April 19, 2023 – Gold Thoughts

While my main interest is on silver, itâ??s hard not to think about gold, considering the age-old connection between the two main precious metals. In addition, our understanding of anything only becomes clearer after the passage of time and events. Itâ??s hard to instantly analyze whatâ??s really happening in the heat of great events.

Such a great event is said to have occurred in gold over the year 2022, in that the worldâ??s central banks have been reported to have bought around 36 million ounces of gold, worth roughly $66 billion, their largest such annual purchase in history and almost triple their purchase the previous year. Moreover, it must be remembered that central banks were net sellers of gold from 1992 to 2008, before turning net buyers thereafter, continuing to this day.

https://twitter.com/ChartMonitor/status/1646488455004790784/photo/1

It also must be remembered that the year 2022 was a tumultuous year, what with Russiaâ??s invasion of Ukraine and other significant events. Ironically, the price of gold started 2022 around $1830 and ended the year at that same price â?? but did rise by more than $200 (to new highs) early in the year, only to sink by more than $400 to the lows of late summer and fall. Thatâ??s an awful lot of price volatility for a year where gold was, essentially, unchanged.

Not intended to be the subject of this article, but it must be mentioned that the massive central bank gold buying, plus the emergence of the highest rates of inflation in decades, along with soaring interest rates and a devastating land war in Europe for the first time in 75 years, apparently had not much to do with the price of gold â?? seeing as it closed unchanged for the year. This only solidifies my contention that futures contract positioning on the COMEX dictates the price of gold (and silver).

The biggest unanswered questions surrounding the epic central bank gold buying was who sold them the 36 million oz and where did it come from? The where is easier to answer than the who, so let me dig into that first. It would appear the vast bulk of the gold that the central banks purchased came from the COMEX gold warehouses and the worldâ??s gold ETFs, including GLD and others.Â Total reported gold holdings fell by roughly 30 million oz in 2022 – source http://www.goldchartsrus.com/gold/TransETFs01.php

Of course, the history of gold didnâ??t start at the beginning of 2022, so itâ??s important to step back a bit further, say to the early part of 2020, and to see that the same recorded holdings in the COMEX warehouses and in the worldâ??s gold ETFs rose even more sharply, by 60 million oz, than they fell in 2022. Remarkably, the sudden spike in world recorded gold holdings occurred over several months in the spring and summer of 2020. Therefore, the real question is where the heck did 60 million gold oz (about half of which came into the COMEX warehouses) come from in the first place?

You may remember that gold and silver prices plunged dramatically into March 2020, with gold hitting $1460 and silver $12, only to reverse sharply and by late summer to more than $2060 in gold (then an all-time high) and $30 in silver. It was against this price backdrop that the massive buildup in recorded gold inventories surged by 60 million oz. Silver was certainly no slouch in the massive increase in recorded inventories, rising by 500 million oz or so, in the spring/summer of 2020, before falling by half that amount (250 million oz) over 2022.

My first observation is the uncanny similarity between the massive inflows and outflows of both gold and silver in world recorded inventories â?? although as regards the outflows of each in 2022, the buyers in gold would appear to be the worldâ??s central banks, while in silver (since central banks are not known silver buyers), I would attribute the silver outflows to have headed to India.

Readers at the time will recall that I gave special attention to the massive inflows of physical gold and silver in 2020, which caused unprecedented turmoil in things related to spread pricing, where the differences between the various months in COMEX gold and silver futures literally blew out to such wide carrying charges (extreme contango) so as to defy reason and basic economics. It was as if mountains of physical gold and silver were being dumped on the market with no regard to price – although, ironically, gold and silver prices surged higher in the face of the dumping into the summer of 2020.

Not only was the spring/summer of 2020 a time of unprecedented inflows of physical gold and silver into recorded inventories, price smashes and prices soaring, along with never-witnessed spread differentials, to this day, I have yet to hear or read of a truly comprehensive explanation for those events. Â I did try to construct such an explanation in silver, at least, settling in on the narrative that the big physical silver inflow was due to a lease transaction organized by interests related to JPMorgan to then-unknown parties. Later, through the OCCâ??s quarterly derivatives reports, I was able to refine my original premise to the party on the opposite side of JPM, which was Bank of America and the entire transaction resulted in BofA being short one billion oz of silver owed to JPM in OTC derivatives. I still stand by that premise.

Admittedly, I waffled on the premise behind the massive inflow of physical gold into recorded inventories in 2020, although I do remember originally thinking it was also a lease generated by JPMorgan. Now, thanks largely to the passage of time and flow of data, Iâ??m convinced the outline of the massive inflows of gold and silver in 2020 are largely the same, namely, as a result of a lease by JPMorgan to Bank of America.

