March 21, 2020 – Weekly Review

Against a backdrop of world markets in historical disarray, gold prices fell to three-month weekly closing lows, off by $29 (1.9%), while silver fell by another $2.09 (14.2%) to – get this – price lows not seen since 2009.

And while it’s startling to see silver prices plunge to fresh price lows not seen in more than a decade, words can hardly express just how cheap silver has gotten relative to gold, as the silver/gold price ratio registered an all-time closing undervaluation of 119 to 1 (and the ratio was out to 128 to 1 earlier in the week). One article called it the cheapest silver had been to gold in 5120 years, which happens to coincide with the birth of civilization. In terms of switching from gold to silver, there are not many (any) investment opportunities offered more cheaply to man (or woman) in over 512 centuries, as is presented currently in silver.

The shocking unravelling in world equity and credit markets, due mostly to the growing health pandemic of the coronavirus and aided by the meltdown in the oil market due to the price war for market share is now obvious to all. Never in our lifetimes have we experienced such a sudden appearance of a pervasive health threat or the disintegration of the world economy. Words can also hardly express the health risk and unravelling of the economy and markets, but at least there can be no doubt to its cause, courtesy of the news we are bombarded with. It’s truly an unfolding tragedy, but at least there is no mystery as to why things have turned so absolutely horrid.

Less clear to most is why silver prices have plunged as they have. As I explained on Wednesday, unusual price movements create an insatiable demand for explanations; a demand invariably supplied with plausible-sounding answers. But in the case of the silver price plunge, none of the amply-supplied explanations stand up under scrutiny.

There has been no widespread physical selling of silver on either a wholesale or retail basis.

In fact, this week saw one of the largest physical inflows into the largest silver ETF, SLV, on record as more than 20 million oz were deposited into this ETF, with millions more into other world silver ETFs. Meanwhile, there were some sizable physical withdrawals in world gold ETFs, including GLD, which is quite normal at times of sudden price weakness; but that was definitely not the case in the silver ETFs. It is completely abnormal for there to be such large physical deposits into the silver ETFs on severe price selloffs and any suggestion there was wholesale physical selling behind the silver price plunge is positively absurd.

As well, any suggestions smaller retail investors were dumping silver and causing prices to plunge were even more absurd. Retail dealers universally reported record buying and growing premiums on just about every form of retail silver. Across the board, the biggest problem for retail dealers and investors alike was securing adequate supplies. Yet there can be no doubt either that silver prices did plunge. So if the plunge wasn’t due to widespread physical selling on either a wholesale or retail basis, then what the heck was behind the historic selloff?

The answer and only answer is the same one I have advanced for decades, namely, paper positioning on the COMEX sets the price. Most remarkably, the data proving that paper positioning dictates price is presented weekly by the same federal regulator, the CFTC that is also charged with the responsibility of making sure large paper speculation don’t manipulate prices. Yet week after week, the Commitments of Traders (COT) indicates paper trading artificially sets the price. The report this week was no exception.

Let me just stop here for a moment to make a point I may not have made explicitly enough up until now. The dreadful coronavirus that is proving to be so devastating in health, economic and financial terms to just about everyone has had, as far as I can tell, no real direct effect for the price plunge in silver. Instead, the developing crisis has been used by key insiders, certainly including JPMorgan, as a convenient excuse and cover story to put the finishing touches on a selloff for their own selfish benefit. Peoples' thought processes are completely distorted as a result of the current crisis and what do the crooks on the COMEX do, but exploit it to their benefit at the expense of others. This makes the selling of securities by senior politicians ahead of others seem mild in comparison. I'm not sure I could make a more serious allegation, than feathering one's own nest to the detriment of others, but there it is.

Before jumping into the new COT report, a subscriber asked me about last week's physical movement or turnover in COMEX silver warehouse inventories, since I report the movement weekly, but skipped last week. Last week (the week not reported), turnover came to just over 3.2 million oz and this current week, the turnover came in at 7.2 million oz. Total COMEX silver inventories as of yesterday came to 321.2 million oz, down nearly 2 million oz from the levels of two weeks ago. No change in the JPMorgan COMEX silver warehouse over the past two weeks, still stuck at 160.8 million oz.

