August 22, 2020 – Weekly Review

Despite rather sharp (and deliberate) selloffs on Wednesday and yesterday morning, gold and silver prices finished mixed for the week; with gold down about $8 (0.4%) and silver higher by 25 cents (0.9%) â?? although it didnâ??t feel that way. As a result of silverâ??s slight relative outperformance, the silver/gold price ratio tightened in by a point to just under 73 to 1. This weekâ??s small relative change was in contrast to much larger changes of late, but by no means should be interpreted as being close to the long term upward relative valuation to come for silver â?? despite any interim attempts to bomb the price lower.

As usual, there is a lot to discuss this week and Iâ??d first like to offer a few additional comments about the findings of the CFTC and Justice Department against Scotiabank for spoofing and price manipulation in precious metals on the COMEX. I certainly stand by the comments offered on Wednesday, but the announcement came out as I was writing that dayâ??s article and now Iâ??ve had a bit more time to reflect on the matter.

Most of the subsequent commentary about the issue points to the inadequacy of the CFTC and DOJ in dealing with an issue widely known to exist for more than a decade by those paying close attention. And I certainly agree with that sentiment. Itâ??s nothing but a scandal that the regulators have taken so long to deal with a matter they have long ignored and, worse, have repeatedly denied existed. And it is nothing short of infuriating that the CFTCâ??s and DOJâ??s focus is on spoofing, which is only a tool used by the big banks to manipulate the price of metals, particularly silver and gold.

The real crime, of course, is the long term suppression of price, especially in silver, by means of a concentrated short position. This is the issue that neither the CFTC nor the Justice Department will even acknowledge, no less debate. Yet, it is the only issue that really matters. So much so that I have come to appreciate the terrible bind that the regulators are in and why the announcement about Scotiabank and the other banks previously accused of spoofing and price manipulation, as well as the coming similar announcement concerning the master gold and silver criminal, JPMorgan, will be limited to spoofing. There is no other choice. To bring the charges that should be brought, namely, a small group of banks conspired and colluded to short excessive and uneconomic quantities of paper COMEX contracts to keep prices suppressed are unthinkable. Iâ??d like to explain why (again).

Should the CFTC and Justice Department bring the charges that should be brought concerning a multi-decades long price suppression on the COMEX, that would amount to a death sentence for the banks charged. The $127 million levied against Scotiabank seems large (in terms of previous fines) until you consider the alternative.

Had Scotia and the others, including JPMorgan, been or be charged with their real offenses of suppressing prices on a long term basis, they would be become liable for damages, including punitive amounts, by every mining company and investor for decades worth of lost opportunity. Forget hundreds of millions in fines, weâ??re talking about hundreds of billions of dollars. No bank could survive such a finding by the CFTC and Justice Department.

As it stands, by sticking to spoofing, the only outside legal damages the guilty banks can be sued for are highly specific losses not likely to be widely pursued. The suggestion that the CFTC and Justice

Department would charge any bank, even a foreign bank, with crimes that would promise the bankâ??s demise is impossible to imagine due the wider damage such a finding might entail. The price suppression caused by a few banks over the past several decades is deplorable, but not deplorable enough to put them out of business and damage many millions caught up in aftermath.

So, am I excusing the CFTC and DOJ for their decades-long malfeasance in allowing the price suppression and manipulation? Of course not. All involved should be beat with a stick and immediately fired and denied future benefits and publicly disgraced. But the malfeasance has continued for so long and the real damage is so great that I canâ??t offer a different solution at this point that would not put the guilty banks out of business. Please remember, this is coming from the one person most responsible for spreading the alarm for the past 35 years.

As I see it, the CFTC and DOJ are trying to thread the needle in ending the silver manipulation with the charges they brought against Scotiabank and will bring against JPMorgan. Perhaps a better analogy would be tap dancing through a mine field. Trying to end a manipulation that should have been ended long ago and must ended eventually, but trying to do so in a manner that doesnâ??t reflect the seriousness of the matter. On the plus side, there are strong signs emerging that the silver manipulation is much closer to being ended than previously and itâ??s hard to imagine any bank, especially Scotiabank, stepping into or continuing the role of shorting in order to manipulate and suppress prices

That said, the big shorts simply canâ??t give up and rush to cover, as that would instantly condemn them to ruin. They have to continue to put up some kind of fight – a managed and orderly retreat of some sort. That was obvious in the big selloffs this week and in this weekâ??s COT report where the 8 big shorts increased their concentrated short position in gold. But the tide seems to have turned and the game still appears to have changed this past year. If you were able to tell me 35 years ago that I would have to wait until the year 2020 to see the changes currently in play, I wouldnâ??t have believed you.

