February 22, 2020 -Weekly Review

Gold surged to its highest weekly close in 7 years, up $60 (3.8%), while silver ended to week up 72 cents (4.1%) and at 3 year highs. To the naked eye, silver lagged noticeably, yet on a percentage basis, actually slightly outperformed gold, resulting in a very minor tightening in the silver/gold price ratio to 89.25 to 1. Despite the long passage of time in which silver has been obscenely undervalued relative to gold, that doesnâ??t change the fact that silver is dirt cheap relative to gold.

A subscriber asked me this week if I thought he had lost his marbles because he was buying silver with the specific intention of switching to gold when the ratio tightened significantly. In other words, he was using the extreme discount of silver relative to gold to acquire gold at a discount from current prices. I told Rick that not only did this make all the sense in the world, I remembered in the distant past (when silver was also trading at an historical relative discount) making the same observation.

Having forgotten this angle in the onslaught of other developments, hereâ??s a shout out to Rick for raising a very important point, namely, if you want to buy gold but do so at a big discount to the current price, buy silver instead with the intention of switching to gold when the ratio tightens.

The â??other developmentsâ?• that have occupied my thoughts, of course, are those pertaining to the running financial predicament of the largest shorts in COMEX gold and silver futures. While the sharp run up in gold prices this week was mostly nothing but good news for those holding the metal or the mining shares, it was particularly bad news for those holding short positions. In fact, this would appear to have been the very worst week ever for the 7 biggest shorts, as my back-of-the-envelope calculations indicate that the open and unrealized combined loss increased by $2 billion to $7.2 billion from last Friday.

On average, the open loss to the 7 big shorts is now just over a cool $1 billion each; with the smallest of the 7 traders holding less than that, but with the largest holding at an open loss more than a billion dollars each. The total open loss is now more than double the previous open loss high-water mark set back in 2016 and close to double the record $3.8 billion mark to market loss at yearend.

What this translates into is the most critical point weâ??ve ever been at in terms of COMEX market structure. The new Commitments of Traders (COT) report released yesterday indicates that in addition to the most extreme financial scoreboard in history, the 7 big shorts increased their gold short position to new record levels. What does this mean?

It means that the big shorts will take a stand here and force prices sharply lower in the hopes of escaping financial ruin or they will be consumed by continued rising prices. Even though I canâ??t tell you which it will be, it looks like one or the other to me. Iâ??ll try to present the facts on either side of the argument as objectively as possible when I run through the COT report momentarily.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off over the latest 4 day work week, as just over 2.5 million oz were moved. Total COMEX silver inventories rose by 1.1 million oz to 322.5 million oz, a new all-time record. The fact that silver prices rose fairly sharply this week to new 3 year highs while COMEX inventories rose to record highs would seem to point, once again, to rising inventories not being the bearish omen many cling to.

I wouldnâ??t go so far as to proclaim rising inventories as bullish for prices and would settle for these inventories not having much to do with prices. The movement? Yes. The inventory levels? No. There was no change in the JPM COMEX silver warehouse this week, still stuck at 160.9 million oz. I would point out that on one day this week, around 118,000 oz of gold were physically moved from the HSBC warehouse to JPMâ??s COMEX gold warehouse, pointing to JPMâ??s continued accumulation of physical gold. One hundred thousand ounces of gold is a small fraction of the 25 million oz I claim JPM holds, but still amounts to a single transaction amounting to around $200 million.

Turning to the new COT report, we got even bigger increases in managed money buying and commercial selling than was suggested by price action and total open interest increases, in both gold and silver. With gold up around $35 and silver by 55 cents over the 4 day reporting week, accompanied by sharp increases in total open interest, it was a safe bet that there would be significant managed money buying and commercial selling.

In COMEX gold futures, the commercials increased their total net short position by a whopping 47,800 contracts to 385,600 contracts (representing 84% of the 57,000 contract increase in total open interest). Since this is the largest commercial net short position in history (19,000 contracts more than the previous record set on Dec 31), in conventional historic terms, this is the most bearish market structure in gold ever.

