Gold and silver prices snapped back from the sharp losses of the prior weeks, but by how much in gold was obscured by an unprecedented discount of COMEX April gold futures to the June contract, which I'll discuss in separate enclosed section later. It was the sharpest rally in gold since 2008 and I'm going to blend the gains in the April and June contracts and put gold's gains for the week at $140 (9.3%), with silver ending a full two dollars (15.9%) higher. Silver's relative outperformance caused the silver/gold price ratio to tighten in by 6 full point to 113 to 1, but a ratio that wide is still otherworldly.

Otherworldly is as good as any word to describe the time we live in as a result of the coronavirus pandemic, but as always, I'll confine my remarks to gold and silver. I'm still of the firm opinion that gold and silver prices are set and determined by changes in COMEX futures positioning and pandemic or otherwise, nothing has occurred to do anything but strengthen my conviction. Therefore, I'll be digging into the new Commitments of Traders (COT) report, which is the fountainhead of data proving that COMEX futures positioning sets the price, despite growing awareness of a developing physical shortage in both gold and silver.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses remained above the weekly average of the past 9 years, as 6.4 million oz were moved this week, and as total inventories rose a slight 0.2 million oz to 321.4 million oz. No change in the JPMorgan COMEX warehouse, still stuck at 160.8 million oz.

There was continued very heavy physical deposits into the leading gold and silver ETFs. Physical deposits into SLV, the big silver ETF, amounted to another 20 million oz this week, on top of the 20 million oz deposited last week, a total of 40 million oz.

This brought the total amount of physical silver in the SLV to just over 393 million oz, a new record, as the single largest depository of physical silver in the world. Again, last week's deposits were counterintuitive, in that silver prices had fallen sharply, but this week's deposits are more like what should occur, given the snapback in prices.

Physical deposits into GLD, the big gold ETF, amounted to a very large 1.8 million oz this week, the dollar equivalent of $3 billion. Despite the surge in physical deposits into GLD, total physical holdings in the trust of nearly 32 million oz, are still about 12 million oz under the previous record of a few years back, although total world gold ETF holdings are at near record levels. One thing that should jump out at you is that the big deposits in both SLV and GLD make absurd the claims that the previous recent swoon in prices had anything to do with investors dumping physical metal. This leaves as the only explanation for the price swoon the paper positioning on a derivatives exchange that happens to be the largest in the world and has five capital letters, beginning with "C" and ending with "X".

Let me jump to the new COT report since I plan to spend quite some time discussing the incredible discount in COMEX April gold compared to the June contract over the past two trading days. This unprecedented spread action occurred after the Tuesday cutoff date for yesterday's report so we'll have to wait until next week to get any sense of how it may have affected net positioning.

The reporting week ended Tuesday and reported yesterday was definitely bifurcated, particularly in gold and to a lesser extent in silver. In gold, the first few days of the reporting week featured a price plunge which penetrated the key 50 and 200 day moving averages to the downside, only to be followed by a price reversal and upside penetration of those same moving averages on the final two days of the reporting week. This is price action, to my knowledge, never having occurred previously. Silver prices plunged with gold but steeper and silver's rally, while impressive, didn't come close to upwardly penetrating its key moving averages. Therefore I wasn't sure what to expect in positioning changes and refrained from predictions, but aside from a surprise or two, the reported changes were mostly in keeping with price action over the reporting week.

In COMEX gold futures, the commercials increased their total net short position by 10,100 contracts to 311,800 contracts, implying that the commercials bought early in the reporting week and turning sellers on the rally. Remember, COT positioning is a snapshot of positions on Tuesday's close and not a full reflection of everything that occurred each day of the reporting week. The new shorting was the result of nearly 12,000 contracts by the 8 largest shorts, although I detected that JPMorgan didn't add to its shorts and may have reduced them somewhat. I'm going to peg JPMorgan's short position as unchanged at 25,000 but sense it could be lower than that. Clearly, however, there was no reduction in the 7 big shorts net short position which I would now estimate at 265,000 contracts (as of Tuesday).

Again, in commercial headline number terms, any amount over 300,000 net short contracts must be considered extremely bearish on its face, but I am more persuaded that may not be the case, based upon other details of the COT report and what is going on in the physical world of metals.

On the managed money side of the gold equation, these traders bought a bit over 3300 net contracts, consisting of the sale and liquidation of 6014 long contracts and buyback of a hard to believe 9344 short contracts. This must be getting old, as two weeks ago, I claimed the CFTC was in error in reporting a very large buyback of shorts in the managed money category, only to rescind my allegation and apologize for making it last week. This week, I again have trouble with the data, not only since it would indicate a record low in managed money gold short positions, at only 1556 short positions being held, but by the fact that the CFTC is reporting there are 11 traders in this category.

