# April 9, 2022 – Weekly Review/Real Lesson of LME Nickel

The two-day end of week rally, put gold and silver higher for the week, with gold ending up $22 (1.1%) and silver up by 15 cents (0.6%). As a result of goldâ??s slight relative overperformance, the silver/gold price ratio widened out by less than half a point to 78.3 to 1.

Despite world and economic developments that can hardly be called anything but unprecedented â?? from a horrible war in Europe for the first time in 75 years to inflation and interest rate increases that go back decades â?? the price action in gold and silver has been downright subdued. At just passed the first quarter mark, gold and silver are each higher for the year-to-date by roughly the same 6.5%, with gold higher by $120 and silver by $1.55 in per ounce terms. While I much prefer the slightly higher prices as opposed to the alternative, the price action sure doesnâ??t reflect what I would have predicted had I known in advance what actual world and econsmic developments would be.

While we did touch all-time price highs in gold just a month ago, the reality is that weâ??re still trapped in the same trading range in both gold and silver since the summer of 2020, nearly a year and three-quarters ago. Plotted against what actually has transpired in the world since then and gold and silver price performance seems downright other-worldly. For gold price performance, the war in Ukraine and inflation rates hitting multi-decade highs seems odd enough, but the subdued price performance in silver seems particularly weird â?? what with just about every industrial metal and material hitting all time highs, evidence of silver supply shortages and the formation of a specific grassroots movement advocating (successfully, I might add) both the manipulation of its price and its purchase.

Searching for the most plausible explanation for the apparent mismatch between actual price performance and what would normally be expected (much higher gold and silver prices), the only rational conclusion is that something must be unduly influencing the price. Â After all, no one could doubt that the interest and inflation rates hadnâ??t exploded or that the horrible war in Ukraine or that record highs in industrial metals of all types hadnâ??t occurred. Here, we come full circle and stop at the only possible, forget plausible, explanation â?? price fixing on the COMEX. Which, hopefully, explains my insistence on focusing on paper positioning on the COMEX as the prime factor in evaluating price performance.

As and when COMEX futures positioning ceases being the prime, if not sole, price consideration for gold and silver, I believe that will become obvious to all. Actually, I do believe that day may be quite close and will become clear to all in the event the big COMEX commercial shorts fail to contain an extreme price rise for the first time ever. Heck, that time could be now if the big shorts donâ??t succeed in rigging prices lower soon, as recently occurred in LME nickel. Iâ??ll have some separate and new comments on LME nickel in a bit.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses remained high, slightly exceeding last weekâ??s multi-month extreme, as more than 7.4 million oz were physically moved this week. Total COMEX silver holdings fell to lows not seen since July 2020, at 335.8 million oz, down by 3.8 million oz for the week.

Hopefully, before my time has fully-expired, someone else will notice and comment on one of the most visible and unusual developments in silver occurring over the past 11 years â?? the unprecedented and easy to document physical movement in COMEX silver. Iâ??m just glad I didnâ??t promise to hold my breath until someone did. The holdings in the JPMorgan COMEX silver warehouse fell 3 million oz to 176.5 million oz, accounting for the bulk of the total decline.

Total gold holdings in the COMEX warehouses once again bucked the trend in silver and increased by 0.3 million oz to 35.9 million oz, the highest level in a year. An increase of half the total weekly increase took place in the JPM COMEX gold warehouse, as that warehouse now holds nearly 14.4 million oz, a new record high. I still believe the roughly 3 million oz increase in total COMEX gold warehouse holdings over little more than a month (and of which the JPM warehouse accounted for about half the total increase) occurred due to expected delivery demands for the April COMEX contract.

And thatâ??s how it appears to have played out, as total deliveries against the April gold contract amount to around 24,000 contracts (2.4 million oz), with around 2000 contracts still open in April and more having been added nearly daily. Itâ??s also no surprise that customers of JPM have been the biggest issuers, issuing around 12,000 net contracts (16,000 contracts gross).

As for the difference between JPM issuing the bulk of the contracts from its house account (of which there has been zero to date) or its customersâ?? accounts, Iâ??d rather debate how many angels can dance on the head of a pin. However, there can be little debate how JPMorgan, one way or another, has provided enough gold deliveries (silver, too) this month to avoid any delivery squeeze â?? quite fitting for the one entity I believe to be the chief cook, bottle washer and crook of precious metals.

