

## August 29, 2020 – Weekly Review

During a week which featured extreme daily price volatility, gold and silver finished higher, with gold ending \$26 (1.3%) higher and with silver ending 85 cents (3.2%) higher. The finish in gold equaled its second highest weekly close ever and silver's weekly close was the second highest in 7 years. I'll have some comments on the extreme price volatility in a moment.

As a result of silver's relative outperformance and aided slightly by the switch to December from September for silver pricing purposes (now both gold and silver are priced on the December COMEX contract until the end of November), the silver/gold price ratio tightened in by nearly two full point to just over 71 to 1, the most fully valued silver has been relative to gold in three years and close to the level prevailing 5 years ago. I'd like to put this into context.

For someone (me) who pleads unquestionably guilty for suggesting (urging) anyone who would listen to switch gold holdings to silver, or buy silver instead of gold – even if the intent was to end up with more gold ounces in the end – for investment outperformance, this week's close indicates anyone following that suggestion over the past three years is now better off as a result. Not for a minute am I suggesting I have any handle on the short term relative movements of silver compared to gold, but in the long run, I can't see any way that silver won't vastly outperform gold.

Yes, I know that the ratio was an overtly manipulated 125 to 1 as recently as 5 months ago and the record tightening of nearly 55 full points is unlikely to be repeated in that time frame in the future, but the crazy thing is that it possibly could be replicated – that's how underpriced silver still is relative to gold presently at 71 to 1. Again, this is not a knock on gold, as it could and should do well. It's more just a recognition of realities staring us in the face.

Quite bluntly, over my decades of studying silver (and gold), about the only observers who favored gold over silver in terms of future percentage performance, were those who never took the time to dig deeply into the facts surrounding silver. For instance, they stopped at silver is an industrial metal without considering that made it less plentiful and more utilitarian and created the potential for an industrial user inventory buying panic (how could there be a user inventory buying panic in gold, when there so few industrial users?). Or how most of silver's mine production comes as a by-product, without considering what that means when prices rise strongly.

Those that have closely studied silver throughout history, including Bunker Hunt and Warren Buffett, chose it hands down over gold. And while it's true that the master criminals at JPMorgan chose both silver and gold, it started buying physical silver first and only went on to buy gold afterward because it had unlimited money and the ability to manipulate prices. I guess the lesson is that if you have unlimited buying power, then buy both, like JPMorgan; but if you have less than many tens of billions of dollars, then stick with silver.

About that extreme intraday price volatility this week, which not only generated questions from subscribers, but which also me questioning myself – that is, until I remembered my previous comments on the matter. No doubt that the big shorts lent a hand at critical times to engineer sharp selloffs, but the game has changed in many ways. One key way has been the absolute surge in computerized trading of all types. I estimate (and can prove) that as much as 99% of the daily trading

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in COMEX gold and silver is purely day trading and the same is likely true in every other market as well.

Stated somewhat differently, only 1% of daily trading volume in COMEX gold and silver is true overnight positioning, where old positions are liquidated and new positions are established. As proof, look at the weekly Commitments of Traders (COT) report (of which I'll get into detail in a bit). This reporting week in gold, for instance, total trading volume over the 5 days in the report amounted to more than 1.5 million contracts (more than 300,000 contracts daily). The net change in the commercial net short position headline number was 1300 contracts. Forget 99%, this points to 99.9% of daily trading volume being day trading or the buying and selling without establishing or liquidating overnight positions. Constant buying and selling throughout the day and going home flat to do the same the next day. It's kind of nuts, but that's the way it is.

My point is that 99% of the daily trading is *air*, not at all related to legitimate hedging (the reason we have commodity trading) and little more than video gaming between a massive set of competing computers. None of it has anything to do with the fundamentals of gold and silver or any commodity or stock or asset and aside from the illusion of liquidity it seems to provide (or is alleged to provide), it all sounds artificial and crazy to me.

