October 17, 2020 – Weekly Review/An Ignominious End

Gold and silver prices fell this week, largely erasing most if not all of the previous weekâ??s gains, with gold down $30 (1.6%) and silver ending $1 (4%) lower. Given silverâ??s much sharper percentage decline, the silver/gold price ratio widened out by nearly two full points to just under 78.5 to 1.

Among the major news developments this week, none of which seemed to have much impact on precious metals prices (at least to me), was the final vote by the Commodity Futures Trading Commission on the matter of speculative position limits, a full ten years after the effort began. Iâ??ll address this issue after reviewing the weekâ??s recurring events.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses continued to cool off this week, as only 4.5 million oz were moved. While this weekâ??s movement is quite close to the average weekly movement over the past 9.5 years, it is also the lowest weekly movement since late May â?? a testament to how large the total movement (2.5 billion oz) has been over this time. Total COMEX silver inventories rose by 1.8 million oz to 382.3 million oz, another new all-time high. Likewise for the JPMorgan COMEX warehouse, which rose by 1.1 million oz to 189 million oz.

While I have reported (in amazement) the weekly movement and recent increases in COMEX silver warehouse holdings, I have never tried to predict future movements or total inventories, as I donâ??t know how that would be possible. I still believe the turnover is due to user demand, as investors have less reason to remove metal and that the increased total holdings are reflective of demand as opposed to having no other place to store surplus metal. Again, the turnover has been quite unique and specific to silver of all commodities (although COMEX gold warehouse turnover has picked up over the past few months), making the physical movement quite noticeable â?? although few seem to notice it.

COMEX gold warehouse holdings increased by 0.4 million oz to 37.8 million oz, another new record, but the increase in total holdings over the past few months has only been on the order of 2 million oz or so, a far cry from the 28 million oz increase in the few months prior to then. No change in the JPMorgan COMEX gold warehouses this week â?? still 13.66 million oz.Â Again, there is no way I know of that helps predict future total holdings or movement â?? all one can do is observe and analyze.

I would make one observation about the COMEX gold warehouses and record large deliveries on COMEX gold futures contracts over the past six months, continuing in this monthâ??s deliveries on the October futures contract – now more than 32,000 contracts (3.2 million oz), a record and still dominated by JPMorgan on the issue side and Barclays on the stopper side.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

I have opined that the more than 190,000 total gold contracts (19 million oz) issued commencing with the April COMEX delivery has been driven by the requirement that the 8 big shorts bring in and show that they have the physical backing for their concentrated short position. As a result of that requirement, some 29 million oz have been brought into the COMEX gold warehouses since March.

Hereâ??s my new observation â?? despite 29 million physical ounces being brought in and 19 million total ounces issued in COMEX futures deliveries, the concentrated short position has â??onlyâ?•

declined by 2 to 3 million oz (20,000 to 30,000 contracts) since April. Trying to rationalize this data, I think itâ??s possible the big shorts might be delivering to close out some shorts, but continuing to add new shorts to cap prices. Of course, Iâ??ll continue to monitor this.

Nothing special to report on in silver ETF holdings and the last change in SLV was the big deposit of 4.6 million oz I reported on Wednesday. The holdings in all silver ETFs and COMEX warehouse holdings have been very steady and holding at a record 1.5 billion oz.

Turning to yesterdayâ??s Commitments of Traders (COT) report, there werenâ??t any significant positioning changes in the headline total commercial net short positions in silver and gold, largely as expected for the choppy price week; but there were a couple of changes in the gold report of interest. As has been the case for weeks, the market structures continue to look â??washed outâ?•, meaning not a lot of room for heavy speculative selling on lower prices. Of course, that doesnâ??t rule out continued mini â??flash crashesâ?• due to HFT computer to computer day trading designed to rig prices lower for no legitimate reason.

In COMEX gold futures, the commercials reduced their total net short position by 3800 contracts to 284,700 contracts. The short covering was almost entirely attributable to the smaller commercial shorts (the raptors) which bought back 3900 gold shorts, as the 8 big shorts added 100 contracts to a short position amounting to 238,428 contracts. Iâ??d estimate JPMorgan may have sold around 1000 contracts and is now short that amount.

