A late week rally lifted both gold and silver, with gold ending $47 (2.8%) higher and at fresh 7 year closing highs, while silver surged by $1.30 (8.3%) and at 10 week closing highs. The sharp relative outperformance of silver resulted in the silver/gold price ratio tightening in by another 5 full points to just under 103 to 1. Of course, the price ratio still indicates that silver is crazy cheap compared to gold, just not as crazy cheap as it has been recently.

The many highlights of this week included a stunning outperformance in silver mining equities and the speed in silver's upward penetration of its 200 day moving average. Only two days passed since I mentioned that the average (important to momentum-type traders) was $1.20 above the current price in Wednesday's missive. But, by far, the most notable development to me was the stark increase in the open losses of the 8 big shorts in COMEX gold and silver futures, an issue I have been focusing on for the better part of the last year.

This week's sharp rally in gold and silver, primarily confined to Thursday and Friday, added nearly $1.7 billion to an open and unrealized loss amounting to $7.8 billion as of yesterday's close. Not only is this one of the steepest weekly setbacks to the 8 big shorts, the combined open loss of $7.8 billion sets an ugly new total weekly tally. I plan on digging into this a bit later on, after covering other weekly developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained strong at 5.8 million oz, exceeding the 5.4 million oz movement over the three previous weeks. As a reminder, 5.8 million oz annualized is just over 300 million oz, a tidy amount of physical silver in anyone's book and not that far from the average weekly turnover for the past 9 years. So much physical metal in movement still strongly suggests physical demand and tightness, even if it continues to garner scant attention. Total COMEX silver warehouse inventories fell a slight 0.1 million oz to 314.2 million oz, another six month low. No change in the JPMorgan COMEX warehouse, still stuck at 160.8 million oz for at least a couple of months.

Once again, the COMEX warehouse story of most interest is that in gold where another 1.7 million oz were added this week, bringing the total to 23.6 million oz. Over the past 5 or 6 weeks, total COMEX gold warehouse inventories have nearly tripled from 8.5 million oz. Since I discussed the matter in depth on Wednesday, I'll not do so again today, but I do remain somewhat astounded the massive increase has received so little commentary.

Obviously, something accounts for why so much gold has come into the COMEX warehouses and one would think that "something" would be the subject of intense speculation or commentary. For my part, I still think it is part of a show or front, with newer speculation on Wednesday that the CFTC may have "suggested" the big shorts bring in the metal to show their manipulative concentrated shorts positions weren't completely naked (not that it matters that much).

May has certainly been an active delivery month for both COMEX gold and silver futures, with 9372 total gold contracts issued and stopped and 8861 silver contracts. Based upon contract size, that comes to 937,000 oz of gold and 44.3 million oz of silver. But May is not a traditional delivery month in gold (as it is in silver) and more new gold contracts for delivery seem to be added daily. And we just came off the most active delivery month in gold in memory as more than 31,000 contracts were issued and stopped in the recently completed April contract.

Still, the 15 million oz of gold added to the COMEX warehouses are well in excess of the 4 million+ oz involved in deliveries for April and May (with May not done yet). Perhaps this is pointing to further strong delivery demands in the June gold contract, but there can be little doubt that strong delivery demands have already emerged for both gold and silver. I would note that JPMorgan has been about the largest issuer for both gold and silver over the two months in its house account, but also with big issuances and stops for clients. I get the feeling JPM is supplying metal at the margin, but with these crooks, it's sometimes hard to tell just what they're up to.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Certainly, there can be no doubt that strong collective investment demand continues for physical metal for both the gold and silver ETFs, with new physical holding records being set just about daily. In last week's review, I indicated that it appeared that the big silver ETF, SLV, was still "owed" metal as a result of big trading volume on Thursday and Friday a week ago, despite a rather hefty 4.6 million oz deposit last Friday. Sure enough, another 6 million oz were deposited on Monday and Tuesday. Yesterday and Thursday, silver prices exploded and trading volume in SLV was even heavier, at 88 million shares, than the 70 million shares traded a week ago. Last night, 8.4 million oz were deposited in the SLV, increasing the total amount held there to 432 million, another new record. My back of the envelope calculations suggest perhaps another 4 million oz might still be "owed" to the SLV.

