

August 14, 2019 - By The Numbers

It occurs to me (upon reading various recent commentaries) that I don't have any unnamed and highly-placed informants giving me the inside scoop on what's really going on in gold and silver. Brushing aside feelings of loneliness and neglect, it dawns on me that all I have to rely on are the available public data - the actual numbers. Of course, it's not just the numbers, but more an interpretation of what those numbers mean.

There was an explosion of volatility this week, as gold and silver prices soared to fresh highs on Monday and into early Tuesday, only to selloff sharply thereafter, with gold selling off more than \$50 from the early highs and silver retreating by nearly a full dollar from its early Tuesday highs. But when the dust settled by Tuesday's close, both gold and silver were up marginally from Friday's close. Therefore, there was little change in perhaps the most important number I am concerned with currently, namely, the financial hole of the 7 big commercial shorts in COMEX gold and silver.

No doubt the commercials were the big winners in the volatile trading on Monday and Tuesday, since they always sell on rising prices and buy on falling prices, with the managed money traders on the losing end of the game over those two days. But the number of contracts positioned and closed out on those two days pales in comparison to the number of contracts already positioned. So while the nod must be given to the commercials on a short term trading basis over the past two days, any gains scored by the commercials are only a tiny fraction of the massive open and unrealized losses that have accrued to the big shorts over the past two months.

As I start to write this article on Wednesday morning, gold and silver prices have started out strong, but there is a long trading day ahead and I'll wait to tally up what the financial scoreboard looks like until much later in the day. In the meantime, let

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me review some other numbers that may be of interest.

Since I haven't done so in a while, it might be informative to update the financial status of JPMorgan's massive holdings of physical gold and silver. About six years ago, I started writing about how much physical metal I believed JPMorgan had acquired on the extreme beat down in gold and silver since the peak prices in 2011. The accumulation of this physical metal was a stroke of criminal genius by JPMorgan, ensuring it would turn out aces whenever prices moved higher, regardless of how large its COMEX paper short position might be. This was why I excluded JPM from my running tally of how the biggest COMEX shorts were faring.

As I've written for some time, my latest tally of how much physical metal JPMorgan holds runs to around 25 million ounces of gold and 850 million ounces of silver. The average price of acquisition for JPM was \$1200 in gold and \$18 in silver, by my running estimates over the past 6 to 8 years. Adjusting for JPMorgan's estimated COMEX net short positions in the most recent COT and Bank Participation reports (45,000 gold contracts and 20,000 silver contracts), JPMorgan holds around 20 million net oz of gold and 750 million oz of silver.

If my numbers are accurate (as I firmly believe to be the case) that means at current prices (\$1500+ in gold and \$17+ in silver), JPM is ahead by at least \$6 billion on gold, while still out \$750 million on silver, or more than \$5+ billion on a combined net basis. To call JPMorgan a criminal genius would be one of the most extreme understatements of all time.

Looking at other numbers, there was a massive withdrawal of gold from the big gold ETF, GLD, last evening as a result of the very heavy and mostly downside volume on yesterday's selloff of more than 356,000 ounces. The metal withdrawal in GLD looked

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normal and expected as metal generally gets deposited when prices advance and withdrawn as prices slide. I've considered the "pot" to be right in GLD all along with little sign that any great amounts of metal were "owed" to the trust.

However, in SLV, the big silver ETF, there was a massive deposit of more than 6 million oz last evening, some might say contrary to yesterday's heavy volume to the downside. No doubt there was plenty of selling yesterday in SLV, but the "pot" wasn't right going into yesterday, with as many as 10 million oz or more "owed" to the trust before yesterday (mostly as a result of the big rally last Wednesday). With yesterday's big deposit and likely liquidation by trading, the pot may now be right in SLV, but time will tell - it's hard to be precise in these matters. One thing for sure - there was a delay in bringing this last batch of physical silver into the trust and that's highly suggestive of physical tightness, not something apparent in physical gold flows.

Unless I'm mistaken, yesterday's big deposit into SLV brought to just over 371.6 million oz now in the trust, a new all-time high. Other silver ETFs sitting at all-time record metal holdings include the SIVR and the Deutsche Bank silver ETFs. In fact, the total visible and recorded holdings of silver (including the COMEX warehouse inventories) are at all-time highs of just over 1.12 billion oz, or close to half of all the silver in the form of 1000 oz bars in the world. Some might think this is somehow bearish, but not me - these holdings have grown because the demand for them is great.