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

In gold and silver physical flows into or out from the world ETFs, it was mostly a flat week, but with both decent deposits and withdrawals in gold ETFs. In silver, there were large net deposits of 7.5 million oz into SLV, the big silver ETF, but a further withdrawal of more than 5 million oz from the Deutsche Bank silver ETF. I still believe there may have been an investor switch from silver to gold in the Deutsche Bank ETFs, but now must add the possibility that the near 20 million oz removed from the Deutsche Bank silver ETF may have found its way into SLV. Iâ??m not at all sure, however, whether this large movement was an actual physical movement (as is the case in COMEX warehouse movements) or a paper transfer of ownership.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, it was mostly another week of relatively little net change, but of slight improvements (commercial buying and managed money selling). I had no firm predictions and there were no notable revisions to the prior weekâ??s unusual disparity between the two commercial categories in gold. I wonâ??t try to make much of a big deal out of this weekâ??s report.

In COMEX gold futures, the commercials reduced their total net short position by 7200 contracts to 278,800 contracts. While this is the lowest commercial short position in a month â?? down around 28,000 contracts from the peak (most bearish) level of a month ago, this weekâ??s level is still higher than the lowest (most bullish) reading of Feb 1, by more than 77,000 contracts. Should gold prices run sharply higher from here, and donâ??t look back, the big commercial shorts will have been hooked badly and possibly be overrun for the first time.

By commercial categories in gold, the 4 big shorts bought back and covered nearly 1600 short contracts, reducing their concentrated short position to 179,974 contracts (18 million oz). The next largest 5 thru 8 commercial shorts added 2300 new shorts and the big 8 short position increased slightly to 269,680 contracts (27 million oz). The raptors (the smaller commercials apart from the big 8) bought back 7900 short contracts, reducing their net short position to 9100 contracts.

The managed money traders did much of the overall net selling, as these traders sold 6675 net gold contracts, consisting of the new purchase of 1834 long contracts as well as the new sale of 8509 short contracts. The other large reporting traders and the smaller non-reporting traders largely balanced each other out, with the former selling about the same 5000 net contracts that the smaller traders bought. The gold whale appears to have sold or taken delivery of 5000 contracts this week and combined with another sharp reduction in the concentrated long position this week, forces me to peg the big whale as now holding 30,000 gold futures and perhaps 10,000 contracts (1 million oz) in physical gold (as a result of taking delivery back in Feb of 5000 contracts).

In COMEX silver futures, the commercials reduced their total net short position by a slight 1300 contracts to 60,000 contracts. As was the case in gold, the total commercial net short position is now lower (more bullish) by 9600 contracts from March 8, but still higher (more bearish) by more than 27,000 contracts from the price lows of early Feb.

By commercial categories in silver, the big 4 bought back a scant 300 or so contracts and hold a concentrated short position of 51,681 contracts (258 million oz). The big 5 thru 8 added around 900 new shorts and the big 8 short position rose slightly to 74,170 contracts (371 million oz). The raptors added 1900 new longs to a net long position of 14,200 contracts.

The managed money traders in silver sold 3166 net silver contracts, consisting of the sale and liquidation of 1966 long contracts and the new sale of 1200 short contracts. The smaller non-reporting traders bought nearly 1900 net contracts. No change in the silver whaleâ??s long position of 15,000 contracts. Nothing special in the Bank Participation report which indicated a lower total bank net short position for the month in both gold and silver, but featured an increase in US bank shorting and a decline in non-US bank shorting in both markets.

As far as I can determine, it is still a black or white circumstance of whether the big commercial shorts in both COMEX gold and silver can engineer yet another price decline or if they will fail spectacularly for the first time. Everything in the real-world points to a failure for the first time ever (Izzyâ??s full pants down), but the commercialsâ?? track record says no way to a commercial failure and overrun at this time. As always, time will tell.

