January 12, 2022 – Prescient or Just a Lucky Guess?

A year and a half ago, in early June 2020, on the occasion of the massive physical inflows into the worldâ??s silver ETFs, primarily SLV, I concluded that the only plausible explanation for the inflow of 300 million ounces of silver was that the metal was coming from a lease transaction from JPMorgan to unknown banks. I reasoned that interests related to JPM were the only possible source of the silver, but had no idea who the â??borrowingâ?• banks might be. After all, precious metals loans are perhaps the least transparent (and least understood) of any transaction.

https://silverseek.com/article/return-precious-metals-leasing

I had absolutely no concept at that time that my conclusion would apparently be confirmed by future official US Treasury Dept data, in the form of its Office of the Comptroller of the Currency Quarterly OTC Derivatives Reports and that only one US bank, Bank of America, would be the borrower of not only the 300 million oz I estimated in early June 2020, but would go on to borrow (and sell short) more than 800 million oz as of the most recent OCC report for positions held as of Sep 30, 2021. At the time of the above article, the only OCC report available was for the quarter ending Dec 31, 2019 (when BofA held a silver derivatives position of approximately of $148 million or 8 million oz).

In all, there have now been seven quarterly derivatives reports from the OCC documenting the shocking increase in Bank of Americaâ??s precious metals derivatives position, which includes only silver, platinum or palladium. Gold is classified in the FX category and, interestingly, this category has not indicated any real increase since Dec 2019 â?? only the precious metals category excluding gold. I suppose it could be suggested that the platinum and palladium derivatives position increased sharply and not silver, but there are none of the separate reinforcing signs that the increase didnâ??t center on silver – such as inflows into platinum or palladium ETFs or COMEX warehouse inventories.

Therefore, it appears obvious, at least to me, that Bank of America has indeed borrowed and gone short close to 800 million ounces of silver, based upon my analysis starting a year and half ago and continuing through the most recent OCC report. I am open to official explanations to the contrary, but no such explanations have been forthcoming, despite me seeking those alternative explanations at the highest levels. Unfortunately, if my version of events is accurate (as I firmly believe), this presents both a threat to the financial system and Bank of America, as and when silver prices rise sharply.

The threat created by sharply higher silver prices to BofA is the same threat that was predicted and came to pass on the last go-around with the leasing and short sale of gold and silver at the onset to the turn of the century, 22 years ago. As hard as it may be to believe, this is the second time in two decades that the idiocy of precious metals leasing/short selling has occurred. But whereas the first occurrence stung a variety gold and silver mining companies, this time one big US bank, BofA, seems certain the take the brunt of the inevitable outcome.

Leasing may sound like a harmless activity, but when it comes to precious metals leasing, it is anything but harmless. Thatâ??s because â??leasingâ?• is the wrong word. The correct term is physical metal short selling â?? infinitely much worse even than the manipulative COMEX paper positioning I have described for decades. The reason leasing/short selling is much worse than COMEX positioning is because one is physical, while COMEX positioning is largely a paper scam in which the managed money traders are the dupes. With leasing/short selling, physical silver is dumped on the market, altering the actual supply and demand fundamentals.

When physical silver is borrowed and sold short, physical metal is dumped on the market without regard to price. What BofA appears to have done over the past year and a half is dump many hundreds of millions of physical silver ounces on the market without regard to the price and because so much metal flooded the market, the price of silver was artificially depressed and manipulated. Iâ??m convinced the idiots at Bank of America didnâ??t even realize what it was doing, but thatâ??s beside the point â?? there is no way that the equivalent of a full yearâ??s world annual mine production could be dumped on the market without manipulating the price lower.

But the dumping of 800 million ounces of physical silver by Bank of America is only part one of a two-part equation. Since Bank of America did not own the physical silver it sold and dumped on the market, but borrowed every single ounce, part two of the equation lies immediately ahead. Part two includes the reverse of part one, in which Bank of America tries to retrieve and pay back the borrowed physical silver it sold short, with the opposite effect on price.

Whatâ??s most remarkable is that I (and the world) have been through this before and I described exactly beforehand what would happen when the borrowing and short selling of physical gold and silver ended and the inevitable payback process commenced. This is the unavoidable other side of leasing â?? part two if you will. Only this time, itâ??s not Barrick Gold and other miners, as it was back then, but Bank of America on the hook. If you think I was prescient a year and a half ago, I donâ??t know what words would be appropriate for this article more than 22 years ago, since it turned out to accurately predict the future.

https://www.gold-eagle.com/article/other-side-leasing

I know it may appear that I am beating this issue about Bank of America borrowing and selling short 800 million oz of physical silver to death, while itâ??s hardly mentioned elsewhere, but thatâ??s because Iâ??m convinced it is the most important issue for silver – just like I was convinced about leasing/short selling two decades ago. I just never imagined that there would be a rerun of the issue.

Still, there are important differences in the rerun of the leasing experiment this time and what occurred back then. Â Because mining companies were on the hook in the previous leasing experience, many went bankrupt, at least effectively, while others, like Barrick survived, but depriving shareholders of many tens of billions of dollars in profit when gold prices eventually rose in the end. Ask any mining company today if they would ever borrow metal to sell short and see what kind of answer you get â?? it was a lesson for the ages. But it was at least possible, on paper, that a mining company could pay back physical loans from future production. How could a non-producer, like a bank, pay back physical metal borrowed â?? other than buying it back on the open market?