There have also been big deposits into the gold ETFs, including GLD, where it is becoming almost routine to see daily deposits of hundreds of thousands of ounces. The total amount of gold in the GLD is now 37 million oz, up roughly 12 million oz over the past year, but still about 7 million oz shy of its record holdings in 2012. Other gold ETFs have also seen sharp increases in physical holdings and total gold

ETF holdings now amount to around 110 million oz, up around 30 million oz over the past year.

I have long held that rising prices (originating by COMEX positioning) encourages collective investment buying in the world's gold and silver ETFs, so the experience over the past year of around 30 million oz of gold being added to the world's ETFs is not all that unusual, although the deposits of 200 million oz into the silver ETFs are more unusual given the lack of a serious silver price increase. In fact, the deposits on rising prices is a self-fulfilling process, in that more physical demand is created by the ETFs, reinforcing further price strength. As such, one would think that the physical deposits would be greeted by all gold and silver investors as welcomed news. However, that is not always the case.

As I have indicated in the past, there seems to be a persistent skepticism about physical deposits into GLD and SLV specifically, despite transparency about the weights, serial numbers and hallmarks of specific bars (not generally provided in other ETFs and deposit vehicles). Also as I mentioned in the past, those most vocal about their criticism of GLD and SLV always seem to have a competing product available for sale (raising concerns about conflicts of interest and whether the opinion is objective).

The latest criticism seems to center on metal borrowed from central banks and being used to provide some metal being deposited into the GLD and SLV. I have little doubt that this might be true on its face, but it doesn't particularly concern me, due to the mechanics of leasing. Long time readers should know that I find the whole concept of precious metals leasing to be, essentially, corrupt and devoid of legitimacy. That's because, at its core, precious metals leasing is as dumb as dirt.

What happens in a precious metals lease is the original owner of the metal (say a central bank holding gold) physically relinquishes the metal to a “borrower” who in turn sells the metal to an unrelated third party which acquires the metal completely unencumbered and with full and free title. The borrower receives the proceeds of the sale from the independent third party and is obligated (on the hook) to return the metal to the original lender, the central bank, which doesn’t receive the proceeds of the sale, just a minimal interest rate in the interim.

The independent third party who buys the metal free and clear in this case is an ETF and if the borrower defaults on the lease, that’s between him and the central bank, since there is no recourse or connection to the ETF buying the metal. The ironic thing is that this applies to all gold and silver ETFs, not just GLD and SLV, so the implication that GLD or SLV are using borrowed metal that has strings attached is nonsense. Precious metals leasing is stupid, but on the part of the lenders and borrowers, not the ETFs which may be end up with the metal.

Turning to the new Commitments of Traders (COT) report published yesterday for positions held as of Tuesday, my expectations for silver were close, but a surprise and apparently bone-headed move by what looks to be a couple of big managed money traders in gold caused me to be off in my expectations for gold. I’m certainly not complaining, since the errant move was quite welcome.

In COMEX gold futures, the commercials bought on balance and reduced their total net short position by 3100 contracts, to 278,500 contracts (and didn’t increase short positions by 10,000 contracts as I predicted). Since this week’s total commercial headline number is the second lowest (most bullish) since last July and I am bullishly inclined towards gold, I’m happy to have missed my prediction. Under the hood, the readings were even better, as the 8 big shorts reduced their short position by 8000 contracts to just under 246,400 contracts, while JPMorgan appears to have held a long position of 3000 to 4000 contracts as of Tuesday, up from neutral. The gold raptors (apart from JPM) added 5000 new shorts.

On the managed money side, where I expected net buying (due to the increase in price over the reporting week), there was unexpected net selling of 11,024 contracts, consisting of new long buying of 1689 contracts and the very large new sale of 12,713 short contracts. Based upon an increase of two traders in the managed money short category, the new short sales appear to have been established by one or two traders. Perhaps I am being overly judgmental in labeling the move as being boneheaded, but the sharp rally after Tuesday in gold would seem to indicate the new short sale was ill-advised and I would be surprised if it wasn't already closed out (at a loss).

