

October 3, 2020 – Weekly Review

Against a backdrop of greater political and economic turmoil and uncertainty than I've ever witnessed (more than half a century), prices for gold and silver partially retraced the steep losses of the prior week, with gold rising \$40 (2.1%) and silver by 90 cents (3.9%). While it certainly didn't feel like it to me, silver's relative outperformance resulted in a tightening of the silver/gold price ratio by a full point to just under 80 to 1.

The late Friday news that President Trump had entered the hospital for treatment of COVID-19, capped a week of extraordinary political developments following the controversial presidential debate on Tuesday. It can hardly be argued that with the US presidential election in one month that this was news that calmed things down. It was thought that the President's hospitalization might lead to the quick passage of another stimulus package.

The week also featured the announcement of the settlement of the Justice Department's and CFTC's spoofing and manipulation case against JPMorgan, which resulted in a record \$920 million monetary penalty and a Deferred Criminal Prosecution Agreement, as discussed on Wednesday. There was also a late Friday surprise related to this issue as the Wall Street Journal reported that James McDonald, Enforcement Director of the CFTC will announce his resignation on Monday to be effective at week's end.

Director McDonald has figured prominently in my ongoing allegations of a manipulation in COMEX silver and gold, particularly concerning JPMorgan for the three years he has been leading the Enforcement Division. In fact, my complaint to the FBI on April 30, 2018 about malfeasance at the CFTC (which I believe tripped off the case against JPM), specifically mentioned McDonald. I'll wait for the official announcement and probably write more on this development on Wednesday.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained extremely high as 11.8 million oz were moved this week, quite close to the average weekly movement over the past 11 weeks and at an annualized rate of more than 600 million oz or more than 70% of the total annual world mine production.

People can and do get insensitive to even the most extraordinary developments when those developments persist. Such is the case with the unprecedented COMEX silver warehouse physical movement which began in April 2011 and has not only persisted to this day, but has recently dramatically accelerated. Heck, the lack of acknowledgement that the turnover exists – even though the data is widely available – remains right up there with life's great mysteries for me (next to what women really want).

And has been the case recently, most of the movement has been of the "in" variety, as this week total COMEX silver inventories rose another 6.2 million oz, to 378.9 million oz, another all-time record. Also as has recently been the case, the silver deposited into the JPMorgan COMEX warehouse rose by 3 million oz to 186.7 million oz, also a new record.

Obviously, JPM's agreement with the regulators to cease spoofing and other paper manipulations on the COMEX, didn't inhibit the bank's firmly entrenched role as the kingpin in all other things silver and gold related. If anything, all the data suggest JPM is solidifying its leading role in silver and

gold. I still don't believe that is necessarily bearish for prices (since JPM has the most to gain on higher prices), but it does make me think that the Justice Department has a much different definition of antitrust and monopolistic behavior than what it demonstrated previously.

Turning to COMEX gold warehouse data, total holdings fell a slight 200,000 oz to 36.9 million oz, remaining within the narrow range of the past more than two months. No change in the JPM gold warehouses, still at 13.657 million oz. The relative calm in the COMEX gold warehouses (following the extraordinary four fold surge of late spring to summer) has not resulted in any diminution in deliveries against COMEX futures contracts, as deliveries against the October contract (a quasi-traditional delivery month) are the largest in my memory, as 19,391 total contracts (1.94 million oz) have been issued and stopped so far, with more than 11,000 October contracts still open. Customers of JPMorgan lead the issued list with more than 10,821 contracts and Barclays leads to stop list with more than 6800 contracts on a combined customer/house basis.

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

Truth be told, it's hard to discern what the extraordinarily large number of deliveries in gold (and silver) over the past few months are all about. Trying to be objective, it's not likely that the large number of deliveries represent plain vanilla physical demand, because such demand would unquestionably have driven prices much higher. As it is we fell fairly sharply in both gold and silver prices from the early August highs smack in the face of very large deliveries. Therefore, there has to be a different explanation for the large number of deliveries and before that the large increase in COMEX gold warehouses (and now in silver).