Regardless, this is what sets price, so if you are seeking to understand why the great day to day and intraday price volatility, then look no further. Expect more, not less volatility as time progresses, but understand it's more important than ever to be grounded in what has and will happen. In terms of silver, I would anticipate all the computer *air* trading, in addition to explaining the great day to day and intraday price volatility will grease the skids for a remarkable price advance ahead.

Please consider this *air* starting on July 20, the price of silver rose a full \$10 (50%) over the next 15 trading days, over which the price finished higher on only 8 of those days. My point is that to try and get used to the volatility and adjust to it *air* because I doubt it is going away. Besides, silver has been artificially suppressed for more than 35 years – it was bound to get messy to the upside as it stopped being suppressed.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained high as nearly 9.3 million oz were moved this week (480 million oz on an annualized basis). Total COMEX silver warehouse inventories rose by 1.9 million oz to 342.2 million oz, another new all-time high. Silver in the JPMorgan COMEX warehouse rose by 1.2 million oz to 167.3 million oz, also a new record. Considering Monday is first delivery day for the big September futures contract (whose notices were posted last night), it's not really surprising to see COMEX warehouse inventories grow to meet delivery demands. It doesn't always work this way, but it often does and I can't help but think new silver must have been brought in because there wasn't enough available in existing inventories to satisfy demand *air* but, hey, that's just me.

First day deliveries on the September silver contract came to 6545 contracts (32.7 million oz), close to half of the 11,458 contracts delivered on the first day of the July futures contract *air* despite expectations by many for much larger deliveries (I never have much in the way of expectations, as I don't know what to base them on). My main interest going into any big silver delivery month is what JPMorgan will do in its own house account. On the first day of delivery, the answer so far is nothing.

While it's true that JPMorgan dominated the first day of the September silver deliveries on both sides, being both the largest issuer and stopper for customers and accounting for close to half of all

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issues and stops, it was AWOL in its house account, neither issuing nor stopping any silver contracts for itself. I had zero expectations for JPM stopping any silver contracts for its own account, but was much less sure about the issue side. Admittedly, this was only the first delivery day and JPM can show up as an issuer from its house account until the end of the month, but its pattern in the last two big delivery months, May and July, was that it showed up as the big issuer on the first day, issuing roughly 2000 and 6000 contracts (40 million oz in total) respectively and none thereafter.

[https://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

While there is still a full month of potential deliveries ahead, I must confess to a sense of relief that JPMorgan didn't deliver big on the first day (at least) out of its house account for the reason that it tends to confirm my take that it has met the 300 million oz limit I claim was imposed on it by the Justice Department and/or CFTC for disposal. On the sharp rally in silver since March, one of the sharpest in history, had JPMorgan not (been ordered to) disposed of so much physical silver, I can't see how prices wouldn't have already exceeded \$100. And as a corollary, if JPMorgan doesn't sell a significant additional amount of physical silver, then it's just a matter of time before \$100 is seen. This is pretty simple, tell me what JPM will do and I will tell you what silver will do.

Turning to COMEX gold warehouse inventories, they did increase by 200,000 oz this week to 37.2 million oz, another new all-time high, which coincidentally or otherwise, was close to the 1928 gold deliveries issued on the first day in the September deliveries. Gold inventories in the JPMorgan COMEX warehouses fell 80,000 oz to 13.4 million oz. After surging from 8.5 million oz in March and despite this week's slight new record, total inventories in the COMEX gold warehouses have remained fairly static for the last 5 or 6 weeks, perhaps confirming my take that the peak has largely been seen and occurred to show the 8 big shorts on the COMEX had the goods to back up their paper shorts which are so far underwater.

