September 8, 2021 – A Gold Whale Surfaces

Compelling data in recent Commitments of Traders (COT) reports point to the emergence of a very large buyer in COMEX gold futures. The last four COT reports, starting with the report for positions held as of Aug 10, show a dramatic increase on the long side in gold for the 4 largest traders (not to be confused with the concentrated short position I speak of regularly, particularly in silver).Â Data over the past 4 reporting weeks indicate that a large non-commercial trader has amassed as many as 40,000 COMEX gold contracts, the equivalent of 4 million oz of gold.

In addition to the concentrated long position being among the highest on record, even more interesting is that the sharp increase began during the reporting week corresponding to the recent deliberate smash down in gold and silver prices into Aug 9. What this indicates is that the large non-commercial trader, most likely included in the Other Large Trader reporting category, bought most aggressively into that price smash â?? apparently by design.

For the record, nearly 40,000 contracts of COMEX gold futures, the equivalent of 4 million oz, has a total notional dollar value of $7.2 billion (at $1800 per oz) and each dollar move higher or lower would equate to $4 million for the holder, and $400 million for each $100 move in the gold price. Minimum initial margin requirements would run $8250 per contract or $330 million for 40,000 contracts. My best guess is that the position in question was acquired at roughly a $1770 per oz average price.

At the same time the data in the last four weekly COT reports have indicated that a large non-commercial entity has amassed up to 40,000 contracts of COMEX gold futures, a prominent large investor, John Paulson, has been quite vocal about the future prospects for sharply higher gold prices and is someone who is quite capable of amassing such a large COMEX gold position. In addition, Paulson has publicly remarked that he intends to deploy leverage designed to produce an ultimate return on gold of 25 to 50 times his original investment. Certainly, a large core long position in COMEX gold futures, perhaps augmented with other derivatives positions, such as options, would seem to provide the opportunity for such outsized returns.

While I still hold out hope that Paulson or others would see the even greater opportunity that silver offers, his gold play does seem well-timed and thought out. However, were the buyer of the 40,000 gold contracts chosen to have tried to purchase the same notional value ($7.2 billion) of silver instead of gold, he or she would have to purchase 300 million oz of silver (60,000 contracts) instead of 4 million oz of gold. Whereas COT report data indicate 4 million oz of gold futures was purchased by a large trader over the past month without any severe price disruption, the same dollar amount ($7.2 billion) is too large for silver.Â Thatâ??s how ridiculously undervalued silver is to gold or anything else. There is so little available silver in the world that a large dollar amount purchase of the type just witnessed in gold could not be accommodated in silver without blowing the roof off of prices.

I am particularly impressed that the large long gold futures position was established and added to on the deliberate price smash into Aug 10 â?? almost as if the buyer was waiting for it to begin to accumulate on lower prices. Make no mistake, whoever the buyer is, itâ??s safe to say that it is not a momentum or technical type trader buying price breakouts and who is likely to sell on price breakdowns.

Buying into a severe price decline connotes the actions of someone interested in accumulating at lower prices, along with the implication of holding the position for however long it takes before true value is achieved. These are hallmarks for Paulsonâ??s past market plays. Long a gold advocate, Paulson was the largest holder of GLD, the big gold ETF in past years, but if he is the big whale in COMEX gold future, as I suspect, that is something new.

Whoever the big recent buyer of COMEX gold futures may be (the identities of large traders, long or short, are not disclosed by the CFTC), the fact that the aggressive long accumulation began on the large recent price drop is noteworthy because it is a stark departure from more typical long accumulations which took place on higher prices, only to be later dumped on lower prices â?? the old wash/rinse/repeat price cycle weâ??re all familiar with. Buying low is not the hallmark of the managed money technical funds who usually get hoodwinked and snookered by the commercials.

Perhaps more importantly, the large purchase of gold futures contracts occurred at prices well-below the year-to-date price highs and goldâ??s all-time price highs of a year ago. Therefore, regardless of the large number of contracts involved, no allegations of upside price manipulation could be made. No position limits were exceeded (largely because there are no position limits to speak of), so no violations as far as position limits appear possible. While I canâ??t know for sure, I doubt future conversions of futures into physical gold via deliveries are contemplated, as this would destroy the benefits of leverage.

Since I rely on verifiable public data, such as exist in the COT reports, that also means that I have no â??inside sourcesâ?• who have tipped me off to this large purchase of gold futures. I regularly review the long concentration in gold and silver, just as I do on the short side and I will continue to monitor these data on an ongoing basis. Thatâ??s not to say, however, that the leading commercial traders on the COMEX, particularly those on the short side of silver, are not now keenly aware of this large purchase â?? how could they not be?

Should gold prices surge higher in the future as the buyer of the gold futures contracts obviously anticipates, the large purchase threatens to upset the well-oiled machine on the COMEX in force for decades in which the commercials continuously hoodwinked the managed money traders into and out from positions. In a real sense, the large purchase by non-technical type traders will only add to the burden of the commercial shorts to provide enough new short positions to prevent prices from rising. Â As word of the large position gets out, as is likely, other large traders should also become interested in gold. And if it is Paulson, who wouldnâ??t want to piggy-back on a trade from someone who single-handily netted $20 billion in his famous bet against subprime mortgages in the Great Financial Crisis?

