December 17, 2022 – Weekly Review/New OCC Report

After surging to fresh six-month price highs in gold and eight-month highs in silver earlier in the week, what looked like typical middle-of-the-night COMEX commercial price-rigging to me caused gold and silver prices to end the week marginally lower; with gold ending $6 (0.3%) lower and silver finishing 25 cents (1.1%) lower for the week. As a result of silver's relative underperformance, the silver/gold price ratio widened out by a half point to 77.1 to 1, a rather mild give-back of silver's recent relative gains.

In the face of the rather egregious mid-week deliberate price smackdown, by week's end I was left more with the impression that the commercial price-riggers weren't in their usual price control mode that has shaped gold and silver prices for decades. This, combined with the already palpable sense that the rather impressive gold and silver price rally since early November still seems highly underappreciated, continues to set the stage for upside price fireworks ahead.

Among the things "setting the stage" are continued signals of physical tightness, particularly in silver, continued poor investor sentiment (almost to the point of apathy) and the readings from just about every official data source that I follow.

Of special note was this week's new Commitments of Traders (COT) report, in which new price highs were recorded right into the Tuesday cutoff for the reporting week published yesterday – just about guaranteeing significant deterioration (managed money buying and commercial selling). That the new price highs also featured gold decisively upwardly penetrating its 200-day moving average for the first time in six months (once the effect of the recent rollover from Dec to Feb is factored in), had me convinced that the deterioration would be significant – "plenty" was the word I used.

Instead, the degree of deterioration was rather mild and further confirmed the

recent "sea change" I've noted in the continued lack of aggressive new short selling by the former big commercial shorts, aka, the dreaded bullion banks. Of course, there had to have been managed money buying and commercial selling on a reporting week in which gold and silver prices rose to new highs (otherwise the world as we know it, would surely have ended), but the mildness and character of the deterioration was much less than feared. Additionally, my sense is that the sharp selloff after the Tuesday cutoff largely undone all of the mild deterioration reported yesterday. I'll get into the details in a bit.

There were also some unexpected surprises and confirmations in the new Office of the Comptroller of the Currency (OCC) quarterly derivatives report released earlier in the week for US bank OTC positions as of Sep 30. I'll treat this report separately afterwards.

Certainly, the drumbeat of signals flashing the most intense physical conditions I've witnessed, particular in silver, continue unabated. The turnover of physical movement of metal either brought into or removed from the COMEX-approved silver warehouses hit 7.4 million oz this week, continuing the sharp pickup in the pace of this physical movement observed over the past several months.

In other words, what was already a frantic and intense physical movement in the COMEX silver warehouses – unprecedented among all commodities – and that has existed for nearly 12 years, has intensified further, increasing by nearly 50% over the past few months from the weekly average over the past 12 years. Yet you can count the number of commentators mentioning this easily-verified fact on one hand (with plenty of fingers left over).

Total COMEX silver warehouse inventories fell 2.2 million oz, to 297.8 million oz,

hovering less than a million oz above what were 3.5 year-lows set a few weeks back. Holdings in the JPMorgan COMEX silver warehouse fell 1.1 million oz to 149.7 million oz, the lowest in 3.5 years. Total COMEX gold warehouse inventories fell 0.2 million oz to 23.3 million oz, a fresh 2.5 year low. Holdings in the JPM COMEX gold warehouse fell by 0.16 million oz to 9.13 million oz, also a 2.5 year low.

Although, I've made a big deal out of the physical turnover and low levels of COMEX inventories (and in the silver ETFs as well) recently (see "Highly Visible, But Still Largely Ignored" Dec 7), it dawns on me I may have actually understated the premise of that article. The premise was that, because the COMEX warehouses and the silver ETFs were such great places to professionally store physical silver, such holdings must be excluded from the speculation as to how much actual working inventory exists to meet new intense physical demand from users or new investors.