Before I get into some new insights on LME nickel and the connection to silver, Iâ??ve been thinking about something, but I may not have mentioned it to date. It concerns Bank of Americaâ??s astonishingly massive increase in precious metal over-the-counter derivatives positions as reported in recent OCC data. It appears clear to me that BofA is predominantly short silver in these positions for a number of reasons, although I would still welcome and much prefer an official pronouncement

One, itâ??s hard to imagine BofA getting big net long silver, as who would be so foolhardy so as to go massively short to BofA, the new kid on the block (remember in any derivatives contract there has to be both a long and short). I further think that both JPMorgan and Goldman Sachs (whose OTC position has risen dramatically over the six months into Dec 31) could be long against BofAâ??s shorts.

The other thing I may not have mentioned is if, in fact, Bank of America is the big short I suspect it to be, then there must be an equivalent long position held by someone. For many years, if not longer, most of us have contemplated that if silver is as bullish as the facts surrounding it appear to be, then why hasnâ??t someone big (other than JPM) built up a big long position? The explosive increase in BofAâ??s over-the-counter derivatives position appears to me as perhaps being evidence of someone (perhaps JPM and Goldman Sachs) big on the long side, should BofA be big short as I suspect.

Now, whether itâ??s JPM or GS or a wide variety of big hedge fund types, building up a big net long OTC position makes great sense from this angle â?? it is perhaps the one way to amass a large long position with the least amount of upward pressure on price. Letâ??s face it, should someone big have come blasting through the saloon doors, buying up hundreds of millions of silver ounces in SLV or other ETFs or by buying equivalent COMEX futures contracts (with or without trying to take delivery on those contracts), it would take perhaps a minute or two to decipher what such a big buyer was up to, with the resultant impact on price.

But by buying through a privately arranged OTC derivatives contract with Bank of America, for example, such a massive long position would likely go undetected as the long position was being established (Be honest â?? how many would have uncovered BofAâ??s massive OTC position if I hadnâ??t written about it?). Â Big buyers or sellers of anything would always prefer completing a large transaction before the rest of the world finds out. Anyway, this is something Iâ??ve been thinking about, but donâ??t believe Iâ??ve mentioned until now.

The Real Lesson of LME Nickel

More has been written, and deservedly so, on the recent debacle in LME nickel than just about any exchange traded commodity in memory. The London Metals Exchangeâ??s busting of trades and, in effect, defaulting on contract terms is very big news whose long-term resolution has yet to be seen. Press coverage has been detailed and consistent and this offering from CNN is among the most comprehensive to date.

https://www.cnn.com/2022/04/02/investing/nickel-short-squeeze/index.html

However, one thing missing in this and other reports on LME nickel is an open discussion on what was the real culprit and cause of the market debacle â?? the concentrated short position of the biggest short seller â?? â??Mr. Big Shotâ?• â?? the head of the Chinese steel and nickel producer at the center of the exchange failure. Since there has been a remarkable consistency regarding the size of the short position held by the big Chines nickel short, Iâ??m going to rely on the public data reported, namely, that Tsingshan Holding Group Co. held a short position in LME nickel of 30,000 tons on the exchange and an additional 120,000-ton short position off the exchange in OTC derivatives â?? a combined short position of 150,000 tons.

Using those two data points and comparing them to the world annual production of 2.5 million tons for nickel, the listed LME short position of Tsingshan amounted to 1.2% of world nickel production and, when added to the OTC short position rose to 6% of world production. Simply put, the failure to guard against a listed 1.2% and combined listed and OTC 6% concentrated short position in nickel has brought the LME to its knees, an institution that has been in existence for 145 years.

Admittedly, a concentrated short position in nickel of 1.2% on an LME-listed or 4.8% on an OTC basis relative to total annual nickel production doesnâ??t sound excessively large, even to me. But there can be little question at this juncture that something caused the debacle in LME nickel and all signs point to the big short position of Tsingshan and all Iâ??ve done is quantify it terms relative to annual world production, something no one else has done to date.

Upfront, I admit to being overly-focused on the subject of the concentrated short position in silver; both on the COMEX and, recently, the possible OTC short position held by Bank of America, according to data published by the US Treasury Deptâ??s Office of the Comptroller of the Currency. So, naturally, I canâ??t help but make comparisons to the concentrated short positions in nickel and silver, particularly since the data surrounding silver is provided by agencies of the US Government.

