April 2, 2022 – Weekly Review/New Thoughts on the OCC Report

Despite world developments long-thought to result in higher prices, gold and silver prices fell sharply this week; with gold down $34 (1.7%) and silver down by a much-sharper 97 cents (3.8%). As a result of silver's relative underperformance, the silver/gold price ratio widened out by more than a point and a half to 77.7 to 1.

Stepping back a bit from the near-overwhelming flow of news that uniformly would suggest higher, not lower prices – like a land war in Europe for the first time in 80 years, attempts to enact some type of gold backing for the Russian ruble and upheavals in interest rates and world trade – it is natural to be puzzled about the sharp decline in gold and silver prices. That is, until one contemplates the main, if not sole driving force for setting gold and silver prices, namely, the positioning of paper contracts on the COMEX.

Simply put, the refusal of the large and concentrated commercial (bank) shorts on the COMEX to ever buy back short contracts on higher prices – no matter what – is the main element explaining why gold and silver prices have not responded in the manner expected. This is a continuing story that not even highly visible physical shortages in silver have been able to overcome to this point, but logic and the law of supply and demand indicate the COMEX paper scam must end at some point, freeing the price.

There is also no doubt that the continuing flow of data from the US Treasury Department's Office of the Comptroller of the Currency's Quarterly Derivatives Report – as pertains to Bank of America – has also played a major role in suppressing the price of silver (and likely gold). I'll introduce some new thoughts on BofA separately.

The turnover or physical movement of metal either brought into or removed from the

COMEX-approved silver warehouses accelerated this week as nearly 7.2 million oz were moved, the most in nearly 3 months. Total COMEX silver warehouse holdings slipped by 0.7 million oz to 339.6 million oz, another new low extending back to Aug 2020. But I would still contend that it's not the ocean (total holdings), but the motion (the movement) that's the real story here – a story most strangely ignored in just about every corner of the blogosphere.

I still contend the incredible and unprecedented movement of physical silver over the past 11 years indicates extremely tight physical conditions. Perhaps not at all coincidental, the level of silver in the JPMorgan COMEX warehouse slipped by the same amount, 0.7 million oz as the total decline, and resulted in the new JPM total of 179.5 million oz.

As has been the case for weeks, the movement in the COMEX gold warehouses continued active, only unlike the recent drain in the silver warehouses, there was another increase in the gold warehouses, this week by 1.2 million oz to 35.6 million oz. Unlike silver, this is the highest COMEX gold warehouse total level in a year. The JPMorgan COMEX gold warehouse grew by just over 0.25 million oz, to 14.22 million oz and if the scribbling in my notes is correct, is the highest the JPM gold warehouse as ever been.

I still contend that the more than 3 million net oz (30,000 contracts) that have been deposited into the COMEX gold warehouses over the past month or so was motivated by delivery demands in the ongoing April deliveries. So far, more than 21,000 gold contracts have been issued and stopped and with around 10,000 contracts still open in the April contract, the numbers match up pretty closely at this time – but there is a lot of time left. So far, JPM has been the big issuer for clients, with more than 10,000 net contracts issued – but nothing from its house account. JPM has been a net issuer of about half of the silver contracts issued this month for its house account, but the total numbers are not significant, as April is not a traditional COMEX silver delivery month.

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

Despite the lower prices this week, there have been net deposits in both the gold and silver ETFs. In gold, around 200,000 oz came into the various gold ETFs and in silver around 5 million oz came in net, with most going into SLV, the big silver ETF. It still is a puzzle why so much silver (15 million oz) has come out of the Deutsche Bank silver ETF the past two weeks, including more than a million oz this week, as it certainly goes against the flow of silver coming into all the other silver ETFs. I would note that the Deutsche Bank gold ETF has had inflows of a similar dollar size as the silver outflows, so maybe it involved a switch from silver to gold (although if it were up to me, I'd go the other way).

