April 4, 2020 – Weekly Review

After steep price declines, particularly in gold, as the week began, by weekâ??s end gold and silver were only down slightly, with gold ending down by $6 (0.4%) and silver ending lower by 10 cents (0.7%). It was a wonder, of course, that prices were down at all, considering all that is occurring in the world. As a result of the fairly even price performance, the silver/gold price ratio remained fairly stable at just over 113 to 1 â?? still a thoroughly outrageous discount of silver relative to gold.

Now back in seclusion in Maine, as opposed to being in seclusion in Florida, I can attest to the empty hotels and highways throughout the nation as America has basically shut down. I am not mindless or heartless to the dislocations and suffering facing just about everyone, but I am going to confine my remarks to gold and silver. First, however, let me salute the men and women on the front lines of the health crisis, with a special shout out to the Navy captain who was relieved of duty out of concern for the sailors under his command.

Upfront, this was a most remarkable week for gold and silver, with the single most significant feature being the workings of the market master and dominator, JPMorgan. Away from these pages, I understand many are unaware of or simply reject how I evaluate the role of JPMorgan in determining gold and silver prices, but regular readers are aware that I believe the only thing that matters in these markets is JPM. It has now been more than 11 years I have had a laser focus on the bank (ever since discovering it had inherited the role of big COMEX short upon acquiring Bear Stearns in 2008).

Over that time, Iâ??ve been able to ascertain that JPMorgan has never taken a loss when trading COMEX gold and silver futures and, most importantly, how the bank had begun to accumulate, since 2011, the worldâ??s largest stockpile of physical gold and silver, in amounts I now estimate to being at least 25 million ounces of gold and an even billion ounces of silver. Most remarkable of all, JPMorgan accumulated this physical metal at the bargain prices it created by being the largest short seller in COMEX gold and silver futures. And it did so while under active investigation for much of the time by the federal regulator, the CFTC, and later joined by the US Department of Justice.

I fully understand and accept how anyone learning of my findings for the first time would immediately reject them out of disbelief, but regular readers have witnessed me cataloguing my findings twice a week for more than ten years (decades, actually) and would know I have relied on public data to support my allegations. There will be no departure from that reliance on public data in my conclusion that JPMorgan pulled out all the stops this week to have, hopefully, finally completed its master plan and even more master execution of its grand design for gold and silver.

Just so thereâ??s no misunderstanding, I am completely in awe of what I believe JPMorgan was able to accomplish this week, while openly acknowledging that the bank is a stone cold market criminal. In a nutshell, JPMorgan has been able to eliminate completely its COMEX short positions in both silver and gold and may in fact be slightly net long in both markets. To be sure, there have been a few other times in the past when JPMorgan has held no net short positions in COMEX silver and gold futures and for quite some years, the bank has been net long when one considers its large and growing physical gold and silver holdings, despite short holdings in futures.

But never has JPMorgan been as truly net long in both gold and silver as it is now. I base that on JPM holding no COMEX gold and silver short positions, while at the same time holding its largest physical gold and silver position ever. Can these crooks build up an even bigger net long position? While Iâ??ve learned (the hard way) never to doubt the criminal efficiency of the bank in further increasing its net long position, quite frankly, I canâ??t see how that is possible at this time, given the truly sold out nature of the COMEX market structure and the obvious physical shortage in gold and silver.

Let me get into how I believe JPMorgan pulled all the stops in bettering itself for a dramatic upside move in gold and silver prices. For those keeping track of the COMEX silver warehouse turnover, the physical movement was rather subdued this week as 3.3 million oz were moved and total inventories fell a slight 0.3 million oz to 321.1 million oz. No change in the JPMorgan COMEX silver warehouse.