The turnover or actual movement of physical metal either brought into or removed from the COMEX-approved silver warehouses cooled only slightly this week as more than 8.8 million oz were moved. Total COMEX silver inventories rose fairly sharply by 3.2 million oz to 340.3 million oz, an all-time high. No change in the JPMorgan COMEX silver warehouse, which stood at 166.1 million oz. While this weekâ??s movement was the lowest in a month, annualized it was more than 450 million oz, much more than total inventories.

I didnâ??t get any responses to my solicitation for alternative explanations for why the unusual and unprecedented frantic physical turnover has only existed in COMEX silver inventories these past nine years â?? different from my explanation it was due to frantic industrial user demand. Iâ??ll probably make the article public in the hopes of generating a response.

Of course, there has been active turnover in the COMEX gold warehouses these past few months, but almost no movement to speak of in the past 9 years. Actually, the movement in the COMEX gold warehouses has been mostly in for the past 5 months, although this week the movement was more two sided. Total COMEX gold warehouse holdings were unchanged at 37 million oz (up from 8.5 million oz in March). There was a withdrawal from the JPMorgan COMEX gold warehouses of around 320,000 oz, which brought JPMâ??s total to 13.48 million oz.

Not much new to report on the rapidly ending gold deliveries this month, other than total deliveries look set to fall short of the total deliveries in June and that JPMorgan is still the third largest stopper with 5858 contracts Â in its house account, behind Goldman Sachs (8900 contracts) and Morgan Stanley (7058 contracts) in their respective house accounts. I noticed that Goldman stopped the same number of contracts back in June â?? not that I can imagine why that particular number.

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

The spread differentials continue to tighten between the September silver contract and December and more distant months which continues to suggest to me a reluctance of the shorts to deliver on the fast approaching first delivery day (a week from Monday). Not that thereâ??s any way of knowing now, but if the industrial users are looking to build physical silver inventories thatâ??s much more bullish than if speculators are doing so. The approaching traditional delivery month of September might also explain the increase in warehouse levels to new highs.

Somewhat surprisingly, my extreme speculation about a slowdown in deposits into SLV still seems to be in play, as this week some 300,000 net oz were removed from the trust, following a downward stair step decrease in net deposits over the past 5 weeks. At this point, the pattern seems to support my speculation that JPMorgan was ordered to give up no more than 300 million oz of its 1 billion oz physical stash.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, since I refrained from hard predictions, I canâ??t say anything in the report was a real surprise, although there are always unexpected developments. The best way to judge the report is as part of a series of COT reports over the past few months (and longer) that are nothing short of extraordinary and unprecedented.

In essence, for the first time ever, we have witnessed major price moves higher in gold and silver without massive managed money buying and commercial selling. Thatâ??s been the standout feature since the extreme price lows of mid-March and has, basically, remained true through this COT report. It is a sea change of historical significance. To be sure, the price run up in silver in 2011 shared some similarities with the recent advance, but there are even more differences, not the least of which was that JPMorgan was not positioned correctly in 2011, while it would be an extreme understatement to say it is correctly positioned today.

While this weekâ??s report did indicate that there was fairly hefty managed money buying in silver, the price did climb by $2 over the reporting week and much more important was that the commercials were not net sellers in either silver or gold (which climbed by $65). I was hoping for no big increase in overall commercial selling on such a strong price week, but felt I might be asking for too much in light of the string of surprisingly bullish COT reports over the course of the recent rallies in gold and silver. And the price weakness after the Tuesday cutoff tells me that the market structure is better as of trading thru yesterday.

In COMEX gold futures, the commercials actually reduced their total net short position by 600 contracts to 267,800 contracts. Of course, itâ??s not the size of the short reduction, but the fact that it occurredat all on a fairly sharp rally. As was the case last week and by a slim margin, this is the lowest (most bullish) commercial net short position in two months, when the price of gold was $250 less than it was on the cutoff day.

