a price connection. That might change in the upcoming December deliveries, traditionally the largest delivery month for both gold and silver.

There were very substantial deposits of physical metal into both the big silver ETF, SLV, and the big gold ETF, GLD, most likely as a result of the very high volume upsurge in price on Thursday. In SLV, some 10.3 million oz were deposited yesterday and in GLD more than 250,000 oz were added. Based upon the exceptionally heavy trading volume in SLV on Thursday of 57 million shares, followed by yesterday's 32 million share volume, I would imagine more physical silver is owed to the trust. Of course, continued physical deposits only shrink the remaining supply of available physical metal.

I should mention, before turning to this week's Commitments of Traders (COT) report (and this month's Bank Participation report), the price and trading pattern into this week's Tuesday cutoff and the trading pattern before that cutoff. In thinking further about things since last week's review, I discovered that I missed something of some significance in the first few days of the reporting week ended Tuesday, namely, that the sharp price plunge as the reporting week began (on Oct 28 and 29) just happened to penetrate the 100 day moving average in both gold and silver to the downside for the first time since March.

Even though prices recovered by the end of the reporting week, it is almost certain that some of those traders which are motivated by moving average signals (primarily in the managed money category) would have reacted and sold on the downward penetration. No, I haven't converted to the religion of always obey the moving averages, but after the 50 and 200 day moving averages, the 100 day moving average does loom large in the moving average contingent. What this means is that the penetration of the 100 moving average during the reporting week ended Tuesday may have represented the final thrust downward in the price consolidation in place since early August and that all of those persuaded to sell on this 100 day moving average signal may have now sold. Certainly, the subsequent price rallies since the intraday price lows of Oct 29 in both gold and silver are highly suggestive that a climax bottom has been seen. In other words, yesterday's COT report would most likely reflect the final improvement in the COMEX market structures in gold and silver.

Since there was a very slight improvement in terms of the commercial short position in silver and slightly more in gold, at first I was somewhat disappointed when reading yesterday's report, but felt a bit better when seeing there was slightly more selling in the managed money category. But mostly I began to feel more encouraged when I realized that perhaps this was as good as it was likely to get and that you can't get blood out of a stone. For months I have been characterizing the market structures as being washed out in both gold and silver and not suggestive of a steep price slide and yesterday's report, along with the subsequent strong rallies in both markets seemed to bear this out.

In COMEX gold futures, the commercials bought and reduced their total net short position by a moderate 7100 contracts to 289,300 contracts, still not that much of a change in total positioning since the end of June. This reporting week, the smaller commercials (the raptors) accounted for the bulk of the commercial short covering in buying back nearly 6900 short contracts. The 8 big shorts only bought back around 300 contracts and their resultant concentrated short position was 238,066 contracts (23.8 million oz). I'd peg JPMorgan as having bought around a thousand gold contracts, which would put it at 3000 to 5000 contracts net long, and definitely not net short.

A key question here is why didn't the 8 big shorts buy back many more of their short positions on what may have been the last real opportunity to do so on lower prices? In hindsight, considering the sharp price rally that transpired since the price lows of Nov 29, it was a mistake on the part of the big shorts not to have bought back more short contracts. Best as I can figure, the most plausible answer is that the big shorts weren't able to buy back more because of buying competition by other commercials (the raptors) as well as other speculative buyers (the other large reporting traders). There's a big difference between not choosing to buy back more and not being able to do so and the lack of buying by the big shorts reflects the latter. It also points to them being stuck, as the great increase in their weekly loss attests.

On the managed money side of gold, these traders sold a total of 11,180 net contracts, consisting of the sale and liquidation of 9046 long contracts, as well as the new sale of 2134 short contracts. While the net long position of the managed money traders is not at new record low over the past year or so, it is close enough at under 91,000 contracts to be considered ultra-bullish. No doubt the managed money net long position is larger since this week's cutoff, but it's hard to make an omelet without cracking a few eggs.

Encouraging in this week's report was the return of the other large reporting traders to the buy side following last week's fairly strong selling. This reporting week these other large traders bought 5455 net gold contracts, consisting of the purchase of 4781 new long contracts, as well as the buyback and liquidation of 674 short contracts. In a mirror image of the managed money low net long position, the other large reporting traders' net long position is large and near record levels, with both positions being bullish as of Tuesday's cutoff.

In COMEX silver futures, the commercials increased their total net short position by a scant 200 contracts, to 59,300 contracts. As to why the commercials didn't buyback more (on the move to new price lows), I believe is was also a case of not being able to, rather than consciously choosing not to. In fact, the 8 big shorts bought back exactly one contract in "reducing" their concentrated net short position to 74,334 contracts (371.7 million oz). The raptors sold 200 long contracts, but JPMorgan appears to have bought around 1000 contracts which would put it net long by that amount, but not net short. No surprises in the Bank Participation report.

