June 6, 2020 – Weekly Review

Gold and silver sold off sharply after the Tuesday cutoff of the COT reporting week, with gold ending the week lower by $55 (3.2%) and silver by 92 cents (5%). Silverâ??s relative weakness pushed the silver/gold price ratio out by nearly two full points, to 96 to 1, the first widening of the ratio following four weeks of pronounced tightening. While still below the insane level of 100 to 1, silver is also still dirt cheap relative to gold.

Despite silverâ??s relative weakness this week and gold closing at a two month low, gold is still higher by more than $150 from yearend and $400 higher than it was a year ago. Silver on the other hand is closer to three month price highs, although it is still lower by 50 cents from year end, and up nearly $3 from year ago levels.

Still, none of these measurements reflect the sharp and deliberate two week selloff into mid-March when gold prices suddenly plunged by more than $200 and silver by more than $6, before both recovered all those losses into the present time. Itâ??s no secret that events, both in the financial markets and in the world in general, are buzzing by at warp speed and itâ??s real easy to lose perspective. But I would remind you that at the bottom of selloff in mid-March, silver had traded at prices not seen in more than 10 years. Gold, on the other hand, at the depths of the mid-March price lows, only traded at multi-month lows.

My point is that given that extraordinary and largely unprecedented price collapse in silver, both relative to gold and in absolute percentage terms, a reasonable person (maybe even a regulator) would question the circumstances of that silver price collapse. From the flow of data since that collapse, everything seems to point to JPMorganâ??s intent to and successful implementation of buying back its COMEX short position as the prime motive. Iâ??ll come back to this later.

The standout developments this week include continued heavy deliveries in the June COMEX gold contract, continued heavy inflows into the worldâ??s silver and gold ETFs and a new Commitments of Traders (COT) Report that was both largely as expected, but with a distinctly bullish tone.

Another notable development has been the narrowing of the discount of spot or cash silver to COMEX futures contracts. Until this week, there was a pronounced trend to widening discounts of spot silver to July futures, which made no sense until factoring in the presence of leasing. The discount of spot to futures was most evident in the growing discount of SLV and other silver ETFs to COMEX futures. However, for whatever reason that changed this week, as while futures fell more than 90 cents, SLV prices were down by only half that amount. Iâ??ll keep an eye on this and report when I have more to say.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained active this week as just under 6 million oz were physically moved and total inventories rose by 2.1 million oz to 313.7 million oz. Someone must have cleared away some of the dust and spider webs in the JPM COMEX silver warehouse, because after a couple of months, 75,000 oz were removed, reducing the rounded off total there to 160.7 million oz.

The big COMEX warehouse story of late is still on the gold side, where this week another 1.4 million oz were added, bringing the total gold holdings in the COMEX warehouse system to 28.9 million oz. In little more than two months, more than 20 million oz of physical gold have come into the COMEX warehouses. There was a slight increase in the gold held in the JPM COMEX warehouses, now totaling 11.15 million oz or nearly 39% of total holdings.

Once again, the amount of gold in dollar terms that has come into the COMEX warehouses is nothing short of stupendous as just the 20+million oz added comes to roughly $35 billion, with total COMEX gold holdings now approaching $50 billion. In contrast, the total value of the near 314 million oz of silver in the COMEX warehouse system (the second largest stockpile of silver in the world) comes to $5.5 billion or close to a tenth of the dollar value of COMEX gold. At the same time, the near 29 million gold oz in the COMEX warehouse system is roughly 1% of the total gold bullion (3 billion oz) in the world, where the silver in the COMEX warehouses is 15% of total silver bullion world inventories (2 billion oz).

There can be little doubt that the surge in physical gold deposits into the COMEX warehouses is directly related to the surging deliveries against COMEX futures contracts. More gold deliveries than ever before have been issued and stopped on COMEX futures starting in April than at any time in history. There were more than 31,000 total gold contracts (3.1 million oz) issued and stopped in April, followed by more than 10,000 deliveries in May (not a traditional delivery month), and so far this month, more than 47,000 contracts in June.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Aside from JPMorgan being both the dominant issuer and stopper for clients, thereby proving yet again that it is the dominant force in all things precious metals, my sense has been that the massive amount of gold flowing into the COMEX warehouses and the resultant deliveries was related to a desire by the big concentrated shorts to close out some of their open short positions, something that was borne out in this weekâ??s COT report. I did write on Wednesday that I would be looking for signs of this, so this fell into the expected category.

But what turned out to be a surprise was on the gold stopper side. Based on the COT report, it appears that the big gold stoppers so far in June are speculators in the managed money and other large reporting trader categories. Maybe Iâ??m reading it all wrong, but let me explain first and then you decide. Normally, deliveries are strictly a commercial affair, meaning commercials issue or deliver and other commercials stop or take the deliveries. You canâ??t really tell from the issuers and stoppers report because only clearing firms are listed, not the actual customers.