Instead, the big physical COMEX warehouse movement this week was in gold, along with significant category changes, mostly from eligible to registered, obviously in connection with record deliveries in the COMEX April gold contract. All told, there were close to 2.5 million oz of gold, mostly physically added to the COMEX gold warehouses or transferred to registered, a most unusual circumstance as typically there is not much of this type of activity in gold. Then again, the April gold delivery, after four days amounts to more than 25,000 contracts (2.5 million oz), the most in my memory.

The fact that so much new physical gold was brought into the COMEX warehouses for delivery purposes indicates conclusively that most of the gold already in the COMEX warehouses wasnâ??t available for delivery, so new stuff needed to be brought in order to make delivery. It also indicates there was great demand from those desiring to acquire physical gold, as opposed to a desire by the issuers of the deliveries to dump physical gold.

Finally and perhaps surprising to many, the physical gold inflows and category changes indicate that stories about COMEX delivery defaults and failures are complete nonsense by those not knowing what they are talking about. The COMEX is a cesspool of criminality, but the gold deliveries are functioning exactly as they are supposed to be. The proof that the COMEX is a cesspool, but that there was no failure or default to deliver is simply that gold prices never should have declined sharply into and on first delivery day (Tuesday) in the face of such strong physical demand.

The standout feature to the April gold deliveries is, of course, the role of JPMorgan. The bank issued, from its own house or trading account, more than 7400 gold deliveries (740,000 oz), while customers of JPM, quite curiously, accepted or stopped about half that number of gold deliveries on a net basis. In other words, JPMorgan had to give up 740,000 physical oz of the physical gold it held, but by making delivery, that exact number of short contracts was automatically and mechanically closed out. After the deliveries, Iâ??m still convinced JPM holds at least 25 million physical ounces of gold at a bare bones minimum.

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

As big and important as the COMEX gold deliveries (along with continued physical inflows into the gold and silver ETFs) have been, the new Commitments of Traders (COT) report is further proof, as is usually the case, of JPMorganâ??s complete dominance on all things gold and silver. Since I didnâ??t publish an article on Wednesday, my only reference to anticipated changes in the COT report were my comments last Saturday about the great April/June gold spread blowout and my suspicions that JPMorgan was involved up to its eyeballs. I did mention I thought there would be significant commercial short covering in gold, with my only question being which category of long traders (either the managed money or other large reporting traders) would be the victims of the blowout.

In COMEX gold futures, the commercials bought back and reduced their total net short position by a hefty27,900 contracts to 284,000 contracts. While this is the lowest (least bearish) headline commercial short position since July 16, the total levels donâ??t begin to tell the full story. Simply put, I believe JPMorgan accounted for most or all of the commercial short covering in gold. Last week, I had pegged JPMâ??s short position at 25,000 contracts or less. This week, in addition to the 7400 contracts of its short position automatically covered and closed out as a result of its physical deliveries, JPM appears to have covered the balance of its gold short position by virtue of its engineered spread blowout.

One thing I left out in last Saturdayâ??s description of the spread blowout was a likely motivation and result of JPMâ??s orchestration of the spread blitzkrieg, which was a reluctance of those April longs caught in the rollover crossfire to pay way up to establish long positions in June. Faced with a $30 discount of April to June, it was easy to imagine the longs rolling over selling the April contract since they were up against a deadline by Fridayâ??s close, but holding off on buying the June contract at a $30 premium.

In essence, the longs intending to roll over their April contracts to June, said the heck with rolling over and paying up so much for June and just ended up selling out the Aprils without buying the Junes â?? in effect ending up liquidating longs and not rolling over. Only someone as criminally genius as JPMorgan could have orchestrated such a sophisticated operation. The result of this incredibly devious scheme which was perfectly executed, was that JPMorgan did just about all of the commercial short covering. The 8 big shorts (no longer 7, since JPM is no longer short) are holding close to the same 265,000 net contracts short, theyâ??ve held all along.