However, since the current rally commenced last June, it would be an understatement to say that the conventional market structure premise hasnâ??t worked as it has in the past. For instance, since the previous record of commercial net selling of Dec 31, the price of gold has not traded lower than that dayâ??s close ($1522) and on yesterdayâ??s close is higher by $124. (By contrast, silver has traded below its year end close ($17.95) for more days than it has traded above, reinforcing that the increasing open losses to the big shorts has been mostly a gold affair).

So does this mean that the big shorts wonâ??t be able to rig gold prices sharply lower from this point? Perhaps, but thatâ??s an open question that while it canâ??t be answered at this moment, it will be answered, most likely in the near future. These big shorts, quite literally, have their backs up against the wall and like cornered animals are not to be underestimated. Increasingly, it looks like they may not be able to turn prices sharply lower and generate the managed money selling necessary to get out of the deep hole the shorts find themselves in, but the history of the last few decades might argue otherwise. While I canâ??t know how this will get resolved, I continue to play it like the big shorts will get overrun, although thatâ??s strictly a personal approach, not a definitive answer to what will be.

The concentrated short position of the 8 largest gold traders increased by 27,698 contracts, to a new record of 321,177 contracts, more than half (58%) of the total increase in the commercial selling. Iâ??d peg JPMorganâ??s short position to be around 40,000 gold contracts or there about, up around 6000 contracts for the week and still less than half of what it had been short at previous instances of extremely large commercial shorting (making the double cross premise alive and well).

On the buy side of gold, it was almost an exclusive managed money affair, as these traders bought 42,875 net gold contracts, consisting of the new purchase of 46,787 longs and the new selling of 3912 short contracts. The resultant managed money net long position of 238,546 contracts (278,286 longs versus 39,740 shorts) is clearly very bearish in conventional terms, but not quite at record levels (by about 30,000 contracts or so). The other large reporting traders did add about 3000 net longs this week, falling just a bit shy of being record net long, which I still consider much more bullish than bearish.

In COMEX silver futures, the commercials increased their total net short position by 8300 contracts to 100,800 contracts. This is the largest commercial net short position in nearly three years and as was the case in gold, must be considered extremely bearish in conventional historic terms. While the concentrated short position of the 8 largest traders did increase this week by about 2100 contracts, unlike the case in gold, it is lower than it has been since mid-December (save for last week).

In the prior reporting week, there was an unusually large reduction (4300 contracts) in the concentrated short position of the 4 largest silver traders despite an increase of 1100 contracts in the total commercial net short position. The disparity was so great that I thought it might be a reporting error. It now looks clear that it wasnâ??t a reporting error and, further, there was another large disparity this week in that the concentrated short position of the 4 largest traders â??onlyâ?• increased about 2300 contracts versus the 8300 contract increase in the total commercial net short position.

Over the past two reporting weeks, the concentrated short position of the 4 largest silver traders has been reduced by 2000 contracts, while the total commercial net short position has increased by 9400 contracts. Last week, depending on what this weekâ??s report indicated, I was estimating JPMorganâ??s short position to be somewhere between 17,000 and 13,000 contracts. Based upon this weekâ??s report, it now looks like JPM is right around 15,000 contracts short, which I consider quite low considering the very large total commercial position. In the past, JPM would typically be short 35,000 or 40,000 silver contracts.

On the buy side of silver, it was all managed money traders and then some, as these traders bought an extremely large 11,245 net contracts, consisting almost entirely of the new purchase of 11,203 longs and the buyback of 42 short contracts. The resultant managed money net long position of 65,952 contracts (89,145 longs versus 23,193 shorts) is unquestionable bearish in conventional historical terms, but still shy of a record by about 30,000 contracts.

One thing I would point out is that in both gold and silver, the big increases in managed money buying featured an unusually large number of new traders (20 new managed money traders in gold and 15 in silver). Iâ??m unsure if this is bearish or bullish. On the bearish side, these new traders might be considered more susceptible to selling should the big shorts rig prices sharply lower. On the other hand, these new long traders already have as much as a $50 cushion on their gold purchases and 30 cents or more in silver, so it would seem to take an extremely sharp and contrived selloff to get these new longs to sell.

