September 14, 2022 – Conditions Intensifying

Just about every important factor I follow in silver seems to be intensifying. The factors I consider most important in silver are wholesale physical market conditions, the futures market structure on the COMEX, the physical silver and gold holdings of interests associated with JPMorgan, as well as recent developments in the short position on SLV, the big silver ETF and the status of the massive OTC derivatives position of Bank of America. Not necessarily in order of current importance, let me touch on as many today as I can today.

Not included in my list of important factors are things such as inflation, interest rates, or the dollar. For instance, yesterdayâ??s inflation report, which featured a higher-than-expected rate, ostensibly led to a sharp selloff in gold and silver, which made no sense at all. In fact, with inflation running at rates higher than in four decades and with silver at two-year price lows, the idea of a correlation or causal relationship with silver prices and inflation seems like a stretch too far for me. I will certainly admit that there should be some type of relationship between inflation and silver, but since none is obvious, it makes more sense to question why â?? which leads me to my own list of what best explains the price of silver (and gold).

Since the new quarterly derivatives report from the Office of the Comptroller of the Currency was just released (yesterday I believe), let me start with this. The new report covers OTC (over the counter) precious metals derivatives positions for US banks, with the four leading banks broken out separately, for positions as of June 30. The four banks in question are JPMorgan, Citibank, Bank of America and Goldman Sachs. The relevant data is on Table 21 on page 26 for both reports. Hereâ??s the link for the report for June 30 and underneath, the prior report for March 31 â??

file:///C:/Users/Ted/Downloads/pub-derivatives-quarterly-qtr2-2022-1.pdf

file:///C:/Users/Ted/Downloads/pub-derivatives-quarterly-qtr1-2022.pdf

Hereâ??s my take â?? since the inclusion of gold back into the precious metals category starting with the first quarter report (after 7 years), most transparency as to silver positions have been made opaque â?? not in the first quarter report for silver as far as Bank of America was concerned, but definitely in the new report for June 30.

Since the report lists holdings by dollar amount, the first thing one must do is monitor the closing prices for gold and silver over the quarter and adjust positions accordingly. In this case, since gold prices fell $142 (7.3%) and silver prices fell $4.75 (18.9%) from March 31 to Jun 30, the holdings of the banks â?? were there no change in holdings â?? should have been down by those amounts. As it turned out, there was a massive decrease in the holdings of JPMorgan of some $80 billion (from more than $330 billion to less than $249 billion or 25%), so I would conclude that JPMorgan has continued its exit from OTC derivatives, having also retreated from COMEX dealings and is content to sit with its physical gold and silver holdings.

But the three other listed banks featured an increase in holdings (despite the decline in gold and silver prices), with Citibank up by nearly $6 billion (5.2%) to $120 billion and with Goldman Sachs up by $12.5 billion (200%) to $18.6 billion and with BofA up by nearly $10 billion (25%) to $39.1 billion. Remember, these are real increases, since the lower prices on June 30 should have resulted in a reduction of holdings in ounce terms, all things being equal. Bottom line is that JPM is reducing, the others are increasing OTC derivatives.

My take on all this is that the report is now so opaque, thanks to the inclusion of gold back into the precious metals category, that worthwhile analysis is impossible (at least for me). I believe that Goldman Sachs and Bank of America must have sharply increased their gold derivatives holdings and not silver, because no one could be so dumb â?? not even Bank of America â?? to have sharply increased silver derivatives holdings (at least on the short side). And I still believe the dummies at Bank of America are holding a billion oz short position in silver. Unfortunately, I believe the OCC changed its methodology for the precise purpose of muddying the waters in response to BofAâ??s shockingly large silver derivatives position. After all, the OCC had every opportunity to point out why my allegations about Bank of America were wrong and failed to do so. What better way for a government regulator to deal with a serious problem than to change the source of the problem â?? its own data â?? so as to make the problem disappear? Itâ??s something, Iâ??m willing to bet, the CFTC would love to do with the COT report.

The bottom line on all this is that I doubt the OCC report will ever be as meaningful as it has been until now, thanks to the deliberate efforts of the OCC to include gold in the precious metals category after a seven-year absence. And since the OCC is part of the US Treasury Dept, like the US Mint, Iâ??d put the muddying of the derivatives report on a par with the Mintâ??s refusal to produce as many Silver Eagles as required. Iâ??m just glad I was able to uncover just how dumb Bank of America was in shorting silver before the report was deliberately mucked up (although a similar word might be more appropriate).

Turning to the new short report on SLV, the big silver ETF, there was another massive increase in the short position of 9 million shares to just over 60 million shares (ounces) â?? where by all rights, there should have been a sharp decrease. In terms of shorted shares to total shares outstanding (506 million), the percentage rose to just under 12%. Â So, both on a raw number of shares held short and as percentage of shares shorted to total shares outstanding, new ignominious all-time records were hit. Let me make this clear â?? never has there been a larger short position on SLV.

https://www.wsj.com/market-data/quotes/etf/SLV

As a reminder, the price of silver and SLV fell more than $2 over the two-week period ending on Aug 31, which was also the lowest price in more than two years. Accordingly, this would have been an ideal time for the short seller(s) in SLV to have bought back recently added short positions in the just-reported period. Because there was another sharp increase in the short position, this just reconfirms my take that the shorting has little to do with trading profits and everything to do with there not being enough physical silver available for deposit into the trust, forcing the short sales in lieu of required metal deposits. This a clear case of manipulation and fraud.