Typically, when big deliveries are made, there are usually big reductions made in both the long and short positions of commercial traders as deliveries automatically and mechanically extinguish both the futures longs and shorts of those involved in the deliveries. Therefore, while I was expecting reductions in the concentrated short position in this weekâ??s COT report, as these traders closed out some of their short positions, I was also expecting a comparable reduction in the long positions of other commercial traders. Instead, the only notable reductions of long positions this reporting week was in the managed money and other large tradersâ?? categories.

While I didnâ??t predict what the net positioning change would be by contract numbers in gold this week, mainly because there were so many deliveries (42,000) made into the Tuesday cutoff, I didnâ??t expect big managed money and other large speculator long liquidation because gold prices were higher over the reporting week. But because we did get that long liquidation (close to 16,000 contracts in both categories combined), it tells me that traders in these categories were the big gold stoppers.

Summarizing before I discuss the COT report in general, the big concentrated gold shorts (in the big 4 category) did issue at least 15,000 contracts (1.5 million oz) in gold deliveries, closing out that amount of short contracts and booking, essentially, another $500 million in realized losses and making closed out losses now $1.2 billion (although total open losses declined sharply as a result of this weekâ??s price declines). While that was largely expected, the stopping of delivery by roughly that same amount by speculators was a surprise.

Thereâ??s no law against speculators taking (or making) delivery, itâ??s just not typical. Typical or not, it does seem bullish to me because those paying in full for physical metal (as opposed to holding paper contracts on margin) seem more likely to hold that metal and not sell quickly. It also partially answers a question I had in that I thought I knew why the big concentrated shorts would make delivery (in order to close out open short positions), but I was less sure about who was on the other side taking delivery. I knew someone had to be demanding delivery, just not exactly who. Now I think I know more.

I had expected managed money buying and commercial selling in this weekâ??s silver COT report, given the strong price gains over the reporting week ($1.25) and was concerned the amount would be large due to the sharp increase in total open interest of 11,500 contracts. Therefore I was quite relieved that the commercials only sold 3400 contracts and the managed money traders only bought some 600 contracts net. Again, I didnâ??t have firm expectations in gold given the large number of deliveries, but I certainly didnâ??t expect more than 17,000 net contracts of commercial buying. Therefore, both the silver and gold COT reports were bullish surprises.

In COMEX gold futures, the commercials bought 17,700 contracts, reducing their total net short position to 256,600 contracts. It doesnâ??t matter that the â??buyingâ?• was mostly the result of issuing deliveries to close out short positions as the result is the same and that this is the lowest (most bullish) level of the total commercial short position in a year. The biggest amount of short covering was in the big 4 category (about 15,000 contracts) and the big 8 concentrated short is now down to 207,425 contracts (20.7 million oz). Best news of all is that it looks like JPMorgan is now net long 5000 gold contracts as of Tuesday and likely loads more in the selloff since the cutoff.

The managed money traders in gold were net sellers of 12,726 contracts, consisting of the sale and liquidation of 11,911 longs and the new short sale of 815 contracts. As indicated above, I donâ??t think the managed money traders actually sold that many longs on an up week for gold, but it reads that way as a result of them taking delivery. Same with the 4041 longs sold by the other large reporting traders. The managed money net long position is now down to 100,355 contracts (133,655 longs versus 33,300 shorts) which is the lowest net and gross long position in a year.

The managed money net long position in gold is now down by 140,000 contracts from where it was in February, just before the deliberate $230 price smash into March. The reason this is considered bullish is because it suggests much of the managed money selling is behind us. What I find remarkable (this is also true in silver) is that even though gold prices (despite this weekâ??s selloff) are now higher than they were in February and are more than $200 higher than the price lows of March, the market structure is now more bullish than it was on either of those two occasions. Oh, behold the power and magic of the criminals at JPMorgan.

In COMEX silver futures, the commercials increased their total net short position by 3400 contracts to

53,900 contracts. As already indicated, I was braced for a much larger increase, and by extension, this must be considered bullish. There was a slight increase in the concentrated short position of the 8 largest traders by a thousand contracts to 78,727 contracts and Iâ??d peg JPMorgan as increasing its short position to 5000 contracts or so. By that reckoning Iâ??d also put JPM back into the ranks of the big 8, but among the smallest. But Iâ??d also be willing to bet that JPM is no longer short by many contracts, if any in trading since the cutoff.

