# March 22, 2023 – (Some) Banks Do Dumb Things

One wants to be circumspect about casting too wide of a net around any group or category; be it a people by race or religion, or type of financial institution. Of course, that doesnâ??t mean individuals or individualÂ  institutions canâ??t be criticized by their own behavior. There is always good and bad to be found in every category. By being careful not to accuse all banks of doing dumb things, that doesnâ??t exclude all banks from criticism.

Over the half-century that I have come to observe financial developments, it seems to me that financial history is replete with instances of some banks doing really stupid things. In fact, banks or quasi-banks doing dumb things are, effectively, at the heart of all the financial disasters and crises that have occurred in my business lifetime. â??Dumbâ?• is, of course, a label typically assigned after the consequences of the bad behavior become apparent, rarely before.

Certainly, that appears to be the case with the recent bank failures, including the 2nd and 3rd largest bank failures in history over the past week or two. There are always voices in the wilderness who warned beforehand that things were amiss; but, by and large, the disaster only becomes obvious to all in hindsight. This doesnâ??t prevent the dumb things that some banks do from having tremendous impact on other markets, both before and after it becomes widely apparent.

Keeping to the overall theme of this service, my main interest concerns the dumb things that some banks might do in direct connection to silver (and gold). Here, my main concerns are three Â â?? the overall role of some banks in connection with the 40-year COMEX price manipulation, the specific role of JPMorgan in all things silver and gold from the time it took over Bear Stearns in 2008 and finally, the role of Bank of America in entering into its profoundly stupid silver leasing/OTC derivatives involving, essentially, it ending up with a billion oz silver short position. A possible fourth dumb thing has been BlackRockâ??s refusal to crack down on the fraudulent and manipulation short position in one of its ETFs, SLV, but since BlackRock is not a bank, Iâ??ll treat this separately at another time.

For the record, considering its street smarts and cunning, calling JPMorgan dumb is not in keeping with what Iâ??ve reported over the past 15 years or so, but sometimes being â??tooâ?• smart can be counterproductive. Everything that Iâ??ve observed about JPM is that it is almost guaranteed to be the big winner in silver and gold (by virtue of it accumulating a billion oz of physical silver and 30 million oz of physical gold), but at the same time, it is almost singlehandedly responsible for what is an epic distortion of the law of supply and demand in silver. The irony is that when silver does explode in price, JPMorganâ??s role will likely be ignored.

In a similar vein, the role of a small number of banks and large financial institutions in the continuous COMEX silver price manipulation over the past 40 years is also likely to be overlooked when silver explodes, but here too, the damage has already been done. There is a near-universal agreement that silver is the most undervalued of all metals and investment assets in general, yet far from wholesale agreement as to why silver is so darn cheap. It stands to reason that something universally recognized (silverâ??s undervaluation) must have a compelling explanation.

Let me try to put the singular explanation for silverâ??s super-depressed price â?? the ongoing COMEX manipulation â?? into slightly different terms than I usually present. Starting in 1982, after the

Hunt Bros-inspired and orchestrated silverâ??s run to $50 and subsequent crash to $5, the new low price motivated most investors to want to buy silver because it was cheap. At the same time, another group of traders were starting to reach popularity and critical mass, known as registered Commodity Trading Advisors (CTAâ??s) or managed money traders; which handled the trading decisions for those which invested in these programs. Then as now, the principal exchange in which silver trading existed was the COMEX.

Since one group of traders, basically the majority of public traders and investors found silver to be cheap at $5 or so, these traders, naturally, were buyers or longs. Since there has to be a seller for every buyer and a short for every long derivatives contract, the only entities willing to sell short to the overwhelming tendency of the public traders to be net long silver on the COMEX, were commercial banks. This resulted in a permanent public long and commercial bank short position in COMEX silver â?? something that has remained remarkably consistent to this day. (This was also what led me to discover the answer to a challenge by Izzy Friedman for why silver prices were so low, back in 1985).

