January 9, 2021 – Weekly Review

In a classic (bad) old daysâ?? flashback, precious metals prices got deliberately monkey-hammered yesterday and in late trading gold ended the week down by $52 (2.7%) and silver down by an even dollar (3.8%). As a result of goldâ??s relative outperformance, the silver/gold price ratio widened out by three-quarters of a point to 72.5 to 1. Maybe Iâ??m imagining things that arenâ??t there, but Iâ??m a bit taken aback by how well silver behaved on a such sharp down day.

I am referring to late closing prices (around 5 PM EST), as is my custom, as at the intraday lows both gold and silver were lower still. In fact, at the intraday price lows, gold prices had penetrated to the downside all three of its important moving averages (the 200 day, 100 day and 50 day maâ??s), a one day feat not experienced even on Marchâ??s dramatic price plunge, although by dayâ??s end had managed to climb back above the 200 day moving average.

Silverâ??s price plunge was more muted (quite unusual) and while it did penetrate its 100 and 50 day moving averages intraday, it closed above those averages in late trading and never came close to penetrating its 200 day moving average. COMEX trading volume was extremely heavy, particularly in silver (since there was relatively little rollover spread trading, as was the case in gold).

When I first turned on the TV yesterday morning, I got to glimpse the prices of various markets before the precious metals came across. Stocks were mixed to higher, the dollar flat to lower, crude oil at new recent highs and Bitcoin at new record highs, so I thought that bodes well for the metals, particularly considering the dramatic events in Washington this week. So I was more than unpleasantly surprised to see gold below $1900 and silver a bit below $27. Only later did I realize that gold and silver prices had been down even more sharply and what I was seeing was a rally off the lows. Later, of course, all hell broke loose to the downside as the day unfolded.

For the benefit of newer subscribers, but also everyone, Iâ??d like to take a moment to explain yesterdayâ??s rather counterintuitive price paths in gold and silver. There was nothing in the real world of physical metals or other markets that explained the sharp selloff, so please donâ??t bother even looking for such explanations. Yesterdayâ??s price smash was highly deliberate commercial-induced positioning in COMEX paper dealings, with not the slightest hint it was spontaneous or just one of those things. 10% intraday silver price drops never occur by happenstance.

What we know for sure on a dead solid certain basis, is that while the commercial traders on the COMEX most likely sold small quantities of gold and silver contracts early on (in the quiet early hours of overnight trading) or deployed other dirty trading tricks similar to spoofing, and that selling or bluffing was intended to get the price snowball rolling down the hill until it induced the managed money traders and others to sell in force. There is no question that by the end of the day, there was heavy net commercial buying and heavy net non-commercial selling. We know this for a fact because thereâ??s never been a sharp down day in decades where the commercials didnâ??t end up as significant net buyers and the non-commercials significant net sellers. Never. I know it is confusing to many how the commercials can pull this off, but thatâ??s just the way it is.

In fact, this is further confirmed by the fairly sharp drop (more than 12,000 contracts in gold and 6000 contracts in silver) in yesterdayâ??s preliminary total open interest statistics. Mathematically, even allowing for spread trade distortions, a decline in total open interest infers short covering and long liquidation and since the commercials were clearly net short and the non-commercials net long, there had to be commercial short covering and non-commercial long liquidation.

What we canâ??t know is which commercial categories bought and which non-commercial categories sold. Barring drastic positioning changes on Monday and Tuesday, we have to wait until next Fridayâ??s COT report to see the extent of the commercial buying and non-commercial selling by category, but my guess is that the managed money traders were big net sellers and that the commercial buying was distributed among the various commercial categories. Thereâ??s just no way to know what those other guys in the other large reporting categories did until we get the next report, but I am expecting (as of yesterdayâ??s close) that the managed money traders in gold liquidated 20,000 to 30,000 gross longs or thereabouts.

We also know that the weekâ??s declines in gold and silver prices greatly aided the 8 big shorts. This weekâ??s price declines in gold and silver prices reduced the total losses to the big shorts by nearly $1.9 billion to $12.1 billion from last weekâ??s close and closer to $3.5 billion from the price highs earlier in the week. But before rushing to the conclusion that the 8 big shorts are back in control, I would ask you to consider a number of things.

One, as beneficial as the price declines were this week, the losses to the 8 big shorts of the prior week of $14 billion were also the quarter and yearend mark to market and the very worst for the big shorts ever. If these guys are back in control, why would they have allowed the official mark to market results to have been so horrendous? It would have been much better for the big shorts to have prevented last weekâ??s horrid mark to market than achieve this weekâ??s relief.