Mainly, Iâ??m relying on the contention that there had to be a common denominator between the simultaneous massive inflows in both gold and silver in 2020, as the thought that two such unprecedented events occurring with no connection is near- impossible. The only question is the specific connection. More importantly, a closer reading of the quarterly derivatives reports from the OCC, including its changing of the reportâ??s methodology in an attempt to shield Bank of Americaâ??s role of being the big dummy fall guy to the sharpies at JPM.

The most recently-issued OCC report for positions held as of Dec 31, 2022, strongly suggests to me that in addition to the billion oz silver short position held by BofA, that it also holds a short gold position of close to 25 million oz. Iâ??ve previously estimated the cost basis for BofAâ??s silver short position to be around $23 and would estimate its OTC gold short position to be around the $1800 level. Simply stated, BofAâ??s total precious metals (gold and silver) OTC position as of Dec 31 was $67 billion and after subtracting the $24 billion that would account for its billion oz silver short position, that would leave $43 billion for gold. Using the $1830 price of gold at the time, that would suggest a 23.5 million oz short gold position. (See table 21 on page 26)

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/index-quarterly-report-on-bank-trading-and-derivatives-activities.html

I know I have been more than harsh in my depiction of Bank of America being complete jerks for allowing itself to get snookered so badly by the sharks at JPMorgan, which is the undisputed most sophisticated market criminal of our time. To my knowledge, until BofA showed up over the past few years in OTC derivatives dealings and on the COMEX, it was a complete non-entity in proprietary precious metals dealings. Just as every established bank dealer seemed to be rushing to exit such precious metals dealings, Bank of America came blasting through the saloon doors in the opposite direction. Yeah, maybe it knew something that the others (who had many hundreds of cumulative years of hands-on experience) didnâ??t know or perhaps (much more likely) that BofA just thought it knew more.

The simple determination for which it is, of course, will only be known in the fullness of time, but in the interim you have to question the wisdom of being heavily short in silver and gold at this particular time and in current circumstances. One would normally think it unwise to be short a billion oz of silver in a developing physical shortage and up to 25 million oz of gold at a time when the worldâ??s central banks seem to be on a buying spree, but maybe itâ??s me missing something.

I know most readersâ?? eyes glaze over whenever the issue of precious metals leasing comes up. Thereâ??s a very good reason for that, namely, such leases are spectacularly absurd and itâ??s hard for intelligent people to conceive that such transactions even exist. Yet this is precisely what looks to be what has gone on between JPMorgan and Bank of America â?? according to the flow of data around physical metal flows and the OCC derivatives reports.

I thought precious metals leasing had seen its demise 20 years ago, when the victims at the time â?? the leading gold mining companies, like Barrick Gold and AngloGold, lost tens of billions of dollars as a result of borrowing gold (and silver) from the bullion banks (led by JPMorgan). The Â way the leasing scam worked is that the miners would borrow metal from the bankers, sell that metal short to convert the metal to cash and use the cash proceeds at an ultra-low interest rate and in which the miners promised to return the metal someday from future production. Everything sounded hunky-dory and I remember Barrick Gold (back when the late Peter Munk ran the company) bragging and boasting about its â??Premium Gold Sales Programâ?•.

But since the leases were nothing more than short sales (borrowing metal and selling it to someone else, with a promise to return the physical metal someday),the gold miners stopped boasting when the metal had to be returned. Gold borrowed and sold short at under $300 ended up being returned at $800 and $1000 â?? costing Barrick $10 billion and the industry as a whole more than $50 billion. Thatâ??s the reason why the miners went from being heavily-involved in precious metals leasing back in the day to today when no miner engages in such chicanery. After having ranted and raved against these crackpot transactions for years and finally seeing it all blow up in disaster (as expected), I thought never would the world engage in precious metals leasing again. I was wrong.

I wasnâ??t wrong about the miners ever resuming leasing/short selling again, as the pain of tens of billions of dollars in losses is not easily erased. Instead, where I was wrong was in assuming some other victim, away from the miners, would manage to step into the leasing/short selling trap. Enter Bank of America. Since no gold or silver miners of size could ever be persuaded to fall into the trap of borrowing and then selling short massive quantities of gold and silver again, JPMorgan (the only entity in position to lend big quantities of gold and silver) turned to an entity that was big and dumb enough to fall for the scam, namely, Bank of America.

Here’s the way I think it went down. Interests related to JPMorgan convinced Bank of America to â??borrowâ?• one billion oz of silver and 25 million oz of gold (quite close to what Iâ??ve always estimated JPM accumulated over a decade), knowing that BofA would then have to sell the metal (short) into the open market in order to convert the metal to cash (roughly $65 billion) which BofA could use as it saw fit. The â??hookâ?• is that lease rates on gold and silver are usually very low, say around 0.5% annually.