Of course, it remains to be seen if the recently purchased large number of COMEX gold futures contracts is a flash in the pan or a clear-cut signal for whatâ??s to come, but gold (and silver) have lagged notably in a world where every manner of assets and supposed assets have surged. The buyer of these gold contracts would appear to be in the camp believing thatâ??s about to change. It certainly threatens to undermine the control the commercials have exerted for decades.

Obviously, the establishment and existence of this new concentrated long position in COMEX gold futures is no assurance against continued deliberate price rigs to the downside â?? as is clearly evidenced in yesterdayâ??s (and todayâ??s) engineered price smash. In fact, a pretty good argument could be made that the emergence of the big gold buyer would intensify the need of the big shorts to â??clear the decksâ?• and flush out to the downside any technical long hangers on.

Even if the new buyer is as resilient as I suspect and engaged in a long game, that wouldnâ??t necessarily eliminate the need for the COMEX commercial shorts to try to maintain continued price control and try to whip out from the market any price momentum buyers. But at the same time, someone emerging who is willing to take on the commercials in a different manner is highly encouraging and which is, simultaneously, both long overdue and unexpected at this time.

Moving on to other developments, last nightâ??s 2 million oz redemption from the big silver ETF, SLV, looked strangely out of place. The volume on Fridayâ??s sharp rally suggested a deposit instead and yesterdayâ??s selloff on lighter (but still heavy) volume pointed to a withdrawal, but not last night., My best guess is that last nightâ??s redemption was a conversion of shares to metal to avoid SEC reporting requirements. On a longer-term basis, however, the standout feature is in just how steady the total physical holdings in the worldâ??s silver ETFs have remained this year after the absolutely phenomenal inflows of 500 million oz from the spring of 2020 to this past February â?? all while there was a fairly substantial decline in gold ETF holdings.

As debilitating as the never-ending engineered price smashes may be, it is instructive to note that, increasingly, they seem to be confined to CME Group markets. Certainly, Iâ??m not aware of such deliberate and blatant actions in other assets, where the opposite seems to be occurring, namely, an all-out effort designed to increase prices. Iâ??m particularly sensitive to know-it-all sounding comments suggesting that one never hears complaints of price manipulation when gold and silver prices are rising, only when they fall. Thatâ??s hogwash.

The whole premise of precious metals manipulation, at least as far as Iâ??m concerned, rests on the case that the big COMEX commercial shorts have never bought back short positions on higher prices, only on lower prices. This is easily verified in official US Government data (COT reports). Iâ??m not aware of this phenomenon in any other markets, but even if it did exist, it would hardly excuse what has occurred in COMEX silver and gold.

Therefore, the biggest â??tellâ?• of the COMEX silver and gold manipulation is that there has never been collective short-covering by the big commercial shorts on higher prices, well, ever. To claim there are never complaints about manipulation when gold or silver prices rise is particularly disingenuous and simply does an attempted end-run around a remarkably clear market fact, namely, that the big COMEX shorts have never collectively bought back shorts on higher prices, only lower prices.

This was the essence of my complaint to the CFTC of March 5 (and all my prior complaints), in which I laid out the extraordinary circumstance of only 4 or fewer big shorts on the COMEX being the sole short sellers into the historic price top of Feb 2, creating their largest concentrated short position in a year. The Commission had every opportunity to refute my allegations, but instead implied it was referring the matter to its Divisions of Market Oversight and Enforcement. Now, seven months later, as silver prices have declined steadily ever since, the big concentrated shorts have whittled down their concentrated short position to the lowest level in more than 6 years, thus preserving their perfect record of never buying back shorts on higher prices.

So, hereâ??s a wonderful opportunity for those claiming that no one ever complains about manipulation when gold and silver prices are rising, namely, to explain why never having to buy back short positions on higher prices is a true free market occurrence. I have a strong feeling no such explanation will be forthcoming.

As far as what to expect in Fridayâ??s COT report, yesterdayâ??s price blast to the downside seemed to have completely unwound most of the non-commercial buying that likely occurred on last Fridayâ??s price pop. So, I would not be expecting dramatic positioning changes in the new report. I do think that there were positioning changes as of last Friday, but this reporting week is one where most changes were neutralized by yesterdayâ??s cutoff.

I will be paying close attention to whether my allegation of a reporting error in calculating the concentrated short position of the 4 largest silver shorts is clarified, as well as to what the new big gold whale might have done, if anything.

The price weakness this week has enabled the 8 big COMEX gold and silver shorts to gain back a hefty $1.1 billion at publication time, reducing total losses to $9.6 billion.

Ted Butler

September 8, 2021

Silver – $24.06Â Â (200 day ma – $25.86, 50 day ma – $24.86, 100 day ma – $25.99)

Gold – $1795Â Â Â Â Â (200 day ma – $1810, 50 day ma – $1797, 100 day ma – $1815)

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