As you know, my best explanation has to do with the big concentrated shorts being told to show they have the goods to back up their massive short positions and many of the resultant deliveries in gold appeared to be motivated by the big shorts delivering, rather than straight delivery demand from those wishing to hold physical metal. Most of those wanting to hold physical metal seem to have done so or are doing so via the ETFs, particularly in GLD and SLV, but also in other ETFs. In fact, there has been a notable pickup in GLD holdings very recently in the face of fairly nondescript price action and even more so in SLV and other silver ETFs.

This week, some 14 million oz were added to the SLV, including an incredible 12 million oz just yesterday. And for the week, some 2.6 million oz were added to silver ETFs, other than SLV. All told and including net deposits into the COMEX warehouses, nearly 23 million oz of silver were added to the known silver depositories in the world. All this on fairly lethargic price and volume data. Therefore, it doesn't appear that plain vanilla investor buying accounted for the surge in physical silver deposits because such collective investor behavior usually only occurs on strongly rising prices. So it's natural to question what drove the big physical silver deposits.

The most plausible explanation, it seems to me, is that if it wasn't large numbers of investors plowing into silver (also confirmed by COT data), then it had to be a small number of large investors. I'm open to other explanations, but none appear more plausible than this. And if this is the case, as I believe it to be, then it hardly seems bearish for future prices.

One other thing I'd like to rehash here is that the total amount of silver in the form of 1000 oz bars now held in the world's known depositories, including all the ETFs and the metal in the COMEX warehouses is now just under 1.5 billion oz (1.492 billion oz to be precise). This is 60% to 75% of the

total amount of silver in 1000 oz bars thought to be in existence (2 to 2.5 billion oz). Even after regulator orders forcing JPM to dispose of 300 million oz, as previously discussed, I believe JPM owns or controls the bulk of the silver not included in the 1.5 billion oz verified stockpile.

If I'm correct, this means there is very little "free" silver in existence not already in the world's known inventories or controlled by JPMorgan - no more than a 200 or 300 million oz or so. This remaining amount (200 to 300 million oz or less) is what is in potential "play". This remaining amount of free silver, all of which is very much owned by someone, is what will ultimately determine the price. In other words, this week, close to 10% of this free silver was added to the world's known depositories and removed from the "free" category. The free silver is not really free - it's simply not in the known and visible category. And every time more is added to the known depositories, less remains to be added. It's natural to wonder as to where the silver is coming from that is finding its way into the growing known depositories. It's certainly not coming from some large surplus of newly mined silver because there is no such surplus. Therefore, it's coming from metal held outside the known depositories and which is limited.

It's much different in gold. The 160 million oz in the world's ETFs and in the COMEX warehouses is a small fraction of the 3 billion oz in world gold bullion holdings, including central bank holdings. Plus there is an enormous amount of scrap gold metal capable of coming to market at prices at or slightly above current levels. This is not to say that gold can't or won't move higher, because I believe it will, just not because it shares the same highly restricted potential availability as exists in silver.

Turning to yesterday's Commitments of Traders (COT) report, two general observations - one, my guesses were very wide of the mark and two, it doesn't really matter. For at least the past 4 months, significant changes in the market structures in COMEX gold and silver have not been the same main price driver they had been previously. In most categories, such as the headline commercial net short position, the managed money net position, the concentrated short positions and the net position of JPMorgan, there haven't been dramatic changes of say, much more than 10% or so.

I weigh heavily changes in market structures as indicated in the COT report in my overall analysis and there just haven't been significant changes for several months. I still believe a key determinant to future prices will be whether the 8 big shorts add significantly to their short positions on the next serious rally, but the jury is still out on that and has been out for quite a long time. In the interim, COT positioning has not been the main price driver as it has been prior to the past several months.

