

March 30, 2022 - Stunning OCC Report (Revised)

(Since I made some major revisions to the version published on Saturday, I wanted to make sure subscribers would read this version, which I also made public)

<https://silverseek.com/article/another-stunning-occ-report-0>

The new Office of the Comptroller of the Currency's Quarterly Derivatives Report was just released for positions held as of Dec 31, 2021. The report covers Over-The-Counter derivatives positions, including precious metals derivatives held by US banks, meaning that the listed futures and options contracts on the COMEX are not included in this report. Unlike the COT report, which never identifies traders by name, the OCC report does name the top four US banks in each category (where applicable). The OCC report for precious metals only includes positions in silver, platinum and palladium.

The OCC reports on derivatives positions by total notional dollar amount, with no indication as to whether the positions are net long or short or how much of the precious metal category is silver or includes platinum and/or palladium. Generally speaking, it is thought silver makes up roughly 70% of the precious metals' derivatives positions in this report. Using closing prices as of the date of the report will convert the notional dollar amount into ounces of precious metals.

The new OCC report is stunning for a number of reasons. One, it indicates another sharp increase in the precious metals' derivatives holdings of Bank of America. In addition, the total amount of precious metals derivatives held by all US banks reached record levels, despite prices not being at record levels. Perhaps most notable of all is that the current report indicates a remarkable change in the composition of holdings by the four largest US banks.

Previously, JPMorgan dominated the precious metals derivatives holdings over the years, often holding as much as 80% of the total holdings of the 4 largest banks. The new report indicates that JPM's share of the 4 largest banks' precious metals derivatives holdings is down to 42% and Bank of America holds close to the same total share as JPM. This represents an unprecedented reduction of JPMorgan's former dominant role in OTC precious metals derivatives.

The new report, for positions held as of Dec 31, 2021, indicates an even larger increase in Bank of America's precious metals derivatives position than over the prior quarter of just over \$9 billion, to \$27.32 billion. JPMorgan's total of \$28.2 billion was only half a billion dollars higher than the previous quarter, largely a reflection of the slightly higher silver price. Citibank's holdings fell \$2.7 billion from the third quarter to just under \$7 billion as of Dec 31. The new report also indicates a sharply increased position for Goldman Sachs of \$4.81 billion, up from less than \$1 billion in the prior quarter.

<https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/files/pub-derivatives-quarterly-qtr4-2021.pdf>

One of the most shocking features of the new report is that Bank of America is now within a whisker of becoming the largest US bank precious metals derivatives holder from, quite literally, holding zero precious metals derivatives positions as recently as two and a half years ago. In fact, over the 24 months from Dec 31, 2019, BofA's OTC precious metals derivatives position has increased by an astounding 185 times or 18,500%, from \$148 million to \$27.32 billion. In terms of such an extremely large increase in any derivatives category, there has never been anything like this in OCC reporting history.

March 30, 2022 - Stunning OCC Report (Revised)

Coupled with the public data showing unprecedented inflows of physical silver (and gold) starting in the spring of 2020 into the ETFs and into the COMEX warehouses, it still appears that BofA was involved in a massive precious metals lease/short sale and, therefore, the astounding increase in its OTC derivatives position likely represents a short position in silver (and gold). Using 70% of the total precious metals position as involving silver, BofA's derivatives position would represent a short position in excess of 800 million oz - roughly equal to the annual world mine production of silver. The only entities that can set the record straight (if I'm wrong) is the OCC or Bank of America - with both entities refusing to speak up to date.

As far as what could explain the stunning rise in Bank of America's share of OTC precious metals derivatives over the past couple of years, aside from the likelihood of a massive precious metals lease and short sale, there is no apparent legitimate explanation. BofA has little, if any institutional reputation or known experience in precious metals, so its sharply increased role is baffling. Further, it was involved in a deferred criminal prosecution agreement with the Justice Department for spoofing in COMEX gold and silver trading a few years back, for which BofA paid a fine of \$25 million (and promised to stay on the up and up).

Even more concerning than Bank of America's stunning increase in precious metals derivatives is the increase in total US bank holdings, particularly in light of JPMorgan's sharply reduced role over the past two years. Total US bank OTC precious metals derivatives positions reached a record high of \$79.246 billion as of Dec 31, 2021. Using the generally-accepted 70% share being attributed to silver, this suggests that more than \$55 billion involves silver derivatives. Converting the \$55 billion into equivalent ounces of silver (by dividing by the silver price of \$23.35 on Dec 31) results in 2.35 billion oz of silver. Please stop for a moment to reflect on this

amount of silver OTC derivatives.