In COMEX silver futures, the commercials increased their total net short position by 6700 contracts to 40,700 contracts (I threw out 5000 contracts as an prediction). Considering there was a much sharper rally in silver than gold over the reporting week and that silver did upwardly penetrate and remain above its 50 day moving average for four days for the first time in months, the increase in commercial selling seemed reasonable (a bigger question, of course, it how much commercial selling occurred Thursday and yesterday).

The 8 big commercials did increase their short position by nearly 700 contracts to 74,385 contracts, as the big selling was by the raptors which reduced their net longs by 6100 contracts to 33,700 contracts. JPMorgan was definitely part of that long liquidating selling and I would now peg it as back to flat (as of Tuesday).

The managed money traders bought less than the 5000 contracts I guessed, in buying 3476 net silver contracts, consisting of new longs of 725 contracts and the buyback and covering of 2751 short contracts. As of Tuesday, the net long position of the managed money traders of less than 14,000 contracts (29,123 longs and 15,180 shorts) looks quite low and washed out – seeing as the gross longs are still near 7 year lows.

Undoubtedly, there has been managed money buying and commercial selling in both gold and silver since the Tuesday cutoff, perhaps substantial, given the sharp price increases, but considering the already washed out nature of the market structures, we are far from what could be considered bearish levels.

On February 18, just prior to the vicious and deliberate price smash of March, the commercials were net short more than 100,000 silver contracts and 385,000 gold contracts and as of Tuesday, they were short less than 41,000 silver contracts and 279,000 gold contracts. And while silver prices were still lower by about $2.50 on Tuesday compared to Feb 18, the price of gold was actually $100 higher on Tuesday than it was on Feb 18. That's pretty remarkable.

Even more remarkable to me is how little the 8 big shorts were able to reduce their concentrated short positions, as the vast bulk of the commercial buying was done by JPMorgan and the raptors, at the expense of the 8 big shorts. Bottom line since Feb 18, the 8 big shorts in silver have only accounted for maybe 10,000 of the 60,000 total contract reduction in the commercial net short position and perhaps no more than 25,000 contracts of the 100,000+ contract reduction in the gold commercial short position.

Having focused intently on the running open losses of the 8 big shorts (ex-JPM) for the past year, this latest turn of events would seem to put the 8 big shorts in particular serious jeopardy. Simply put, the open losses ($7.8 billion) have never been larger, while the prospects for the big shorts buying back all or most of their short position at anywhere near breakeven have never been lower. The biggest hope for the 8 big shorts to buy back short positions at the sharply lower prices necessary for them to break even would seem to reside in aggressive selling by the managed money traders, either long liquidation of new short selling. But how much long liquidation is possible when existing longs positions are low (7 year lows in silver)? And how much new short selling is likely when the managed money traders didn’t short on the lower prices over the past month? And last week’s increase of managed money short selling in gold didn’t fare so well.

For more than 30 years, I have been almost alone in petitioning the CFTC and the exchanges and every conceivable government official which stood a chance of doing something about one singular issue – the concentrated short position in COMEX silver futures (which later came to include gold). I actually had some initial success in petitioning the CFTC, which would regularly respond to the issue of the concentrated short position in silver.

Thanks to public support, the CFTC even publicly responded in both 2004 and 2008 with 16 page letters (still on its website) that purported to look at the issue of concentrated short selling in silver, but turned out to be a deception because the 2008 letter overlooked the spectacular failure of Bear Stearns, the largest silver and gold short seller at the time. Even a five year formal investigation begun later that year into silver manipulation after the August 2008 Bank Participation Report was only a sham and kangaroo court effort which folded quietly five years later as was foreordained from the start.