In COMEX gold futures, the commercials increased their net short position by 19,800 contracts to 286,200 contracts, just about the same number of contracts they bought back in the previous week. I was looking for a lower commercial short position this week and was glad not to have backed that with money. (Please note that I misstated the following changes in my original posting and thanks to alert reader Turner, I am making substantial corrections). The 8 big shorts increased their concentrated short position by 18,953 contracts to 242,393 contracts. This is the highest concentrated short position since May 19 and needs to be monitored closely. - JPMorgan sold off its 3000 contract long position and is now flat - neither long nor short.

On the managed money side, these traders bought 12,924 contracts, but it was a very strange type of buying in that these traders sold 4350 long positions and bought back 17,274 short contracts. I was expecting the long liquidation, but you could have knocked me over with a feather on the big short

covering on a reporting week that featured a sharp price decline and subsequent recovery to less than unchanged. What motivated the managed money shorts to buy back so many shorts is befuddling, at least to me. Still, the managed money traders have a very low sub-100,000 contract net long position of less than 95,000 contracts which still looks bullish to me.

The other big surprise and main takeaway from the gold report was that the other large reporting traders added strongly to what already was a record gross and net long position. This reporting week, these traders added another more than 11,600 contracts of net longs and were nearly just as responsible as the managed money traders for forcing the commercials to sell as many contracts as they did.

More and more, when thinking of these other large reporting traders in gold, I'm reminded of that scene from "Butch Cassidy and the Sundance Kid" when Butch turns to the Kid as they are being chased relentlessly in Bolivia by the law and says, "who are these guys?" Since the gold price highs of early August and on the \$200 price decline through the reporting week, the other large reporting traders have added 25,000 net long contracts and now hold around 150,000 net long gold contracts. Indeed, who are these guys?

In COMEX silver futures, the commercials neither added to nor reduced their total net short position, scoring a rare unchanged net positioning week and leaving their total short position at 53,200 contracts. The 8 big shorts were unchanged at 70,900 contracts and strictly by category changes, I'd peg JPMorgan as selling off its 1000 contract long position and moving to flat same as in gold. I'm sure it was a coincidence that JPMorgan was flat in gold and silver as of Tuesday the same day the DOJ settlement was announced. Not.

The managed money traders sold 824 net silver contracts, comprised of the sale and liquidation of 2387 longs and the buyback and liquidation of 1563 short contracts. The other large reporting traders continued to part paths with the managed money traders as the other large traders bought more than 2600 net contracts. The other large traders have swung from a record net short position of 5000 contracts to a net long position of that same amount in a month and have played the market better than any other category, so I suppose it's also fitting to ask who these guys are as well.

Again, I'm mostly going through the motions in recent weekly COT analyses and it might very well be that the main future price driver will come from physical metal happenings, perhaps in response to the growing economic and political developments. That's not to underestimate the continued dominant role of high speed computer to computer day trading or the determination of whether the 8 big shorts (with or without JPMorgan) will add aggressively to shorts on the next rally.

I do believe the setup for sharply higher prices, particularly in silver is very much intact, with or without future sharp selloffs brought about by computers gone wild. Normally, I don't prefer to talk about a world going to hell in a hand basket and how that will drive precious metals prices higher, but these are far from normal times. If things do get worse, which is possible, if not likely, it's hard to imagine folks rushing to sell metals as opposed to them seeking to buy. The way things seem to be setup, it wouldn't take much to set off a stampede into silver and gold.

As far as the 8 big shorts' financial standing, they did end the week by adding \$1.3 billion from last Friday to a total loss now amounting to \$13.2 billion. And while they were able to trim their losses going into Wednesday's end of quarter settlement, that quarter end (\$12.8 billion) was the worst quarter

end ever, up around \$3 billion from the end of the second quarter, reflecting the highest quarterly price ever for gold (\$1897) and for 7 years in silver (\$23.50)

Ted Butler

October 3, 2020

Silver – \$23.90 (200 day ma – \$19.36, 50 day ma – \$26.10)

Gold – \$1905 (200 day ma – \$1736, 50 day ma – \$1952)

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