September 5, 2020 – Weekly Review

A late Friday afterhours rally trimmed losses for the week, but both gold and silver finished lower on the week; with gold down by $33 (1.7%) and silver lower by 65 cents (2.3%).

The relative outperformance of gold caused the silver/gold price ratio to widen out by nearly a full point to just under 72 to 1, still essentially at three year lows favoring silver and down an astounding 53 points from the JPMorgan price jam job into mid-March. Not to put the kiss of death on it in the short term, itâ??s more than notable that on recent selloffs, silver has held up remarkably well relative to gold than it has in the past.

I continue to be amazed at the explosion of commentary on the Internet, mostly in the form of podcasts and YouTube videos focusing on the COMEX and JPMorgan and topics usually discussed on these pages. On the one hand, I find the outpouring of commentary extremely beneficial in that the focus is where it should be. On the other hand, I am quite taken aback by most of the explanations and conclusions reached about COMEX deliveries and the functioning of the silver and gold ETFs.

Iâ??m still most amazed by conclusions that the COMEX is about to fail, or that there is no gold or silver in the publicly-traded ETFs, or that London trading is ten times the size of COMEX trading. The hard data, or science if you would prefer, point otherwise.

In gold, more physical metal (29 million oz) has come into the COMEX-approved warehouses (most likely from London) than has come into the worldâ??s gold ETFs these past several months. Ditto with the explosion of deliveries of gold against COMEX futures contracts. If anything, that would seem to point to the COMEX extending its pricing influence compared to London. And as I have explained, the connection to the surge in physical metal coming into the COMEX gold warehouses (which I still believe may have peaked) and the explosion in futures deliveries still seems to be the concentrated short position of the 8 largest traders in COMEX gold futures. If thereâ??s an alternative explanation that ties all these factors together, I sure havenâ??t heard it.

Far from defaulting or failing, the surge in both gold and silver inventories in the COMEX and deliveries would seem to strengthen the role of the COMEX, certainly compared to London. Same thing with the holdings in the ETFs, which despite full bar listings in the largest silver ETF, SLV, there is a continuing outcry that thereâ??s no metal there.

Invariably, those claiming there is no real metal in the SLV, always and I do mean always, just happen to have a competing investment scheme to offer. Look, holding metal in hand is best if the quantities remain relatively low, but not for large amounts. Iâ??ll not publicly identify the biggest culprits of this â??SLV is bad, my deal is betterâ?• but write to me and Iâ??ll give you a few examples. That said, Iâ??ve yet to run across any critic of SLV that doesnâ??t just happen to have an alternative storage plan to offer â?? no exceptions. As I said, itâ??s good more are focusing on the COMEX and SLV and JPMorgan, but would it be too much to ask that they stick to the hard data and science.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses exploded this week to what appears to have been the largest weekly movement ever (certainly over the past year or so), as 17.8 million oz were moved and total inventories rose by 9.5 million oz to 351.7 million oz â?? another all-time high. Not coincidentally, silver holdings in the

JPMorgan COMEX warehouse rose by 3.8 million oz to 171.1 million oz, also a record.

Itâ??s now been about 12 years since Iâ??ve identified JPMorgan as the big kahuna (crook) in gold and silver (as a result of its takeover of Bear Stearns) and if there is a single category in anything silver or gold related, whether in New York, London or Timbuctoo, where JPMorgan is not the dominant participant, then that would be news to me.

On an annualized basis, this weekâ??s physical movement equals 925 million oz â?? equal to or greater than total annual world production â?? mine plus recycling. How is this not the focus of every silver analyst and commentator â?? particularly after I recently wrote about it publicly? How can any commentator, for instance, talk about two or three million American Eagles being sold in a month or a decline in a countryâ??s mine production of close to that same amount completely ignoring the 84 million oz of physical silver moved into and out from the COMEX silver warehouses over the past 7 weeks? I just donâ??t get it.

As for why such enormous amounts of physical silver are being shuffled into and out from the COMEX warehouses, the most plausible explanation I can come up with is due to industrial user demand. No doubt there is some investment demand, which would account for why COMEX inventories are growing, but the withdrawals would seem to come from users (although any users preemptively building stockpiles and leaving the metal at the COMEX would also contribute to growing inventories).

The holdings in the COMEX gold warehouses declined this week by about 300,000 oz to 36.9 million oz, with JPMorgan accounting for about 170,000 oz of the reduction, as the totals in the JPM warehouses declined to 13.23 million oz. After surging from 8.5 million oz to 36.6 million oz from March to about six weeks ago, the COMEX gold warehouse inventories appear to have stabilized (as I have been hinting at for the past few weeks and even before that). Of course, itâ??s still too early to know for sure, but it does seem that the surge in COMEX gold warehouse holdings are quite close to what the concentrated short position of the 8 largest traders was when the unusual physical inflows first began.