The problem I have is that large reporting gold traders are supposed to hold at least 200 contracts or more to be considered large reporting traders and 11 traders holding at least 200 contracts each would amount to more than 1556 total short positions. It’s the mathematical impossibility of the data that is troubling, but I don’t want to spend the rest of my life picking apart obvious reporting errors, as there are more important things to consider. My sense is nowhere near as many short contracts were bought back by the managed money traders, although perhaps the CFTC couldn’t add up the number of traders reporting. – neither of which is a sterling endorsement. But if there were fewer managed money shorts covered, there was likely less commercial selling.

A standout feature of the gold COT report was the continued expansion of the net and gross record long position held by the other large reporting traders. It’s possible some of these traders might have gotten hooked in the April vs June spread fiasco over the past two days, but we can’t hope to know that until the next COT report, if even then. All told, while the headline commercial short position looks bearish on an historical basis, varying details under the hood persuade me to think otherwise.

In COMEX silver futures, there were few ambiguities, as the commercials bought and reduced their total net short position by a hefty 10,000 contracts, to 44,700 contracts. This is the lowest (least bearish, most bullish) level since last June. What did you expect – considering prices had been smashed to 12 year lows? The best news is that JPMorgan appears to have completely eliminated the 5000 contract short position I pegged it with last week and now has no short position in the COMEX. The other 8 (not 7) large commercials also bought back 5000 short contracts, as the raptors did nothing. While I peg the 7 big gold shorts as holding 265,000 contracts after deducting JPM's 25,000 contract short position, in silver, it's easier in that since JPM is no longer short, the 8 big shorts are holding 73,000 net shorts based upon the straight concentration data.

On the sell side of silver, it was mostly a managed money affair as these traders sold a net 7927 contracts, consisting of the sale and liquidation of 7171 long contracts and the new sale of 756 short contracts (the smaller traders accounted for most of the difference between what the commercials bought and the managed money traders sold, which is fine). The resultant managed money net long position of 14,011 contracts (30,238 longs versus 16,227 shorts) is low enough to be considered bullish, although not near a record.

On the other hand, the gross managed money long position appears to be the lowest in seven years or so and looks extremely unlikely to face anywhere near as much selling pressure as it has exhibited over the past few weeks. Certainly, after the near 60,000 contracts of managed money long liquidation over the past few weeks, with only 30,000 long contracts remaining, it doesn't take a mathematical genius to conclude there can't be that much long liquidation remaining. The only hope the commercials have for managed money selling that they could buy into is from new managed money short selling. But if the managed money shorts haven't added new short positions by now, it's hard to see how they would venture onto the short side in extremely aggressive numbers.

My main conclusion, therefore, in both gold and silver is that much of the potential speculative selling, either from long liquidation or new short selling, has largely been spent, leaving the big commercial shorts in a potential world of hurt on future price rises. Let me discuss the unusual happenings in the COMEX April versus June gold spreads over the past two days before finishing up today's article

The Gold Spread Blowout

On Wednesday, I discussed the "impossible" circumstance of physical gold trading at a large discount ($20 to $50) below the active COMEX April futures contract and concluded the most plausible explanation for the unprecedented discount of physical gold (which is in a well-documented shortage) to a futures contract (not in shortage) was that the physical gold wasn't available and the physical price quotes were bogus and not to be relied upon.

I then went into a discussion about how, at the same time, the developing physical tightness in gold appeared to be causing a move towards backwardation (the opposite of contango), in which the COMEX futures months themselves were tightening, and where the April contract had gained impressively to the June contract. On Wednesday, the COMEX April gold futures contract officially settled at only 90 cents per ounce below the June contract and had spent much of the day trading at a premium to the June contract, an incredibly rare occurrence as usually there is a few dollars discount of the nearby month on a progressive basis as the time period between the trading months extends.

This price configuration is known as contango and occurs in commodities in a surplus and spread differentials between the months represent the cost of carrying the surplus commodities. A great current example of contango can be seen in the crude oil market which is in a pronounced surplus that is reflected in the growing discount of cash or nearby oil futures to more deferred months. Gold and silver are in anything but a surplus and there would be no plausible reason for either to trade at full contango – or with the more distant months priced much higher than spot or the nearby months.

No sooner had I sent out Wednesday's missive, when the "impossible" occurred again, only this time the impossible had the COMEX April gold contract falling to historic and unprecedented discounts to the June contract of more than $30 and settling at a $29 discount in April to June in yesterday's trade. The discount of April gold to June would suggest that gold is in a choking surplus, which as you know is about as close to the exact opposite of current conditions as possible.