Along the way, all sorts of convenient-sounding cover stories emerged, attempting to explain away the permanent public long/commercial bank short position in COMEX silver futures â?? along the lines that the silver shorts were â??hedgingâ?• or somehow innocently involved on the short side; when in reality, the shorts were speculating every bit as much as the public was speculating on the long side. But it was the widespread belief that the shorts were doing something other than speculating that prevented most from seeing that a number of banks were, in essence, so heavily involved on the short side that it amounted to price manipulation.

On top of that base of near-permanent public longs and commercial bank shorts in COMEX silver, enter the CTAâ??s or managed money traders, which operated mostly on technical signals (moving average penetrations), meaning they went both long and short, depending on price movement. In practical terms, when the managed money traders got heavily long in COMEX silver on rising prices, this was in addition to growing numbers of public longs â?? making it mandatory that the commercial banks expand their short positions to offset both the managed money and public trader longs.

It was at such points of peak prices, over the near-entire 40-year existence of the COMEX silver (and gold) price manipulation, that public and managed money longs were always at near-records, requiring the commercial banks to hold near-record short positions. At those precise points, the public and managed money longs held extremely large open (unrealized) profits, while the commercials held just as large open and unrealized losses. Almost miraculously (from the commercial shortsâ?? perspective), these positioning and open profit/loss peaks always got resolved in the commercials favor, as prices then fell sharply lower â?? no exceptions. There was never a â??full pants downâ?• circumstance, as foretold by my departed friend and silver mentor, Izzy Friedman, because the commercials never ever rushed to buy back shorts on higher prices. I did say never, didnâ??t I?Â  This is the essence of the COMEX silver (and gold) manipulation.

Because by the time the public and managed money shorts had put on maximum long positions and the commercial banks had put on as many short positions as necessary to offset and satisfy the combined buying, the longsâ?? unrealized profits and commercialsâ?? unrealized losses were massive. It then became imperative for the commercials to orchestrate a sharp selloff as soon as possible – which always occurred in short order. Again, never did the commercials collectively buyback and cover short positions on higher prices.

Whatâ??s new is this. The sharp selloffs orchestrated by the commercials after they got massively short COMEX silver futures were undertaken based strictly upon the size of the COMEX positions and the size of their open losses and had nothing to do with silver prices in terms of actual world supply and demand. The commercial shorts couldnâ??t care less about the price affecting world supply and demand (which is what is supposed to determine price) â?? they were out to best the public and the managed money traders, no more, no less. What impact the result of their manipulative and collusive trading might have on the real-world price of silver didnâ??t matter in the least. This was a very private betting game on the COMEX and the commercials didnâ??t care a hoot about the wider impact of their collusive COMEX positioning.

What I just described has occurred non-stop for 40 years and it is the cumulative effect of the commercials gaming the public and the managed money traders for so long that has worked to depress the price of silver on a long-term basis. It was not any one specific campaign by the commercials to hoodwink the public and the managed money traders –Â  it was the cumulative and combined effect of all the COMEX commercial price-rigging campaigns over 40 years that has resulted in silver being the most undervalued metal and investment asset in the world. Such consistent â??gradualismâ?• is the only legitimate explanation for why silver is so darn cheap.

Further, while the commercials as a whole have mastered the COMEX price-rigging game for most of the 40 years in terms of pure profitability and besting the public and managed money traders, the circumstances in which they have left the price of silver and its supply/demand situation can hardly be called a success or without unintended consequences. Whether they are ever called to account for the distortion they have surely created is besides the point. In essence, the collusive commercial activity on the COMEX for four decades has left the real supply/demand circumstance in silver similar to a toxic superfund waste site. If that isnâ??t dumb, then I donâ??t know what is.

Then again, one manâ??s waste is another manâ??s treasure and the distortion created in silver by the collusive COMEX commercials looks like the opportunity of a lifetime to those who take advantage of it â?? by buying and holding as much silver as one can reasonably afford. But thatâ??s another story.

Finally, there is the case of Bank of America and its bone-headed move to lease and sell short a billion oz of silver from JPMorgan. I know many questioned my characterizing BofA as being as dumb as dirt for doing what I alleged, but after the recent revelations in the current batch of bank failures, can anyone deny that some banks do really dumb things and that regulatory oversight can and does fail miserably?

