

## May 13, 2020 – Connecting Some Additional Dots

Analysis, it always seemed to me, is about taking known facts or data points and applying the most plausible explanations for those facts into the most reasonable narrative. Of course, as the facts change and evolve, the narrative should also evolve, but on the other hand, there shouldn't be radical restatements of one's basic case along the way – just a continuing evolution.

At least, that's the way I've always considered my basic premise of a silver and gold price manipulation by uneconomic concentrated short selling on the COMEX for more than 35 years. Certainly, the facts have evolved and the players have changed over the decades, but the basic premise has remained remarkably intact. Today, I'd like to consider the facts coming from two apparently unrelated issues, a recent Reuters article on Scotiabank and the continued sharp increase in gold inventories in the COMEX warehouses. First, the Reuters article –

<https://uk.reuters.com/article/us-metals-bank-of-nova-scotia/us-regulators-started-scotiabank-probe-before-metals-closure-filings-idUKKBN22K1Q7>

While the article largely confirmed what was already known, namely, that Scotiabank had been trying without success for years to rid itself of its acquisition, more than two decades ago, of Mocatta Metals, a large precious metals dealer and clearing member on the COMEX, some new details emerged. One was that the bank unit itself was under investigation for precious metals dealings by the US Justice Dept. and CFTC. According to Scotiabank's earnings report in February, the bank was – responding to requests for information related to those investigations –

The article went on to say a US court filing in March showed that Scotiabank provided around 800,000 pages of evidence to the regulators probing precious metals trading at JPMorgan. I don't know about you, but 800,000 pages of evidence sounds like an awful lot to me. On the surface, it doesn't seem at all surprising that Scotiabank, after failing to sell or jettison its precious metals unit, is closing it down. After all, the article points out that profitability at the unit has waned and even if that were not the case, what mainline establishment bank needs an investigation by US authorities in order to cast off a unit not related to the bank's primary mission? I'm sure Scotiabank regrets not moving years ago to rid itself of the Mocatta unit.

Certainly, I have always considered ScotiaMocatta to be one of the 8 big manipulative shorts in COMEX gold and silver and that may still be the case, since it has proven to be a heck of a lot easier to say you are going to cease being a big manipulative short than in doing the actual ceasing. (Admittedly, my disdain for Mocatta paled next to that by my dear departed friend and silver mentor, Izzy Friedman). But I raise the issue today, not so much to affirm my long term convictions about ScotiaMocatta being one of the big gold and silver crooks, but in how closely these recent developments at Scotiabank confirm my contentions over just the past year or so.

For the past year, I have focused on the inability of the 8 big shorts in COMEX gold and silver to close out their short positions at a break even or better for the first time ever. Scotia was always a card-carrying member of the collusive commercials which played the managed money traders like chumps and collectively extracted billions of dollars from them over the past decades. Since that is no longer the case, it is no surprise or coincidence that Scotia is moaning about a loss of profitability. And as to

underscore the loss of profitability to the big commercials on the COMEX (excepting the prime commercial crook, JPMorgan), here's a late breaking story in which another of the big 8 shorts, HSBC, got creamed in gold in late March.

<https://www.bnnbloomberg.ca/hsbc-lost-about-200-million-in-one-day-on-gold-market-turmoil-1.1435651>

The other big confirmation is that Scotia's anxious desired departure from the crooked game it was integrally part of for decades proves just how crooked the game was by revealing how few alternative participants are willing to step forward and replace it. Talk about a dying breed of old, over the hill shysters and crooks. Particularly in silver, where the concentrated short position can't be closed out even though prices are lower than ever on an absolute basis when inflation adjusted or relatively when compared to gold - what big short in their right mind would step forward to replace Scotia or any other big short?

Finally regarding the Reuters article, I am surprised by both the apparent continued intense investigation by the Justice Department and the CFTC and by the continued manipulation, particularly in silver. On the one hand, I suppose I am encouraged that the DOJ and CFTC are still involved in investigating precious metals manipulation on the COMEX and would hope and expect that both regulators can digest and legitimately process the 800,000 pages of evidence secured from Scotiabank. I just hope the regulators have expanded their investigation to include more than the surface-scraping issue of spoofing.

On the other hand, I'm disgusted and appalled that it has taken so long for the regulators to get off their butts and end the obvious manipulation in silver. At least the price of gold has climbed substantially over the past year or so, allowing some relief for long-suffering producers and investors. But silver prices are still in a manipulative chokehold by the 8 big shorts and neither the DOJ nor the CFTC can even come close to explaining how the 8 big shorts' concentrated position is remotely close to being legitimate.

It is one thing to take your time when preparing a legal case against mega-crooks like JPMorgan, but quite another when the deliberation allows a great crime to continue and for innocent victims to suffer. You don't let a serial killer to continue to kill, because you are dotting the 'i's and crossing the 't's in some legal finding - you get the suspected killer off the streets ASAP and sort out the legal details later. As it stands, the DOJ's and CFTC's dawdling has allowed JPMorgan to buyback and cover its short positions in gold and silver. How does that serve the public good?