The new Commitments of Traders (COT) report did feature managed money selling in both gold and silver, as anticipated on the sharp selloff on the Tuesday cutoff, and some marginal commercial buying in silver (not so in gold), but not to the extent I had anticipated (hoped for). The overall changes in the market structure left both gold and silver vulnerable for further commercial attempts to rig prices lower. Maybe a full-fledged exchange of nuclear weapons might break the commercial stranglehold on prices on the COMEX, but I sure pray that isn't what it will take.

In COMEX gold futures, the commercials increased their total net short position by 4300 contracts to 285,900 contracts. While that slight increase was disappointing (in that I expected a much larger reduction), certain elements of this week's gold report looked downright “hincky” – and may be related to the large price drop on the Tuesday cutoff, which also included a spirited rally erasing much, but not all of the early price losses. On the quite rare occasions where reporting errors have occurred, the culprit has usually been large price changes on the cutoff day.

Some examples of what I found quite strange was that one commercial category, the Producer/Merchant category, was a net buyer of 13,000 contracts (mostly short-covering), while the other commercial category (Swap Dealers) was a net seller of more than 17,000 gold contracts. I don’t recall a parting of the ways between the usually highly-collusive commercials – it was as if the Three Musketeers were officially divorced. Also on the very strange side was net buying by the other large reporting traders of more than 16,000 contracts, including new buying of 5075 contracts and short covering of 11,319 contracts. Strange days, indeed.

By other commercial gold categories, the big 4 added around 2400 new shorts and hold a concentrated net short position of 181,549 contracts (18.2 million oz), while the next largest 5 thru 8 traders bought back around 3400 short contracts, resulting in a big 8 short position of 268,876 contracts (26.9 million oz). The raptors (the smaller commercials) added 5300 new shorts, increasing their net short position to 17,000 contracts.

The managed money traders were net sellers of 6830 gold contracts, consisting of the sale and liquidation of 6103 longs and the new short sale of 727 contracts. As already mentioned, the other large reporting traders were strange net buyers of more than 16,000 contracts, while the smaller non-reporting traders were net sellers of more than 5200 gold contracts. Concluding a quite strange gold report, the concentrated long position of the 4 largest traders dropped by nearly 6000 contracts, but the category where I peg the gold whale to reside (the other large reporting category) went up by 5000 contracts – so color me still confused.

In COMEX silver futures, the commercials did reduce their total net short position by a rather skimpy 3200 contracts, to 61,400 contracts, the third week of minor reductions. By commercial categories, the big 4 added around 400 new shorts to a short position amounting to 52,022 contracts (260 million oz), while the next 4 largest shorts added around 500 new shorts to a big 8 short position amounting to 73,980 contracts (370 million oz). The 5 thru 8 big shorts now hold their largest short position, near 22,000 contracts (110 million oz) in many a moon. The raptors (the smaller commercials apart from the big 8) did all the commercial buying, in adding 4100 new longs to a net long position of 12,600 contracts.

On the managed money side of silver, these traders did sell 1697 net contracts, consisting of the sale and liquidation of 3226 longs and the buyback and liquidation of 1529 short contracts, resulting in the lowest managed money short position in years (12,247 contracts) and setting the stage for whether or by how much these traders add to shorts, if and when the collusive commercials succeed in rigging prices below the key moving averages. Rounding out the silver activity, the other large reporting traders bought close to 2000 contracts on short covering, while the smaller non-reporting traders sold nearly 3500 net silver contracts. The silver whale seemed to sit pat at 15,000 net longs.

Bottom line is that the market structures in both COMEX gold and silver are still bearish on a conventional and historic basis, although these appear to be hardly conventional times. We should find out fairly soon whether the crooked and collusive commercials will succeed, yet again, in rigging prices below the key moving averages, which are uncomfortably not that much below current prices.

In keeping with the strange gold COT report this week, the end of the first quarter on Thursday was also strange in that gold and silver prices did rally into the official close (settlement) tht day, only to sell off sharply after Thursday's settlements. This had the effect of reducing rather slightly the 8 big COMEX gold and silver shorts' losses for the week going into the end of the first quarter, but leaving the losses for the quarter at $13 billion, the second worst quarterly finish for the big 8 ever and up by $3.5 billion from the previous quarter and year end results of $9.5 billion.