US banks, mostly the 4 largest banks identified in the OCC report hold derivative positions on 2.35 billion oz of silver - nearly three times as much as annual world mine production and more than the 2 billion oz said to exist in 1000 oz bar form. This, of course, is separate and in addition to the roughly 800 million oz of silver in total open interest in COMEX silver futures (and leaving COMEX options on futures out completely), as well as OTC derivatives held by non-US banks. Between OTC and COMEX futures derivatives, more than 3 billion oz of silver derivatives exist. No other commodity comes close to such a large derivatives position as does silver - begging the question of why such a large derivatives position in silver?

Upfront, I don't know why silver has, by far, the largest derivatives position of any commodity. Some insist it's the work of the US Government, although specific proof of that is inconclusive to date. I think it's far more important and instructive to focus instead on the likely effect of such a massive and documented position on price. Something accounts for the fact that compared to virtually every other commodity, silver is still undeniably cheap and undervalued. If the wholesale price of silver (1000 oz bars) wasn't cheap, for instance, then it would be near-impossible for there to be record high premiums and long wait times for retail forms of silver. So that raises two related questions of why when it comes to silver - why is the wholesale price so cheap and why does there exist the largest derivatives position in silver than in any other commodity?

Actually, one question answers the other. The price of silver is so cheap because its derivatives position is so large. While that has been the case for decades, the new report from the OCC takes it to a new level. Derivatives positions should never be

larger than the host market from which they are derived - as that would be a case of the tail wagging the dog. Yet, that has always been the case in silver - alone of all commodities. In simple terms, the OTC and listed COMEX silver derivatives are so extraordinarily large that they are smothering the price. In no other commodity is there such a case of the derivatives market smothering the price.

Certainly, there's no possible legitimate explanation for why a handful of banks would hold such a massively large derivatives position in one commodity - silver - and not in any other commodity. Otherwise, such an explanation would be given. Instead, the regulators, both the OCC and the CFTC continue to publish data that indicates that something is very wrong in silver, without the slightest attempt to take the necessary next step of comprehending what their data mean.

I have no reason to question the data reported in the COT report or in the OCC report - my gripe is that both indicate something being very wrong, yet the regulators in each case ignore what is obvious. The reason the CFTC tracks and reports concentration data is because when concentration becomes extreme in any market, the likelihood of manipulation becomes front and center. The fact that COMEX silver has had the largest concentration on the short side of any commodity (and for decades) is prima facia evidence of a short side price manipulation.

In the case of the OCC and its reporting of derivatives positions of the US banks, the purpose is to identify positions that may signal potential trouble at individual banks and, most importantly, to the financial system itself. Suddenly, along comes Bank of America, with no known history of dealing in precious metals on its own behalf (and operating under a deferred criminal prosecution agreement with the Justice Department) and within two years is tied with JPMorgan as the leading holder of

precious metals derivatives. WTF?

Instead of jumping on this like white on rice, the OCC sticks its head in the ground, pretending there is nothing to see. Nothing to see? If Bank of America is, in fact, short 800 million ounces of silver (and 30 million oz of gold), as the new OCC report suggests, then a run up in prices could easily bankrupt the second largest bank in the US, requiring a gigantic taxpayer bailout. That, I would submit, is a heck of a lot more than nothing to see. Again, if there's a simple alternative explanation for Bank of America's activities and the other three US banks, then the OCC and/or BofA should have already provided that alternative explanation. Time's a wasting.

Again, while I am forced to speculate at times, all my analysis and allegations are largely based upon the regulators' own public data. Now it is time for the OCC and CFTC and the banks involved to explain why the data reported is not responsible for smothering and manipulating the price of silver.

(End of revised version).

The key change in the revised version was the inclusion and discussion of the total level of precious metals derivatives in the new OCC report, which rose to record levels, despite silver prices not being at record highs. Why silver would have the largest OTC derivatives position for US banks relative to the total size of the underlying host market is a question I've asked my local congressman to ask of the OCC/US Treasury Dept and I'll report the response when received.

And remember, the outsized over-the-counter derivatives position in silver excludes all COMEX (futures and options) positions, as well as non-US bank OTC positions. It's nearly impossible not to draw the conclusion that the ocean of derivatives positions

in silver is responsible for smothering the price.

One thing I left out of the revised version was my belief that, for the first time ever, the new data indicate meaningful counterparty positioning between the four large US banks referenced. The OCC report lists the individual banks holding derivatives positions without specific reference to the entities holding the other side of whatever the banks are holding - since every derivatives contract must have a long and short side. This report is designed to measure the risks US banks are taking, not their counterparties; so specific and detailed data on who is on the other side of the banks' derivatives contracts are not provided. Usually, it is understood that corporate entities and hedge funds are the main counterparties to the banks.