Finally, another key difference between leasing then and now, is that back then, the loans were fully-disclosed by the mining companies in their public earnings reports, as required by public accounting regulations. Barrick went one step further, actually bragging about and showcasing its â??Premium Sales Program.â?• Try to uncover anything in a money center bankâ??s earnings report â?? not even the CIA or the KGB could find something the bank wished to obscure. If it werenâ??t for the OCC reports, the matter of Bank of America would have never come to light.

Of course, Iâ??ve already stipulated repeatedly that Iâ??ll fully acknowledge and openly deal with any official rebuttal to my version of things, but thatâ??s predicated on any actual rebuttal being officially offered. So far, it has only been the sound of silence and I am still working on actually receiving such an official rebuttal. To be fair, it has only been a couple of weeks, but this is hardly a minor matter.

In other developments, the new short report on stocks for positions held as of Dec 31, indicated another increase in the short position on SLV, the big silver ETF, of 1.6 million shares to 28.6 million shares (ounces). While still down close to 10 million shares from the peak several months back, Iâ??m increasingly convinced this short position is as large as it is for the simple reason that the physical silver market is so tight that the short sellers are forced to hold so many SLV shorts because buying the physical metal to deposit would force prices higher – a prisonerâ??s dilemma, as it were and unquestionably bullish. (Iâ??ve gotten away from noting the short position in GLD, the big gold ETF, because at roughly 1 million oz equivalent ounces of gold held short, it doesnâ??t appear to be a market factor).

https://www.wsj.com/market-data/quotes/etf/SLV

As far as what to expect in Fridayâ??s new Commitments of Traders (COT) report, it was another bifurcated price week with only one down day â?? last Thursdayâ??s commercial smash and grab, in which gold was creamed for $35 and silver plummeted for more than a dollar. For the reporting week ended yesterday, gold ended the week up a few dollars and silver down by 25 cents, so on that basis I suppose there wasnâ??t much net positioning change in gold and maybe some slight improvement (managed money selling and commercial buying) in silver when the dust of the reporting week settled.

There was a massive increase in total open interest in gold of close to 45,000 contracts (4000 contracts in silver), but that has all the appearances of phony (or at least non-economic) spread creation, as we are in the prime time for such spread activity. But I have a different overall sense of the current COMEX positioning than I typically do. For starters, I get the feeling that last Thursdayâ??s price bombing was a last-ditch effort to induce as much managed money selling as weâ??re likely to see in quite a while.

As I have been reporting for some time, the basic market structures in COMEX gold and silver is extremely bullish, to the point where while sharp selloffs, like last Thursday, can never be ruled out, from a market structure perspective â?? this cake is baked and ready to serve. Essentially, all that remains to be seen is whether the 4 big commercial shorts, in both gold and silver, lean into the next rally with price-capping short sales. This has been the big question ever since I petitioned the CFTC on the matter last March and it responded in May completely differently than it had in the past.

Since the end of May, the concentrated short position of the 4 largest traders in COMEX silver futures has not really grown substantially, the longest such stretch in my memory. True, there was some increase in the big 4 concentrated silver short position into the price highs of mid-November, but even then, it was still 10,000 contracts (50 million oz) less than it was at the peak last Feb 2. Also true is that silver prices have been consistently lower since May, so the real test of what the big shorts will do lies ahead.

As far as how the price of silver has been contained without big 4 shorting over the past now 8 months, I think the revelations about Bank of America have had a lot to do with it â?? it is reasonable to conclude the dumping of many hundreds of millions of physical silver ounces would assist and substitute for the crooked paper games on the COMEX. But if my analysis is correct and the effect of BofAâ??s physical dumping is behind us and all that remains is the other side of leasing, then the test of whether the 4 big shorts plow onto the short side on rising prices takes on new meaning.

Certainly, when the effect of the other side of leasing began to take hold in the early 2000â??s, COMEX paper positioning took a back seat. Thatâ??s not to say COMEX paper positioning will have no impact of price, but if we are now on the other side of leasing, that has got to take center stage. Also, Iâ??m not sure the big shorts were fully-aware of what BofA may have done until very recently and assuming they are now aware, I canâ??t see how that would encourage them to aggressively add new shorts. The bottom line is that my long-held premise of what the big shorts do on the next rally matters more than ever.

Finally, all things considered and looking at the multitude of reasons pointing to higher silver and gold prices, who in their right mind would choose to go heavily short anywhere near current prices? In the end, itâ??s got to have come down to that. I donâ??t doubt that the silver raptors have been booking profits and selling out longs, but the key question is whether the big shorts will add shorts. The rally since Friday appears to me to be akin to the rolling out of the Saturn rocket onto the launchpad, with an ignition set to coincide with a convincing rally above $1830 in gold and $23.50 in silver.

At publication time, the rally in gold and silver since Fridayâ??s close has erased nearly the entire gains the 8 big shorts enjoyed last week, adding $900 million to a total loss amounting to $9.4 billion â?? only slightly less than the $9.5 billion loss at year end.

Ted Butler

January 12, 2022

Silver – $23.25Â Â Â (200 day ma – $24.73, 50 day ma – $23.25, 100 day ma – $23.32)

Gold – $1827Â Â Â Â Â Â Â (200 day ma – $1800, 50 day ma – $1806, 100 day ma – $1794)

Date Created
2022/01/12