The other big consideration is that deliberately rigging prices lower is one thing, but it also requires massive actual buybacks of short positions to close the positions out. The 8 big shorts in gold and silver most likely bought back significant numbers of short contracts on the price selloff Wednesday and yesterday, but they also, undoubtedly, had stiff buying competition from the smaller commercials (the raptors) and in gold perhaps from those other guys â?? and donâ??t forget JPM.

In further considering the highly-deliberate nature of yesterdayâ??s selloff, I canâ??t help but feel this may be (or has been) the big shortsâ?? last stand. Or that the time may be ripe for one or more of the biggest shorts to break ranks and look to save themselves. After all, yesterday was no ordinary selloff in that you can count on one hand the number of previous days over the past 30 or 40 years where gold plunged in a single day below all three of its key moving averages. This is very different from the slight new price lows seen in the past over a more extended time that my old friend Izzy referred to as salami slices. There were no price slices yesterday, just big hunks whacked off the salami with a cleaver or meat-ax.

In my final analogy, yesterdayâ??s sharp and intentional selloff shook most or all of the apples that had grown back on the tree, where apples represent speculative longs (mostly managed money or smaller non-reporting traders). Once shaken off the tree, additional pickings get mighty slim â?? particularly against a broader background that suggests significantly higher gold and silver prices.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off to 2.3 million oz this week, the lowest movement in a couple of months, as total COMEX silver inventories remained unchanged from last weekâ??s record high of 396.5

million oz. Silver holdings in the JPMorgan COMEX warehouse rose by nearly 0.6 million oz to 192.8 million oz, another new record. COMEX gold inventories remained unchanged at 38.2 million oz, as did the holdings in the JPM warehouses at 13.59 million oz.

Silver holdings in the big silver ETF, SLV, rose by close to 4 million oz again this week and gold holdings in the big gold ETF, GLD, saw net inflows of 350,000 oz for the week, but there were no reported changes for yesterdayâ??s high volume price smash. I found this odder for GLD than SLV, as thereâ??s usually a day or so delay in reporting for SLV where thatâ??s not typically the case in GLD. I would tend to expect hefty withdrawals considering the price smash and heavy volume, particularly in SLV, but surprises occur regularly in ETF physical metal flows. No matter what gets reported eventually, Iâ??d bet JPMorgan and its affiliates end up with more metal as a result.

Reports from the dealer front suggest strong retail buying interest on yesterdayâ??s price smash, particularly for silver. This is as it should be, as selloffs at this point would seem to represent prudent buying opportunities. This retail buying behavior also confirms yesterdayâ??s selloff as a manipulative commercial undertaking on the COMEX.

Yesterdayâ??s Commitments of Traders (COT) and monthly Bank Participation Reports came in close to expectations. Again, the only reason I make predictions (when I do make them) is to test myself as far as the ongoing premise that COMEX positioning determines price. On Wednesday, I wrote that I expected moderate deterioration (managed money buying and commercial selling) and we largely got that in gold, but not so much in silver. We had closed on the Tuesday cutoff at the highest prices since September.

I also commented that with the breakout of gold above its 100 day moving average â??all clearâ?• signal on Monday and into Tuesday that it would be prudent to expect sharp selloffs as the big shorts shouldnâ??t be expected to roll over and play dead, but no, I wasnâ??t anticipating the drive-by price licking of yesterday. We had been down fairly sharply on Wednesday, suggesting to me that much of the expected deterioration in yesterdayâ??s report was already neutralized in gold. But it was yesterdayâ??s selling that shook a large number of speculative long apples off the tree.

In COMEX gold futures, the commercials increased their total net short position by 13,700 contracts to 320,900 contracts. This was the largest (most bearish) short position since March 10. By commercial category, the 8 big shorts increased their concentrated short position by close to 8400 contracts to 279,893 contracts (28 million oz), also the largest such short position since March 10 and this week the 5 thru 8 largest traders accounted for most of the increase. The smaller commercials (the raptors) provided the balance of new commercial shorts with 5300 short contracts added. JPMorgan appears to have stood pat at flat (no short position).

The Bank Participation report indicated just about all of the 17,000 contract increase in the concentrated short position of the 8 largest gold traders over the month came from non-US banks.

On the buy side of gold the managed money traders were net buyers of 7574 contracts, comprised of 7423 new longs and the buyback and short covering of 151 contracts. As of Tuesday (the price highs over the past several months) the managed money traders had added around 33,000 new gross longs from the price lows at the end of November, a total gain of more than $150, and between the selloff on Wednesday and yesterday, my sense is that all those added longs may now have been liquidated.

