

August 5, 2020 – The Duck Test

So is this the makings of the long-anticipated short covering rally in silver and gold? You know the expression, if it looks like a duck, swims like a duck and quacks like a duck, then it probably is a duck. Likewise, the simplest definition of a short covering rally is a sharp price rally which is driven by shorts buying back positions.

And at least through the most recent Commitments of Traders (COT) report, the standout feature was the buying back of short positions by the largest concentrated shorts in COMEX silver and gold futures. Whether this week's new COT report supports the short covering thesis will be known on Friday. But based upon what we know at this point, recent market activity and the data flow sure make it look like short covering by the big concentrated COMEX shorts in gold and silver may be underway for the first time since, well, ever.

To be sure, even if it does come to be shown that we are now in the grips of the first genuine attempt by the big COMEX shorts to buyback and cover short positions that doesn't eliminate the prospects of sharp price selloffs along the way, so it doesn't necessarily mean we continue to surge higher on a daily basis. But a determined effort by the big shorts to rid themselves of the manipulative short positions they have maintained for decades should push prices sharply higher, almost uncontrollably at time.

The first indication of concentrated short covering is recent price action itself. After years of comatose and suppressed price action, particularly in silver, some plausible explanation should address the sudden lurch higher. Sure, all sorts of possible explanations abound including unlimited monetary easing, near zero interest rates and a declining dollar. And no doubt these things lend a support to higher gold and silver prices.

But for someone who has contended for decades that unlimited concentrated commercial short selling on the COMEX had capped each and every price rally (since 1983), it can't be a coincidence that the sharpest rally in decades has been accompanied by no increase in concentrated short selling since the bottom in mid-March. I could understand doubts about my explanation for what has caused silver prices to be suppressed if I just introduced it, but as I hope you know the explanation hasn't changed a bit for many years.

All that has changed, for the first time ever, is that the big shorts stopped adding new shorts and the price went boom to the upside, exactly as explained beforehand. I'm not looking for a cookie or a gold star on my homework assignment, but does this not explain both the last near-four decades of suppressed silver prices and the sharp rally over last few months? And while serious concentrated short covering would provide a rocket fuel type boost to prices, I would be happy if the concentrated shorts merely refrained from adding new price-capping short positions.

While it's never advisable to count one's chickens before they hatch, it is nonetheless remarkable it has taken so long for the big concentrated COMEX short sellers to face the prospect of being forced to abandon their manipulative ways, particularly considering the increased public scrutiny they've come under. Then add in the financial pressure of the past year and the glaringly obvious double cross the big shorts now face in the form of JPMorgan leaving them to the wolves. It's a

wonder the big shorts haven't cracked sooner.

As of yesterday's close, the 8 big shorts in COMEX gold and silver futures were out an additional \$1 billion from Friday's close, pushing total losses to \$16.5 billion or more than \$2 billion per trader on average. Also as of yesterday's close, JPMorgan was ahead by \$26 billion on its 25 million oz gold and 700 million oz silver physical holdings. I'll update all figures when I send this out later.

My head is still spinning as a result of last week's COT report which featured pronounced concentrated short covering in gold and to a lesser extent in silver in the face of very strong price action. My rush to buy completely reckless kamikaze call options after the COT report release looked completely foolhardy as recently as yesterday morning (options bought on Friday were down by about 75%), but the sharp rally thereafter made me look decidedly less foolhardy and between averaging down and then cashing in a portion that same day and today, I look pretty smart (but know much more lucky). Sometimes God protects the weak and the foolish. Let's hope He excludes the big shorts from His benevolence.

Yesterday, the CFTC released an advisory warning the public to be on alert and not succumbing to pitches to buy precious metals from unscrupulous operators. No doubt, the Commission's advisory was well-intentioned, as unfortunately, there are many in society whose aim is to deceive and cheat others. A little while back, I referenced a shady outfit that plagiarized my work with the intention of cheating others. I wonder if the CFTC followed up on that. While I suppose the Commission's advisory does no harm, I wonder if anyone who might get cheated by unsavory precious metals operators will check with the CFTC first.