The managed money traders sold 949 net silver contracts, consisting of the sale and liquidation of 3397 long contracts, as well as the purchase and buy back of 2448 short contracts. The other large reporting traders bought 1659 net silver contracts, mostly on the back of short covering. A big question, of course, is how much deterioration occurred in gold and silver as a result of the sharp price rallies that occurred after Tuesday's cutoff "but it's way too soon to worry about deterioration at this point."

The consideration that towers over gold and silver at this point is whether and by how much the 8 big shorts will lean into and fight the developing rally and aggressively add to their manipulative short positions and whether the super crooks at JPMorgan will lend a helping hand to the 8 big shorts. This is the same issue I have highlighted for many years and appears to have reached a zenith at this point. Certainly, the factors pointing to the big shorts giving up the ghost and JPMorgan not lending a helping hand have never been greater.

For starters, the 8 big shorts have had a rotten week and rotten year in being overly short gold and silver. It's no exaggeration to say that the 8 big shorts are the main enemies to higher gold and silver prices and if they quit their manipulative price suppression ways, gold and particularly silver would already be much higher in price. As far as desiring lower prices, who could possibly have more of an interest than the 8 big shorts, which not coincidentally also have the most to lose in the event of higher gold and silver prices? The main reason I monitor the big shorts' losses is that it suggests when they might buckle and stop adding to short positions.

This week, the 8 big gold and silver shorts suffered one of their largest setbacks, as some \$2.5 billion was added to a total loss now amounting to \$14.8 billion. At yearend and into the end of the first quarter of 2020, the total loss to the 8 big shorts was no more than \$4 billion, so over the last 7 months, the loss to the big 8 has grown by nearly \$11 billion. The big shorts were able to rig gold and silver prices lower into the end of the third quarter (Sep 30) and reduce their total losses to less than \$10 billion or so, but now that appears to have been just a temporary victory and the overall war is moving against them once again.

At the same time, it's hard to fathom just how much profit has been accrued by JPMorgan on the physical gold and silver accumulation it has accomplished since 2011. At yesterday's closing prices, JPMorgan is ahead at least \$24 billion on its 25 million oz physical gold and 700 million oz physical silver holdings and, most likely, a lot more should its actual holdings be greater, as I strongly suspect. At the price lows of mid-March, JPMorgan was no better than even on its physical metal holdings, so its gains have come in less than 8 months.

I had previously speculated some months back, that JPMorgan was forced to "donate" as many as 300 million oz of its physical silver hoard in conjunction with its pending settlement with the Justice Department and CFTC, leaving it with 700 million oz. My speculation was based on the large amount (300 million oz) that came into SLV and the other world silver ETFs and my reasoning was that only JPMorgan could have come up with such a large amount of physical silver. While I still believe that only JPM was capable of coming up with that amount of physical silver, I am wavering a bit on my speculation that it came as a result of negotiations with the regulators.

Earlier, I had speculated that JPMorgan may have leased the metal to other banks which, in turn, provided it to the silver ETFs to meet the growing investor demand for silver via the various ETFs (all "Death Stars" when it came to gobbling up the world's available silver). Under this original speculation, JPMorgan still held actual title to the 300 million oz of leased metal and the banks which borrowed it were, in effect, just putting themselves deeper into a short hole. There is no doubt that the 300 million ounces of silver in question came from JPMorgan; the only question is the manner by which JPM released it. Both versions are bullish, but if JPM leased it, as I originally speculated, it is so much more bullish so as to give me goose bumps.

Certainly, JPMorgan is in position to bailout the 8 big shorts by adding new short positions to contain price rallies, but it is also quite capable of standing aside and making itself many tens of billions of dollars of additional profits. And, if JPMorgan does add aggressively to new short positions, as I recently mentioned, it places itself at risk of violating the terms of its recent deferred prosecution agreement. Still, JPMorgan remains the key and all we can do is observe what these crooks might or might not do.

There is no question that gold and silver look primed to move higher, having upwardly penetrated each's 50 day moving averages (gold on Thursday, silver just yesterday) after nearly seven weeks of trading below that key moving average. Now both gold and silver are above every moving average that matters to those abiding by this methodology for initiating positions. And even if there were some deterioration on the price rise over the past two trading days, by historical measures there is still much technical fund type buying potential yet to go.

It also seems evident that there is currently a big move into physical metal, particularly in silver. Both on a wholesale and retail basis, the signs of investor buying are clear. And should that investor buying lead to delays in timely physical deliveries to the industrial silver users, causing those users (who haven't yet) to build up adequate physical inventories and to move to buy physical silver, then it's Katie bar the door for sharply higher silver prices.

I haven't mentioned anything about the developments in the financial markets as a whole and the just-resolved results of the US presidential election, but if anything about any and all of these developments is bearish for gold and silver prices, then that is lost on me. Yes, I'll be mightily disappointed if we don't rally sharply and forthwith, but after preparing and positioning for the final price surge for more years than I care to remember, I won't be surprised in the least if we are at the moment of price liftoff.

Ted Butler

November 7, 2020

Silver – \$25.70 (200 day ma – \$20.18, 50 day ma – \$25.19)

Gold – \$1952 (200 day ma – \$1783, 50 day ma – \$1920)

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