The new COT report (for positions held as of Tuesday) was many things, including being both fully as expected, but with unexpected surprises and fulfilling my undisclosed expectations for being perhaps the most important COT report in history. How the heck could it be all those things? Let me try to explain. As background, the reporting week in question included an intraweek selloff of as much as $200 in gold and a close $140 lower, while silver sold off more than $5 at the lows

and finished the reporting week down $4.50.

While I abstained from specific contract predictions, I did disclose I was expecting substantial commercial buying as well as substantial managed money and other speculative selling. I was somewhat correct on the commercial buying, completely correct on managed money selling (as far as expected long liquidation in both silver and gold), but completely blindsided by managed money short covering in silver and by massive new long buying by the other large reporting traders in gold. Most surprising of all was how little actual short covering took place by the 7 big shorts in both gold and silver.

In COMEX gold futures, the commercials bought and reduced their total net short position by 26,600 contracts to 301,700 contracts. On its face, this would appear to be a disappointing number (as was the headline number in silver) given that up until this past summer, any commercial total net short position more than 300,000 contracts had to be considered extremely bearish. Seeing as we are still above that threshold level, no one could call the new level as anything but extremely bearish. But I do see extenuating special circumstances. While I'll try not to tangle you up too much with the details, the details are what matter most.

On the commercial buy side in gold, JPMorgan appeared to be the single largest buyer, covering around 7000 short contracts and reducing its short position to 25,000 contracts (2.5 million oz). Admittedly, I'm relying exclusively on changes in the Producer/Merchant category of the disaggregated COT report. Next, the raptors, the smaller commercials apart from the 8 big shorts (including JPM), bought back around 9000 short contracts, leaving relatively slim pickings for the big 7 gold shorts, who covered about 10,000 short contracts, reducing their net short position

to just over 250,000 contracts (25 million oz).

And that’s been the story over the past couple of weeks, namely, prices have come down sharply, completely eliminating the $7.2 billion open and unrealized loss of the big 7 shorts, but the actual closeout of the big concentrated short position remains remarkably incomplete. As I have intoned for months, the big 7’s problem required two elements in order for it to be resolved. Not only did the price of gold and silver need to be smashed sharply lower, the short contracts needed to be bought back and closed out. We certainly got the price smash, but the buyback and short covering has only scratched the surface as of Tuesday.

On the sell side of gold, the managed money traders more than lived up to expectations in selling and liquidating 55,663 long contracts and in reducing their gross long position to 164,979 contracts, their lowest level of gross longs since June. But a real surprise was that the managed money traders only added 443 new shorts to a gross short position amounting to only 10,900 contracts. Given the price action, I would have expected tens of thousands of new managed money shorts and the fact that did not occur was not only a big surprise but also accounted for a big reason why the commercial buying wasn’t larger.

Last week, I went on and on about what I suspected was a reporting error by the CFTC in reporting that around 17,000 managed money gold short positions were closed out in the prior reporting week. Upon further analysis, it was me who was wrong, not the CFTC. The agency should still be beat with a stick for not dealing with an ongoing obvious manipulation, but there are too many in society who will never admit an error and I don’t choose to be one of them. In withdrawing my comments and apologizing for falsely accusing the CFTC, I can’t help but think that the

managed money shorts were talked out of what should have been a much larger short positions going into the price collapse and around $400 million in profits by persuasion from their prime brokers, of which JPMorgan is the largest.

By far, the biggest surprise of the gold COT report was the super aggressive buying by the other large reporting traders which bought a whopping 38,491 net contracts, comprised of the new purchase of 36,778 longs and the buyback and covering of 1713 short contracts. As a result, the other large trader net and gross long position surged to its highest level ever. (As a reminder, the only difference between the managed money and other reporting traders is that one trades on behalf of others and the other for itself).

That so many other large trader contracts were bought into the teeth of a sharp gold price decline is notable on its own, but also explains why more commercial gold contracts and, particularly, why more big 7 short contracts weren't bought back. Along with the surprising lack of new managed money short selling, the buying by the other large traders fully explains why all the commercial categories didn't buy more than the 26,700 contracts in the commercial headline number. Anyone not making the distinction between the managed money traders and the other large reporting traders is missing the most important feature of this week's gold COT report and that feature is quite bullish to my mind.