<https://www.cftc.gov/PressRoom/PressReleases/8215-20>

At the same time, I can't help but feel that the CFTC is riding the high horse of hypocrisy in warning of unscrupulous precious metals operators, while it hasn't had the decency of even publicly acknowledging the clear and persistent allegations of wrongdoing on the COMEX in the matter of the price manipulation by concentrated short selling for what is now more than 12 years. Instead of issuing warnings that no one will read or heed, how about the agency deal with an issue that goes to the heart of its mission - market manipulation?

On Monday, I received an email from a subscriber asking me about something of which I was previously aware but had dawdled in dealing with. Tim pointed out that a chunk (103 million oz) of the metal held in the big silver ETF, SLV, was listed as being held by JPMorgan (the trust's custodian) in New York, while the balance of the metal (464 million oz of the 567 million oz total) was held by JPM in London. Tim's question was whether the 103 million oz held by JPMorgan in New York was part of the 163.7 million oz held in the JPM COMEX warehouse.

My initial reaction and feeling before Tim's question was that was not likely, as it would be a form of double-counting, since most people would assume the metal wasn't the same. But then I got to thinking that when we assume, there's a tendency to make an ass out of u and me and since it was a simple enough question, an answer should be easy enough to get. So I emailed BlackRock and followed up with a phone call and I was assured I would be contacted forthwith (within an hour or so). But after not hearing from BlackRock, I contacted the COMEX and after following up the next day, I was told they couldn't disclose the information.

So, I must conclude that in all likelihood the 103 million oz held by JPMorgan in its COMEX warehouse belongs to the SLV and as such shouldn't be considered part of the metal registered or eligible for delivery on the COMEX and it would be misleading to believe otherwise. I don't think this portends a problem for SLV in any way, and, in fact, if this silver does belong to the SLV, it is bullish because it reduces the amount of silver in world inventories from what I and many others believed to be the case. However, if I do hear back anything to the contrary, I will disclose that immediately.

I should point out that much of the silver supposedly held in London as reported by the LBMA also includes all the silver held in London by SLV and other silver ETFs, so I was long aware of the double counting inherent in London inventories. I just didn't think the practice extended to the US. Silly me.

As far as what to expect in Friday's COT report, I know what I'm hoping for, but am less sure as to what to predict. To be sure, I'm hoping for a repeat of last week's report, where there was not only no increase in the concentrated short positions in gold and silver, but a fairly big reduction. Let's consider the data.

In gold, prices rose to new highs every day of the reporting week, ending close to \$80 higher, the usual prescription for increased commercial short selling which was what was lacking and so shockingly bullish about the previous week's results. This reporting week, unlike the prior week, total open interest collapsed by nearly 37,000 contracts, mostly as a result of the big deliveries made on the August contract. I'm still of a mind that the big concentrated shorts delivered gold so as to reduce their short position. My guess is that the managed money traders may have been the big stoppers, which would result in less net longs.

Silver's a bit trickier because prices were strong on yesterday's cutoff (up close to \$1.50), but mostly flat over the first four trading days of the reporting week. Also unlike gold, total open interest in silver rose by a more than 21,500 contracts over the reporting week, but I have a sense the increase was more due to spreading and not the establishment of new outright positions. Therefore, I will be tickled pink should the concentrated short position not increase or increase by much.

It kind of goes without saying that having reduced their concentrated short positions in the prior week in gold and silver on sharply higher prices (for the first time ever), the big shorts would seem highly inconsistent in adding new shorts on this week's higher prices. Same goes for the managed money longs when it comes to adding longs this week after reducing them last week. But as they say, we'll see what they did when the cards are turned over in Friday's report. Thank goodness for these weekly reports, as I have no idea how I would analyze what I think is going on without them.

At publication time, prices for gold and silver are higher but off the day's best levels. Therefore, there is no joy in big 8 Shortsville. At current prices, the 8 big shorts are out an additional \$1.9 billion from Friday's close, bringing total combined realized and unrealized losses in gold and silver to \$17.4 billion. At the same time, JPMorgan's open profits on its 25 million oz gold and 700 million oz silver physical holdings stand at around \$27 billion.

Ted Butler

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Silver – \$26.95 (200 day ma – \$17.42, 50 day ma – \$19.54)

Gold – \$2050 (200 day ma – \$1637, 50 day ma – \$1801)

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