The other significant development, the sharp increase in COMEX gold warehouse stocks is fascinating for two reasons; one, because the increase has been so large that it can't help but be noticed and two, there is an incredible lack of commentary as to why the increase has occurred. For my part, I have attributed the increase as largely as a show or front intended to provide false market information designed to pressure prices. I'll provide a revised explanation in a moment.

In little more than a month, COMEX gold warehouse inventories have climbed from 8.5 million oz to 22.9 million oz (as of yesterday - May 12), an increase of 14.4 million oz or 170%. Over the past 15 years, total COMEX gold inventories have ranged from 6 million oz on the low side to 12 million oz at the peak, so a one-month increase of 14.4 million oz is, well, off the charts.

Early on, it was thought that the sharp and sudden increase in COMEX gold warehouse inventories, was due to great coming demands for delivery by COMEX futures holders. But while gold delivery demands in the COMEX April and May contacts than typically seen, the total number of true net deliveries hasn't come close to the amount of metal that has come into the COMEX warehouses. Perhaps we'll get a clearer picture after the upcoming June deliveries due to begin deliveries at the end of this month.

Interestingly, the COMEX warehouse operated by JPMorgan now contains just under 10 million oz or 43% of total COMEX warehouse inventories, having grown the most, by far, of any COMEX warehouse. Of the 14.4 million oz increase in total COMEX gold warehouse inventories over the past month, fully 50% or more than 7 million oz have come in to the JPM warehouse. To be fair, COMEX gold inventories don't confirm actual ownership, but neither do they preclude ownership. For someone who alleges JPM has accumulated 25 million oz of physical gold over the past 9 years, I'm not exactly falling down in shock at there being 10 million oz in the JPM COMEX warehouse.

To be sure, the 14.4 million oz increase in COMEX gold inventories in one month is very large, not only in terms of the stunning percentage increase (170%) in total COMEX physical holdings, but also in dollar terms, as 14.4 million oz of gold is the equivalent of roughly \$25 billion. The COMEX warehouse increase is certainly extraordinarily large in that it is 50% larger than the full year increase in deposits into the largest gold ETF, GLD, which had a very large 10 million oz increase in physical holdings over the last full year — whereas the much larger increase in COMEX holdings occurred over just the last month. Staggering.

On the other hand, the 14.4 million oz of gold that has come into the COMEX warehouses is not so large, in terms of what that quantity represents in comparison to world gold bullion inventories. With all gold in the world at 6 billion oz and half of that considered to be in bullion form (including central bank holdings), 14.4 million oz is less than 0.5% of the world's 3 billion oz hoard of gold bullion. Considering that the increase in COMEX gold warehouse stocks over the past month is only half of one percent of world bullion inventories, that doesn't seem outrageously large. I'm just trying to accurately describe things in as objective a perspective as possible.

Now to the issue of why 14.4 million oz have suddenly been deposited into the COMEX warehouses in such short order. That the deposits have occurred are beyond question, the only question is why? Here I am more than perplexed by the lack of any real attempt to explain the deposits. It's not as if the deposits can be going unnoticed, as the data are reported daily and like all COMEX data are widely followed by just about all commentators. Or maybe it's just me and I've missed opinions on why the COMEX gold inventories have grown so sharply — in that case, please drop me a line.

For my part, the most plausible explanation I've been able to come up with is that the deposits are a front or show aimed at discouraging those who might be tempted to demand delivery on COMEX futures contracts due to a perception of an inability to deliver on the part of the shorts from doing so. As such, this would represent a dissemination of false market data intended to artificially influence prices and would be illegal on its face. Then again, the big shorts have done nothing but engage in illegal acts for decades, so another illegal act would be no big deal.

But after considering the news that the Feds still seem to be actively engaged in an investigation into precious metals manipulation (based upon the Reuters article on Scotiabank), a new thought has

occurred to me about why the COMEX gold inventories have surged so much in such a short time. Maybe, just maybe, the Justice Department and CFTC have awakened from their deep slumber and decided that, by golly, perhaps the CFTC's own concentration data on the short side means something after all. After decades of me trying to convince them that their own concentration data prove the manipulation, perhaps the idea that nearly the entire commercial net short position in COMEX gold futures being held, effectively, by just 8 or so banks finally resonated with the agency and it decided to do something about it. But what could the agency do if it suddenly became concerned that the big shorts were artificially suppressing prices?

One thing (the right thing in this case) that the CFTC would refrain from would be ordering the big shorts to buy back their short positions, because that would cause prices to soar and expose the agency to endless criticism. An alternative to that might be for the CFTC to order the big shorts to show that their massive concentrated short position at least wasn't naked and would show the metal backing the paper short positions existed. Thus, my new thought is that the sudden influx of gold into the COMEX warehouses (with further increases likely) is a result of regulatory pressure on the big shorts to show that their shorts are backed by real metal — a different type of show or front.