The big difference between the first impossible occurrence of physical metal being traded at a large discount to the nearby futures month is that little physical metal was being transacted, whereas the spread trade between the April and June COMEX gold futures was as real as rain, as more than 100,000 contracts were transacted from late Wednesday thru Friday's close. So what the heck happened to send the COMEX April gold futures contract to such an unheard of and stunning discount to the June contract?

In simple terms, it was due to dirty rotten, low down manipulative tricks by COMEX insiders that caused the highly unusual blowout of the spread differentials between the April and June gold contracts. Certainly, the CME Group and CFTC should be deeply ashamed by this and the insider traders and regulatory officials should go to jail over this (after being roundly beaten first). That’s the short and simple version, but I think I owe you a more comprehensive explanation of what happened. Afterwards, I’ll also explain how what happened to the hapless sellers of the April gold contract, almost happened to me more than 35 years ago (almost, thank heavens). And just for the record, I had no financial involvement in the April/June gold spread fiasco whatsoever, neither being hurt nor helped by it, as it has been many years since I’ve conducted COMEX transactions.

Yesterday was the deadline for large long holders (those holding more than 3000 contracts) in the COMEX April gold contract to liquidate positions or roll them to June or other months or have made arrangements to take delivery. Monday is the deadline for everyone not standing for delivery to exit or roll over April contracts (although the exact rules are a bit flexible for COMEX insiders and other assorted vermin). Therefore, a fairly rigid deadline existed for long holders to do something, namely, sell out or roll over. In my opinion it was this deadline at the heart of one of the great screwing’s in futures market history.

Based upon COT report data, despite recent selling of long positions by managed money traders, these traders (along with the other large reporting traders) were the largest traders holding long gold positions. Together, the managed money and other large reporting traders held nearly 318,000 gross long contracts or the equivalent of nearly 32 million ounces of gold as of Tuesday. Therefore, it is highly likely that the traders in these categories were the principal victims of one of the greatest scams in history.

Since most of the long holders in the April gold contract had to exit positions ahead of next Tuesday's first notice of delivery day, these traders looked to do what they had done in every roll over (about five times a year) over many years, namely, routinely sell out of their long positions while simultaneously buying the next active month, in this case the June, on a spread or switch basis. Normally, the spread differentials don't change much and the rollover process is fairly routine. Not this time, obviously.

There are always two sides to every transaction, buyer and seller and the same is true for spreads and rollovers. As the speculative longs move to rollover to the next active month, the traders taking the other side of the transaction are mostly the commercials which typically are net short the market. And between the speculative longs looking to rollover and the commercial shorts taking the other side of the roll, it is always the commercials who set the price of the spread differential, in their self-appointed role as "market makers".

Whereas the commercial spread market makers would always take a thin slice out of the hide of the longs rolling over for years on end, this time the market makers decided to take many pounds of flesh – more than ever in history. The commercials set the price of everything on the COMEX, including spread rollovers, and this time they decided to put it to the longs rolling over like never before. The longs rolling over had no choice but to take whatever spread prices the commercials demanded because they were caught completely off-guard by the blowout in spread differentials. The longs rolling over had to exit long positions by a firm deadline and had no choice but to accept whatever spread differentials the commercial market makers demanded. The market makers demanded more than ever in history and the longs rolling over had no choice but to take whatever was offered. Unfair and manipulative you say? What the heck is new with that when it comes to the crooked COMEX and the accommodative CFTC?

Had the longs rolling over had any inclination of what to expect over the past two days, they could have taken precautions to avoid getting ripped off for what I would estimate was a collective $100 million to perhaps $200 million in actual losses due to the spread blowout. Buying and holding April gold at a $30 discount to June is like shooting fish in a barrel for anyone prepared to take delivery in April and to re-deliver in June – a guaranteed profit at low to no risk. But the managed money longs never take or make delivery and they were prime candidates for the price blitzkrieg they experienced over the past two days. The most likely architect for the blitzkrieg? None other than Otto Von JPM.

Anyway, that's my take on what just happened and I'd like to explain why I think it's the correct analysis. It is said nothing teaches better than experience or the school of hard knocks and what Just happened to the hapless longs rolling over in April gold, nearly happened to me and a large client more than 35 years ago in frozen orange juice futures.

As a commodity broker at the time in Miami, I had built up a very large position, both outright long and particularly in bull spreads (long the nearby and short the deferred) for clients and myself, but particularly for one very large client. The large client had held a large outright long position (no spreads) for about a year before a killing frost hit on Christmas Day 1983 and truly devastated the Florida citrus belt. The OJ market locked limit up for days on end because the frost was so severe that not only did it damage the fruit, it killed a large number of trees as well. So damaging was the frost that when prices did start to trade freely after a week or two, rather than take quick sizable profits on the long position, it appeared the new higher prices didn't fully factor in all the damage and the client decided to hold, instead of selling out. To be sure, the killing frost was somewhat of an unexpected occurrence, but anyone long OJ in the freeze season knows it can happen.