After all, there is a finite limit to such available working inventories at any given price and time, and my sense is that not only am I sure that we are closer to zero than ever before, we may be, in very practical terms, be there already, based on the flow of data. It's not any single source of data that prompts this thought, but rather the preponderance of the continuing data flow.

For example, I'm a bit struck by the relatively high level of open interest remaining in the December silver contract, a bit over 1000 contracts (5 million oz), this late in the delivery process. Now, 5 million oz is not a particularly large amount of silver in the normal wholesale sense, but there's no good reason for this amount to still be open, this late in the delivery month, as it represents, at a minimum, a determination of the remaining longs to demand physical delivery and a reluctance (or inability) of the remaining shorts to deliver the physical goods.

Now, maybe there’s some bluffing and gamesmanship by both the remaining longs and shorts and I’m not predicting some type of physical squeeze, but neither am I ruling it out. More to the point is that this is just another mile-marker in a continuing series of signals of extreme physical tightness in silver. Again, the preponderance of the evidence sort of thing.

More evidence of extreme physical silver tightness is obvious in ETF flows. While gold ETF inflows have finally started to reflect the rally in gold prices, with net additions of close to 100,000 oz this week, silver continues to depart the silver ETFs, principally SLV. This week some 8 million oz were removed from the silver ETFs, despite prices remaining at multi-month highs. Clearly, this highly counterintuitive outflow of physical silver, as has also occurred in the COMEX warehouses reflects physical demand, most likely from users and other non-investors.

And just like is the case in the COMEX silver warehouses, there is a limit to how much remaining actual silver can be removed from the silver ETFs, once bedrock investment holdings are subtracted from the remaining metal on deposit by long-term investors. If we are extremely close to zero in remaining available inventories – how would anyone be able to pinpoint that in advance? Again, the only rational approach I can think of is by studying the preponderance of the evidence.

Turning to yesterday’s COT report, let me dig into the details, since I have already described what a big relief the lack of greater deterioration was.

In COMEX gold futures, the commercials increased their total net short position by 8500 contracts to 138,500 contracts. While this is the largest total commercial short position since mid-August, by longer historical standards, particularly considering the extent of the rally over the past six weeks, it’s not that large in the total scope of

things. More importantly, there were no disturbing developments in the way of any significant increase in the concentrated short positions in general or any signs that the banks had returned to the ranks of the big short sellers.

The 4 big shorts in gold did increase their total short position by a modest 1300 contracts to 124,556 contracts (12.5 million oz), but the 5 thru 8 next largest shorts went the other way, in buying back 3200 shorts, which resulted in the big 8 short position actually falling to 203,661 contracts (20.4 million oz). Think about that for a moment. Here we have gold hitting a six-month price high and upwardly penetrating its 200-day moving average, also for the first time in as many months and the big 8 (pure commercial) short position declined. You can count on one hand (or less) how many times that has occurred over the decades. That this is also the single most important factor going forward, as I have intoned, well, forever, you'll please pardon my enthusiasm.

As a result of the decline in the big 8 short position, the gold raptors (the smaller commercials apart from the 8 big shorts) had to do the vast bulk of the selling; which they did in selling off 10,400 longs and reducing their net long position to 65,100 contracts. Despite the raptor selling, their remaining long position at this stage is more than remarkably large. And it wouldn't concern me much if they continued to sell on higher prices – very much unlike how I would feel about aggressive new short selling from the banks which have stood aside until now.

Not that it really matters much, but I'd guess the gold raptors, by virtue of how many longs they sold this week, were the principal architects of the engineered selloff shortly after the reporting week was closed, in an attempt to reestablish the longs they had pitched at the new price highs. The reason I say it really doesn't matter

much which specific commercial category led the price rig to the downside, is because the COMEX commercials as a whole are just so darned collusive that they all reflexively adopt the decades-old collusive practice of not reaching up in price to buy, as long as the managed money traders are selling. This reflexive collusive reaction on the part of the commercials seems almost DNA-related or present since birth – it's that obvious. It's just not obvious to the regulators, to their great shame.