Somewhat strangely, gold and silver prices weakened right after the settlement on Thursday's quarter end and as of last night, the total loss to the big 8 was reduced to $12.1 billion. I would have thought the big 8 would have arranged for the total loss to be much less going into the official quarter end.

New Thoughts on the OCC Report

I continue to be astounded by the new Quarterly Derivatives Report published last week by the US Treasury Department's Office of the Comptroller of the Currency. The OCC's report covers over-the-counter precious metals derivatives (silver, platinum and palladium) held by US banks, meaning the listed futures and options positions on the COMEX are not included in the report.

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

In a moment, I will offer a revision on my original take that the stunning rise over the past two years (through Dec 31, 2021) in the precious metals derivatives position of Bank of America was due (solely) to a massive lease/short sale of gold and silver by BofA, to include other actions possibly taken by the bank after the lease of 30 million oz of gold and up to 500 million oz of silver was completed in 2020. I was always a bit troubled that BofA's position in the OCC report continued to grow significantly over the past year or so with no evidence of physical gold and silver flooding the market, as occurred in 2020. Hey, as the facts change, so should one's take on those facts.

Also, please remember that it has only been a week since the most recent report was published and I would contend the data contained therein are so astounding so as to make it difficult to fully comprehend immediately. In fact, I found myself awake in the middle of the night last evening contemplating what I'm about to discuss.

As previously discussed, the OCC tabulates and published its OTC derivatives data on a notional basis, which means the full-face value of the underlying derivatives is reported in dollar terms – with no specificity as to whether the position is net long or short or balanced (neutral). In addition, reporting by full notional value is not something done anywhere else, to my knowledge, except in the OCC report. Most usually, as on these pages, calculations are done by numbers of contracts and the equivalent number of ounces those contracts represent. For instance, in all the years I have studied silver and the COMEX and the COT report, I doubt I ever referred to the notional dollar amount of the total number COMEX silver contracts, except perhaps once or twice (I just can't remember – but it was rare).

I make this point because this was what had me awake the other night, so I got up and made the calculations I don't recall making previously. Here's what I found. The total open interest in COMEX silver futures, the world's largest precious metals derivatives exchange, is currently (and I will use round numbers to keep this simple) around 150,000 contracts and based upon the contract size being 5000 troy oz, that comes to 750 million oz. This is a soup-to-nuts full accounting and includes spreads and doesn't break down the net positions of the commercials and managed money traders and all that jazz and is the same way the OCC reports on OTC positions.

The full notional value of the 750 million silver oz that exist and are open on the COMEX at current prices ($25) comes to $18.75 billion, but call it $19 billion to keep it simple. Please remember this number for a moment.

Doing the same thing with NYMEX platinum and palladium – the other two precious metals in the OCC precious metals category, will reveal that the total open interest in these two world-leading exchanges for these two metals, are 66,000 contracts for platinum and less than 7000 contracts for palladium. Since a contract for platinum is for 50 oz, the total amount of ounces open on the exchange is 3.3 million oz and with the current price of around $1000/oz, means the full notional value of NYMEX platinum is around $3.3 billion. Doing the same thing for NYMEX palladium renders a full notional value of $ 1.7 billion.

Adding all three futures markets together (COMEX silver, plus NYMEX platinum and palladium) results in a combined $24 billion – $19 billion for silver, $3.3 billion for platinum and $1.7 billion for palladium). Thus, the combined full notional value for all three markets – the largest such markets of their kind in the world – is $24 billion, the sum total of all the many thousands of different traders which compete on these exchanges, in effect setting the prices for these three precious metals daily and reported far and wide.

Now stop for a moment and contemplate that the total notional value of all three exchanges of $24 billion is exceeded by the notional value of just two US banks in the OCC report, JPMorgan, with $28 billion and Bank of America with $27 billion. Looking a bit more closely, JPMorgan’s OCC position is down substantially from what it has been in recent years, for example, it is down by 30% from where it was at the end of 2020 at $40 billion.