It might be instructive to consider that silver in the industry standard form of 1000 oz bars cry out for professional storage. After all, each bar weighs more than 70 lbs., not at all conducive for physically moving to and fro. Plus personal storage requires a

re-assay when taken out of a recognized professional chain of custody, complicating the sale process when the time arrives. This is not something generally experienced with the ownership of gold, except in those cases of extremely large dollar amounts, such as central bank dealings.

One thousand ounces of silver is worth a bit over \$17,000; one thousand ounces of gold is worth more than \$1.5 million. The much higher dollar value of an ounce of gold compared to silver means less need for professional gold storage - one can personally hold significant dollar amounts of gold before resorting to professional storage. I believe this explains in large measure why, after 8 years of mostly depressed prices, the holdings in GLD, for instance, are still close to 40% below the peak holdings of early 2013, while SLV holdings are at a record high.

This is not a knock on gold in any way, just an explanation for why visible and recorded holdings of silver are at record highs and constitute 50% of all the metal in industry standard form; while similar recorded holdings of gold, currently just under 100 million oz, are just 2% of all the gold known to exist. To keep it simple - you get so much physical metal for the money that you need to store silver more than you need to professionally store gold.

Yesterday's extreme price volatility and high trading volume makes it a pick 'em as far as this week's new Commitments of Traders report on Friday. Up until yesterday's cutoff we were likely looking at a big increase in managed money buying and commercial selling, mostly as a result of last Wednesday's sharp rally in gold and silver. But there were already enough undercurrents of change, mostly on JPMorgan's side in last week's reports, as well as the surprise heavy selling by the managed money traders in silver in the prior reporting week that I'm fully prepared

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to observe and analyze the numbers, rather than handicap them this week.

I am still fixated on the continued and ultimate financial fate of the biggest COMEX commercial shorts in gold and silver. I suppose it is possible that these big shorts made out well in yesterday's volatile trading, perhaps to the tune of \$100 million or more, but that seems to be small consolation to their overall financial standing when the price dust had settled. Even with possible short term trading gains yesterday, the 7 biggest shorts were still out a combined \$3.6 billion on yesterday's close, the same amount they were out on last week's end. And price action today has certainly brought no respite.

What it would take to make the 7 big shorts whole and free from danger of being overrun to the upside is a protracted price decline in which the managed money traders sell and liquidate enough longs and add enough new short sales to enable the big commercial shorts to buy back and cover their massive short position. I don't think there's a chance in hell that these big shorts hold enough physical metal that they can be considered legitimately hedged, making their big short position completely naked and exposed to real risk. Thus, their only chance of getting out of danger is to buy back their shorts at much lower prices.

This is something the big shorts have always been able to achieve over the past 30 or 40 years, so such an outcome can't be ruled out for occurring yet again. But some big impediments this time include having gone much deeper into a financial hole than previously and indications that the biggest short of all, JPMorgan, may have decided to go its own way. This, plus the overall environment for higher gold and silver prices being stronger currently than any other previous time makes things problematic for the big shorts.

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As I approach publication time, today's rally in gold and silver have added to the big shorts' predicament. From Friday's close, gold is up by close to \$22, while silver is up by 30 cents. Using a net gold short position of 22 million oz (220,000 COMEX contracts) and 400 million silver oz (80,000 contracts), this adds \$600 million to the 7 big shorts total open and unrealized loss of \$3.6 billion as of Friday's close - increasing the total open loss to nearly \$4.2 billion. The average loss for each of the seven traders is now \$600 million per trader.

Not only do such losses put each of the seven big traders at obvious great risk, the concentrated nature of the short position puts the entire market at risk for disorderly trading conditions ahead. This is, or should be of prime concern to the regulators and is the reason the CFTC monitors and reports on concentrated holdings. But monitoring and reporting is not enough - it is time for the regulators to rein in the big shorts, out of regard for the market itself. At a minimum, the CFTC should not permit the concentrated short position in COMEX gold and silver to grow any larger than the already obscene and excessive level it is at already.

Ted Butler

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Silver - \$17.23 (200 day ma - \$15.21, 50 day ma - \$15.67)

Gold - \$1528 (200 day ma - \$1313, 50 day ma - \$1411)