There was some surprise on the managed money side of gold, as these traders sold 12,831 net contracts, comprised of the sale and liquidation of 1181 long contracts and the new short sale of 11,650 contracts. There have been recent big changes in the managed money short category, including the buyback of more than 17,000 contracts two weeks back. My sense is that a single large trader in the category may be swinging into and out from a 10,000 contract position of late. Regardless, the net and gross managed money long position is, essentially, close to the lowest levels of the past year, a consistently bullish sign.

Explaining how there could be a 9000 contract difference between what the commercials bought and the managed money traders sold was net buying by the other large reporting traders (who are those guys?) of around 5000 contracts and net buying by the smaller non-reporting traders of 4000 gold contracts. Of special note, of course, is the continued buying by the other large reporting traders, something Iâ??ve been focusing on recently.

For another week running and in which gold price action was inconclusive, to say the least, these traders increased both their net and gross long position to record levels, as they added 7245 new longs and 2330 new shorts and their net long position of 158,890 contracts (188,817 longs versus 29,927 shorts) towers over the managed money traders net long position of 81,811 contracts (138,169 longs versus 56,388 shorts). Never has there been such a wide difference between these two speculative trading categories.

Iâ??ve received many comments as to who these other large traders may be, with most centering on friends and family of JPMorgan. Anything is possible and the simple truth is we are all just speculating in trying to guess their identity and intent (although those adding long positions must believe prices are headed higher). I can add one other thing that can be derived from the data in the COT report.

While I donâ??t report on it regularly, I do monitor the concentration on the long side of COMEX gold and silver. And based upon these data, there doesnâ??t seem to be anything particularly concentrated with the other large tradersâ?? long position. For example, since the COT report of Sep 15, the other large traders have added nearly 30,000 net long positions (as prices fell sharply thru the 50 day moving average). Yet the concentrated position of the 8 largest longs fell by nearly 2000 contracts and the number of long traders in this category increased by 2 (to 126). The conclusion would seem to be that the long position of the other large reporting traders is diverse and widely held, as opposed to being the work of a few large traders. Please add that to any thinking of who the heck these guys are.

In COMEX silver futures, the commercials increased their total net short position by a scant 800 contracts to 56,900 contracts. While this is the largest commercial net short position since July 21, it is closer to the truth to say the position hasnâ??t changed that much since then. This weekâ??s selling was by the 8 big shorts which increased their short position to 72,141 contracts. The raptors and JPM were flat, meaning still no short position by JPM.

On the managed money side in silver, these traders (like the commercials) sold 1134 net contracts, comprised of new longs in the amount of 254 contracts and new shorts of 1388 contracts. As was the case in gold, the other large reporting traders and smaller non-reporting traders accounted for the buying of nearly 2000 contracts combined. The other big reporting traders in silver have been mimicking their counterparts in gold, just not anywhere close to the same extent. Still, while these other large traders in silver are nowhere close to their record net long position (20,000 to 25,000 contracts), they have swung from net short to net long by nearly 13,000 contracts since mid-August â?? not exactly a pittance.

Overall, the market structures in gold and silver look bullish to me, particularly when considering whatâ??s going on with the other large reporting traders, the managed money traders and the absence of JPMorgan on the short side. The price path of least resistance looks higher, although HFT-induced volatility is not likely to disappear.

An Ignominious End for Position Limits

After a full decade from where it began, including being struck down in the courts in 2012, the Commodity Futures Trading Commission issued a final ruling on speculative position limits on Thursday. As long time readers know, this has been a signature issue of mine for more than 25 years because legitimate speculative positions limits are the one sure remedy to prevent concentration, the primary cause of the silver manipulation (or any other price manipulation).

https://www.cftc.gov/PressRoom/PressReleases/8287-20

To make a long story short (mainly because it no longer really matters), the Commission voted to cave into industry pressure and, essentially, wash its hands of setting any real position limits and subcontracted future decisions to the exchanges â?? thereby completely evading the intent of Congress that the agency implement position limits. It should come as no surprise that the final vote came strictly along political party lines. The issue was born in the Obama-era passage of Dodd-Frank (when the Democrats rammed it through) and died in the era of Republican political control â?? as can be seen in the final vote with the two Democrats on the Commission dissenting on what was originally an issue originated by the Democrats. Talk about an ignominious conclusion.