But despite the efforts of the CFTC to avoid the issue like the plague, the matter of the concentrated short position in COMEX silver just won't go away. And despite an even more incredible avoidance by just about nearly every analyst and commentator around (Ed Steer being a notable exception), the issue of the concentrated short position in COMEX silver (and gold) remains every bit as central to the price as it always was – even more so today. I don't know exactly why the issue has remained in the shadows; after all, it's not that complicated.

Every week, the CFTC publishes the concentrated long and short positions of the 4 and 8 largest traders in every commodity covered in the COT report. This week, the concentrated net short position of the 8 largest shorts in COMEX silver was 74,385 contracts (just under 372 million oz). In gold, the net short position of the 8 largest shorts was 246,385 contracts (24.6 million oz). The concentrated long positions of the 8 largest traders in silver are roughly 40% less than that of the shorts and in gold the 8 big longs hold half the number of contracts of the big shorts, not that anyone would or could argue silver prices were artificially inflated.

But since the question exists of why is silver so cheap both on an absolute, inflation adjusted basis and relative to gold, the matter of the concentrated short position is relevant. If silver were sky-high in price, it would be reasonable to question the role of the big concentrated longs; but since neither the price nor the concentrated long position is high, we can skip that. The price of silver is low and the concentrated short position is very large and that makes questioning the connection relevant.

Specifically, why are 8 traders short 372 million oz, nearly 45% of total world production, which is the largest such short position of any commodity? And in terms of total world silver bullion inventories, the 8 big shorts hold a short position nearly

19% of the 2 billion total oz of silver thought to exist (compared to the less than 1% of world gold bullion inventories (24.6 million oz compared to 3 billion oz of world gold bullion inventories).

Therefore, there is only one real question – why are the big shorts so heavily short and what affect might that have on price of silver? If this concentrated short position didn't exist, in order for the longs and shorts to balance out at close to current prices, many new shorts would be required to replace the 8 big shorts. But who in their right mind would voluntarily agree to short silver at current prices? The answer is nobody – otherwise, they would already be short.

So if so few would agree to short silver at current prices, why are the 8 big shorts so heavily short? What is their reason or motivation for being short? Some insist they must represent miners, but what mining company would short at depressed prices and lock in no profit, only losses? Others would insist the big shorts must hold the physical silver they are shorting against, but aside from JPMorgan (who is no longer short) there is no evidence of that.

The only plausible reason the 8 big shorts would get as heavily short as they are would be to depress the price and somehow force longs to sell – which the managed money traders did and went along with for years. But that game appears to have ended, now that there aren't near as many managed money longs left to sell as there once were. It's as if the tide suddenly went out on a group of predator sharks or orcas and they became stranded. Now trapped and apparently without good chances of forcing managed money selling on sharply lower prices, the best the big shorts can do now is not to panic and rush to buy back on higher prices for the first time ever because they know that will only cause prices to scream higher, worsening their plight. So they hang on, hoping for some type of miracle.

But as the big shorts wait for a miracle, the open losses continue to grow and all the visible signs indicate no new big shorts are about to come in and take their place, Scotiabank seems to want out in the worst way and HSBC reportedly just lost $200 million in a single day. Maybe JPMorgan can stem the tide for a while by continuing to sacrifice more accumulated metal and adding to shorts on higher prices, but that will only increase the focus on how corrupt the most crooked bank of all-time really is.

The CFTC knows for sure the real story, as does the Justice Department as well as well as the super crooks at the CME Group, as it would be impossible for any of them to be that clueless. But aside from encouraging and facilitating short term selloffs, time may have finally run out for the big shorts. Particularly in a macroeconomic environment which would appear to foster continued and increasing gold and silver buying, the 8 big shorts would seem to be in a bad position. And even if they do succeed in smashing prices temporarily, there is no guarantee or even likelihood of generating the massive speculative selling they need to get off the hook.

The silver story was always about the concentrated short position and when the final chapter is written that will become obvious to all.

Ted Butler

May 16, 2020

Silver – $17.05     (200 day ma – $16.95, 50 day ma – $15.04)

Gold – $1752     (200 day ma – $1559, 50 day ma – $1667)