# March 14, 2020 – Weekly Review

Following weeks of price volatility both up and down, gold and silver prices plunged in historic fashion, with gold ending $145 (8.7%) lower and with silver off a mind-numbing $2.65 (15%). As a reminder, I use late Friday prices (around 5 PM EST) as closing prices and am well-aware that prices were even lower earlier. Gold and silver mining share performance was so much worse than the underlying metal performance to almost make the smash in metals look somewhat subdued. It wasnâ??t.

As a result of silverâ??s stunning relative underperformance, the silver/gold price ratio blew out to 104 to 1, nearly 8 full points above what were near record levels of silver undervaluation of the week before. About the only good thing about silverâ??s cheapness compared to gold is that I donâ??t have to use words like â??effectiveâ?• to describe silverâ??s undervaluation â?? never in the history of the world has silver been as cheap as it is now relative to gold (which is one reason why physical forms of silver, mostly retail forms, are impossible to purchase at close to current published prices â?? more on this in a bit).

Iâ??m not going to expand on it excessively (as thatâ??s not the purpose of this service), but I would be remiss not to point out that the historic plunge in gold and silver prices didnâ??t occur in a vacuum. Even if you were circling the earth in the space station would you be immune from the turmoil and craziness occurring as a result of the coronavirus pandemic sweeping the world. â??The Scared New Worldâ?• I wrote of Wednesday, managed to get a lot scarier just days later.

As a self-admitted old geezer, hardened by countless hurricanes, financial panics and even the pronounced gasoline shortages if the 1970â??s, when securing enough fuel became the main focus of daily life (if your livelihood involved driving to work), what is now occurring is unprecedented and other worldly. Everyday life, as most have come to know it has changed, with the only question being for how long. About the only thing I can compare it to is something I (fortunately) missed â?? living during a world war â?? either at home or on the front lines. I donâ??t mean to be overly dramatic, but the pace and scope of change to everyoneâ??s daily life is hard to fathom. Certainly, I donâ??t recall the declaration of national emergency, although one may have been declared as a result of 9/11.

I do hope all our collective fears prove either unfounded or temporary, but there can be little question that everyday life has changed and that the effects of â??social distancingâ?• to delay the spread of the virus has and will take a financial toll of unknown, but likely enormous proportions. Thatâ??s why the government is rushing to extend financial lifelines that would be considered unthinkable just months or even weeks ago. Itâ??s stunning to try to image how quickly weâ??ve moved from what was generally considered a strong economy to one in which any and every conceivable aid is now being seriously considered, including the suspension of federal tax receipts in the form of payroll taxes.

Clearly, there is an all-out effort to rescue the stock market from collapse that part of me supports and another part of me sees as the inevitable result of the headlong rush into equities, not only by individuals of every stripe, but also by corporations recklessly borrowing to buy their own stock to artificially boost senior management compensation. I want to see individuals not suffer financially, but I also would like to see an end to the uncontrolled and reckless speculation by borrowing. Color me torn. Fortunately, whatever comes is beyond anything in my control and all I can offer are prayers that the suffering is kept to a minimum and urge all to be kind to our fellow man as times get trying.

While I understand government efforts to support the stock market and support efforts to aid economically all the innocent bystanders caught up in something not of their doing, this service focusses on analyzing silver and gold and I see my job as trying to explain just what the heck caused the bottom to drop out and what is likely to occur next. What Iâ??m about to say canâ??t possibly come as a surprise to regular readers and it will be largely what Iâ??ve said all along, namely, that gold and silver prices are set by COMEX futures contract positioning. This week, that explanation rings truer than ever.

First, I must point out that this week was one of the most egregious examples of price manipulation in gold and silver ever. While I understand the government doing what it can to support the stock market (even if I feel it also aided in the creation of the leveraged overvaluation), the same government, in the form of the CFTC and Justice Department, should be ashamed of themselves for allowing this weekâ??s easy to prove manipulation of gold and silver prices. For cryinâ?? out loud, there is supposedly an active, full-blown investigation into precious metals manipulation centered on JPMorgan under way and the crooks on the COMEX pull off perhaps the most blatant manipulation on record. How is it possible for the CFTC and DOJ to be more inept or corrupt?

