

## October 31, 2020 – Weekly Review

The sharp mid-week selloff abated going into week's end, but prices of gold and silver finished lower; with gold down by \$26 (1.4%) and silver by a dollar (4%). As a result of silver's relative weakness, the silver/gold price ratio widened out by more than two full points to 79.25 to 1.

While this week's losses were on the steep side, gold and silver remain in the price consolidation that set in following their dramatic move to new all-time highs for gold and for seven years for silver in early August. The same goes for the silver/gold price ratio. Already, the year 2020 has proven to be the most consequential year ever for the precious metals, as it has been for other markets, given a wide variety of unusual outside factors, most notably the worldwide pandemic, which appears to be on the upswing in the US and Europe.

It's not many years that we've seen the kind of price moves we've seen this year in many markets. In the case of silver, there has never been a year in which prices set both ten year lows and then seven year highs, nor a year where the silver/gold price ratio made 5000 year record levels of relative silver undervaluation, followed by a tightening of more than 55 points (125 to 1 in mid-March to under 70 to 1 in August).

Most notable of all, perhaps, is that with the most consequential election in US history just days away and nearly two months remaining in the year, it's quite likely that we haven't seen the last of the price fireworks for 2020. I'll get into what those price fireworks might involve after a review of the week's usual goings on.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came in at 5 million oz, almost exactly the same as the prior week's turnover (statistically quite rare) and close to the week before that. The last three weeks have featured a return to the average weekly movement of the past 9.5 years, following a several month bump in the weekly rate where turnover ran more than two times as high. Still, the "reduced" rate of the past three weeks amounts to 250 million oz annually, not exactly chump change or anything comparable to the physical turnover of any other commodity warehouse inventory.

Total COMEX silver warehouse inventory increased by 0.9 million oz to 381.8 million oz, just shy of the record set two weeks ago. An increase of 1.2 million oz to 190.8 million oz in the JPMorgan COMEX warehouse accounted for more than this week's total increase. This is a new record in the JPM warehouse.

Switching over to gold, the COMEX warehouse holdings ended the week lower by 0.2 million oz to 37.5 million oz and the JPMorgan COMEX gold warehouses accounted for the decrease, as the holdings there also fell 0.2 million oz, to 13.46 million oz. Ever get the sense that JPM controls everything related to gold and silver? Yes, that was a rhetorical question.

I would point out my contention that the level of gold holdings in the COMEX warehouse system has definitely leveled off over the past few months after surging by nearly 29 million oz in the months just prior. I still claim that the amount of the increase (29 million oz) is so close to the concentrated short position of the 8 largest COMEX gold shorts so as not to be coincidental. With the approach of the big December deliveries only a month away, it will be interesting to observe how COMEX gold and silver

warehouse holdings may vary up ahead.

COMEX gold and to a lesser extent silver deliveries on futures remain strong, but I can't decipher much influence on price. I would note that JPMorgan is more than amply represented in all aspects of issuing and stopping both gold and silver deliveries. Yeah, you could say I have a bit of a hang up on the bank.

The biggest surprise for me this week was the change, or lack thereof, in the holdings of the big silver ETF, SLV, as well as the other silver ETFs. I had been expecting, as result of the very high trading volume price plunge on Wednesday which continued into Thursday morning, a liquidation and removal of some 6 to 8 million oz from the SLV. Instead, there was no liquidation after Wednesday. For the week, physical silver holdings in SLV did fall by 1.4 million oz, but that was as a result of a pre-Wednesday withdrawal of 2.8 million oz. As it turned out, 1.4 million oz were deposited in the SLV after Wednesday's deliberate price smash.

Therefore, I can't help but be surprised (and impressed) at the lack of physical liquidation in the SLV and other silver ETFs to the mid-week price weakness and the most logical conclusion is that the holders of SLV and other silver ETFs are stronger than I would have imagined. Along these same lines, I have also noticed what appear to be other signs of strong physical silver (and gold) demand in the face of recent lower and consolidating prices.

On the retail side, sales of Silver Eagles from the US Mint are the strongest of the year and premiums remain high, as they do for other retail forms of silver. Sales of silver coins from the Perth Mint looked particularly strong, as did imports of silver (and gold) into Turkey. And, unless I'm reading it all wrong, buying interest has returned in India and Asia for both silver and gold. Thailand was a noted seller of gold earlier this year as a result of currency concerns, but appears to have turned buyer. It's well established that sharply higher prices do not induce in India and elsewhere the type of increased buying seen in the West. It seems to me that prices for gold and silver have declined enough over the past few months to reignite buying interest in India and elsewhere - always a supporting price influence.