Please donâ??t take any of this as political commentary by me as the more important point is that position limits are a non-issue for the foreseeable future. The fact remains that the many thousands of public comments submitted to the agency a decade ago (admittedly at my urging) all requested that position limits be set at 1500 contracts for COMEX silver futures and the Commission, then and now, ignored every single public comment. The bottom line is that 10 years ago when the Democrats were in charge and today when it is the Republicansâ?? turn, the big banks, exchanges and oil companies ruled the roost and got their way regardless of who was in political power. The more things change, the more they remain the same.

Best as I can determine, the Commissionâ??s final vote resulted in a doubling of the spot delivery month limit in silver and gold, to 3000 and 6000 contracts respectively, although I would imagine those new limits will be as regularly violated as were the old limits. In terms of all-months combined limits, it appears there will now be no limit â?? largely the same as currently. In a bit of overkill, the Commission appears to have turned over all responsibility for bona fide hedge exemptions from position limits to the CME Group. The overkill part comes in when you consider that if there are no position limits to start with, who needs exemptions from them?

In essence, the Commission appears to have altered its previous partnership with the CME Group, the one that stood by and allowed unfettered short concentration and HFT daily price rigging, to a new structure that cedes total control to the CME. Responsible government regulation and putting the publicâ??s interest first and all that jazz â?? yes Iâ??m being facetious.

Having long given up on any substantive relief for the regulators to do anything in full view to end the silver manipulation, Iâ??m not the least bit disappointed that the Commission has simply washed its hands on the matter (although I am taken aback by the extent of the cave in). Not that the issue of position limits wasnâ??t the important matter I made it out to be, but because it was essentially impossible for any government regulator to prevail against private industry in this era. I donâ??t regret for a moment expending the effort to do whatever was possible to see legitimate position limits enacted because it was the right thing to do.

But even though I gave up on legitimate position limits ending the manipulation long ago, Iâ??m more excited than ever about the demise of the silver manipulation. Thatâ??s because I believe something has arisen more powerful than the enactment of legitimate position limits. In simple terms, itâ??s as basic as the law of the jungle or the raw power of the markets. The power of the markets that I refer to is the same that I have been writing about all along, but with one added twist.

As I believe I have made clear to this point, there has been a tidal shift occurring in COMEX silver and gold futures contract positioning. Following decades of excessive and collusive commercial short selling on price rallies that always ended with the commercials then being able to rig prices lower and inducing speculative selling that allowed the commercials to buy back their short positions at a profit - that game stopped working starting more than a year ago in gold and over the past several months in silver.

For the first time ever, the big shorts werenâ??t able to induce sufficient speculative selling on lower prices and, instead, on prices that continued to rise, the big shorts began to rack up massive losses, at last count more than $13 billion for the 8 largest shorts in COMEX gold and silver. Even worse for the big shorts, the former ringleader and largest commercial short seller, JPMorgan, very deftly completely abandoned the short side earlier this year, potentially depriving the remaining shorts of their key back stopper and the glue that held the manipulation together over the past 12 years. Worst of all for the big shorts is that JPMorgan secretly amassed massive quantities of physical gold and silver from 2011 until recently, on which JPM is already ahead $20 billion and is incentivized to see even higher gold and silver prices. A double cross of epic proportions.

As precarious a position that all these things put the big commercial shorts in, there is another factor that seems destined to press on them even more, aside from COMEX positioning developments. Here, Iâ??m talking about developments in the macro world. Thereâ??s no question that we are living in an era of maximum and seemingly unlimited money creation and resultant investment buying power. This massive and unlimited buying power has driven investment assets, such as stocks, bonds and most real estate (ex-commercial), to historic highs. Along with historically low interest rates, the hunt has been on for those assets likely to participate in the modern era of near-unlimited investment buying power.