The collapse in gold and silver prices and the shares of mining companies this week brought losses of many tens and hundreds of billions of dollars to existing holders (for instance, the value of all the gold in the world dropped by $800 billion). While this is much less than the many trillions of dollars in the mark down of world equities, thatâ??s a separate issue. Investors in precious metals took it on the chin, but why? From everything I look at, the sole reason for the precious metals collapse was that the speculative traders classified as commercials rigged prices lower so that they could buy.

From this past June onward, I have been monitoring the financial scorecard of the 7 big COMEX commercial shorts in COMEX gold and silver futures. Over that time, the open and unrealized losses grew to as much as $7.2 billion as of last Friday, the most by far in history. The plunge in prices this week reduced those losses by $5 billion to $2.2 billion, a reduction of 70%. You can believe these traders (along with JPMorgan and the smaller commercials I call the raptors) just happened to get lucky or played some active role in the many hundreds of billions of dollars lost by those holding metals and the mining shares. Thatâ??s the trouble with manipulation â?? the many suffer at the hands of the very few.

There was not a week since last June that I did not label the market structure on the COMEX for gold as extremely bearish and to a lesser extent at times the same in silver; in fact, twice weekly. As recently as a week or so ago, I even outlined the extent of a possible price collapse should the commercials succeed in inducing a full managed money selling climax and those price targets included a downward price penetration of the key 50 and 200 day moving averages in gold and silver.

As of Friday, silver is now a full two and half dollars below its lower 200 day moving average and has erased completely its entire advance since June and is down a full $5 from its highs in September. Gold has yet to penetrate its 200 day moving average, but came within $10 of doing so at Fridayâ??s lows. Gold has erased its year to date gains, but is still up more than $200 from its lows of last May.

While I am recounting the price action in a non-emotional manner, and comparing it to what I had written, please donâ??t think for a moment that this implies in any way that I personally escaped the financial damage of the price plunge. I made a conscious decision to bear the risk of loss should the commercials succeed in doing what they had always succeeded in doing in the past. I knew it had to be one way or another â?? either the commercials would succeed and rig prices sharply lower or would fail and prices would explode. For now, the commercials have succeeded, but the game doesnâ??t end today.

Whatâ??s so ironic is that the intentional rig job to the downside took place against a backdrop where it would be reasonable to conclude the opposite would occur. If anyone knew in advance, even just a few weeks ago, that we would be thrust into the quickest and deepest stock market plunge ever, replete with plunging interest rates and unprecedented government bailouts, accompanied by a panicky rush to hoard everyday items (why toilet paper?), armed with that knowledge, the bet would have been to buy gold and silver, not sell them. As proof of that, there were some incredibly well-informed analysts who warned of the threat of the coronavirus pandemic and, to a man, all advocated the purchase of gold and silver.

Thatâ??s how crazy the plunge in gold and silver prices has been â?? even the few who saw the virus crisis coming said to buy gold and silver. And now that the crisis is here, thatâ??s exactly how people are reacting â?? by buying gold and, particularly, silver. This week, purchases of retail forms of metal have caused the US Mint to suspend sales of Silver Eagles and every retail dealer reported an explosion of sales to the public â?? again particularly of silver. Your brain should be close to exploding â?? how the heck can silver purchases be exploding and the price be imploding? The only thing crazier would be for prices of toilet paper to be plummeting.

Donâ??t fret, you havenâ??t lost your mind. There is a very good reason to explain the plunge in silver and gold prices concurrent with a rush to buy, especially silver. In fact, there is only one reason and itâ??s staring you right in the face – the commercial crooks on the COMEX. And the craziest thing of all is that the COMEX commercial crooks are buying, not selling every single contract of silver and gold they can get their greedy hands on. I know this sounds impossible, but thatâ??s the gospel truth, so help me. Thatâ??s just how this nutty game works.

The essence of the how the manipulation works is that the commercials rig prices lower by a variety of dirty market tricks, the simplest being by collusion in lowering their bids to buy. As mostly self-appointed market makers, the commercials have complete control of prices on the COMEX. The commercialsâ?? counterparties, mostly the managed money traders, are dependent on the commercials to buy and sell. Sometimes, like this week, the commercials get together and agree privately to suddenly lower the prices they are willing to buy from the managed money traders. This makes the managed money traders even more determined and panicked to sell and the commercials respond by lowering their bids to buy even more, making the managed money traders even more panicky to sell at whatever prices the commercials set.