About the only â??negativeâ?• feature to the commercial activity this reporting week was that the 8 big shorts added impressively to their short positions, while the smaller commercial shorts (the raptors) bought and covered short positions, both in the amount of 12,000 contracts â?? largely offsetting each category. Â But Iâ??m definitely not sure of a negative conclusion. I think the explanation is more one of necessity on the part of the big shorts. For sure, the smaller commercial shorts covering resulted in large realized losses to the raptors and is highly suggestive that they may have lost their taste for selling short on higher prices. The gold raptor short position is the lowest since early June.

While the big 8 short position rose to 225,220 contracts, it is still among the lowest short positions of late and had the big shorts not added these new shorts, the price of gold would surely have rallied a lot more than it did. But I shouldnâ??t say that too loudly, out of fear of waking the accommodators at the CFTC and Justice Department. Perhaps the best news on the commercial side is that JPMorgan appears to have added a thousand contracts to a net long COMEX paper position now amounting to 5000 contracts (as well as the equivalent of more than 250,000 contracts in physical gold).

The managed money traders in gold were, surprisingly, net sellers of 2253 gold contracts, consisting of the sale and liquidation of 4402 longs and the buyback and covering of 2148 short contracts. The managed money net long position of 95,438 contracts (151,016 longs versus 55,578 shorts) is about the lowest itâ??s been in more than a year and down more than 140,000 contracts from the levels in February. I continue to be amazed by the net long position of the other large reporting traders which is still close to a record and at more than 128,000 contracts stands in stark contrast to the low managed money net long position.

In COMEX silver futures, the commercials reduced their total net short position by 1500 contracts to 44,100 contracts, which is not only the lowest (most bullish) since May 12, is also quite surprising since silver prices rose by $2 over the reporting week. Unlike the big 8 shorts in gold, the big 8 in silver bought back just over 700 short contracts, reducing the concentrated short position (68,409 contracts) to another new low not seen in several years.

About the only thing somewhat negative is that JPM appears to have sold a thousand contracts, reducing its paper net long position to 4000 contracts. But donâ??t feel bad for the crooks at JPMorgan because if my calculations are correct, they are holding the equivalent of 140,000 contracts in physical silver.

As mentioned above, the managed money traders were fairly hefty buyers in silver of 8279 net contracts, consisting of the purchase of 7329 new longs as well as the buyback of 950 short contracts. The resultant manage money net long position of 32,257 contracts (58,680 longs versus 26,423 shorts) while greatly expanded this week, still must be considered quite low and bullish on an historical basis and is still lower than it was in February when silver prices were $10 lower than where they were on the Tuesday cutoff.

The question on your mind should be how the heck the commercials could be net buyers of 1500 silver contracts while the managed money were also buyers of more than 8200 contracts? The answer is that the other large reporting traders sold 5291 net contracts and the smaller non-reporting traders sold 4520 net silver contracts, a combined total of 9811 net contracts. Unlike the case in gold, where the other large reporting traders hold a near record net long position, the other large silver traders now hold a record net short position of 5701 contracts.

Iâ??ve commented on this disparity in the recent past and while I canâ??t fully explain it, I believe anyone holding a short position in silver needs their head examined. Â Trying to be more objective about it, Iâ??m just glad it wasnâ??t the commercials selling to the managed money traders, as there is no way the other large reporting traders or smaller traders could be considered the kingpins of the silver market.

The bottom line is that the COMEX market structure in both gold and silver is astoundingly bullish considering the sharp rise in prices since mid-March. What makes the structure so bullish is that not only is the commercial total net (and concentrated) short position in both gold and silver a lot lower than it was at the February prices highs (along with the counterparty managed money long positions), the same can largely be said about the structures at the mid-March price lows. It is this market configuration that suggests no big managed money selling ahead, thus eliminating the usual cause of deep selloffs.

Does that mean there will no longer be sharp contrived selloffs? The answer to that question can be seen last Wednesday and early yesterday, namely, the big commercials canâ??t be expected to roll over and play dead. But at the same time, selloffs donâ??t seem to last as long or move as sharply lower as they have in the past. I may be tempting fate, but I thought I might share a few thoughts on prospective short term price action, something I typically ignore.

Not that gold canâ??t or wonâ??t move higher, but I am much more convinced of a sharp and historic price advance in silver. Iâ??m bothered that the traditionally strong markets for gold in jewelry and imports into India seem so weak. Western investment demand can continue to drive gold prices higher, but silver not only appears set to continue to share in that Western investment demand, it is still dirt cheap relative to gold, despite gaining more in the shortest time ever over the past few months.