JPMorgan, knowing the precious metals leasing scam better than anyone (it has decades of experience), knew that BofA would have to sell the metal it borrowed from JPM (to covert it to cash) and JPM was there with a bushel basket, buying nearly every ounce that Bank of America sold short. The net result of the transaction was that it cost JPM $65 billion out of its pocket to end up with the same billion oz of physical silver and 25 million oz (or more) of gold it originally had, but with the kicker being that in addition to getting back all the metal it leased to BofA, it also picked up a paper long derivatives position that doubled its original physical position. In other words, for $65 billion, JPM, effectively, Â doubled its original physical position by means of a new paper long derivatives position matching its original physical position. Pretty clever. It also explains the massive physical inflows into the world/s recorded inventories in 2020.

What about Bank of America? Well, it has the use of $65 billion at around 0.5% a year (or less), which can be reinvested at much higher interest rates or to make loans, or whatever it wants. That was its motivation for doing the transaction in the first place, namely, the lure of cheap money. BofA also obligated itself to return and repay someday the billion oz of physical silver and 25 million oz of physical gold it borrowed from JPMorgan, as the metals leases are denominated in ounces of precious metals, not dollars. This is exactly the same predicament that the miners put themselves in a quarter-century ago and right up to the bitter end, when gold prices finally soared and the miners took it in the teeth, they thought things were great. Itâ??s hard for me to see how Bank of America fares any better in the end than the miners who leased and shorted metal back then.

OK, enough of the past, letâ??s ponder the future. After the massive outflows from the worldâ??s recorded inventories of gold and silver in 2022, what next? Well for one thing, it does appear the remaining world recorded gold and silver holdings have paused, if not yet reversed the sharp declines of 2022 (along the lines of my bottom of the barrel premise). In any event, it seems unlikely weâ??ll see another year of the sharp inventory declines witnessed in 2022 (although, if that did occur, that would hardly be bearish).

So, having attempted to answer the mostly unaddressed question of where the 36 million oz of gold came from to satisfy central bank buying in 2022 (as well as where all the silver, 300 million oz, that found its way to India), Iâ??m left with a new question â?? where will the next chunk come from after such large withdrawals? After all, the gold and silver remaining in recorded inventories is owned and those owners should need incentives (progressively higher prices) in order to induce them to sell.

Whatever motivated the central banks to be such massive gold buyers in 2022, wouldnâ??t seem to have changed dramatically this year. If anything, the case for central bank gold buying, considering the banking developments of 2023, would seem to have been strengthened. The developing silver shortage, as I consistently maintain, wonâ??t simply go away without substantially higher prices. Therefore, it seems a lot more pertinent to question, not where all the metal came from in 2022, but where it will come from moving forward? More than anything, it appears the â??easyâ?• gold and silver have already been taken for recorded inventories and that it will take higher prices to induce existing holders to sell.

At this point, JPMâ??s physical holdings of one billion oz of silver and 30 million oz of gold means that JPM is ahead close to $30 billion ($23 billion on gold and $7 billion on silver). As hard as it may be to believe, at the bottom of prices just three short years ago, JPMorgan was dead even on its same physical gold and silver holdings.

In addition, I canâ??t help but be amazed about how badly JPMorgan has compromised Bank of America in OTC dealings. The separate OTC derivatives position of one billion oz silver and 25 million oz gold, which I believe JPM is long and BofA is short (at an average price of $23 in silver and $1800 in gold) means JPM is ahead and BofA is behind to the tune of $7 billion at this point ($5 billion in gold and $2 billion in silver).

It’s no secret that gold holds a big advantage over silver, in that gold is an official monetary asset, while silver is not and this explains why central banks buy gold and not silver. It also explains why gold is expensive relative to silver (or silver is cheap relative to gold). The $66 billion worth of gold that central banks purchased last year (leaving the price essentially unchanged) would be impossible to have been put into silver, since there is only $50 billion worth of silver in the world in industry standard 1000 oz bar form ($25 X 2 billion oz). This largely explains why an ounce of gold is 80 times more expensive than silver.

But silver has its own advantage over gold, and while that advantage has yet to kick in, it will someday, most assuredly. Because silver is also an industrial metal, unlike gold, the developing physical silver shortage will, at some point, result in an industrial user stampede to build physical inventories upon the first signs of delivery delays. In this sense, silver must be compared to other industrial metals, like nickel or copper or palladium. The parallels of the coming silver industrial usersâ?? attempt to build physical inventories can be seen in the current retail silver shortage. In addition to sky-rocketing premiums, long delivery delays have become commonplace in the retail silver world.

The important point here is that while investors have become accustomed to wait for retail silver products, most silver industrial users in our just-in-time manufacturing and inventory world simply cannot tolerate delays in silver deliveries. When faced with the delays retail silver investors are currently experiencing, which inÂ most cases is just an inconvenience (as long as you are dealing with a reliable dealer), silver users canâ??t and wonâ??t sit around waiting for actual deliveries, if it compromises overall manufacturing. Apple wonâ??t delay I-phone production for lack of silver, particularly considering the tiny cost-component feature of silver to the finished product. Nobody panics like industrial users in want of a critical ingredient, once wholesale silver delivery delays replicate the current retail delays.