The managed money traders bought a paltry 611 net silver contracts, consisting of 2974 new longs and the sale of 2363 new short contracts. Most of the buying this week was by the non-reporting smaller traders who bought 3320 net silver contracts. Not much to say about silver, other than, as was the case in gold, the market structure has not deteriorated anywhere near as much as one would expect given the sharp rally from the March lows.

My recent articles on precious metals leasing elicited a number of comments, both privately and publicly. While no one likes to hear disagreement, there is always much more to be learned from it rather than with comments of agreement. And itâ??s always imperative to keep in mind that the whole story is near impossible to discern when itâ??s in the vested interest of those directly involved (JPM) having every desire to obscure things as much as possible.

In that spirit, let me deal with a few of the comments, not all taking issue with my contention that JPMorgan has been leasing out physical gold and silver over the past two or three months; some questioned the real motive behind it. One objection raised by a few readers had to do with the ability of the banks borrowing the metal from JPMorgan to avoid bankruptcy when the inevitable day of reckoning came and they would have to buy metal in the open market at extremely high prices to satisfy lease requirements to pay back the metal borrowed. This is certainly a reasonable concern.

My response is that even if the financial losses are extreme, they are unlikely to cause the demise of the borrowing banks, which currently are extraordinarily well-capitalized by most objective measures. In fact, I am quite certain that JPMorgan did a thorough investigation into the borrowing banksâ?? ability to withstand severe financial losses and only lent metal to those JPM was convinced could pay back without going under. After all, as the criminal genius behind this whole scam and double cross set up, JPM would be downright negligent if it didnâ??t make as sure as it could of the ability of the borrowing banks to pay back the metal borrowed. This is what banks do when granting loans, be those loans denominated in currency or metal.

Along these same lines was the question whether JPMorgan intended to lend out most or all of the physical silver and gold it had accumulated over the past 9 years. In the case it did so intend to lend out most of its metal, then we likely faced the prospect of depressed prices for a very long time to come. As I previously noted, I donâ??t believe it is in JPMorganâ??s interest to lend its metal to that extent because at some point the borrowing banks were more likely to realize what a predicament they were in and might try to take legal actions to undo the transactions, something certainly not in JPMâ??s best interest. Also, as just described, JPM needs to insure the borrowing banks can pay back and massive additional metal lending would compromise that.

One disagreement with my premise suggested that the loaning of metal proved in and of itself that JPMorgan intended to never let silver prices rise, same as if it sold the metal outright. While I agree that if JPMorgan had not lent out the metal, given the tremendous buying witnessed in the silver ETFs, particularly SLV, the price would have soared. But there is a big difference between loaning out the metal and selling it outright. While both have the same immediate effect of putting a cap on price, the eventual price impacts are markedly different. A straight sale is a one and done – after the sale, it no longer impacts the price, other things come into play. A loan, coupled with a short sale is a creature of an entirely different nature.

As I suggested in the article, â??leasingâ?• is a misnomer for the lending of precious metals combined with a sale of the borrowed metal â?? itâ??s much more accurate to think of these loans as physical short sales, the same as stock short sales. With derivatives, such as COMEX futures contracts, nothing is borrowed â?? a buyer and seller come together and agree at a designated price to bet whether prices will go up or down. In stock market short sales, as well as precious metals loans, the underlying security or physical metal is first borrowed from the owner and is sold by the borrower to a third party. The original owner still retains legal ownership, as does the new third party buyer â?? it is the borrower who is responsible to return the borrowed property to the original owner.

Picture this â?? the owner of a very large amount of the stock of a particular company, who has no intention of selling the stock, is presented with the opportunity to temporarily lend some of his stock to someone who intends to sell the stock short to some unrelated third party. The original owner gets some small interest rate for lending his stock, the borrower selling the stock short gets the opportunity to profit if the stock falls in price and he buys it back lower (but loses if the stock goes higher). The independent third party buyer is the same as any other investor in the stock and will gain or lose depending on whether the stock goes higher or lower. Thatâ??s the basic description of a stock short sale or precious metals lease (short sale).

I agree that it would be very reasonable for the original owner of the large block of stock he (or she) owned to bypass lending out his stock to a short seller in the first place and avoid having anyone pressure the price lower by engaging in the short selling process. But what if I added that the original owner was very sophisticated and knew the prospects for the stock were excellent and further knew that those selling the stock short would rue the day they did so because the price was sure to rise sharply in time. In this case the original owner didnâ??t do anything wrong, he simply accommodated willing short sellers that he knew were bound to lose in the end.

Now picture JPMorgan as the original stock owner, only instead of stock, weâ??re talking about physical gold and silver. Yes, if JPMorgan hadnâ??t agreed to lend the physical gold and silver in the first place, prices would have likely risen much more sharply than they may have. But, by forgoing those immediate gains, JPMorgan is still positioned for those gains, but with the added bonus of now having an additional large and quite vulnerable short position that didnâ??t exist previously.