The absolute price gains for silver, as well as the gains on a relative basis compared to gold were so extreme these past few months that I couldnâ??t help but recently note that it would be wise to hold on to our hats and to be prepared for increased price volatility, given the technically â??overboughtâ?• condition that had developed on the sharp price advance from roughly $18 to nearly $30 in less than two months. Well, we did get the sharply increased price volatility expected and I do hope everyone held on to their hats (meaning holding on to long term positions), but a funny thing happened on the â??overboughtâ?• front, namely, it largely dissipated (for gold as well).

Regular readers know that I am reluctant to dwell too much on the short term, as that is much more of a crap shoot than the power of long term fundamentals exerting themselves over time. The best way of approaching silver is to hold it on a fully paid-for long term basis, as I believe the gains will be dramatic enough to make up for passing on the lure of margin. That said, I am particularly intrigued at this time by what I perceive to be the short term set up in silver. Weâ??re certainly not in technically â??oversoldâ?• territory, but we are no longer overbought. Whether thatâ??s enough to allow for a sharp move higher or we still have more to go on the downside remains to be seen, but the simple fact is that we are no longer overbought.

To be sure, the dissipation of the overbought technical position is but one factor suggesting to me silver that might surge higher. Let me rephrase that â?? silver will surge higher, the only question is whether it first declines a bit more or marks time and dawdles a bit.Â The full up move is far from complete. Much more important than short term technical readings (at least to me) is what has transpired over the past year. Every important indication is that the game has changed. The managed money traders are not loaded to the gills with excessive long positions in sharp contrast to how they have typically behaved on past price rallies. Ditto the big commercial shorts which are far from loaded on the short side, particularly on a concentrated basis as has always been the case on big rallies.

And if the recent CFTC and Justice Department finding against Scotiabank doesnâ??t severely discourage it and the other big manipulative banks from shorting on rallies, particularly after the financial beating the big shorts have taken over the past year, then the only help these guys can get is from a lobotomy. Throw in the fact that the master manipulator of all time, JPMorgan, is super long silver and itâ??s just a matter of time before silver explodes in price â?? which I believe may be close at hand. Besides, thatâ??s just how silver moves when it does move â?? big and fast, leaving most to gape in wonder, unless already onboard.

I guess what Iâ??m saying is this â?? Iâ??m convinced that silver is going much higher, certainly in time. I also know that no one, including me, knows precisely in advance when silver will suddenly take off. I know that silver has a history of sudden moves, seemingly out of nowhere. Silver must move sharply higher at some point and when the move does come, by definition, the move will likely be explosive. Therefore, one must always be prepared for a sudden surge in price, particularly considering all we know about silver (the manipulation, the market structure, the industrial users waiting in the wings, etc.).

Yesterday, I heard a commentator on TV (someone I consider pretty sharp) opine that silver will grind higher in price. While we could all live with that, I just donâ??t see the grind higher. Silver certainly hasnâ??t ground higher to this point, unless a move from $12 to $30 in five months is oneâ??s definition of a grind. Now that we are no longer overbought and there appears to be limited real potential selling from those which have sold on lower prices in the past, an upside surprise might be in order. And even if we do selloff first, that will only make the case for an upside explosion more forceful.

Finally, I continue to be astounded by the sharp moves higher in stocks, particularly in certain select story stocks. I also canâ??t help but believe that someday silver might be a great â??storyâ?• situation, where over-exuberant speculative interest pushes the price to completely ridiculous levels of overvaluation. Such an outcome will probably be difficult to adjust to but weâ??ll all have to try to cope with it as best we can. Weâ??re certainly far away from anything like that presently.

As far as the 8 big shorts, the mixed results for gold and silver helped reduce the total losses by around $100 million, to $15.2 billion. If the big shorts are in control, they have fooled me. JPMorgan, by the way, is ahead on its physical gold and silver positions (25 million oz and 700 million oz respectively) to the tune of $25 billion, down a few billion from recent peaks.

Ted Butler

August 22, 2020

Silver – $26.75Â Â (200 day ma – $18.04, 50 day ma – $21.96)

Gold – $1947Â Â Â Â Â Â (200 day ma – $1669, 50 day ma – $1870)

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