Turning to other developments, the ongoing price manipulation of the past 40 years is still alive and kicking, as is evidenced in the price smack down that began last Friday and continued into early hours today. Since Iâ??m writing this early in the day, Iâ??ll tally up the price action as I get closer to sending this out later.

Hot off the press is todayâ??s just-released world annual silver survey from the Silver Institute. As previewed a couple of months back, the Institute is reporting flat total supply (mining plus recycling) and sharply increased demand growth of 18% or 186 million oz, resulting in the highest silver deficit in modern times of 237 million oz.

https://www.silverinstitute.org/wp-content/uploads/2023/04/World-Silver-Survey-2023.pdf

The survey then goes on to (try to) explain that despite the axiom of the law of supply and demand that more demand than supply (by a large margin) must result in higher prices, that silver prices were lower on average over the year 2022 than the year before. The Silver Instituteâ??s (Metals Focusâ??s) pithy explanation for something that should be impossible under the free law of supply and demand, namely, prices moving lower when demand is greater than supply was due to â??institutional activityâ?• in silver. Isnâ??t that just marvelous? Â I suppose â??institutional activityâ?• sounds a lot more dignified and proper than does blatant price manipulation.

The fact is that the only possible explanation for there being much greater demand than supply and prices falling (as the Silver Institute is reporting), is if someone is monkeying with the price. â?•Monkeying with pricesâ?• is a bland term for what the collusive COMEX commercials do for a living. Â I guess price manipulation is a term to be avoided at all costs in these reports, despite the fact that all the data in the survey point to that inescapable conclusion.

Donâ??t worry, Iâ??m not about to launch into another ramble about the ongoing COMEX silver (and gold) manipulation. By this time, you either see it or refuse to see it. More important is that, thanks to the undeniable facts published by those that obviously refuse to see that silver is manipulated in price (like the Silver Institute), it doesnâ??t matter much any longer who sees the manipulation or not. Thatâ??s because the unalterable effects of what a long-term price manipulation (suppression) in silver has wrought is far more important than who sees it or not.

The reason the Silver Institute is reporting a gaping deficit in silver and flat production growth for more than a decade is precisely because prices have been artificially suppressed and manipulated over this time. Nothing, other than price manipulation, is capable for the specific set of facts laid out in this survey. Itâ??s not possible to have more demand than supply, to a record level, and for prices not to explode higher. The good news for silver investors is that the artificial depressed prices have existed for so long and silver inventories have been so thoroughly depleted that the silver manipulation appears to breathing its last gasps. Any day, week or month is all that stands between where we are in silver prices currently Â and where weâ??ll be looking down at in a very short time. Sure, we have to be prepared for whatever the last tricks the collusive and crooked COMEX commercials may have up their sleeves, but the hard data on actual supply and demand is so compelling that those dirty tricks wonâ??t matter for much longer.

As far as what to expect in Fridayâ??s new COT report, this particular reporting week is difficult to handicap for the reason that we did move to new price highs in both gold and silver over the first two trading days of the reporting week ended yesterday, only to fall back just as sharply over the next two days, Friday and Monday, ending the week virtually unchanged price-wise. Total gold open interest rose by a rather moderate 6000 contracts (1.3%), while total open interest in silver rose by a much sharper near 16,000 contracts (11%).

I do think (hope) much of the increase in total open interest in silver was spread-related, as was the case in the last reporting week. For what itâ??s worth, we have now passed the peak date of phony spread creation in silver and from now until first delivery day of the May contract on April 28, the process should reverse and total open interest in silver â?? all things being equal â?? should decline sharply on spread liquidation.

Much more than the overall positioning changes in Fridayâ??s report, which shouldnâ??t be particularly significant, will be what the 4 big shorts in silver did or didnâ??t do. As I indicated on Saturday, Iâ??m hoping to see no increase and perhaps a reduction in the big 4 short position in silver, which after to developing physical silver shortage, is the key issue for me. Â Iâ??m also hoping to see an increase in managed money shorting in silver.

At the time Iâ??m sending this article out, silver and gold prices have surged back from the depths of the early morning bear raid by the collusive COMEX commercials. Silver has rallied by 75 cents or so from the early price lows and gold is up by more than $25 from its early lows, although both are still down a bit on the week

Ted Butler

April 19, 2023

Silver – $25.40Â Â Â (200-day ma – $21.25, 50-day ma – $22.64, 100-day ma – $23.01)

Gold – $2008Â Â Â Â Â Â (200-day ma – $1802, 50-day ma – $1921, 100-day ma – $1884)

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