As a reminder, I did officially complain to the Securities & Exchange Commission about Bank of America and questioned the Office of the Comptroller of the Currency about BofAâ??s actions (through my congressman) and all I got back was an acknowledgement that the issues I raised were indeed serious â?? followed by a revision to the OCCâ??s quarterly derivatives report clearly intended to obscure BofAâ??s silver position. All of this was chronicled in a series of public articles. Dumb moves by some banks and shoddy regulation, indeed.

Turning to other matters, the CFTC published yesterday the last of the delayed Commitments of Traders (COT) reports, the one covering positions held as of March 14 (it also caught up in the Bank Participation reports for positions held as of March 7). I hadnâ??t spent much time on previewing the COT report for March 14, mostly due to catching up with the slew of delayed reports recently published. But I did mention (not by numbers of contracts) in Saturdayâ??s review that the COT report for March 14, would show a significant reversal of positions to reflect the upside price reversal.

As a reminder, it was during the reporting week ended March 14, that gold and silver prices reversed sharply higher from the nadir in prices the previous week and most bullish COMEX market structure in some time, with gold prices jumping by $100 and upwardly penetrating its 50-day moving average â?? the only key moving average the commercials were able to get the managed money traders to sell into. Silver prices jumped as much as $2, penetrating its 200-day moving average, but not its 50-day and 100-day moving averages.

Although I hadnâ??t made contract predictions beforehand, in terms of managed money buying, gold came quite close to what I had privately expected, while such buying in silver was a bit less than what I had feared. On the commercial-selling side of things, the raptors were the biggest sellers in both metals, as expected. But not to the extent I would have expected in silver (thanks to heavy selling by other non-commercials).

As of March 14, the commercials increased their total net short position in COMEX gold futures by 36,500 contracts to 155,400 contracts. Essentially, the increase is largely and mathematically due to raptor long liquidation, rather than new commercial shorting; although the 4 big gold shorts added 6100 new shorts to a short position amounting to 136,625 contracts (13.7 million oz). The next 5 thru 8 largest commercial shorts added another 1000 shorts to a big 8 short position amounting to 209,792 contracts (21 million oz).

The raptors (the smaller commercials apart from the big 8) sold off 29,300 gold longs, reducing their net long position to 54,400 contracts, but still quite large. The gold raptors took heavy realized profits (at the expense of the managed money shorts) â?? so, whatâ??s new about that? Looking ahead to the next COT report that is scheduled for release this Friday for positions held as of yesterdayâ??s close, I would anticipate commercial selling similar to this weekâ??s results, in both size and composition in both gold and silver.

On the managed money side of things in gold, as of March 14, these traders bought 45,322 net gold contracts, consisting of the new purchase of 15,121 new longs and the buyback and covering of 30,201 short contracts. The resultant managed money net long position rose to 59,721 contracts (118,560 longs versus 58,839 shorts). Explaining the difference between what the commercials sold and the managed money traders bought was net selling of more than 3400 contracts by the other large reporting traders and even larger net selling of more than 5300 contracts by the non-reporting trades.

In COMEX silver futures as of March 14, the commercials only increased their total net short position by 3600 contracts to 9200 contracts, mostly as a result of raptor long liquidation, as opposed to an overall increase in new commercial short selling. The only slight new flaw in the surprisingly light commercial selling is an increase of around 1600 contracts in the big 4 commercial short position, to 33,487 contracts (167 million oz). The next largest 5 thru 8 silver shorts bought back 1700 shorts and the big 8 short position fell by hundred contracts to 51,022 contracts (255 million oz), another slight new low extending back a decade or so.

The silver raptors (the smaller commercials apart from the 8 big shorts) did, essentially, all the net commercial selling in liquidating 3700 longs, reducing their net long position to a still-large 41,800 contracts. Iâ??m a bit shocked (in a very good way) that on a sharp $2 rally over the reporting week that only 3600 net Â commercial contracts were sold, particularly considering the extremely small and bullish net commercial short position going into the reporting week ended March 14.