The managed money traders were bigger buyers than the commercials were sellers, as these traders bought 13,962 net gold contracts, consisting of the purchase of 10,108 new longs and the buyback and covering of 3854 short contracts. The resultant managed money net long position of 37,449 contracts (103,737 longs versus 66,288 shorts) is now the largest since August, but still not excessive, all things considered.

Explaining the difference between what the managed money traders bought and the commercials sold, was 3400 contracts of net selling by the other large reporting traders and a further 2000 contracts of net selling by the smaller non-reporting traders, predominantly of the new short selling variety. Such speculative selling, particularly regarding the new short selling aspect, is right in line with my take that the gold rally of the past 6 weeks, is widely doubted and underappreciated, making it quite bullish in contrarian sentiment terms.

In COMEX silver futures, the commercials increased their total net short position by 3500 contracts to 35,800 contracts. This is the largest total commercial net short position since May 3, and my normal reaction to what was a new 7-month high in the total commercial net short position in silver would be one of fear and trpidation. If I was on a new regime of heavy medication (not that I'm aware of, unless my wife is up

to no good), I might chalk up my lack of concern to that. But in this case, it's all about the data.

Specifically, there was no increase in new short selling by the 4 biggest shorts and, in fact, these traders bought back 700 shorts, reducing their concentrated short position to 42,814 contracts (214 million oz). Please remember, we're talking about a reporting week in which not only did silver surge in price by $2, it also established fresh nine-month price highs. And into this price action, the 4 largest shorts actually bought back 700 short contracts of a total concentrated short position fairly low to begin with and in which the traditional dominance that was held by the bullion banks appears to be particularly subdued, and who needs drugs to feel upbeat?

The next 5 thru 8 silver shorts did add a modest number of new shorts, but the big 8 short position was also lower by around 450 contracts to 62,903 contracts (315 million oz). This means that the raptors (the smaller commercials were sellers of 4000 longs, reducing their net long position to 27,100 contracts. The real test of my long-held premise that the key factor in gold and silver prices is whether the former big commercials shorts (the banks) add aggressively to short positions at some point on higher prices remains to be seen – but to this point, it looks like this could be the start of the big one.

The managed money traders in silver (as was the case in gold) did buy more contracts than the commercials sold, as these traders bought 6360 net silver contracts, comprised of new longs to the tune of 3488 contracts and a further buyback and covering of 2872 short contracts. The resultant managed money net long position expanded to 19,698 contracts (40,880 longs versus 21,182 shorts), but all-in-all, doesn't look excessive to me – especially when factoring in the likely

managed money selling since the cutoff.

Explaining the difference between the what the commercials sold and the managed money traders sold in silver was net selling of more than 2700 contracts by the other large reporting traders, who now hold close to their lowest net long positions (3000 contracts) over the past two years – again pointing to the lack of bullish investor sentiment.

Bottom line is that the new COT reports for gold and silver were much more constructive than expected and are much better as a result of trading since the cutoff. And I'm still thunderstruck by the lack of aggressive short selling by the former prime price manipulators, the big COMEX bullion banks. Should the former big shorts continue their non-participation on the short side, it promises to be a very Happy New Year.

The New OCC Report

Earlier this week, the Office of the Comptroller of the Currency (OCC) released its latest Quarterly OTC Derivatives Report, covering the positions held by US banks for the quarter ended September 30, 2022. As a reminder, this report covers positions apart from those listed on the COMEX and the data involved, in addition to being reported with close to a three-month delay, are also extremely vague, in that only one number is reported, the total notional dollar value held, completely devoid of any detail as to whether the amount listed is net long, short or flat, or further broken down by the four precious metals covered (gold, silver, platinum and palladium).