On the listed, or COMEX silver futures short position, the CFTC provides data on the concentrated positions â?? both long and short â?? for every commodity covered in the COT reports by the 4 and 8 largest traders. It does so because it knows that an overly concentrated position â?? long or short â?? is the prime ingredient of price manipulation.

For the 4 largest shorts in COMEX silver, their net short position is around 52,000 contracts (260 million oz) or an average of 13,000 contracts per trader. While no additional breakdown is provided, it can be reasonably projected that the largest COMEX silver short holds between 20,000 to 25,000 contracts short. Using the lower number to be conservative, that means that the largest COMEX short is holding the equivalent of 100 million oz short or roughly 12% of the total annual mine production (less than 850 million oz). This is ten times the equivalent listed net short position held by Mr. Big Shot in LME nickel. Ten times.

So, if the listed short position in LME nickel of 1.2% of world nickel production contributed mightily to the effective default in that market, what would a listed short position of ten times that amount imply for COMEX silver?

Moving on to the OTC or unlisted short position, the 120,000-ton nickel short position held by Tsingshan amounted to 4.8% of total annual world nickel production (6% when combined with its listed short position) on nickelâ??s 2.5-million-ton annual production. The latest (as of Dec 31, 2021) OCC derivatives report indicates that Bank of America holds a precious metals derivatives position of $27 billion in notional terms â?? meaning no detailed breakdown by which precious metal (silver, platinum or palladium) makes up the position or even if the position is net long, short or neutral. Moreover, BofAâ??s astonishingly large position has been created in just the past two years. Thatâ??s why I have petitioned the OCC for a detailed explanation.

But it is quite easy to infer that BofA may be short 800 million oz of silver or more and if it is, thatmeans that it may be short close to 100% of total annual silver mine production, more than 20 timesthe 4.8% level of the widely reported Tsingshan OTC nickel short position. So, if an over-the-countershort position of 4.8% of annual world production is at the heart of why the LME is on the ropes innickel, what potential damage and liability await Bank of America which may be short 100% of theworld annual mine production of silver? Does this real-world comparison not rise to the occasion wherethe regulators â?? the OCC, the US Treasury Dept, The CFTC and the CME Group â?? shouldaddress and clarify Bank of Americaâ??s OTC precious metals position forthwith?

But wait, Iâ??m not finished â?? thereâ??s actually much more. Tsingshan was one of the largest, if not the largest processors of nickel in the world, meaning there was a reasonable case of assuming it was legitimately hedged and not speculating wildly. So, the fact that it ran into serious trouble on the run up in nickel prices proves even a â??legitimateâ?• hedger can run into real trouble when too heavily short. But who the heck, in terms of a legitimate producer is short 12% of world production in COMEX silver and if Bank of America is short 100% of annual world silver mine production in the OCC report and canâ??t possibly be considered a legitimate hedger â?? is that not a situation the regulators should be all over?

Finally, it can be argued that before the concentrated short position of Tsingshan blew up, the existence of that position caused nickel prices to be artificially depressed than what they would have been if the position hadnâ??t existed. This is precisely what I have been trying to alert US regulators to for decades. Since Tsingshanâ??s concentrated short position was the proximate cause of the literal price blowup in nickel, you can bet the officials at the LME would have taken steps to deal with it (force it to be reduced) had they grasped the seriousness of the situation beforehand. The lesson to US regulators in silver, both on a listed and OTC basis, couldnâ??t be clearer.

Letâ??s face it â?? if a concentrated short position in nickel caused the eventual run up in prices to the point where they doubled and tripled in a matter of a few days, causing the exchange to bust trades and, effectively default, what do you suppose the price reaction will be in silver, where the concentrated short position is anywhere from ten times to more than twenty times larger, when the concentrated short position is eventually reckoned with?

The rise in gold and silver prices this week added around $650 million the 8 big COMEX gold and silver shortsâ?? total loss, increasing the loss to more than $12.7 billion.

Ted Butler

April 9, 2022

Silver – $24.90Â Â Â  (200 day ma – $24.00, 50 day ma – $24.51, 100 day ma – $23.80)

Gold – $1950Â Â Â Â Â Â  (200 day ma – $1824, 50 day ma – $1908, 100 day ma – $1858)

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