In COMEX silver futures, the commercials bought and reduced their total net short position by 5700 contracts to 54,600 contracts. This is the lowest (least bearish) commercial short position since last July, but as was the case in gold, was somewhat disappointing at first blush. Closer examination proved otherwise, but for slightly different reasons than occurred in gold. JPMorgan did managed to buy back around

1000 shorts, reducing its short position to 5000 contracts, but I did expect more (until I examined all the details).

The raptor net long position was reduced, somewhat as expected, by around 5500 contracts to 28,400 contracts, as early buyers over the prior reporting weeks appear to have succumbed to the extremely sharp selloff and bailed out with large losses. The 7 big shorts in silver were able to reduce their net short position to 78,000 contracts (390 million oz), but that isn't very much considering the price action.

On the sell side of silver, the managed money traders sold "only" 4808 net contracts, but the composition was the big story, as they sold and liquidated a very hefty 15,549 longs, but the managed money traders which were short bought back an even more impressive 10,741 short contracts. This was the big COT story in silver this week, as I would have expected the managed money traders to have added tens of thousands of new short contracts (although I did think I commented on Wednesday that you would have to be crazy to short silver at such low pieces). My conclusion is that while the managed money traders can be way too mechanical at times, but aren't completely nuts. This managed money short covering was the big surprise and the single-handed explanation for why the commercials didn't buy more. Again, anyone not putting this into perspective is missing the true meaning of this week's report.

The managed money gross long position in silver, at 37,409 contracts, is now at the lowest level since early 2018 and before that going back to 2014, suggesting limited further long liquidation. With the managed money short position down to 15,471 contracts and with their obvious reluctance to add new short positions at such stupid cheap silver prices, the obvious question in both silver and gold is the ability of the big 7 shorts to buy back and cover its still formidable open short position of roughly

250,000 short contracts in gold and 78,000 contracts in silver. These short positions may have been reduced somewhat since the Tuesday cutoff, but I doubt materially so.

Therefore, the 7 big shorts are still largely in the same predicament they were in, minus the $7.2 billion open loss they held as of two Fridays ago (March 6). I'm not trying to minimize the financial relief experienced by the big 7 since then, but not only does the required task of actually buying back the short positions remain unfinished and ahead, the actual mechanics of buying back those shorts would seem to have become much more problematic.

The tremendous amount of managed money long liquidation in both gold (110,000 contracts) and silver (50,000 contracts) over the past few weeks was the easiest source of potential big 7 short covering and now that source no longer exists. Plus, there appears to be little appetite for new short selling by other managed money traders at current depressed prices, further limiting a past source of potential short covering supply to the big 7. Over this same time, JPMorgan, the raptors and, quite unexpectedly until this cycle, the other large reporting traders appear to have crowded out the big 7 from the buy side to date.

All this greatly enhances the double cross premise I've written about for the past two years, in which JPMorgan by virtue of its massive physical holdings of gold and silver, bids adieu and see ya later to the big 7 shorts. No one has a lock on the future, least of all me, but the 7 big shorts appear to be potentially up the creek without a paddle.

Suddenly, the country and world is in the most serious health and economic crisis of our lifetimes and the more you think about it, the more serious and scary it appears,

with the biggest pipe dream perhaps being that there is going to be a quick and powerful V-shaped economic boom waiting in the wings. Tell that to the millions suddenly unemployed or soon to be. I absolutely despise the fact that the serious crisis enveloping us all and causing so much personal hardship just may set silver prices free from the price manipulation that has existed for more than 35 years, but that's the message from the near-panic buying of physical metal on both a wholesale and retail basis.

As much as I may hate the circumstances, I also know that you and I had nothing to do with them. And it appears clear as day to me that the recent incredible blast to the downside was used as a cover story for the big COMEX traders, centering on JPMorgan, to fine-tune their positions for liftoff.

Ted Butler

March 21, 2020

Silver – $12.60 (200 day ma – $17.01, 50 day ma – $17.08)

Gold – $1500 (200 day ma – $1501, 50 day ma – $1584)