January 23,2021 – Weekly Review

Despite a third consecutive sharp (and highly orchestrated) Friday selloff, gold and silver prices managed to finish higher on the week, with gold ending up by $26 (1.4%) and silver up by 70 cents (2.8%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by a full point to 72.6 to 1.

This puts silverâ??s relative performance compared to gold at much closer to the strongest levels over the past six months or so in what has been a consolidation of the strong gains made in both metals into early August. I believe it is a harbinger of much stronger gains for silver, both relative and absolute, ahead. Then again, I believe a lot of things, some of which actually come to realization.

The rise in gold and silver prices this week meant that the 8 big COMEX shorts gave back $900 million of the $2.7 billion reprieve they experienced over the prior two weeks and marks their total loss at $12.2 billion. That puts them better off than the $14 billion total loss at yearend, but, as the new COT report indicates, also with fewer prospects for buying back great numbers of open shorts on lower prices. Thus, it seems to me, the noose appears to be tightening around the big shortsâ?? necks. Let me run through a few things, before discussing the new COT report.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained â??lowâ?• this week (compared to the average weekly movement over the past ten years) as 3 million oz were moved. Then again, this was a four day work week, given the MLK holiday on Monday. Total COMEX silver warehouse inventories did climb by 2.4 million oz to 398.8 million oz, another new all-time high.

There was also a 1.1 million oz increase in the JPMorgan COMEX warehouse to 193.9 million oz, also a new all-time high. Yes, I have gotten the impression that JPM and its affiliates may be augmenting their massive holdings of physical metals, even as they â??lay lowâ?• in COMEX paper positioning. Whoâ??s going to stop them?

There was also an increase of 0.2 million oz in total COMEX gold inventories to 38.7 million oz, also a new record, while the holdings in the JPM warehouses remained unchanged at 13.72 million oz.

Nothing special to report in COMEX deliveries, aside from noting that the monthly spread differentials are remarkably narrow in both gold and silver, particularly when compared to the absolute blowout in spread differentials last spring and summer. I interpret this as an indicator of physical tightness from my ancient spread trading days.

The big news this week was the absolutely stunning increase in physical metal deposits in the big silver ETF, SLV, and other silver ETFs. All told, more than 27 million oz of metal were deposited this week, led by SLV with 21 million oz and including notably large deposits in SIVR and the Deutsche Bank silver ETF.

I had mentioned the 20 million oz one day deposit in SLV in Wednesdayâ??s article, but was hesitant to comment extensively, mainly because I wasnâ??t sure if it was a reporting error, given its massive size. Once before, back I believe at the start of 2013, there was a 20 million oz one day deposit that was reversed the next day, so I wanted to see if the same thing occurred this time. But the increase stood and now I feel more comfortable in discussing it.

This first thing I would say is that while the thought of someone plunking down $500 million to buy 20 million oz of silver ($650 million for the total 27 million oz added to silver ETFs last week) makes more sense than anything I see going on in financial markets in general (stocks and Bitcoin), the transaction was nonetheless counterintuitive. After all, silver prices hardly reacted, before or after, to the largest physical purchase in memory and ETF trading volumes didnâ??t spike.

Based on the information available, the buyer initiated the transaction(s) and was likely a single entity. If the seller(s) initiated the transactions, there wouldnâ??t have been large deposits, but withdrawals. There isnâ??t likely to be a public reporting of the ETF share purchases as the amounts, while quite large, fell below SEC 5% public reporting requirements. (The shares purchased may eventually be converted to metal, but thatâ??s a matter for another day).

Other things fairly safe to say include that the buyer(s) was quite knowledgeable about how markets work (or had knowledgeable advisors) in that the large purchase had no impact on price and likely represented a sophisticated negotiated block trade intended primarily not to cause prices to rise. Had someone tried to buy the equivalent of 4000 or 5000 COMEX silver futures contracts quickly, normally considered the most liquid market, I believe the sudden purchase of that many contracts would have had more of an immediate upward impact on price that the purchase at SLV and other ETFsâ??.

As far as who the big buyer may have been, while I would lean towards an entity attracted by silverâ??s compelling future potential investment returns, it could just as easily have been a major silver consumer seeking to protect itself against invariably higher prices and possible future physical unavailability.

Since the purchase of such a large amount of physical silver makes more sense than anything else thatâ??s going on in financial markets, the question becomes who in the world would sell such a large amount of metal without demanding much higher prices (given the obvious buying demand)? Here I can only conclude that the sellers had a vested interest in not seeing silver prices rise, which would put the sellers as most likely the same big concentrated shorts on the COMEX. If Iâ??m correct, the only remaining question is where the heck did they get the physical silver involved in the transaction?