The bulk (63%) of this weekâ??s increase of $2 billion in open losses to the 7 largest shorts came after the Tuesday cutoff of the COT report. To be sure, the sharp increase in total open interest through Tuesday firmly telegraphed that the commercials were adding aggressively to new shorts and there was not the slightest indication of any type of short covering. After all, itâ??s almost impossible to have aggressive short covering while total open interest is increasing sharply.

However, since the Tuesday cutoff, the pace of increase in total open interest has cooled off. Although yesterdayâ??s open interest data are in preliminary form (the final data will be published Monday), goldâ??s total open interest since the cutoff is up by â??onlyâ?• 16,000 contracts, as opposed to last weekâ??s 57,000 contract increase for the entire week (silver open interest is up 6000 contracts since Tuesday, as opposed to the full prior week increase of 16,000 contracts).

But what really caught my attention was that on yesterdayâ??s very sharp gold rally on the heaviest trading volume on the near hundred dollar rally that started in early February, the total open interest was largely unchanged. Yes, this involves preliminary data subject to revision on Monday, but for the first time offers some hope for short covering. While I canâ??t say this an indication that the big shorts are about to commence aggressive short covering, what I can say is if the big shorts move to aggressively cover shorts, prices will go â??boomâ?• to the upside â?? more than most can imagine.

Itâ??s important to remember that the big commercial shorts in COMEX gold and silver have never collectively bought back shorts on higher prices. Never. In fact, this is prima facie proof that the commercials have manipulated (suppressed) gold and silver prices for decades. Remarkably, the basis for this statement resides in the same COT and Bank Participation report data published by the CFTC, which show the commercials have never collectively bought back short positions on higher prices (and at losses). No secret insider or whistleblower leaks, just the facts (public data), Maâ??am. Because the facts are so clear, the regulators have done everything possible to avoid any discussion of these facts.

So indisputable is the fact that the commercials have never collectively bought back short positions in COMEX gold and silver on higher prices for decades running is the same reason the COT market structure premise has soared in popularity. It was such a dependable outcome that once the commercials got big net short in COMEX gold and silver that it was only a matter of time before they would succeed in rigging prices lower and inducing the required managed money selling that would enable the commercials to buy back their shorts on lower prices.

In other words, the manipulative pattern became so obvious and reliable that it came to be near-universally accepted. While reliable, that didnâ??t alter the fact that the pattern was based on an ongoing manipulation. Ironically, the manipulative pattern came to be near-universally accepted at a time when the pattern may have stopped working. To be sure, the pattern had to stop working one day, although no one could anticipate when that day would arrive. And the reason the reliable pattern had to stop working at some point is because it was based upon a manipulation and all manipulations must end someday.

At this point, I canâ??t declare that the manipulative pattern that came to be universally accepted has ended, although itâ??s fair to say that the past nine months or so point in that direction more so than any time before. About the only sure proof that the manipulative pattern of the commercials never collectively buying back gold and silver short positions on higher prices being broken is for the commercials to actually buy back on higher prices. Weâ??ve seen some tentative indications of that recently, but there is nothing at all tentative about the new record total commercial and concentrated short positions in the current COT report.

But just as much as it a fact that the commercials have yet to cut bait and actually buy back gold and silver short positions on higher prices for the first time ever, it is also a fact that the 7 big commercial shorts have let their existing short positions move against them like never before, as per my running financial scoreboard calculations. Whether this indicates an inherent weakness and miscalculation or creates an even greater resolve to smash prices soon, perhaps out of desperation, will likely be known in the very near future. Either way, nothing could be more important to future prices.

Ted Butler

February 22, 2020

Silver – $18.45Â Â Â Â Â Â (200 day ma – $16.88, 50 day ma – $17.75)

Gold – $1646Â Â Â Â Â Â Â Â Â Â (200 day ma – $1470, 50 day ma – $1548)

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