There were some very strange doings in the big silver ETF, SLV this week. First, total SLV silver holdings fell a net 1.8 million oz, still very much conforming to the pattern extending back 5 or 6 weeks and also pointing to the idea that JPM may have met the limit of silver it was ordered to disgorge; but the manner of this week's movement in SLV silver holdings was highly unusual, to say the least. Included in this week's deposits and withdrawals were three days in which just under 4.7 million oz were withdrawn (on two separate days) and a day where 4.7 million oz was deposited.

At first, I thought it had to be some type of clerical reporting error, but then it dawned on me that there was a slight difference between the two withdrawals and one deposit, so I ruled out a reporting error. Then it further dawned on me that given that it now has been more than 14 years since the SLV was introduced and that there is a cumulative 0.5% annual management fee discounted from the price and basket size, the series of 4.7 million oz withdrawals and deposit was the amount on a 5 million share transaction when adjusting for the 7%+ cumulative management fee discount. The bottom line is this - one or more entities are now dealing in shares of SLV in increments of 5 million shares or in chunks of \$125 million or thereabouts - not your typical retail investor and most likely a well-funded institutional investor or industrial user looking ahead.

As to what drove the two withdrawals, it was most likely an institutional investor or industrial user converting shares to physical metal to hold metal in pure allocated form where the metal is held in a warehouse (likely the same warehouse where it was) in the owner's name directly and no longer as part of the trust. By dealing in such large chunks, I'm sure the direct storage charges would be

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cheaper than the standard fee to own shares of SLV. Such a transaction strongly implies a long term hold is intended.

As far as the separate deposit of roughly 4.7 million ounces on one day, that would appear to be straight buy of 5 million shares, again not likely a retail transaction. It's hard for me to interpret the 5 million share transactions as anything but extremely bullish. In addition, there was a very large 7.7 million oz deposit into the second largest silver ETF, SIVR, yesterday. There are now 140 million oz in SIVR, about the amount held in SLV after a year or two of its introduction in 2006. Total holdings in SLV, by the way, are now 572 million oz.

Turning to the new COT report published yesterday, there were more surprises than typically, starting with the biggest single surprise, no make that shock that the managed money traders in silver were fairly big buyers and not the substantial net sellers that I expected them to be. As a reminder, we were down big in both silver and gold prices over the reporting week, by \$1.75 and \$90 respectively, and this is the near certain formula for managed money selling and commercial buying. Moreover, we went down, basically, every day during the reporting week in that old familiar salami-slicing manner as in days of old.

And following the prior week's big addition of 8200 net managed money contracts in silver on sharply higher prices, it looked dead solid certain to me that we would see close to a complete reversal of that buying. Instead, for what may be the first time ever, we got fairly significant net managed money buying again of more than 5800 contracts. After I got over my shock and got to thinking about it, and maybe I'm just being pig-headed, but it sure looks bullish to me, as I hope to explain.

In COMEX gold futures, the commercials did reduce their total net short position by 1300 contracts (although the managed money traders also sold nearly 8600 net contracts). So, once again, the total commercial net short position nudged slightly lower to a multi-month new bullish level. The biggest surprise on the commercial side of gold was the failure of the 8 biggest shorts to reduce (as I strongly expected) their concentrated short position. And the reason for the surprise was exactly the same as it was in the prior reporting week, namely, very aggressive short covering by the smaller commercials I refer to as the raptors.

Last week, the gold raptors bought back 12,000 of their gold shorts. Forcing the big 8 to add that same number of new shorts. This week, the gold raptors bought back just under 6000 short contracts, while the 8 big shorts were forced to add (in my opinion) 4500 new shorts to a total concentrated short position now at 229,716 contracts. The gold raptors now hold their lowest short position (36,700 contracts) since May and have incurred big realized losses in their aggressive short covering; losses, I might add, that are separate from and in addition to the losses I calculate for the 8 big shorts in gold and silver. To say the past year or so has not been kind to commercial and other gold (and silver) shorts would be an understatement of extreme proportions.