Of course, even if the concentrated short position is backed by real gold, it doesn't make the concentrated short position any less manipulative. Commodity law doesn't distinguish a price manipulation by whether a concentrated position that is artificially suppressing prices is naked or backed by physical material. The issue remains what the price would be if the concentrated position didn't exist and the likelihood it could be replaced by other market participants at close to then current prices. But who in their right mind would willingly replace the 8 big shorts in COMEX gold futures at anywhere close to current prices? If there were any other willingly shorts, then the short side wouldn't be limited to the 8 or so big shorts.

To this point, my discussion and speculation about the big increase in COMEX warehouse inventories has been confined to gold. But as you know, the concentrated short position in COMEX silver futures is much more extreme and there has been no recent increase in COMEX silver warehouse inventories. In fact, COMEX silver warehouse inventories are little changed over the past year; big turnover, to be sure, but little in the way of increases in total inventories. And while the 8 big shorts in COMEX gold futures hold 90% of the total commercial net short position, in silver the 8 big shorts hold a short position that is more than double the total commercial net short position. Let me repeat that, the entire commercial net short position in COMEX silver futures, as of last Tuesday, was 33,900 contracts, while the concentrated net short position of the 8 largest traders was 73,711 contracts (368.5 million oz). How can this be?

The explanation for how the silver short position of only 8 commercial traders can be more than twice as large as the entire commercial net short position is, of course, because a good number of other commercials hold long positions. In fact, the smaller commercials (which I refer to as the raptors) now hold their largest net long position, 39,800 contracts, since last July (JPM is now a raptor). I would ask you to think about this for a moment.

Only 8 traders, mostly banks, hold a net short position of more than 368 million oz, while other commercial traders hold a net long position of nearly 200 million oz. What would it take, in terms of higher prices, to get the long commercial traders to sell out and take profits on their 200 million oz long position and begin to go short? The last time the raptors had a net short position was three to four

years ago and even then their short position didn't exceed a few thousand contracts.

My point is that I can't uncover conceivable replacements for the 8 big shorts, except at shockingly higher silver prices than we've seen, well, forever. And if we move to those shockingly higher prices, what becomes of the 8 big shorts? Yes, I suppose the biggest market crook of all, JPMorgan, could conceivably add to its short positions aggressively enough to once again contain prices and aggressively dispose of its ill-gotten physical silver holdings, but that won't go unnoticed (at least by me). Plus, it makes no economic sense for JPM to sell so aggressively. In the meantime, the mandatory higher prices that would require even the possibility of selling by JPMorgan would put even more pressure on the 8 big shorts.

And if I am close to correct in suggesting the big inflow of gold into the COMEX warehouse system was due to regulator demands to show them the metal, then what about silver? Yes, I readily concede it is possible for the 8 big shorts to come up with, at least the appearance of the 25 million oz of gold they are short in COMEX futures contracts, since that amount of gold is still less than 1% of all the gold bullion in the world. But the likelihood that the 8 big shorts in COMEX silver futures hold or can up with 368 million oz of physical silver is more remote than expecting creatures from outer space to hold or show that much silver.

Certainly, there are no signs of any big short even pretending to own physical silver, as may be occurring in gold. In fact, not only is the concentrated short position in silver more extreme than it is in gold, it is more extreme and egregious than the short position in any other commodity in terms of real world production — the only real measure of a concentrated short position. What makes the concentrated short position in COMEX silver futures so egregious, of course, is that little to none of the short position is held by bona fide hedgers, namely, those which actually produce silver from the earth — the miners. The shorts are mostly sleazy banks stuck in a short position that they can't easily extricate themselves from.

Not a day goes by when new articles come out proclaiming what a bargain silver is (due to its ultra-low price) and how it is destined to prove to be among the very best investment opportunities at this time. No argument from me, of course, but I remain baffled how so few of these articles delve into why silver is so cheap in the face of everything pointing to why it should go much higher in prices. The reason why silver is so cheap is due to the massive concentrated short position of just 8 large traders on the COMEX and the CFTC's and DOJ's refusal or inability to do anything about it or even explain it is shameful.

As far as what Friday's new COT report is likely to indicate, I would anticipate moderate managed money buying and commercial selling as a result of the fairly sharp rally in gold last Friday and the sharper rally in silver on Thursday and Friday, which took prices above the 50 day moving average for the first time in months. However, trading volume remained low and the gains of last week were whittled down in trading through yesterday's cutoff. There were slight increases in total open interest in silver of around 3500 contracts and 6400 contracts in gold. I'm not looking for meaningful changes, say something on the order of 5000 contracts in silver and maybe 10,000 contracts in gold in managed money buying/commercial selling.

As far as the open losses for the 8 big shorts in gold and silver, at publication time, a slight rally in gold and decline in silver since Friday's close puts the combined open loss at up by \$200 million to \$6.3 billion.

Ted Butler

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Silver – \$15.67 (200 day ma – \$16.95, 50 day ma – \$15.10)

Gold – \$1716 (200 day ma – \$1555, 50 day ma – \$1662)

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