The proof of all this is in the Commitments of Traders (COT) report in that never in history have the commercials ever been net sellers on big price declines, only net buyers. Since itâ??s getting late and I havenâ??t gotten to the COT report yet, let me do that now, before concluding what all this means for future prices. Please keep in mind that none of the data in yesterdayâ??s report includes the absolutely massive price declines of Thursday and yesterday and only includes positioning as of Tuesdayâ??s close.

On Wednesday, I commented how silver prices were mostly lower, but that gold prices finished higher, albeit down from the highs made in overnight trading Sunday evening. A standout feature was the sharp reduction in open interest in both silver and gold, with the decline in open interest in gold looking particularly strange given the normal pattern of a big build up in open interest as spread positions have been typically put on a few weeks prior to a big delivery month. I also said I would be especially interested in what JPMorgan, the other big commercials and the smaller commercials (the raptors) would be up to in both gold and silver. All told a story.

First, the big decline in total gold open interest was mostly explained by a highly unusual reduction in spread positions. Not only do these spreads usually grow at times like this in the past, this week, there was the highly unusual liquidation of the spreads, which accounted for more than 40,000 contracts of the 58,000 contract reduction in gold total open interest. This doesnâ??t matter much because, as Iâ??ve maintained, the buildup and liquidation of spreads is completely uneconomic and has little bearing on absolute price levels. It also may not matter much, but I get the sense that the bozos at the CFTC finally heeded my concerns that this was non-economic trading and quietly ordered it stopped (I do send them all my articles). No, Iâ??m not looking for a cookie or a gold star on my homework and am glad if the do-nothings finally did a little something for a change.

In COMEX gold futures, the commercials reduced their total net short position by 22,700 contracts to 328,300 contracts, the lowest position since mid-December. As hoped for (and somewhat expected), there was substantial buying by both JPMorgan and the raptors. In fact, the concentrated short position of the 8 largest traders declined by only 2500 contracts, somewhat shocking seeing how the total commercial net short position fell by a pretty decent 22,700 contracts.

There was very large net buying in the Producer/Merchant category (home for the devils at JPM) of just under 20,000 contracts and Iâ??d peg JPM as being net short 32,000 contracts, down from 40,000 contracts in the prior week and JPMâ??s gold short position may be even less than Iâ??m pegging it at. The raptors also bought back a substantial number of short contracts, close to 25,000. Since the 8 biggest gold shorts hardly reduced their total net short position the question becomes what they may have done on the selloff since the cutoff. Iâ??ll come back to that in a moment.

With the fairly large commercial buying, the net selling by the managed money traders was remarkably small, at 5176contracts consisting of the sale and liquidation of 22,279 long contracts (which made sense) and the buyback of 17,103 short contracts (which made no sense). In fact, the large reduction in managed money shorts to 10,457 contracts looks like a mistake, particularly since the number of traders in that category didnâ??t change, remaining at 18. For anyone suggesting I inform the CFTC about a possible reporting error on its part, Iâ??d rather jab myself in the ear with an icepick.

To my mind, there was enough net selling in the other large reporting traders category (15,000 contracts) and non-reporting traders (2500 contracts) that if the gross short position of the managed money traders wasnâ??t reported incorrectly (as I believe it was), the reduction in the commercial net short position and the reduction in the managed money net long position would have been at least 15,000 contracts larger. No sense obsessing about this since the changes from the cutoff are more important now.

In COMEX silver futures, the commercials reduced their total net short position by a rather hefty 8,100 contracts, to 60,100 contracts. This is the lowest (least bearish) level since mid-July, almost 8 months ago. Certainly, the connection between prices falling and commercials buying must be made, even though it may be counterintuitive how the heck the commercials always pull it off. As was the case in gold and as hoped for by me, the buying was mostly a JPMorgan and raptor affair.

The Producer/Merchant category in silver featured more than 5800 contracts of net buying and I would attribute at least 3000 contracts of that buying to JPMorgan, but JPM may have bought even more than that. Iâ??m pegging JPMâ??s silver short position at 6000 contracts (30 million oz), but it could be less than that. Regardless, it is certainly a lot less than that, if any short position exists at all, as a result of the price killing since the cutoff.

Also as was the case in gold, the smaller commercials (the raptors) were aggressive buyers in silver. The only difference is that the raptors are long and getting longer in silver, while they are short, but getting less short in gold, both bullish signs. The silver raptors added about 7000 new longs and now (as of Tuesday) hold nearly 34,000 net long contracts, the most since Dec 10.