Therefore, it is no real surprise to see the smaller commercial shorts in gold head for the hills or for the biggest 8 or so shorts to have to stand firm while their short brethren run. After all, there's no way every short can run away without sending the price moon-bound. That's the problem when one side of the boat gets overloaded. By the way, JPMorgan peeled off about 2000 gold longs, reducing its long position to 3000 contracts. Talk about an epic double cross.

On the managed money side of gold, these traders sold 8589 net contracts, consisting of the sale and

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liquidation of 5961 longs and the new short sale of 2628 contracts. The resultant managed money net long position is now 86,849 contracts (145,055 longs versus 58,206 shorts), the lowest (most bullish) it has been since last June when gold was in the mid-\$1300's. Here we are, more than \$600 higher and the managed money traders are holding the same net long position as they were back then. One question I would ask is if the commercials were unable to induce big selling from the managed money traders back then, how much chance do they stand of doing so today?

Also as was the case in the prior week's gold COT report, the other large reporting traders were net buyers as the managed money traders were net sellers, only more so this week, as they bought a sizable 6109 net contracts. And while the managed money traders hold their lowest net long position in more than a year, the other large reporting traders hold their largest net long position (143,189 contracts) in history. Up until this point, the other large reporting traders in gold have been the single most successful category.

In COMEX silver futures, the commercials increased their total net commercial short position (also contrary to my expectations) by 3700 contracts to 47,800 contracts. However, unlike the case in gold over the past two reporting weeks, the 8 big shorts in silver reduced their concentrated short position for the second week in a row, this week by just over 1000 contracts to 67,360 contracts, another multi-year low. (Rather than continuing to resort to another multi-year low, I got up off my lazy butt and looked it up the last time the concentrated short position of the 8 big shorts in silver was this low was in April 2015).

The explanation for how the total commercial net short position increased in silver while the concentrated short position decreased was due to raptor long selling, including by JPM in the total amount of 4700 contracts, with JPM's share at 2000 contracts, which reduces JPM's net long to 2000 contracts. Remember, the raptors in silver hold long positions while the raptors in gold hold short positions. The decrease in the concentrated short position in silver to 5 year lows must be considered bullish.

The managed money traders in silver, as already mentioned, were the biggest surprise in that they bought 5823 net contracts, consisting of 3120 new longs and the buyback and covering of 2703 short contracts. The resultant managed money net long position of 38,100 contracts (61,800 longs versus 23,720 shorts) is maybe closer to neutral than bullish, but not bearish. As for why they bought this week, on sharply lower prices, I can only conclude the buyers were not technically oriented, but must have been value-driven investors, by default (since they bought on lower prices very non-technical like). I'm not deliberately seeking only bullish interpretations, but that doesn't sound bearish in the least.

Once again, very much unlike their counterparts in gold, the other large reporting traders were net sellers in silver, selling over a thousand net contracts. Holding a net short position of 6743 contracts, the other large traders in silver now hold a record net short position while their counterparts in gold hold a record net long position. Go figure.

Adding everything up, gold still looks bullish, while silver looks set for a price journey to the outer reaches of space. It's nearly unbelievable that only roughly 8 paper shorts still seem to be the only obstacle to higher prices, particularly in silver. And those 8 big shorts sure seem to be behind the eight ball, at least as far as their financial results over the past year would indicate. This week, the 8 big shorts in COMEX gold and silver slipped further into the hole to the tune of \$900 million, pushing their

total realized and unrealized losses to \$16.1 billion or just over \$2 billion per trader on average. By the way, JPMorgan is ahead more than \$26 billion on its physical 25 million oz gold and 700 million oz silver holdings. Wonder what the 8 big shorts think of them apples?

(In a housekeeping note, with Monday's first delivery day in silver, I am switching to the December contract, now the same as has been the case in gold).

Ted Butler

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Silver \$27.75 (200 day ma – \$18.29, 50 day ma – \$22.91)

Gold – \$1973 (200 day ma – \$1681, 50 day ma – \$1891)

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