I received an interesting email from a subscriber questioning if he was seeing things in noticing that the spot prices for gold and silver seemed to be improving relative to the big mid-week declines in futures prices. I don't think Stephen was seeing things wrong (or at least he was seeing things as I was), and what he was seeing was directly related to the signs of physical tightness I just described. In fact, the indications of physical demand amid the sharp drop in prices just proves, even more conclusively, that the price discovery process is screwed up beyond description when paper speculation on the COMEX dictates price to the exclusion of what is occurring in the real world of physical supply and demand.

Turning to yesterday's COT report, once again, there were no substantive changes in the headline number of the total commercial net short position, but there were some interesting category changes. This report, of course, pre-dates the more significant positioning changes that likely occurred as a result the high volume price smash on Wednesday that continued into Thursday morning. As far as my very-low conviction personal expectations, they were off in terms of my guess of net managed money selling.

In COMEX gold futures, the commercials increased their total net short position by a slight 2300

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contracts, to 296,500 contracts. Still, this was the largest (most bearish) short position since July 21, more than explaining (but not necessarily predicting) the sharp selloff after the cutoff. It would look clear that there was commercial buying after the cutoff, as there has never been net commercial selling on big selloffs.

One of the interesting category changes in this week's report was that the concentrated short position of the 4 and 8 largest traders declined even as the total commercial position increased slightly. The 8 big shorts reduced their net short position by roughly 6000 contracts to 238,385 contracts, while the smaller commercials (the raptors) increased their net short position by rather hefty 8300 contracts. I'm always intrigued with indications of internecine conflict within the commercial ranks.

Another sign of internal commercial conflict was the net buying of more than 7500 contracts in the Producer/Merchant category and the net selling of nearly 9900 contracts in the Swap Dealer category. The two possibilities that come to mind was buying by JPMorgan or buying by a member(s) of the big 4 (perhaps HSBC, Citibank or Scotiabank). In any event, JPM is no longer short gold and may be long by as much as 3 or 4000 contracts.

On the managed money side of gold, these traders bought 11,310 net contracts, consisting almost exclusively of the buyback and liquidation of 11,278 short contracts (plus the purchase of a mere 32 contracts of new longs). It was the unexpected large short covering by the managed money traders that caused me to be way off in my pre-report guess.

I believe I mentioned over the past month or so, how I suspected there was a large trader in the managed money short category who was swinging a line of around 10,000 contracts, plunging into and out from the short side. I don't sense this large trader has been particularly successful with its recent forays on the short side and this week's report would seem to suggest this trader would have been much better off had he waited until Wednesday or Thursday before covering so many short contracts. I'm curious if this trader reinstated the short position on the price smash.

Once again, with so many managed money contracts bought and so relatively few commercial contracts sold, the obvious question is who sold to the managed money traders. This week, the selling came from the other large reporting traders, which surprised me since these traders have been the standout consistent buyers. This week, these traders sold 12,280 net contracts consisting of the very large selling and liquidation of 14,175 long contracts, as well as the buyback of 1895 short contracts.

As to what this may signify, I'm not sure. It could turn out that we've seen the peak of the unusually large buying by the other large reporting traders (which is still historically quite large) or if some of these traders correctly anticipated the sharp selloff after the cutoff and stepped aside with the intention of replacing the exited longs on lower prices. Time and future COT reports will reveal the answer, most likely.

In COMEX silver futures, the commercials reduced their total net short position by a very slight 400 contracts, to 59,100 contracts. The big 8 increased their net short position by less than 800 contracts to 74,335 contracts (371.7 million oz), while the smaller raptors added 1100 new longs. JPMorgan appears to have been a buyer and is now flat.

The managed money traders were also net buyers to the tune of 1657 contracts, consisting of the new purchase of 1252 longs and the buyback of 405 short contracts. As was the case in gold, the other

large reporting traders were the principle sellers to the managed money trades, as these traders sold 1752 net silver contracts, consisting of the sale and liquidation of 1546 long contracts, as well as the new short sale of 206 contracts.

As most people in the US and around the world are aware, in a matter of just a few days, the most consequential election in memory will occur. Whether the results will be known later that day (Tuesday) or shortly thereafter is an open question, as well as what the possible reactions to the election might be. I plan on being on the road next week travelling back to Florida and, as a result, there will be no mid-week report on Wednesday and the next report will be the weekly review on Saturday.