Compared to the data published on listed COMEX derivatives, either in the weekly Commitments of Traders (COT) or monthly Bank Participation reports, which are incredibly detailed, there is no question the OCC report is remarkably opaque – except for one feature, namely, the identities of the banks are revealed in the OCC report, but not in the COT or Bank Participation reports. Here are the links to both the new OCC report, for positions held as of Sep 30, and for comparison purposes, the prior report for positions as of June 30. These are PDF files that must be downloaded and for our purposes, just scroll down to Table 21 on page 26 of each report –

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/files/q3-2022-derivatives-quarterly.html

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/files/q2-2022-derivatives-quarterly.html

For those who will trust me to present the data objectively, from the precious metal OTC derivatives values held on June 30, and compared to the values on Sep 30, the total notional values for three of the four banks identified fell, with only the notional value of one bank, Bank of America, increasing.

Using round numbers to keep this simple, JPMorgan, always the largest holder, saw its total precious metals position fall from $248 billion on June 30 to $213 billion , a decline of 14%. Citibank, the second largest holder, saw its position fall from $120 billion to $102 billion, a decline of 15%. Goldman Sachs' position fell from nearly $19 billion to only $2 billion on Sep 30, a decline of nearly 90%. Bank of America saw its

precious metals derivatives position increase from $39 billion on June 30 to $64 billion on Sep 30, an increase of 64%.

I should point out that gold and silver prices fell a blended 7% from June 30 to Sep 30, so if there were no changes in the positions held over the three months covered, the holdings would be expected to fall in value by roughly 7%. Therefore, we can conclude that both JPM and Citi reduced their actual holdings by roughly an additional 7% or so beyond the decline in gold and silver prices. Goldman Sachs' reduction was so stark, even adjusted for the 7% price decline, it stands out like a sore thumb.

The biggest sore thumb, of course, was the stunning increase in the derivatives position of Bank of America, amplified by the reduction in prices over the quarter. OK, what do these numbers mean? Here, I must shift from reporting the data, to analyzing the statistics and that involves a bit of history and, yes, speculation.

First, JPMorgan, Citibank and Goldman Sachs must be considered old and experienced dealers in precious metals, with each holding a half-century or more of such institutional experience and all three reduced their precious metals holdings in OTC derivatives (with Goldman apparently running away like a scalded cat). Only Bank of America increased, and quite sharply, its precious metals position and of the four banks listed, it has to be considered the "new kid on the precious metals block". I can't help but question which bank might be way out of step with the others.

Some review of recent history is in order. It has only been 2 or 3 years since Bank of America burst onto the scene as a major player in the OCC report, from quite literally, nowhere. I latched onto this development early on and it was fairly easy to ascertain that BofA had quickly built up a massive one billion oz silver short position,

with my speculation being that JPMorgan had snookered BofA into a lease/short sale – the net effect of which was to allow interests related to JPM to, essentially, keep the billion oz of physical silver held by those interests and add on another billion oz in the form of a long derivatives position, with BofA on the short side. It was one of those classic criminally-genius moves that could only be conceived and executed by JPM.

I wrote to the OCC early this year (through my congressman) about the predicament BofA had created for itself and, possibly, for the financial system, and in May I received the OCC's response. You can decide for yourself, but the OCC's response was a classic "non-denial denial" or a confirmation of what I had alleged.

https://silverseek.com/article/occs-response

But then something occurred that I hadn't expected. You see, the only reason I was able to figure out that Bank of America had found itself on the wrong end of a billion oz silver short position in the first place was because the OCC had changed its classification of precious metals derivatives back in 2016 by removing gold (of all things) from its precious metals category and had put gold into the foreign exchange category (of all places) – no doubt to obfuscate or muddy the waters for those focusing on gold.

However, one unintended consequence of the OCC's shift of gold out of the precious metals category in 2016 was that it made very transparent the position of the three remaining metals – silver, platinum and palladium and silver was, by far, the key metal in that category. So, when BofA started to amass a huge derivatives position years later, it was simple for me to see that the position was almost exclusively a silver position and coupled with other developments at the time, it led to the

conclusion of JPM snookering BofA into a billion oz silver short position in the OTC market.