My speculation has been that the 8 big gold shorts were forced by the regulators to show they had the metal as a market safeguard against the documented losses they were incurring as a result of the published concentration data and rise in price. And while we have seen recent growth in the COMEX silver warehouses, itâ??s possible the growth in silver inventories is more related to delivery demands in the September contract, either by investors or users (industrial users played no part in the tremendous increase in COMEX gold inventories, because there are, effectively, no industrial gold users).

Because the financial damage to the 8 big shorts came almost exclusively from the gold side until less than 2 months ago when silver rallied sharply, it makes sense that the regulators would have demanded that the big shorts prove they had the gold to back up their short positions that were deeply in the red. That raises the possibility that should silver hold or rally from here, the regulators might require the big shorts to bring in and show that they have the physical silver to back their now-recently losing short futures bets. To that I would say good luck, as it seems highly unlikely that 350 million oz of physical silver can be brought in by the big shorts, where it was highly likely they could bring in the physical gold.

Turning to the deliveries in the September COMEX silver futures contract, the good news (as far as

Iâ??m concerned) is that after more than a week, JPMorgan has not shown up as an issuer in its house account. Customers of JPM are, by far, the dominant entities on both the issue and stop side, but fairly even with around 4000 contracts on each side, or about 45% of the total 8800 deliveries. Did I ever say that JPMorgan dominated every aspect of silver and gold? With only around 1700 contracts still open in the delivery month, it would appear total deliveries will fall far short of the 17,000 contracts delivered in July.

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

Another of my recent speculations has been that the rapid growth of the physical silver holdings in the worldâ??s silver ETFs was cooling off as a result of JPMorgan reaching the limit of its regulator-ordered disposal of 300 million oz (leaving the crooks at JPM with 700 million oz). As ongoing, but still tentative proof I pointed to the cooling off of deposits into SLV over the past month or so, in which weekly deposits had trended progressively lower, following the great surge of 225 million oz deposited up until then. This week, there was a net 7.3 million oz withdrawal from SLV, including 9.3 million oz being withdrawn over the past three days.

Last week, I discussed how 9.3 million oz had been withdrawn from SLV over two days and given how the discount of 7% or so as a result of the cumulative management fee since inception 14+ years ago, meant that an individual entity or entities was likely dealing in lots of 5 million shares. The same discussion applies this week as the 9.3 million oz withdrawn from the SLV over the past three days equals 10 million shares â?? a very round number.

My most plausible explanation is that a large entity or two, converted 10 million shares of SLV into 9.3 million oz of physical silver in order to hold the metal on a likely cheaper and fully allocated basis, rather than pay the 0.5% annual management fee and be holding the metal in the form of unallocated metal as part of the trust. Such a conversion would be highly intelligent â?? the right thing to do â?? for a large long term holder. The only question I have was the entity a long term institutional-type investor or an industrial user? Either would be bullish, but an industrial user even more so.

Turning to yesterdayâ??s Commitments of Traders (COT) and Bank Participation reports, there were no giant surprises, but there were other things worth talking about. As a reminder, gold and silver prices were quite strong over the reporting week ended Tuesday, having risen as much as $80 and $3 respectively. Therefore, it would be expected that there would be managed money buying and commercial selling and that is what we got, mostly, in terms of commercial selling in both gold and silver and managed money buying in gold. But the managed money traders in silver defied expectations (again) and were small net sellers. Fortunately, the commercial selling was less than what I feared was likely and conformed t expectations that there wouldnâ??t be significant changes in overall positioning.

In COMEX gold futures, the commercials increased their total net short position by a moderate 11,000 contracts, to 277,400 contracts. There was a bit of a twist in that the smaller commercials which I refer to as the raptors, added nearly 13,000 short contracts, after being fairly aggressive buyers the prior 5 weeks. And in a another slight turnabout over the same 5 prior weeks, the 8 big shorts bought back nearly 1900 short contracts and held a concentrated short position of 227,845 contracts as of the cutoff. Â JPMorgan sold about 3000 gold contracts and are now completely flat gold on the COMEX.

The managed money traders bought just about contract for contract what the commercial sold, as these traders bought 10,893 net gold contracts, consisting of the purchase of 2120 new longs and the buyback and covering of 8773 short contracts. The managed money net long position is still slightly below 100,000 contracts level and close to 150,000 contracts less than at the price highs of February, not suggestive of further big selling from here. The other large reporting traders sold about 1000 net contracts, but still managed to add 2439 gross long contracts to what is still a near record long position. It will be interesting to see if these traders sold on the price weakness since the cutoff.

In COMEX silver futures, the commercials increased their total net short position by 4000 contracts to 51,800 contracts, the highest level in a month, but not very much considering silver prices rose as much as nearly $3 over the reporting week. And, in breaking with recent positioning, the 8 largest shorts increased their concentrated short position by just over 3500 contracts to 70,907 contracts (just under 355 million oz). The smaller commercials (raptors) in silver who were are long, sold 500 of their longs, leaving them with 19,100 net longs. This weekâ??s increase in the big 8 short position was courtesy of the 5 thru 8 largest traders, as the big 4 actually bought back 100 contracts. As was the case in gold, JPMorgan appears to have sold out its paper long position of 2000 contracts and is now flat both gold and silver on the COMEX.