It is quite likely that the election could have an exaggerated effect on many markets, certainly gold and silver included, although I suppose the election's impact could also be muted. We should know which it will be shortly. As I tried to convey on Wednesday, the next four years should be different from the past four years, particularly for silver. At the risk of repeating myself and fully admitting to an apparent myopia I have regarding JPMorgan, the most important difference between the election of 2016 and the one this Tuesday is the role of JPMorgan then and now.

Checking my personal notes pre-election 2016, I had JPMorgan's COMEX short position in silver to have been 24,000 net contracts (120 million oz) on Nov 8, 2016 and 50,000 contracts (5 million oz) net short in gold. Today, JPM is flat or slightly net long in both markets. In addition, the amount of physical metal JPMorgan has been able to accumulate over the past four years is monumental, even if my speculation about the bank having to donate 300 million ounces of physical silver as a result of the behind the scenes negotiations with the Justice Department and CFTC are accurate.

The bottom line is that JPMorgan has never been better positioned for a silver or gold price explosion than it is presently. Yes, it was fully positioned for an upside move four years ago, having begun its physical metal accumulation in 2011, but it is much better positioned today. Four years ago, in addition to holding still significant paper short positions on the COMEX, JPMorgan doesn't hold any today, magnifying its net long physical positions.

And while the 8 big shorts in COMEX gold and silver are in the hole for more than \$12 billion, multiples of the cumulative profits they made in manipulative COMEX trading over the decades, JPMorgan has already booked and realized a few billion dollars' worth of cumulative paper profits and is now sitting on more than \$20 billion in unrealized profits on its physical metal holdings with the likelihood of many tens of billions in additional profits to come. I may be myopic when it comes to JPMorgan and silver and gold, but what these crooks have accomplished makes my myopia look vastly understated.

Perhaps most compelling of all for a price explosion is the recent settlement between JPMorgan and the Justice Department and CFTC. I recognize that JPMorgan has entered into criminal deferred prosecution agreements in the past, only to continue its criminal behavior, but I would make the distinction that the self-admitted criminals at JPMorgan are always quite careful not to replicate the exact same crimes covered in its prior deferred agreements. For instance, JPM has never violated its prior agreements covering the Bernie Madoff scandal, or mortgage fraud or other bank violations. The continuing series of criminal deferred prosecution agreements involve new and previously uncharged crimes.

Since JPMorgan is clever enough to know not to violate the terms of a previously agreed upon criminal

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settlement, it is not likely to tempt fate by knowingly violating the terms of its recently-inked precious metal settlement, particularly since the DOJ stuck exclusively to spoofing and completely evaded the real crimes of JPM, namely, long term price suppression and manipulation of silver. Accordingly, the Justice Department made it virtually impossible for those truly damaged by JPMorgan's price suppression to sue the crooked bank.

I'm certain that JPMorgan will criminally dream up new and clever ways to cheat people and the markets, but in keeping with its past practice, it will not likely violate the terms of previously agreed upon sanctions. This now includes any overt manipulation of silver and gold. Let's face it, JPMorgan is now on parole when it comes to precious metals as a result of its recent settlement. Should the bank engage in egregious criminal behavior, as it has now admitted to in the past, future complaints and allegations would take on an added gravity – perhaps by a new set of regulatory eyes (based upon the outcome of Tuesday's election).

The bottom line is that, in addition to its now flat futures short position, record net long physical exposure and knowing better than anyone not to violate the agreed upon terms of its criminal settlement with the Justice Department, JPMorgan would seem to have everything to gain by forgoing future price suppression of silver and gold and would be in a potential world of hurt to do otherwise. Say what you want about JPMorgan (I certainly do), but dumb these guys are not.

Regardless of what any short term reaction may be to Tuesday's election, the longer term price direction for silver and gold would appear to be up, not down. To put things in proper perspective, the next ten dollar move in silver is many times more likely to be up rather than down and the next twenty dollar move or more is most assuredly up, not down – regardless of any election results.

There wasn't much net price change since Wednesday's report and as a result, the financial fortunes of the 8 big COMEX shorts remained close to where they were on Wednesday, namely, that the big shorts reduced their total losses by \$1.1 billion from last Friday's close and at \$12.3 billion as of last night's close.

(As a reminder, no report this Wednesday due to travel. Next report on Saturday. Happy Halloween to all).

Ted Butler

October 31, 2020

Silver – \$23.70 (200 day ma – \$20.01, 50 day ma – \$25.41)

Gold – \$1878 (200 day ma – \$1774, 50 day ma – \$1922)

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