The managed money traders in silver did buy a not-insignificant 12,703 net contracts, consisting of the new purchase of 3141 longs and the buyback and covering of 9562 short contracts. The resultant managed money net short position contracted to 4699 contracts (30,952 longs versus 35,651 shorts), but the more remarkable thing is that after a $2 reporting week rally, that there was still a net short position. While I do believe the managed money traders are back to a net long as of yesterdayâ??s cutoff, it doesnâ??t appear the net long position is particularly large, remaining quite bullish overall for future silver prices.

Perhaps the biggest standout in the COT report for March 14 was the amount of selling by traders in the other large reporting category, as well as selling by the smaller non-reporting traders, as also occurred in gold, but not to the same extent as in silver. The other large reporting traders sold more than 6100 net contracts, while the smaller non-reporting traders chipped-in, with nearly 3000 silver contracts sold. I consider this bullish for a number of reasons, not related to my existing long list of reasons to be bullish on silver.

As to what the COT report of March 14, combined with the expected changes in the new report due this Friday, the nearly-$200 rally in gold at the price peaks over these two reporting weeks have used up just about all of the rocket fuel created in gold on the orchestrated price takedown since Jan 31. Now, whether this is merely the first rocket booster-stage higher in gold (as I suspect) of what could be a multi-stage price rocket ship ride higher, will be seen shortly. Itâ??s not that the COMEX market structure in gold has turned bearish, more like neutral â?? but with still-seemingly very bullish outside factors. In other words, the COMEX market structure bullish extremes in gold behaved just as expected and could (and should) contribute further, based upon momentum and broader macro-factors. Itâ??s just that the bullish market structure extremes have, largely, already did their job in gold â?? now itâ??s more up to macro factors (with further COMEX price boosting still possible or probable).

In silver, itâ??s different. The amount of rocket fuel expended over the past two reporting weeks looks relatively much less than in gold, considering just how extreme the COT positioning had gotten in silver and the fact that silver had decisively penetrated to the downside all of its key moving averages, while gold hadnâ??t. Â The first booster to the Saturn silver rocket still looks to have ample fuel remaining to drive prices higher, even before silver switches over to other COMEX market structure boosters â?? to say nothing of real-world physical tightness and shortages exerting themselves.

By way of comparison, looking back into the yearend rally of last year, after both silver and gold rallied from the beginning of November on what were very bullish market structures, silver ran much stronger than gold into yearend, using up the rocket fuel of managed money short covering much quicker than in gold. Thatâ??s based upon silver running higher by $6 or more and gold â??onlyâ?• running higher by $150 or so. At yearend, gold still had more rocket fuel â??juiceâ?• remaining than did silver and that explains how gold was able to run higher by another $150 into late January, while silver stalled because it had run out of juice earlier.

Today, silver looks like it has much more rocket fuel juice remaining than does gold as a result of sharp rallies in each since March 7. Iâ??m not suggesting in the least that goldâ??s move higher is over, just that relatively-speaking, silver looks better positioned, COMEX market structure-wise, to outperform gold â?? just as gold looked better-positioned at yearend. That the macro-factors in silver also look extremely bullish doesnâ??t dissuade me from the same considerations I see in COMEX market structure terms.

Of course, none of this has anything to do with interest rates, inflation, or what the Fed is about to announce shortly. These things do create â??noiseâ?• and can have an effect on prices temporarily, but donâ??t go to the core of what I believe causes significant price movement in silver and gold. That said, price volatility usually jumps sharply upon Fed announcements and other things (monthly employment reports) and I suppose when I grow up Iâ??ll understand why.

As I prepare to hit the â??sendâ?• button, gold and silver prices responded positively to the Fedâ??s interest rate decision and Chair Powellâ??s statement and Q&A.

Ted Butler

March 22, 2023

Silver – $23.10Â Â Â Â  (200-day ma – $20.97, 50-day ma – $22.38, 100-day ma – $22.29)

Gold – $1975Â Â Â Â Â Â Â  (200-day ma – $1786, 50-day ma – $1888, 100-day ma – $1827)

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