Certainly, gold has been a key beneficiary of this rush for attractive investment alternatives, resulting in it attaining all-time price highs in recent months. Moreover, goldâ??s recent record high prices still donâ??t seem excessive on a relative basis, compared to stocks and other assets, a key investment metric. And if gold is relatively cheap compared to stocks and bonds, a premise I fully accept, then what the heck does that say about silver â?? considering that it is still ultra-cheap relative to gold? Simply put, silver is the cheapest investment asset of all. And Iâ??m not talking about everything that silver has going for it as an investment asset â?? Iâ??m just stating that if gold is considered relatively cheap compared to other assets (as it is), then silver is the cheapest of all.

My point is that silverâ??s incredible relative cheapness compared to all other investment assets presents a particular and unique problem for the 8 big shorts, in addition to all the other factors I mentioned above. The unique problem for the big shorts is that it is infinitely easier, particularly in a time of near unlimited investment buying power, for someone to write out a check and demand physical metal than it is for someone to provide physical metal, particularly at a time when physical availability may be limited. This is not rocket science or advanced physics â?? it is simply sound reasoning. Writing out a check or clicking a computer mouse to order physical silver is a heck of a lot easier than scrounging up physical silver to deliver, particularly when physical conditions are tight.

After being shunned and overlooked by nearly everyone (except JPMorgan) as prices were rigged lower from 2011 to very recently, suddenly an investment in silver looks quite attractive, especially when compared to other alternatives. Thanks to the existence of a wide-variety of readily-available and seasoned silver ETFs, there is no shortage of choices for stock-oriented investors to choose from once they decide to take the silver plunge. And whether new ETF investors are aware or even care, purchases of most silver ETFs require the purchase of the requisite amount of physical metal according to how the ETFs are structured.

This required conversion of ETF investment buying into physical metal may represent an easy and convenient format for traditional stock investors to invest in silver, but it also represents a potential nightmare for the big COMEX commercial shorts â?? quite possibly the straw (or sledge hammer) that breaks their backs. At some point, as and when silver investment buying takes sufficient hold, the big shortsâ?? selling of additional short positions to cap prices becomes ineffective. Selling additional paper contracts short on the COMEX wonâ??t help satiate physical ETF investment demand.

It has long been thought that the frontline in the physical silver crunch would come in COMEX silver delivery demands. That may still turn out to be the case, but itâ??s easier for me to envision the crunch coming from ETF buying demand, which was the case in the great price run up in 2011. But I certainly wouldnâ??t argue about a simultaneous crunch hitting the big shorts, with either ETF demand or COMEX delivery demand feeding one another. How potentially horrid for the big shorts and how delightful for those long. Thatâ??s the main reason Iâ??m not disappointed with the CFTCâ??s utter failure to fulfill the will of Congress in the abandonment of its responsibilities to implement legitimate position limits. In fact, it may have made matters worse for the big shorts, since it now makes it harder to crack down on large investor long positioning in COMEX silver futures.

Under the new no-limit position limit regime, it would seem the current average number of contracts held by the 4 largest shorts in COMEX gold and silver would seem to set the template for how large a position can be before it would trigger alarm. Currently the average position for each of the 4 largest gold shorts is more than 40,000 contracts (4 million oz). In silver, the average holding for each of the 4 largest shorts is just under 13,000 contracts (65 million oz). It only seems fair that if the big shorts can hold this large of a short position with no objection from the regulators, that big longs should be able to hold as much as well.

Still, I donâ??t expect higher silver prices due to buying of COMEX futures contracts by a few very large investors. Instead, it appears to me that silver will be driven by large buying by a wide variety of buyers, particularly in the silver ETFs. When large numbers of investors buy that is considered a legitimate market force; when a very small number of large traders sell short with the intent to suppress price that is the essence of manipulation. Someone needs to explain that to the regulators.

The lower prices this week shaved just over $1 billion of the 8 big shortsâ?? total losses, bringing those losses down to $13.3 billion.

Ted Butler

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Silver – $24.30Â Â Â Â Â Â (200 day ma – $19.70, 50 day ma – $25.99)

Gold – $1905Â Â Â Â Â Â Â Â (200 day ma – $1757, 50 day ma – $1938)

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