Not content to let the matter rest, the OCC then did something that shocked me. In order to muddy the waters further and prevent a continued laser-focus on BofA's massive silver short position, the OCC took the remarkably deliberate step of re-including gold back into the precious metals category (after I began to complain about BofA) in order to prevent analytical eyes from seeing what BofA was up to.

By including gold back into the precious metals category, since the dollar value of gold is so much greater than silver, it muddies up any transparent look at silver. In a very real sense, the OCC (part of the US Treasury Dept) came full-circle – first muddying the waters on gold by removing it from the precious metals category in 2016, to then re-muddying the waters on silver, by putting gold back into the precious metals category this year – with not the hint of an explanation of why on either occasion. Now you know why.

With that out of the way, let me go back to analyzing the new OCC report. I don't see how it's possible that the new $64 billion derivatives position held by Bank of America is any longer exclusively silver, because if it was, it would mean BofA might now be short more than 3.3 billion oz of silver ($64 billion divided by the $19.03 price of silver on Sep 30). Please remember that there are only 2 billion oz of silver (in 1000-oz bar form) in the world. I've had some very unkind words about BofA being dingbats and dummies for getting hornswoggled by JPM, but no one could be so foolish so as to short 3.3 billion oz of silver – not even BofA. I can't see how that would even be possible.

Instead, I'm inclined to think (speculate) that BofA, in an attempt to aide and join in

with the OCC's deceptive move to muddy the waters concerning its massive silver short position, loaded up on completely market-neutral gold derivatives that present no real actual risk, but do increase the size of BofA's total OTC derivatives position to the point of obscuring its silver position further. Let's face it – with the other banks reducing their precious metals positions, why else would BofA move so strongly the opposite way?

But that's not the only thing I believe I uncovered in the new OCC report (and to think I thought it would be a nothing report). As you know, I found the most-recent Bank Participation report to be shocking because it revealed that the former big bank shorts on the COMEX had added much less than was expected in terms of new short positions from Nov 1 to Dec 6. Well, guess what? The new OCC report, even though it's only through Sep 30, also confirms a move by the banks to reduce OTC positions. Not for Bank of America in the OCC report, but as I just explained, I'm convinced the growth in BofA's OTC derivatives positions was strictly a buildup in market neutral gold positions for the purpose of obfuscating its large silver short position.

So, the most important lesson of the new OCC report is a quasi-confirmation of a retracement of the big banks from the short side of the COMEX, as featured in the most recent Bank Participation report. Let's face it, just as is the case for the recurring signals of extreme physical tightness in the silver market, the growing preponderance of the evidence that the banks are retreating from the short side in the paper markets is also quite notable.

I do have to admit to extreme disappointment in the OCC's actions to muddy the waters, no doubt intended to protect Bank of America. Unfortunately, the OCC is not

the only component of the US Treasury Dept that seems to have sought to "influence" the silver market. Of course, I'm referring to the actions of the US Mint in refusing to produce Silver Eagles in the quantities of which it is capable or, further, required by law. So, that's two divisions of the US Treasury Dept seemingly behaving in an untoward manner when it comes to silver.

Since so many are already convinced that the US Government is the prime player in the decades-old COMEX silver and gold manipulation, the OCC's and US Mint's obviously heavy (and clumsy) attempts at deception will only intensify such convictions. To my mind (and please remember I am the one who has introduced the clumsy attempts), I will admit that this strikes me as typical government (wrong) overreaction to put out a sudden fire that it believes it can contain, but usually only ends up making things worse. I'm further convinced the government as being incapable of pulling off a 40-year manipulation and would argue that if the USG was the original mastermind behind the manipulation, it would have failed and the manipulation would have ended long ago.

Regardless of who has orchestrated the decades-old silver manipulation, the growing preponderance of the evidence, both in the physical and derivatives markets points to what should be a termination not at all far from where we are presently.

Ted Butler

December 17, 2022

Silver – $23.40 (200 day ma – $21.35, 50 day ma – $20.92, 100 day ma – $20.17)

Gold – $1803 (200 day ma – $1797, 50 day ma – $1724, 100 day ma – $1730)