On the managed money side of things in silver, these traders sold â??onlyâ?• 2225 net contracts, consisting of the sale and liquidation of 4948 long contracts and the buyback and covering of 2723 short contracts. I donâ??t sense any reporting errors, as was the case in gold, and the other large reporting traders sold more than 1100 net contracts and the smaller non-reporting traders sold a hefty 4700 net contracts. The non-reporting traders now hold their smallest gross long position in more than two years, generally considered a bullish sign.

The managed money net long position in silver is now (as of Tuesday) at 26,746 contracts (52,958 longs versus 26,212 shorts), about the lowest it has been since last June. Interestingly, there doesnâ??t appear to be that much room for further long liquidation, particularly after the price killing grounds of the past few days. After all, the lowest gross managed money long position since the beginning of 2019 was about 50,000 contracts and we must be there or lower by now.

The only substantive new managed money selling, therefore, is new short selling. As recently as last May, the managed money traders held a near-record 90,000 contracts of silver gross short, more than 60,000 contracts greater than they held on Tuesday. Iâ??m sure the managed money traders have added new shorts since Tuesday, but the key question is how much more they might add now that prices are so far below the moving averages.

Let me not mince words, shorting silver at current or lower prices is the dumbest thing I can imagine (the smartest thing being buying). But people, particularly managed money traders, do some incredibly dumb things. What makes it particularly dumb for the managed money traders to sell short silver (or gold) at current levels is that they have never collectively made a profit when doing so in the past. All that said, I do hope they have shorted the snot out of silver, because that would only make it more of a sure thing.

As indicated earlier, the 7 big shorts donâ??t appear to have bought back hardly any short positions thru Tuesday. This sets up an interesting situation. On the one hand, it might indicate they are extremely shrewd and will be able to buyback and close out their still-massive short positions on lower and close to profitable prices. No question that their collective losses declined by a shocking $5 billion this week (although any gold positions they bought back into the decline since Tuesday would still involve the booking of realized losses).

On the other hand, maybe the big 7 are still closer to getting screwed than being shrewd. As of Tuesday, they held just about every short contract theyâ??ve held since last summer, as the big commercial buyers have been JPMorgan and the raptors. If that pattern has persisted since Tuesday, itâ??s easy to imagine JPMorgan and the raptors being no longer net short in gold and both being net long in silver.

The key here is the amount of potential managed money and other speculative selling remaining, particularly in silver, after the past couple of days. Once that selling gets exhausted, as it must at some point, none of the commercials, JPMorgan, the raptors or the big 7, will be able to buy. Have JPMorgan and the raptors front run the big 7 and taken most or all of the speculative selling or is there plenty left for the big 7? We should get a good sense of that in next weekâ??s COT report, which admittedly, seems an eternity from now, but thatâ??s just the way it is.

If someone is going to beat you badly with a stick, as investors in precious metals were beaten this week, I believe it is important to understand why you were beaten and what happens next. In the case of gold and silver, not only should it be clear what caused the beating, it should also be clear that the beating must stop at some point (when the paper selling relents) and that the path will be more clear for a price liftoff, the likes of which are hard to imagine at this point.

I always allowed for the possibility for a massive last time selloff as one of only two possible resolutions for the extreme market structures in COMEX gold and silver and while I would have preferred the alternative of the big shorts getting overrun (he wrote while his eyes bled), no one can change that now. I also insisted that in the event of a massive selloff, it would be the last such selloff and there would be no aggressive short selling on the next rally, whenever that occurred. I still feel that way.

In the meantime, silver is at unbelievable bargain prices and as long as you donâ??t buy on margin itâ??s hard for me to imagine how prices wonâ??t be substantially higher in not a long time, even if the crooks on the COMEX arenâ??t quite done with administering the beatings and the shameless regulators havenâ??t twisted their necks permanently from deliberately looking away. The big difference between the selloff in the stock market and the metals is that one was deliberately set into motion.

Ted Butler

March 14, 2020

Silver – $14.69Â Â Â Â Â Â  (200 day ma – $17.07, 50 day ma – $17.67)

Gold – $1529Â Â Â Â Â Â Â Â  (200 day ma – $1497, 50 day ma – $1590)

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