

April 8, 2020 – Strange Things Are Happening

I know I may be dating myself, but that was the title of a popular children's song (circa 1953) by the comedian Red Buttons that came to mind as I contemplated the truly strange events occurring currently in gold and silver. Perhaps intended to demonstrate that my musical tastes have evolved, another question arises – what business does a 73 year old have in listening nonstop to the Red Hot Chili Peppers?

<https://www.youtube.com/watch?v=gm-vvSfBsbA>

There truly are strange things occurring in gold and silver, things I not only have never observed previously, but also nearly impossible to explain in rational terms. The two main things most strange are the extremely wide discounts of spot gold and silver to the most active COMEX futures months and the sudden large inflow of physical gold deposited in the COMEX gold warehouses. There is little question in my mind that the two strange occurrences are very much related, although it has taken me a bit of time to come up with an explanation.

As way of review, a little over a week and a half ago, in the weekly review of March 28, I included a section titled “The Gold Spread Blowout” in which I described the unprecedented discount of \$30 or more that suddenly developed in the April gold COMEX futures contract to the June contract, right into the last day that large long holders had to exit the April.

As expected, the spread between April and June tightened from that day (Friday, March 27) and subsequent data in the most recent Commitments of Traders (COT) report showed unequivocally that the chief architect and chief beneficiary of the gold spread blowout was JPMorgan, the super crooks of all things gold and silver. It was the gold spread blowout that enabled JPMorgan to buyback and cover all its COMEX gold short positions.

April 8, 2020 – Strange Things Are Happening

I would have expected, therefore, that the gold spread shenanigans to be completed since JPMorgan succeeded wildly in causing the other large reporting traders to exit so many long positions. But after tightening into a more reasonable (but still wide) \$10 or \$12 discount of April to June, the spread suddenly widened out again, officially settling at close to a \$19 discount today. In addition, spot prices for gold are said to be back to a \$40 to \$50 discount to the lead COMEX June contract (with spot silver trading at a 30 discount to the lead month of May). Red Buttons would be rolling over in his grave at these strange things happening.

I can't overstate how utterly "impossible" these large discounts of April to June or spot gold to June are, and to a former carrying charge spread trader I have spent all my waking hours thinking about little else. The discounts are so wide that it is virtually impossible for a buyer of April gold and simultaneous spread seller of June not to pocket a tidy profit by taking delivery on the April gold contract and redelivering the physical gold when June rolls around. I'm not talking about phenomenal guaranteed profits, as there is no real exposure to gold prices (since a spread trader is always both long and short), but for spread arbitrage traders, the potential returns are phenomenal.

Consider this - in the current very wide "contango" market in crude oil, where the spot months are trading at a wide discount to more deferred months, hedge funds are reportedly scouring the world seeking to lease storage tanks and tankers in which to store oil for later delivery on the more expensive deferred months. In gold (or silver), there's no need to seek out storage facilities or tankers, the gold one would get physical delivery of are already stored in COMEX-approved warehouses with a built in storage and insurance cost of around a half of one percent (0.5%) per annum or around 0.04% per month. Of course, each contract of gold (100 oz) is close

April 8, 2020 – Strange Things Are Happening

to \$170,000 and that's the minimum cash required to clear around \$1000+ when the dust settles, but for arbitrage traders, that's a phenomenal return. Then why isn't every arbitrage trader rushing to capture the guaranteed returns in gold?

The short answer is that there a demand for buying April and selling June for redelivery purposes, as evidenced by continued new contracts being bought in April and being delivered upon, as indicated in the daily trading data. But the real question is why isn't there a lot more arbitrage demand for April gold and my answer for that is because the discounts in April to June are so unusual and unprecedented that few even large sophisticated traders are aware of them. Remember, the discounts suddenly appeared a week or so ago for the very first time in history and Lord knows, there are a lot of other strange things going on in the world of finance and investments.

That's not to say that the steep discounts of spot gold to June (or April to June) have gone unnoticed in either mainstream or Internet commentary, as the matter has certainly attracted wide attention. Unfortunately (and I say this sincerely and not insultingly), the "explanations" for the steep discounts make little sense. Invariably, the explanations for the discounts point to the developing physical shortages for gold (and silver). That makes no sense, as physical shortage conditions would be the logical explanation for a backwardation, or a premium of spot and nearby months to more deferred months. It's not possible that a physical shortage could explain the steep discounts in force – that would be akin to describing a widespread famine as being due to an overabundance of food.

While I can assure you that a physical shortage can't possibly explain the growing discounts of spot gold to June (or spot silver to May), up until recently I had no good

April 8, 2020 – Strange Things Are Happening

explanation for the steep discounts. Before getting to my newly-formed explanation and how I derived at it, let me also address the other recent strange thing happening, namely, the sudden surge of physical gold deposits into the COMEX gold warehouses; where in little more than a week, total gold deposits have basically doubled to 17 million oz (after remaining quite static for many years). Just so there is no misunderstanding, I firmly believe the two strange happenings, the steep discounts and surge in physical gold deposits into the COMEX warehouses, are very much directly related.

As I believe subscribers know, I have not been in the camp that the COMEX is close to defaulting on its delivery obligations in gold or silver. While many held that the relatively low level of metal in the COMEX gold warehouses portended some type of delivery crunch when compared to much larger levels of total open interest, I remained unconvinced of pending delivery default for the simple reason that most futures contract holders were not interested in taking physical delivery and, particularly in the case of gold (not silver), the amounts of metal on deposit in the COMEX warehouses were only the tiniest fraction of the gold in the world. With 6 billion ounces of gold in the world and half of that in bullion form – what are the 17 million oz in the COMEX warehouses in percentage terms of all the gold bullion (3 billion oz) in the world? The answer is a little over 0.5%. BFD (big f-ing deal).