The difference between what the managed money traders bought and what the commercials sold was made up, almost equally by buying from the other large reporting traders and smaller non-reporting traders of about 3000 net contracts each. The other big guys only added 711 new longs and bought back 2161 shorts, so the jury is still out on what these traders may have done on the big selloff yesterday and will be of prime interest when next Fridayâ??s report is published.

In COMEX silver futures, the commercials added 1700 short contracts to a total short position amounting to 77,500 contracts as of Tuesday. As was the case in gold, this was the largest commercial short position since March10, but less of an increase for the week than I feared. And while the concentrated short position of the 4 and 8 largest traders was also the largest since March 10, both short positions were somewhat lower than the previous week â?? with the big 4 short position at 62,482 contracts (312.4 million oz) and the short position of the 8 largest traders down a bit to 80,786 contracts (403.9 million oz). No, Iâ??m not trying to minimize in any way these obscenely large and manipulative short positions.

JPMorgan appeared to flat for the reporting week, as was the case in gold, but still likely net short one or two thousand contracts in silver as of Tuesday. Itâ??s hard to imagine JPM being net short at all following the price smash yesterday. The raptors (the smaller commercials) in silver were the sole commercial net sellers in liquidating a further 1800 long contracts, reducing their net long position to just 3300 contracts, the lowest it has been in nearly 4 years. As I recently remarked, the raptors havenâ??t increased their net long position largely because the managed money traders havenâ??t added to short positions in more than a year or so. With such a small net long position as of Tuesday, it wouldnâ??t surprise me if the silver raptors turned more aggressive buyers on the selloff yesterday. If they did, that would provide buying competition for the 8 big shorts. In any event, potential raptor buying will be one of the key features Iâ??ll be looking for in next Fridayâ??s report.

On the managed money side in silver, these traders were essentially flat this week in selling 116 net silver contracts, as they added 1146 new longs and 1262 new shorts. The other large reporting traders and smaller non-reporting traders bought close to 900 net contracts each.

I know sharp and completely non-free market driven selloffs are aggravating to no end, but they are also a fact of life that must be dealt with. Particularly grating is the continued refusal of the regulators to step up to the plate. The thought crossed my mind that the tragedy in our nationâ??s capital this week was every bit the colossal security failure as has been the continued failure of the CFTC and Justice Department to do their basic job in the silver and gold manipulation. For a fleeting moment, I thought maybe Capitol security on Wednesday was outsourced to the enforcement and market surveillance people at the CFTC and DOJ.

But at the same time, I know of no other way to greatly improve the market structures in COMEX gold and silver absent sharp selloffs in which the non-commercials sell and the commercials buy. And thatâ??s exactly what we got yesterday. And while it may appear to many that this proves nothing has changed and weâ??re doomed forever to wearing the ball and chain of COMEX price suppression, the facts strongly argue otherwise.

The game, quite simply, has changed radically over the past year or so. No longer are the big shorts capable of putting on big short positions with the impunity of knowing that at worst they will get out at a breakeven and at best with profits courtesy of the managed money traders. Now the best the 8 big shorts seem to be able to do is temporarily reduce their many billions of dollars of losses and keep from hitting the panic switch and resorting to covering on higher prices, which more and more appears inevitable at some point.

And no longer does it appear certain that the 8 big shorts can count on backstopping from JPMorgan if they get in too deep on the short side. Sure, JPM was probably the biggest loser on the selloff this week, taking a temporary $2.3 billion haircut on its 1 billion oz silver and 25 million oz gold physical holdings, but it is still ahead more than $24 billion in less than 10 months with untold billions more in profits guaranteed if it does nothing and doesnâ??t add aggressively to paper short positions. Talk about money for nothing and chicks for free.

The biggest threat to the big shorts in silver is that consciously and subconsciously, the world seems to be awakening to the fact that silver is the cheapest commodity on the face of the earth, even if it has yet to focus of the reason why silver is so darn cheap. It can and does happen that something can be so obvious that it is overlooked and thatâ??s the case in silver â?? the only reason it is so cheap is because it has the largest concentrated short position of any commodity or investment asset. And while I have made this assertion for decades with only a relative handful aware of it, never has there been a legitimate rebuttal. Therefore, the odds of wider recognition have never been better and with those improving odds we inch closer to true price liftoff.

The trick here is focus less on the immediate price bottom and instead focus on not selling too soon on the coming move higher. Pattern yourself just like JPMorgan has positioned itself â?? own as much silver as possible and keep a low profile.

Ted Butler

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Silver – $25.50Â Â (200 day ma – $21.32, 50 day ma – $24.81, 100 day ma – $25.23)

Gold – $1850Â Â Â (200 day ma – $1840, 50 day ma – $1870, 100 day ma – $1899)

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