On the sell side of gold, the managed money traders sold a very moderate 4811 net contracts, comprised of the sale and liquidation of 2145 long contracts and the new sale of 2666 short contracts (although this could easily have been a correction of the too low short position reported last week). The relative lack of managed money selling coming anywhere close to equaling the near 28,000 contracts of commercial buying is explained by the very heavy net selling of 24,706 contracts by the other large reporting traders (including the sale and liquidation of 28,254 long contracts).

The very heavy long liquidation by the other large reporting traders also explains which longs got screwed by JPMorganâ??s deliberate April/June gold spread blowout. Last week, I mentioned the two likely victims as being either the managed money or other large reporting traders (since they were the big longs) and this weekâ??s COT answers the question (funny, I thought it would be the managed money traders, not that it matters). And best as I can determine, the other large traders have yet to buy the long contracts they liquidated in lieu of rolling over in trading since the Tuesday cutoff.

In COMEX silver futures, the commercials bought and reduced their net total short position by 3400 contracts to 41,300 contracts. This is the lowest (least bearish, most bullish) level since mid-June. As was the case in gold, it appears that JPMorgan was the primary silver buyer and since I had pegged it as holding no net short position last week, it seems it is now net long by at least 2000 contracts, if not more. Also as was the case in gold, the 8 largest shorts are now holding 71,000 silver short contracts and JPM is not included on the short side whatsoever.

On the sell side of silver, it certainly wasnâ??t the managed money traders, as these traders bought

3963 net contracts, comprised of the purchase of 168 new longs and the buyback and covering of 3795 short contracts. I did mention last week that the managed money longs looked completely sold out as they were holding their smallest gross long position in 7 years and this weekâ??s COT report confirmed that. So if the managed money traders didnâ??t sell, then who did?

As was the case in gold, the big sellers in silver were the other large reporting traders which sold a very heavy 6772 net contracts, comprised of the sale and liquidation of 6195 long contracts, as well as the sale of 577 new short contracts. Even though there was no true spread blowout in silver, as there was in gold, the spreads in silver did fluctuate erratically and my sense is that the other large traders which were the victims of the gold spread blowout also held long silver positions and moved to close those out from fear of what was happening in gold would happen in silver. Thus, the crooks at JPMorgan hit two birds with one shot – a gold bird and a silver bird.

Whatâ??s Right and What is Wrong?

As might be expected in the tumultuous times in which we live, there has been a literal explosion of commentary and opinion about all sorts of issues in gold and silver. Mostly, these times are a good excuse to declare previous strongly-held opinions as being validated. I freely admit to being guilty on that count. But that doesnâ??t mean all the commentary and opinion, mine included, are correct or stand up to scrutiny. Facts and data still matter, now more than ever.

Let me first address the commentary that I believe is wrong. Leading that list is that the COMEX is close to, or already has defaulted on physical gold deliveries. For years, a COMEX delivery default has been among the most anticipated outcomes in the world of Internet commentary. It has long been widely-accepted opinion that there will come a day when demands for physical delivery would overwhelm the short sellers of paper contracts, who couldnâ??t possibly have enough physical material to satisfy demand. Everything from the size of the COMEX gold warehouse holdings relative to the amount of futures contracts outstanding to the mysterious exchange for physical (EFPs) transactions were cited as precursors of a coming certain COMEX delivery default.

But a funny thing happened on the way to a COMEX delivery default, namely, it hasnâ??t occurred, nor is it likely to occur, in my opinion. As proof of that, please consider what has occurred over the first few days of the current April gold deliveries. While the commentary is flowing fast and furious about all thatâ??s wrong with the COMEX April gold deliveries, the actual facts indicate the process is working exactly as intended â?? even better than one would imagine. Please understand, to my knowledge, I have to be among the most adamant and vocal of COMEX critics â?? but itâ??s never right to criticize on false grounds.

After four days of deliveries on the April gold contract, and while there have been redeliveries (which inflate the total numbers), total gold deliveries have amounted to more than 25,000 contracts (2.5 million oz), by far the most on record (or at least in my memory). In order to meet that unusually large physical delivery demand, approximately the same amount of new physical gold was brought into the COMEX warehouses or transferred from the eligible category to the registered category, which is a simple bookkeeping process. There has been endless commentary lamenting and criticizing the new physical deposits and category transfers, but the fact is that is only because it invalidates prior strongly-held opinions of default.