The answer to this question is from the wacky and illegitimate world of leasing. It appears to me the physical metal, all 27 million oz, came from the metal being leased, most likely from entities controlled by JPMorgan, since these entities own most of the worldâ??s physical silver. Please remember, precious metals leasing is a thoroughly corrupt (and little disclosed) practice which is simply another form of short selling, in which the borrower(s) promise to pay back the physical metal someday (much like the cartoon character Wimpy promising to pay next week for money loaned in order to consume a hamburger today).

Only precious metals leasing in not some outrageous and limited cartoon exercise, but a full-fledged and inherently corrupt financial practice that is fraudulent on its face. Iâ??m not about to re-litigate the campaign I ran against precious metals leasing decades ago as Iâ??ve already been there and done that. I have a pretty good idea how it will turn out for the big shorts borrowing physical metal in the hopes of staving off their coming demise.

25 years ago I did feel pretty badly about the effect of leasing on the unaware shareholders of mining

companies involved (not the arrogant management), but this time feel no such sympathy for the big shorts borrowing metal at this point. If my take is correct and some of the 4 and 8 big COMEX shorts are borrowing physical metal to hold off the inevitable price increases ahead, then they are only pouring more gasoline on a short covering bonfire that could catch fire at any time. And itâ??s not just wholesale demand for physical silver that appears white-hot – rarely has retail demand, particularly for silver, been as hot as it is currently. If anything can trump the paper manipulation on the COMEX it is physical demand.

And if the big silver shorts have leased the 300 to 400 million oz I sense they have borrowed, then not only are they out as much as $3 billion additional on their leased silver on top of what I calculate as running total losses, but stand to lose as much as an additional $4 billion for every $10 silver moves higher in price â?? on top of the billions lost and to be lost on their short futures contracts. Maybe Iâ??m all wet, but these big shorts sure look like dead men walking to me.

On the matter of the big buying and metal deposits into SLV, there is always the invariable question of the validity of the reported data in SLV, GLD or any other precious metals ETFs. The question keeps getting asked if the published data can be believed or, as many maintain, everything related to these ETFs is some type of scam. While I am certainly in no position to personally guarantee the facts around these ETFs, I try to take a common sense approach.

SLV, which is now holds the largest stockpile of silver on the face of the earth, with 574 million oz, a couple of million oz shy of its record. There are now another 575 million oz in other silver ETFs, plus nearly 400 million in the COMEX warehouses, for a grand total of 1.55 billion oz. The total amount of silver in the form of 1000 oz bars is said to be around 2 billion oz, so more than 75% of all the worldâ??s silver bullion is accounted for. JPMorgan and its affiliates, by my estimates, own most of the silver in the ETFs and on the COMEX, in addition to most of the 500 million oz not on visible deposit.

More questions about SLV (and GLD), arise because it is the largest ETF. It also happens to be run and sponsored by BlackRock, one of the largest asset managers in the world. At yearend, BlackRock reported total investment assets under management of nearly $8.8 trillion (thatâ??s trillion with a â??Tâ?•). Even though the silver holdings in SLV amount to $15 billion, relative to BlackRockâ??s total assets under management, the holdings in SLV amount to less than one-quarter of one percent ($15 billion compared to $8.8 trillion).

My common sense tells me that BlackRock, one of the largest money managers in the world, a fabulous business with revenues of $16 billion annually and a market cap on its public shares of more than $110 billion, would hardly tolerate any hanky-panky in one of its funds that accounted for less than a quarter of one percent of its business that would threaten its reputation by allowing false reporting. I learned the hard way 8 or 9 years ago when I went after BlackRock for not doing more to police the short position on SLV, due the unintended consequences of me publishing the email addresses of its chairman and its president how jealously BlackRock guards its reputation (as it should). My sense is that BlackRock responded promptly and appropriately. Now compare that to the stone cold crooks at JPMorgan and the CME Group which remain silent in the face of allegations tens of thousands of times more serious and specific.

Lastly, I believe the 20 million oz one-day deposit into SLV didnâ??t involve the physical movement of metal as that would require the loading and unloading and transport of 33 full truckloads of silver in a day, a logistical impossibility. Clearly the metal was already in the designated warehouses in London and that no physical movement was involved.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, it fell within the general expectations that this weekâ??s net positioning wouldnâ??t come close to the prior weekâ??s change, despite the total open interest in gold declining more this week than last week.

Even though the net positioning changes were even less than I was expecting in gold, I kind of knew I wasnâ??t going to be disappointed no matter what the results, because less commercial buying than expected would likely be due to the washed out nature of the market structure. And unless Iâ??m reading things wrong, thatâ??s what appears to have been the case.

In COMEX gold futures, the commercials bought back and reduced their total net short position by 2800 contracts to 287,700 contracts. This is the lowest (most bullish) commercial short position in nearly two months, but the larger takeaway is in how relatively unchanged the total commercial net short position has remained for the past ten months or so. Again, while I may be reading too much into this, I think this reflects the inability of the big shorts to close out much more of their concentrated short position, despite a decent amount of closeouts over the past two reporting weeks. There is no doubt in my mind that the big shorts would be quite happy to buy as many contracts as were offered for sale.