I bring this up at this time because the new OCC report indicates the broadest bank participation in the precious metals category ever. Over the years, the precious metals category was dominated by JPMorgan and the new report indicates that is no longer the case. What this suggests to me, for the first time ever, is that there is credible evidence that the four large banks are holding derivatives contracts with each other and not, for instance, strictly with non-bank corporate entities, as was usually the case. While this may not prove conclusively, for instance, that JPMorgan is long and BofA (and other banks) may be short, as I strongly suspect - it sure as shooting doesn't disprove it either. While I doubt the OCC or the banks involved will ever comment on this with specificity, they all should - because it goes to the heart of the matter.

Turning to other matters, at yesterday's price lows, it sure looked like the 8 big COMEX gold and silver shorts had every intent of driving prices as low as possible ahead of tomorrow's quarter end - what with the deliberate price rigging right down

to a number of key moving averages in both gold and silver. But, at this point, the big commercial shorts haven't been successful, at least yet, of triggering one of their patented full rinse and flush outs.

Further, should prices firm and hold from here, the obvious bear raid should have helped improve the market structures in both gold and silver. Of course, it's too early to pronounce the COMEX market structures in gold and silver as bullish - just less bearish. But one of these days, market structure considerations, as defined by readings in the Commitments of Traders (COT) report, will matter little - supplanted by physical market considerations or other things (like the OTC derivatives positions of the banks).

So, while a bit unnerving, yesterday's price slam is more good than bad at this point. If fully-reflected in Friday's COT report, I would expect decent net-positioning improvements (commercial buying and managed money and other non-commercial selling). A key consideration, not necessarily so much for this week's report, but for future reports on a continuing basis will be the willingness of the managed money traders to add aggressively to new short positions, should prices establish new lows.

The biggest consideration, of course, remains what the 4 big shorts in silver do (or not) on an eventual rally. They did add new shorts, fairly moderately in my opinion, on the rally in silver prices from \$22 in early February to over \$27 in early March, before starting to buy back those added shorts as prices were pushed lower. By "fairly moderately" I mean less than 10,000 contracts. Actually, the 4 big silver shorts added around 7300 new shorts on the \$5 silver rally, before buying back 2600 of those added shorts as of last week's COT report - with more short covering expected in this week's report.

I don't know if this means that the 4 big silver shorts are now more sensitive to the issue of their concentrated short selling being the prime culprit in the ongoing silver price manipulation, but they and the regulators certainly should be more sensitive by now. In any event, I'm somewhat encouraged that the 4 big silver shorts appear to be adding less new shorts than they have in the past - certainly relative to gold.

On the run up of \$5 into early March, the 4 big shorts "only" accounted for 7300 contracts or 20% of the total number of commercial contracts (37,000) sold on the rally. In gold, the 4 big shorts accounted for 48,000 contracts, or more than 45%, of the total number of commercial contracts (105,000) sold on the \$250+ rally in gold from early Feb to early March.

Perhaps I'm looking at this way too closely, but I do sense a reluctance on the part of the 4 big silver shorts to add aggressively to new short positions. That's no small thing, since it's hard for me to conceive of a more bullish factor for silver than the 4 big COMEX shorts not adding aggressively (or at all) on a significant silver rally. After all, this is, essentially, my take on how to define the coming "big move" in silver. Although, I must admit, the revelations in the OCC report have the potential of overshadowing positioning on the COMEX, bullishly speaking.

There is one more day to go for end of the first quarter, so I won't have the final numbers until Saturday's weekly review, but the lower prices since Friday's close have reduced the 8 big COMEX gold and silver shorts' total loss at publication time by \$900 million, to \$12.5 billion. Depending on what prices do tomorrow at the quarter end, this would be the second largest quarterly loss for the big 8 since I began the calculation in June 2019. No doubt the smaller commercials apart from the 8 largest shorts (which I refer to as the raptors) have made out like the collusive

March 30, 2022 - Stunning OCC Report (Revised)

bandits that they are, but the same can't be said of the 8 biggest commercial shorts.

Ted Butler

March 30, 2022

Silver - \$25.05 (200 day ma - \$24.06, 50 day ma - \$24.36, 100 day ma - \$23.79)

Gold - \$1933 (200 day ma - \$1819, 50 day ma - \$1891, 100 day ma - \$1850)