The fact of the matter is that the COMEX gold delivery process is working exactly as intended and required (well, almost). It was never a requirement that the shorts had to have all the metal sitting in the COMEX warehouses prior to delivery â?? that was always a figment of some folksâ?? imagination. What was required of the shorts was to make physical delivery by the end of the month-long delivery period on any open contracts or to buy back their short positions. By all accounts, the shorts seem to have done just that to this point. So why the outburst of claims of default? I think it might be due to the unspoken wishes that the shorts would default.

The only thing wrong with the COMEX April gold deliveries (and it is quite a big thing) is the price reaction. There cannot be any doubt that the worldwide rush to buy physical gold (and silver) is real and that should cause prices to rise strongly. Likewise, there can be no doubt that the only reason so much physical gold was brought into the COMEX warehouses was to accommodate exceptionally strong demand from those eager and willing to take delivery.

According to the most basic tenets of the law of supply and demand, sudden and strong demand for a commodity must cause prices to rise. Yet at the precise time of near-maximum and still-growing physical demand, what did the price of gold do, but decline sharply (before recovering days later)? How could this be possible? Gold prices didnâ??t decline because of strong physical demand, as that would be utterly absurd. What happened was that deliberate price manipulation took place in the paper market by JPMorgan which was designed to send a false market signal to offset the free market effect of strong physical demand causing prices to rise. Allowing this false price signal to occur without any intervention is why the regulators should be drawn and quartered.

Make no mistake, the only reason gold prices collapsed by about $50 at the time of maximum physical demand in COMEX deliveries was due to JPMorgan. And no single entity benefited more than JPMorgan in the April delivery process, including the spread blowout I wrote about last week. Yes, itâ??s true that JPMorgan had to â??sacrificeâ?• and relinquish 740,000 oz of its physical gold holdings as the largest single issuer (7400+ contracts) of April gold deliveries, but that issuance automatically eliminated 7400 contracts of JPMâ??s COMEX short gold positions. The bottom line is that along with no COMEX short position in silver, I believe JPMorgan no longer has a short position in COMEX gold. Thatâ??s a very big deal. I just wish all the COMEX critics emerging from the woodwork would get their allegations straight and not make up stories of delivery default.

Iâ??d also like to comment on another matter that I think represents some longstanding prejudices based on a false premise. Here Iâ??m referring to the deep rooted, but without real foundation, distrust about the leading gold and silver ETFs, GLD and SLV. Even though the GLD has been in existence since 2004 and the SLV since 2006, and have grown to be the largest respective ETFs in gold and silver, they remain on the hate list for many. This despite the physical gold and silver holdings in each growing to be the largest privately owned stockpiles in the world (saving for JPMorganâ??s holdings).

Please donâ??t misunderstand me, neither ETF is perfect and, in particular, the short position in SLV has been a problem in the past and I have been quite vocal at those times. But that was then and the short position is not a problem now. In many ways, these ETFs (and others) have been the gold and silver investorsâ?? best friend because they are responsible for gazillions of more physical ounces being bought over the years than would ever have been bought had they not existed. It is my opinion that the vast majority of the shareholders in GLD and SLV and other ETFs are stock-oriented investors who would not likely buy physical gold and silver if it were not for the convenience and ease of buying metal in ETF-form.

Yet to this day, otherwise bullish metal commentators love to bash GLD and SLV, sometimes I think for the heck of it or because of a built in prejudice. Then again, the vast majority of GLD and SLV bashers always seem to have a form of metal they just happen to sell or promote that carries a personal compensation benefit. I understand that Macyâ??s doesnâ??t promote Gimbelâ??s, but the unfounded criticism gets old after a while. However, what prompts me to bring this issue up today doesnâ??t involve a longstanding critic of the ETFs or someone offering a substitute that heâ??s rather you buy.