To make a long story short, both the client and I decided the price after the market started to trade freely didn't fully reflect the actual supply/demand situation and the client proceeded to add to his long position, not by additional outright longs, but by adding bull spreads by buying the last old crop month September and selling short the next new crop month January. Based on a continuous monitoring of demand, it looked fairly certain that we would run out of orange juice by September and the price of September should climb from the discount it had been trading at to the January to a large premium. By doing bull spreads instead of outright longs, less risk is assumed.

If the spreads didn't work out as intended, the risk would still be negligible because there's a limit to how much a re-deliverable commodity (which OJ was) can trade based upon contango and carrying costs. But because the spread position was so large, in order to make sure something didn't befall the client (like just occurred in April gold), I took every precaution I could to make sure the client could take delivery on the September contracts, if need be, and hold the physical OJ until delivery in January. The precautions included securing financing from my brokerage firm (Drexel Burnham) of more than $20 million and alerting everyone at the Cotton and Citrus exchange of my intention to take delivery if it came to that. To be sure, taking delivery was never the primary intention, but was intended strictly as a worst case protection in case the spread prices didn't reflect the actual market conditions.

Well, it did come to that as the market was prepared for my client to dump his long September position going into first delivery day. In fact, there was a research report from Merrill Lynch at the time that mentioned my large client (not by name) that concluded the position would be dumped and to expect lower prices as a result. The report went on to say that speculators don't take delivery. Therefore, it came as a surprise to the market that my client did, in fact, stand for and take actual delivery and when he did all heck broke loose. The shorts, which didn't have the actual OJ to deliver, complained to the CFTC and seeing as they were large commercials (like Coca-Cola), the CFTC took their side and investigated for manipulation and actually brought charges that were eventually thrown out by its own Administrative Law Judge.

The bottom line is that the client came out whole because he was prepared and in position to take delivery, something the longs in April gold were not prepared for. Undoubtedly, they or others will be prepared for the next time in gold and I would expect the massive rip-off has largely been a one-off affair, not likely to be repeated anytime soon. Yes, the crooked commercials did pocket $100 to $200 million on this scam and may have won this battle, but they still look like they will lose the war (excluding JPM).

As significant as $100 to $200 million might be to the collusive and conniving commercials which just roiled the gold spread market to ambush the unsuspecting longs who were rolling over, the fact is that for the week the 7 or 8 big shorts (excluding the super crooks at JPMorgan) did incur a fresh $4.5 billion in open and unrealized losses due to the sharp rise in gold and silver prices. This after watching a $7.2 billion open loss evaporate to zero as of last Friday.

While the big shorts might still be below the peak of open losses they held as of a few weeks ago, the ground appears to have shifted beneath them, in the sense that tremendous amounts of managed money and speculative selling have already occurred and the 7 or 8 big concentrated shorts appear to have missed out on getting their fair share of that selling. Certainly, JPMorgan appears to have taken more than a fair share of the managed money selling to date and has completely eliminated its silver short position and appears to be holding less than 25,000 gold contracts short.

Based upon what I would assume was JPM's role in the great gold spread blowout scam of the past two days, it's hard not to imagine its gold short position to be much less as of yesterday's close. And please don't forget that JPM's combined physical gold and silver position is now net $8 billion in the black (even accounting for the temporary $3 billion open loss it holds on its 900 million oz silver position). Thus, the prospects for the epic double cross of the other commercials by JPMorgan are stronger than ever.

On a few housekeeping notes, as I alluded to at the start of this review, I am switching for closing prices purposes to the June contract from the April which goes into delivery on Tuesday. Normally, this would add about $5 to the price, but given the spread blowout, today it has the effect of adding nearly $30. This is a situation that won't persist, most likely by April rising to meet the June, rather than the other way around.

Finally, I may try to shoot up to Maine earlier than typically, given the coronavirus concerns. If I do, it likely means that there may be no Wednesday article and the next report will be next Saturday. Thanks for understanding. By the way, aimed at new subscribers, but certainly including existing subscribers, if you have any questions about anything I've written, please don't hesitate to ask. The only dumb question is the one that doesn't get asked. Just allow for some delay over the next few days.

Ted Butler

March 28, 2020

Silver – $14.60 (200 day ma – $17.00, 50 day ma – $16.72)

Gold – $1654 (200 day ma – $1508, 50 day ma – $1592)