As a result, I took the occasion to write for a third time in little more than a month to the chairman and general counsel of the Securities and Exchange Commission to allege that BlackRock, the sponsor of SLV, was in stark breach of its fiduciary responsibilities, not only to shareholders of SLV, but also to shareholders in BlackRock (BLK) itself, since no management fees are paid on shorted shares, depriving BLK shareholders of millions of dollars in SLV management fees.

I also took the occasion to send a copy of my third letter to the SEC to both the CEO and president of

BlackRock, as well as the attorney BlackRock engaged more than 11 years ago on my last go-around with BlackRock on the short position on SLV. I did get an email delivery failure to one of the two attorneys on my email (11 years is a long time and he could have changed firms or passed away), but there were no delivery failures to the second attorney or to the principals at BlackRock.

As an aside, whenever I uncover issues, I believe to be important in silver, such as the short position in SLV, or on the COMEX, or the many illegal acts of JPMorgan over the years, I always go right to the top â?? writing directly to the CEOs of JPMorgan, BlackRock or the CME Group, or to the chairmen of the CFTC and SEC, as important issues should go to the top person or persons. Generally, these top people are the most informed and, in a position, to do something about important matters. Most times, I donâ??t hear anything back, but thatâ??s not necessarily bad and is much preferred to hearing that I may have misstated the issue (not in 14 years anyway). Just because I may not hear back, doesnâ??t mean that things are not getting addressed.

While I can understand how many might interpret my new campaign against the massive short position in SLV as implying it should not be bought or held, please allow me to state otherwise (although this is not meant as investment advice on SLV or any other security). The truth is that I find the massive short position on SLV to be potentially quite bullish. For one thing, I believe that BlackRock has a lot more incentive to crack down on the short position in any way it can, both as a result of it revising the prospectus on SLV in Feb 2021 and its leading role in the world of finance.

As the largest money manager in the world, with close to $10 trillion in total assets (maybe a little less after yesterdayâ??s markets), BlackRockâ??s reputation is super-important and it makes no sense for it not to address a growing potential problem for an investment vehicle (SLV) that constitutes less than one-tenth of one percent of its total assets. Besides, if my contentions are accurate (as I believe them to be) and that the short selling in SLV is manipulative and fraudulent, BlackRock may be exposing itself to serious legal liability if it fails to act. Not from me, because Iâ??m in no position to take on BlackRock (or JPM or the CME Group), but there are institutional investors in SLV, both past and current, who may be in position to take on BlackRock, should it be shown it failed to act to root out fraud and manipulation in one of its trusts. Â These are issues I believe I may have raised before, so let me introduce what might be considered a new reason for why the large and manipulative short position in SLV might prove to be profoundly bullish ahead.

Over the past less than two years, weâ??ve all witnessed a phenomenon never seen before in the meme stock experience. Never before had millions of smaller retail investors alighted on a select group of stocks â?? of companies with less than stellar business prospects (a polite way of saying absolutely garbage companies) â?? like GameStop, AMC (movie theaters) and Bed, Bath and Beyond and driven the share prices to astronomical levels. GameStop rose from under $5 to over $500 in less than a year, with no notable improvement in its core business.

What may get overlooked in the meme stock phenomenon is that the distinguishing characteristic of its origin was the common denominator of each selected stock having a very large short position. And for perhaps the first time in history, a bunch of little guys beat some pretty heavy hitters who were on the short side of these stocks, with the big guys throwing in the towel and covering short positions that drove prices even higher. The ironic thing is that, based upon the actual underlying (mostly rotten) business prospects of the meme stocks, shorting the stocks made sense. But in the end, the actual business prospects mattered little and the shorts were forced to cover.

It wouldnâ??t surprise me in the least if the current obscenely-large short position in SLV were to come to collective investor attention some time soon. Only it wouldnâ??t necessarily take the form of many Reddit or Robin Hood-type traders going up against the big boys, as I can see a joining of many smaller retail traders with larger institutional traders taking on the very few large short sellers in SLV. Thatâ??s because, unlike the rotten real fundamentals of the meme stocks, silverâ??s actual supply/demand fundamentals have never been better. Think of it â?? great fundamentals plus a large and completely unjustified massive short position. As Iâ??ve mentioned too many times in the past â?? if silver conditions didnâ??t exist as I just laid them out, I couldnâ??t make this up if I tried.