I don’t mean to make light of JPMorgan’s dominance of all thing’s metals-related or suggest in any way that it is not the longstanding crook of crooks when it comes to any and everything metals-related (think of LME nickel), but JPM’S $28 billion of notional value in OTC derivatives doesn’t look unusual at all, considering it has been the metals kingpin all along and its current position in derivatives of all kinds looks, well, normal, if not on the light side currently. And I don’t feel that JPMorgan’s total OTC derivatives position represents a risk to it or the financial system. In a very real sense, JPM is the financial system.

But I can’t say the same thing about Bank of America. From. essentially, zero two years ago, BofA’s $27 billion derivatives position in OTC dealings is nothing short of shocking and troubling. How could one bank, with absolutely no prior track record or experience in precious metals, come to hold a derivatives position greater than the combined notional value of all three leading precious metals exchanges in the world? And to do so in a matter of little more than two years?

Even more troubling is that these data are being reported by the regulators at a unit of the US Treasury Department whose sole purpose in compiling and publishing the data is to head off and correct any overuse of derivatives by any one bank that may undermine the potential solvency of that bank and any associated risks to the financial system as a whole. How is allowing a systemically important US bank, with no prior experience in such matters, to amass a derivatives' position larger than the combined notional value of the three largest precious metals exchanges not a matter of grave concern? Worse, when pressed on the matter for an explanation that might alleviate bona fide concerns about BofA and the financial system, all the regulators which should have a vital interest in these matters, instead circle the wagons and refuse to provide any explanation at all. The regulators in question include, but are not limited to the Us Treasury Dept. and its OCC unit, the CFTC, the SEC, the FDIC, as well as the self-regulators at the CME Group and the National Futures Association, to name just a few.

Quite frankly, I was shocked to discover that Bank of America's OTC derivatives position exceeded the combined notional value of all three leading precious metals exchanges and it is hard to imagine a more dangerous circumstance. Now, on to a possible additional explanation – hardly legitimate – for what may be behind the astounding and dangerous increase in BofA's derivatives position, in addition to my claim that at the start it was related to a massive precious metals lease and short sale. The explanation comes from Bob Coleman's twitter account.

Bob suggests that Bank of America has embarked on a massive issuance of structured products revolving around the price of silver, quite similar to the structure derivatives products on subprime mortgages involved in "The Big Short" at the core of the Great Financial Crisis of some 15 years ago. In other words, he contends Bank of America has been issuing leveraged derivatives products involving silver and sold to those who expect silver prices to rise sharply. This implies that

BofA is on the short side of those wishing to bet big on the price of silver soaring in the future. In essence, BofA is serving as a bookie to those wishing to bet big on silver.

At this point, I'm inclined to agree with Coleman's take, as far as it being in addition to my take involving a lease and short sale. After all, these are not mutually exclusive in any way, but do explain the continued explosive growth in Bank of America's OTC derivatives position. The ironic aspect is that it's hard for me to determine which is worse from both a price manipulation and risk to the bank and banking system, since Bank of America remains, essentially, massively short silver in either circumstance. It has to be considered ironic that the best alternative or additional explanation for the surge in BofA's OTC derivatives precious metals position involves the same solvency-threatening circumstance to Bank of America and the financial system as my lease/short sale contention – as well as the same explosive impact on price as this comes under greater scrutiny.

It also makes it more imperative than ever for the regulators to step up to the plate with an explanation vastly different from the lease/short sale and/or sale of structured products explanations offered so far. It also wouldn't hurt if Bank of America explained to all that the data are vastly different from how they appear. I've maintained from the start that the data in the OCC report are vague and opaque enough so as to demand a fuller official explanation. Why bother compiling and publishing data that leads reasonable people to become alarmed unnecessarily? Particularly when closer unofficial examination only heightens concerns.

(In a housekeeping matter, I'm switching to the June contract from April in gold for closing price purposes. This has the one-time effect of adding $5 to the price of gold).

Ted Butler

April 2, 2022

Silver – $24.75 (200 day ma – $24.03, 50 day ma – $24.41, 100 day ma – $23.81)

Gold – $1928 (200 day ma – $1820, 50 day ma – $1898, 100 day ma – $1854)