To be sure, I canâ??t know any or all of this for certain; Iâ??m just plugging in the most plausible explanation for the known facts that exist. There is no doubt that JPMorgan orchestrated and arranged the sharp selloff of mid-March for the purpose of buying back all its COMEX silver and gold short positions, at the expense of the other big COMEX shorts. On the equally sharp rallies that ensued since the price bottoms of March, JPMorgan has refrained from aggressively adding new shorts, essentially, for the very first time. Now, it has engaged in aggressive leasing of gold and silver over the past 2 to 3 months, also for the first time in my recollection. This suggests to me that JPMorgan is large and in charge and has the gold and silver markets in the palm of its hand.

Finally, a number of the comments asked or suggested that JPMâ??s leasing of metal may represent some type of behind the scenes agreement with the Justice Department, whereby JPM is being ordered to dispose of the metal it accumulated over the past 9 or so years to avoid criminal prosecution. As much as I hate to admit it, this premise is realistic. I hate to admit it, of course, because it strongly suggests that JPMorgan might skate away from any type of real punishment for its blatant manipulation of gold and silver prices for more than a decade. Before casting my feelings aside, please know that there canâ??t be anyone who is more interested in seeing JPMorgan brought to justice for its criminal behavior in silver and gold. I believe I can say that because I know of no one who has petitioned the DOJ more on this matter other than me. Geez, I wrote to the Attorney General on the silver manipulation more than 30 years ago and even wrote to the DOJ months before its first guilty plea from the trader from JPMorgan.

Putting that all aside, it is certainly possible for the Justice Department to give JPM a pass given the â??big pictureâ?•. But trying to be as objective as possible, it would likely mean that JPMorgan was straight selling the silver and gold I allege it is leasing for the simple reason that the Justice Department is unlikely to preside over a quiet settlement with JPMorgan while, at the same time, allowing the bank to further double cross the other borrowing banks.

Also inconsistent with the Justice Department presiding over some quiet deal letting JPMorgan off the hook, is the inconsistence of the DOJ ordering a disposal of JPMâ??s accumulated metal while standing by and allowing it to singlehandedly manipulate the market as described above, including the deliberate price smash into mid-March in which JPM bought back its silver and gold short positions down to this weekâ??s price smash which has JPMorganâ??s hand all over it. Whereâ??s the merit or logic in the DOJ allowing JPM a free hand in continuing to manipulate prices at will and quietly ordering it to dispose of physical metal at the very same time?

I do freely admit that the jury verdict is not yet in on what the Justice Department intends to do, but it is clear that it must do something and likely soon as a result of its openly announced ongoing criminal investigation and series of recent blatant press leaks. Not only do we know that some resolution is coming and likely fairly soon, we also know the parameters of the result beforehand. If the DOJ and CFTC stick to the rinky dink charges related to spoofing and not the underlying much more serious manipulation that JPMorgan is guilty of, then weâ??ll know the fix was in. That will be a sad day indeed for the rule of law, but thereâ??s not much to be gained by mourning before we know for sure. In the interim, I donâ??t think itâ??s likely that the Justice Department is ordering JPM to divest of its accumulated physical metal while JPM is still openly manipulating in the same and new ways.

One thing I would ask you to consider is that in the event I am all wet on my leasing premise (something entirely possible), that still leaves open the alternative explanation for all the strange things that have occurred of late â?? like the sharp discounts of spot gold and silver to futures and the lack of a substantial price rise in silver, particularly, in the face of the strongest physical buying in ETFs in history and in the shortest time ever. If it isnâ??t leasing by JPM, as I contend, then what the heck is it? Of course, this is an ongoing circumstance and I hope more comment on these matters, as well as thanking all who have commented to date.

Finally, the 8 big shorts enjoyed a reprieve from their growing open losses in gold and silver. Last week, the 8 big shorts closed the week with $7.8 billion in total losses, comprised of $700 million in realized losses and $7.1 billion in open losses. As of yesterdayâ??s close, the total realized losses are up to $1.2 billion, while the open and unrealized losses have declined to $5.6 billion or total combined losses of $6.8 billion. I would note that the realized losses are a first, never having previously occurred.

Heretofore, the big commercial shorts never did worse than breaking even when all was said and done. I suppose the times are aâ??changing.

Ted Butler

June 6, 2020

Silver – $17.57Â Â Â Â (200 day ma – $17.02, 50 day ma – $16.01)

Gold – $1688Â Â Â Â Â Â Â Â (200 day ma – $1575, 50 day ma – $1710)

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