And far from making anything up, silverâ??s fundamentals being better than any time in history at the same time the short position in SLV has never been larger is plainly factual. But wait (as the Flexi-Seal guy on TV says), thereâ??s more, as I alluded to on Saturday. Another common denominator of the meme stocks was an avalanche of call option buying and unless Iâ??m mistaken, no silver common stock-type investment has an existing call option infrastructure as large or as well-defined as in SLV. (And I should know, having thrown out the window countless dollars on Kamikaze-type call options). Let those who choose to bad-mouth SLV say anything negative they wish to say, but if meme stock-type buying comes to SLV, negative words wonâ??t matter much.

Still, the main pricing force in silver remains COMEX futures positioning and that too is the most bullish it has ever been, what with near-record large managed money shorting and record low concentrated commercial short selling evident in the latest COT report. Therefore, I was perhaps the least-surprised guy in the world about Mondayâ??s price surge higher, with my only surprise being the lack of follow through yesterday. One thing Iâ??ve been thinking about of late, but havenâ??t mentioned yet is the current standing, profit-wise, of the managed money short position.

Best I can figure is that the managed money silver shorts added on the monthsâ?? long decline in price of roughly 45,000 contracts (out of the total 58,600 short contracts in last weekâ??s COT report) has an average price of around $20 or so, taking the recent whipsaw of more than 16,000 short contracts bought back into August 16 and re-shorted some $2 lower. At the recent price lows of less than $17.50, Iâ??d estimate the collective open (unrealized) profit of the 45,000 short contracts added were close to $600 million, by far the largest open profit held by the managed money traders on the short side of silver.

The better than $2 rally off the silver price lows over the past week has resulted in a give-back of around $450 million of the open $600 million collective profit on the managed money short 45,000 contracts added – leaving a remaining open profit of $150 million at a $19.50 silver price. At $20 or $20.25 or thereabouts, the open collective profit would disappear completely. As I mentioned not too long ago, the managed money traders tend to be highly-in tuned to risk in general and are loath to turn a big open profit into a big realized loss. Yet that setup seems quite possible or even likely in silver.

One thing to keep in mind about the managed money traders is that they manage or guide the trading decisions of other peopleâ??s money â?? hence the name of the category. Should they allow the former big open profit on their short position in silver to turn into a big realized loss (should silver prices suddenly surge higher as I expect), the question of legal liability arises. (Similar to the potential legal liability that BlackRock may face if it does nothing about the short position in SLV, after being notified). This is the new thought running through my head about the large short position of the managed money traders in COMEX silver.

Letâ??s face it – no rational person could economically justify a massively-large short position on silver at this time, with current circumstances and its super-depressed price. I suppose that one might attempt to justify a massively large short position in the mumbo-jumbo terms of a technical trader, but should that trade blow up to the upside, how the mumbo-jumbo technical terms and explanations would sound in a court of law might be another matter altogether. Of course, this is all speculation on my part, but I do believe the numbers are correct as Iâ??ve presented them.

Therefore, the critical issue is what the managed money shorts in silver do next. As Iâ??ve represented often, I donâ??t recall them ever collectively profiting on a realized basis in the past, even after holding silver short positions with substantial open profits.Â Iâ??m further convinced that the ongoing silver price manipulation of the past 40 years has featured collusive commercial dominance over the managed money traders, so if the managed money traders were to prevail this time, it would be for the very first time and would involve the commercials selling at lower than current prices â?? something that strikes me as near-impossible to imagine.

As far as what to expect in Fridayâ??s new COT report, after detecting very little managed money short covering through Friday, Mondayâ??s sharp price move higher and on high-volume trading led me to believe much more substantial managed money short covering that day, particularly considering the upside penetration of the 50-day moving average. Initially, I thought that as many as 10,000 to 15,000 managed money shorts were covered. Later, however, I was somewhat surprised to see that total open interest only fell by 1837 contracts on Monday, suggesting that the managed money short covering was not as large as feared (although I know full-well that changes in total open interest canâ??t always be relied on for net positioning changes).

Yesterdayâ??s selloff on high trading volume only confused me even more as to what the managed money traders did or didnâ??t do in silver. So, I have no strong feelings, other than to hope that Fridayâ??s COT report doesnâ??t feature heavy manage money short covering and I will read â??em and weep (or celebrate) on Friday. Trying to read whatâ??s on the managed money short tradersâ?? minds is a game whose results will be known on Friday. On one hand, they should be covering like crazy, but on the other hand, after just getting whipsawed pretty good into mid-August, maybe they are holding onto to shorts out of fear of another whipsaw. I donâ??t detect much managed money buying in gold, given that its price performance was much weaker than seen in silver and no key moving average upside penetrations were recorded.

Not for a moment have I lost any of the super-bullish enthusiasm towards silver that Iâ??ve displayed recently and every day seems as good as any for the blastoff.

Ted Butler

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Silver – $19.55Â Â (200 day ma – $22.22, 50 day ma – $19.19, 100 day ma – $20.56)

Gold – $1707Â Â Â Â Â (200 day ma – $1834, 50 day ma – $1751, 100 day ma – $1801)

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