The biggest surprise in the COT report was that the managed money traders were net sellers of 493 contracts, consisting of the new purchase of 53 long contracts the new sale of 546 short contracts. Accounting for the lack of buying by the managed money traders versus the 4000 contracts sold by the commercials was the other large reporting traders and the smaller non-reporting traders, which bought 2628 and 1867 net contracts respectively. I would imagine it was these traders which were big sellers on the price weakness since the cutoff.

Finally, the biggest takeaway from the Bank Participation report was additional shorting by the US banks in gold and silver, but buying back of shorts by the non-US banks. My guess is that was explained by the reclassification of a foreign bank to the US bank category (possibly Scotiabank). The whole thing would be transparent if the CFTC provided a list of banks it considers US and non-US.

For sure, the price weakness since the cutoff in both gold and silver looked highly orchestrated. Iâ??m sure there is some question as to how the crooked COMEX commercials are able to pull this off in the face of the ongoing spoofing crackdown by the CFTC and Justice Department. As maintained previously, spoofing is but one tool in the commercialsâ?? bag of dirty tricks. Spoofing involves the placement of orders intended not to be filled (executed) for the purpose of influencing (manipulating) prices, followed by the very quick cancellation of those orders.

What led to the big cases against BankAmerica/Merrill Lynch, Scotiabank and others, including the pending case against JPMorgan was the retroactive enabling of the regulators to go back over the detailed trading records to see which orders were entered and then immediately canceled. The retroactive review enabled the regulators to take their time and identify all the orders entered and immediately canceled â?? catching the COMEX commercial crooks flat footed and without any real defense. But despite getting caught flat-footed and dead to rights by the trading records, no one would accuse the crooked COMEX commercials as being dumb (â??lemme tell ya, them guys ainâ??t dumb, maybe get a blister on their little finger, maybe get a blister on their thumbâ?•).

Because the COMEX commercial crooks are far from dumb, all they had to do was revise slightly their spoofing dirty trick. What that meant was no more immediate canceling of orders not intended to be filled – leave the orders in without immediately canceling them. This way disruptive and manipulative orders could still be placed, intended to artificially influence price and the clueless regulators would be none the wiser. Call it spoofing 2.0.

I also seriously question whether the regulators even want to uncover the institutional manipulation of the silver and gold markets out of fear for what that might mean for the manipulators, particularly JPMorgan. As I previously explained, should the regulators find JPMorgan and the other COMEX commercial crooks guilty of what they have actually been guilty of, namely, the long term suppression of prices â?? all these banks would be sued out of existence â?? not something the regulators would want in any circumstance.

Accordingly, I was saddened to hear a commentator recently state that investors would be given a green light to sue JPMorgan once a settlement was announced. If that settlement is spoofing specific (RICO charges or not), as I would imagine, unless you can prove personal damage by a specific spoofing incident, the odds of prevailing against JPMorgan on legal grounds are remote, to say the least (unless you are a lawyer getting paid by the hour).

Still, all is not lost. Even though the thought of the CFTC or Justice Department stepping up to the plate and actually doing the right thing is as remote as the far reaches of the solar system, other forces are in pace that are much more encouraging. Here we are, substantially higher than we were in gold a year ago and in silver a couple of months ago and the big manipulative commercial shorts (sans JPM) have taken it in the teeth and the prospects for them, particularly in silver, look dismal.

Sure, they can rig prices in the short term with their revised spoofing tricks (just donâ??t cancel immediately), but that will only carry the crooks so far. What they need is big selling from those which used to sell in the past and according to the published data, such heavy managed money and other speculative selling doesnâ??t appear likely. And if the physical turnover in the COMEX silver warehouses and conversions of shares into physical metal in SLV involve industrial users, these big commercial shorts are bound to end up with more than a blister on their little finger.

The price weakness this week did reduce the total realized and unrealized losses of the 8 big shorts in COMEX gold and silver by $1 billion, to $15.1 billion, but that canâ??t be a cause for high fives, as the total losses are many times the cumulative gains achieved by these crooks over the past years and decades. If these guys were so smart, they wouldnâ??t be in the predicament they find themselves in.

No one can rule out a test of the 50 day moving average, particularly in gold, as itâ??s only $30 below closing prices and was less than $15 below the intraday low of yesterday. That said, the last time the 50 day moving average in gold was penetrated to the downside in June, the penetration was shallow and not long-lasting and we are close to the same net managed money long position today as we were back then.

Ted Butler

September 5, 2020

Silver – $27.10Â Â Â Â (200 day ma – $18.56. 50 day ma – $23.89)

Gold – $1940Â Â Â Â Â Â Â Â (200 day ma – $1693, 50 day ma – $1910)

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