By commercial category, the 8 big shorts did close out nearly 4500 short contracts this week, reducing their concentrated short position to 254,966 contracts (25 million oz). Explaining how the 8 big shorts covered more shorts than the commercials bought as a whole was new shorting by the raptors (the smaller commercials) of 1800 contracts. JPMorgan may have sold a thousand gold contracts or so, reducing their net long position to that same amount. Itâ??s pretty remarkable how subdued JPMorgan has been in gold and silver COMEX positioning for the past 10 months or so. Itâ??s almost as if their latest deferred criminal prosecution agreement may have meant something, as the first few didnâ??t appear to have much effect.

There were only 163 net contracts sold by the managed money traders this week, but the composition of the mix was somewhat unusual in that 3896 longs were sold and liquidated, but 3733 short contracts were bought back and liquidated. The long liquidation was expected, although not the short covering. Still the net managed money long position remains quite low and bullish at 78,071 contracts (127,161 longs versus 49,090 shorts), a slight new low going back to June 2019 and with the gross long position also at a new low since that time and serving as the basis for the â??washed outâ?• premise.

The other large reporting traders did sell 1814 longs, but also bought back 2388 shorts, thus slightly increasing their net long position which remains close to a record at more than 168,000 contracts (about 5000 shy of a record). Thus, these other guys still seem to be hanging tough on the long side. This week, the smaller non-reporting traders did most of the selling with more than 3200 net contracts sold.

In COMEX silver futures, the commercials actually increased their total net short position by a scant 300 contracts to 70,300 contracts. The increase was more of a statistical oddity given the breakdown by commercial category. The 4 big shorts did buyback 2100 short contracts and now hold 57,245 contracts short (286 million oz). In addition, the next largest 5 thru 8 big shorts bought back 600 short contracts, reducing the big 8 concentrated short position to 75,604 contracts (378 million oz).

Explaining how the 8 big shorts could buyback 2700 contracts and the total commercial short position increase by 300 contracts was raptor long liquidation of nearly 3000 contracts. As was the case in gold, JPMorgan largely minded its Pâ??s and Qâ??s, and is still net long about a thousand silver contracts and perhaps a bit more.

The managed money traders did sell 1782 net silver contracts, although the mix was somewhat unexpected in that they sold and liquidated 4012 long contracts (which was expected), but also bought back 2235 short contracts (that was the unexpected part). More typically, long liquidation coincides with new shorting, not short covering. Still the mix was encouraging since the greater the long liquidation now usually means less liquidation later, in keeping with the washed out premise.

Also encouraging was that the other large reporting traders bought into the price dip in the reporting week and added nearly 1000 net longs, although most was via short covering. Still the now near 12,000 contract net long position of the other large reporting traders is now the largest since May and in stark contrast to their net short position of nearly 7000 contracts of August.

Over the past two reporting weeks, the 8 big gold shorts bought back 25,000 short contracts, while the 8 big shorts in silver bought back around 5000 short contracts. While this short covering by the 8 big shorts accounted for much (although not all) of the total commercial buying over this time, in terms of how much it reduced the big shortsâ?? concentrated short positions, the correct answer is not by much. In gold, the concentrated short position was reduced by around 9% over the past two weeks and in silver the reduction in the 8 big shortsâ?? position was closer to 6%.

As a reminder, the price of gold sold off as much as $150 over the past two reporting weeks, including plunging below all three key moving averages. In silver, prices plunged as much as $4, and two of silverâ??s three key moving averages were penetrated, but as of yesterdayâ??s close, silver prices were back above all its key moving averages. And forgive me for sounding like a technical analyst, but silverâ??s 50 day moving average is about to upwardly penetrate its 100 day moving average and the last time such an event occurred was back in late June, as silver was about to rally sharply over the next six weeks.

What Iâ??m getting at is that the price carpet-bombing over the past two reporting weeks was, quite clearly, of financial benefit to the 8 big shorts above any other category of trader and just as clearly, the 8 big shorts tried to take maximum advantage of the decline to buy back as many shorts as possible. Their problem, it seems to me, is that they appear to have shaken off just about every apple that could be shaken off the tree and the prospects for many more apples to be shaken off appear slim (to none). I would never rule out additional price-rigging by the big shorts, but THE apple tree appears almost devoid of fruit, as if a twister hit it.

And now with physical silver demand robust (to say the least) on both a wholesale and retail basis, holding a still massive short position wouldnâ??t seem very appealing and more like downright suicidal. Not that I would wish anything unfortunate would ever befall the 8 big shorts (yeah, right).

Ted Butler

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Silver – $25.55Â Â (200 day ma – $22.41, 50 day ma – $25.06, 100 day ma – $25.08)

Gold – $1855Â Â Â Â Â Â (200 day ma – $1849, 50 day ma – $1862, 100 day ma – $1890)

Date Created
2021/01/23