Iâ??m speaking of recent widely carried comments by bond guru, Jeff Gundlach, who has been on the record as being bullish on gold. In a key quote in a recent Bloomberg article, Gundlach asks, â??What happens if physical gold is in short supply and everyone wants to take delivery of their paper gold?â?•

https://www.bloomberg.com/news/articles/2020-04-01/gundlach-sounds-alarm-on-paper-gold-etfs-raking-in-billions

The simple answer to Gundlachâ??s question is that the price will go higher, which is why investors buy the ETF in the first place. Iâ??ve followed GLD and SLV closely for their entire existence and have yet to run across any buyer of these ETFs whose principle intent was to take physical delivery. As long time readers hopefully understand, Iâ??ve always believed itâ??s best to hold metal in your personal possession or on a strictly allocated basis in which the exact bars stored for you are identified by serial numbers. For Gundlach to assume that most ETF holders have a design on taking physical delivery is contrary to everything Iâ??ve come to understand.

Besides, Gundlach is not suggesting a specific alternative to GLD, at least not in the above article â?? he just seems to be moaning about the possibility of not being able to take physical delivery someday, which few are interested in to start with. Plus, there are delivery options, although there are, admittedly, restrictively large minimum amounts and other roadblocks. On the other hand, the average stock investor, be it an institutional investor or retirement-designated account, is not going to go to the trouble of setting up physical ownership away from ETF investment.

Yes, physical metal ownership in hand or on a strictly allocated basis is best, but GLD or SLV are surely the next best things as far as Iâ??m concerned. I just wish all the ETF critics would try to explain how the many tens of millions of physical gold ounces and hundreds of millions of physical silver ounces tucked away in the worldâ??s ETFs have been bad for gold and silver investors in the least.

Rant over and back to what is most important, and that means what JPMorgan has been able to accomplish, both over the past decade and the last few weeks. Since the big commercial shorts have, apparently, missed the opportunity to drastically reduce their oversized short positions, thanks to the criminal market mastery of JPMorgan, they stand more exposed and at risk than ever.

Yes, these big shorts enjoyed a mark-to-market reprieve as of Tuesday, March 31, as gold prices collapsed right into the quarter end. At that time, I thought that indicated that the big shorts were responsible for the selloff, but the subsequent rally at weekâ??s end and the release of the new COT report indicated to me that the selloff was rigged by JPMorgan, as it gained more than anyone by the price action.

While the big COMEX shorts made back close to $2 billion as of Tuesday of the $4.5 billion they were out as of last Friday, as of yesterdayâ??s close, the big shorts were back to holding $4.3 billion in combined open and unrealized losses in COMEX gold and silver futures. Itâ??s hard for me to imagine these big shorts being in a more precarious position than they are in currently. The paper speculators in COMEX gold and silver futures appear thoroughly washed out on the long side, leaving little room for further selling; there is a widespread world physical shortage of gold and silver with obvious overpowering investment demand; and most serious of all is that JPMorgan appears to have tightened the double cross noose around the necks of the big shorts â?? all while the executioner has his hand on the lever to the trap door.

I canâ??t know when the trap door will spring open on the big shorts, but I will be quite surprised if it isnâ??t very soon. When, not if, the big shorts meet their rendezvous with disaster, it will coincide exactly with the explosion in gold and silver prices and the big shorts will greatly add to the price explosion. I just wish JPMorgan would get its comeuppance as well, but thatâ??s just not in the cards. Weâ??ll all just have to learn to live with that.

Ted Butler

April 4, 2020

Silver – $14.50Â Â Â Â (200 day ma – $16.98, 50 day ma – $16.36)

Gold – $1648Â Â Â Â Â Â Â Â (200 day ma – $1325, 50 day ma – $1480)

Date Created
2020/04/04