Still, it is strange and noteworthy that COMEX gold inventories suddenly doubled in a week after years of being static and such a happening is deserving of an explanation, particularly when combined with the sudden appearance of the previously unprecedented steep discounts of spot gold to June and the continuing blowout in the April/June gold spread.

April 8, 2020 – Strange Things Are Happening

In a conversation with a subscriber yesterday discussing these very matters, it suddenly dawned on me what the answer to the puzzle was. As I was explaining to John that I had no good answer to the two strange happenings, there was an instant mutual agreement that whatever it was, it was a no-good, underhanded scheme hatched by none other than the crooks at JPMorgan, most likely in consort with the equally corrupt CME Group (owner/operator of the COMEX). The principle guiding force is that there are no lengths that JPM wouldn't go to in order to manipulate and corrupt the gold and silver markets. Please hear me out.

The only logical and unifying explanation for the steep gold discounts when premiums should be the order of the day and the sudden surge in physical gold deposits into the COMEX warehouses is to send false signals about there being growing demands for physical gold (and silver) to discourage as much as possible even greater delivery demands. By creating phony steep discounts (controlled by JPMorgan) and bringing in gold (JPM brought in the most), false signals are being deliberately transmitted to the market that everything is fine. By the way, this is the same methodology used to prevent bank runs, namely, by shoveling out money to panicky depositors to discourage others from following. I knew all along the steep discounts and sudden growth in COMEX gold deposits were arranged by JPMorgan, but didn't know why until now.

Please keep this quiet, as we wouldn't want to awaken the CFTC or the Justice Department to new evidence of another JPMorgan gold and silver crime in progress. And I'd like to see either (or anyone else) come up with an alternative explanation for the highly counterintuitive steep discounts and flood of metal into the COMEX gold warehouses. For the record, I feel very little emotion and have no strong personal feelings towards JPMorgan, even though it is the big gold and silver crook. I guess

April 8, 2020 – Strange Things Are Happening

I've been doing this for so long and relying on public data for my allegations that it has become straight forward and somewhat predictable analysis. Can't think of what new unusual developments in gold or silver might mean? The answer can usually be uncovered when considering what new angle the crooks at JPMorgan have concocted.

Turning to other developments, yesterday was the cutoff day for this week's COT report, still scheduled for this Friday (Good Friday) – separation of church and state and all that jazz. Despite sharp reporting week gains, in which gold was higher by as much as \$140 and ending the reporting week up more than \$80 and in which silver was up as much as \$1.80 and ended \$1.25 higher, I don't sense the heavy managed money and other speculative buying and commercial selling typically associated with such price gains.

For one thing, COMEX trading volumes were rather subdued and total open interest changes were unremarkable, with gold open interest down by 15,000 contracts and silver total open interest unchanged over the reporting week. Normally, such large price gains would be caused by heavy managed money and other speculative buying, met with just as heavy commercial selling. However, I don't sense that occurred this reporting week. Further, I believe the apparent lack of manage money and other speculative buying, should that be confirmed in this week's COT report, would be directly attributable to the devious and criminal actions taken by JPMorgan to send false market signals as described above. As criminal as the false market signals may have been, there is no doubt that they were highly effective. The crooks at JPMorgan may be very bad, but are also very good at pulling off this manipulation. Lucky for us, we have the CFTC and Justice Department to protect us (yeah, that's a delayed April fool's joke).

April 8, 2020 – Strange Things Are Happening

None of the above diminishes in any way, my previous analysis that JPMorgan has completely eliminated its COMEX gold and silver short positions and has put itself in a perfect position to let prices rip to the upside whenever it and it alone decides the time has come. And these new criminal false market signals are in keeping with expected up move. What better way to detract attention from JPMorgan than by phony price discounts of spot gold to June and by deliberately overstocking the COMEX warehouses to discourage buying?

Also remaining the case is the predicament of the 8 big shorts in COMEX gold and silver. Having ended last Friday some \$4.3 billion in the hole as far as open and unrealized losses, at publication time today, the big shorts are a further \$1.2 billion, pushing their total open losses to \$5.5 billion. At the price peaks of Monday night, the open losses were well over \$6 billion.

I still maintain that the big shorts (ex-JPM) are unhedged by physical metal holdings, although some commentators insist all commercials are always fully hedged (another April Fools' Day joke). I would point out that even in the unlikely event that the big shorts are hedged (holding physical metal against their COMEX short positions), that still means they frittered away many billions of dollars in the actual profits they would have had if they hadn't shorted futures – still a boneheaded move.

Finally, one question that still gets asked is why the 8 or 10 big shorts didn't take advantage of the recent sharp selloff in gold and silver to buyback and cover their massive short positions. One reason may be that even though the price selloffs brought their combined open losses down by more than \$5 billion to just over \$2 billion at the price lows, buying back at the price lows (assuming there were sufficient sellers available to allow the big shorts the opportunity to cover), buying at

April 8, 2020 - Strange Things Are Happening

that point would still result in the booking of substantial realized losses, something the big shorts might be reluctant to do.

In any event, trying to figure out what motivates the big shorts is one thing, while the hard data in the COT reports clearly indicate that they are still very much short. In the overall scheme of things, the actual facts are a heck of lot more important than any possible motivation for the big shorts' behavior. These guys are either dumb for frittering away giant profits in the unlikely event they are hedged, or truly as dumb as dirt for incurring such large open losses, as well as the very real threat of financial ruin on the higher prices to come.

Ted Butler

April 8, 2020

Silver - \$15.20 (200 day ma - \$16.98, 50 day ma - \$16.25)

Gold - \$1685 (200 day ma - \$1518, 50 day ma - \$1603)