

May 2, 2020 – Weekly Review

A late Friday rally helped trim, but not eliminate weekly losses in gold and silver, as gold ended the week down \$30 (1.7%), while silver finished 30 cents (2%) lower. As a result of the relatively even percentage performance, the silver/gold price ratio stayed around last week's closing level of 114 to 1.

There has been a good amount of recent commentary about the near-incredible relative cheapness of silver compared to gold, with universal agreement that silver will climb impressively relative to gold in time. It's hard to argue with that conclusion, but what intrigues me most about the widespread commentary is that little to no reason is offered as to explain why silver has gotten so incredibly cheap relative to gold.

As I'm sure you know, the only reason I can uncover for silver's deep relative undervaluation is price manipulation on the COMEX, mostly at the hands of JPMorgan. But the lack of any real explanation for why silver is so darn cheap compared to gold, tends to leave the impression that demand for gold has been much stronger than silver. But at least as concerns identifiable investment demand, both on a retail and wholesale basis, the data point to much stronger silver demand. Not that gold investment demand hasn't been very strong, because it has been, it's just that silver investment demand has been stronger.

On the retail side and has usually been the case in the past, it was a sudden burst of demand for silver over the past couple of months that preceded a rush for gold. The US Mint sold out of Silver Eagles well before the big rush for Gold Eagles kicked in. Premiums for silver retail products are much larger than for gold products and delivery delays longer. The feeling is hard for me to shake that it was demand for silver that set off the demand for gold. At the very least. The surge in demand occurred first in silver.

On the wholesale side, the same pattern has emerged, namely, demand for silver has actually been stronger than for gold, and although that's not saying that wholesale gold demand hasn't been white-hot. It's just that demand for silver has been hotter. The most objective metric for gauging wholesale investment demand is the relative flow of physical metal deposits into the world's leading gold and silver ETFs (exchange traded funds). Given gold's extremely high price relative to silver, the proper measurement is not by dollar flow, but actual physical metal flow since there is actually more gold bullion (3 billion oz) in the world than silver bullion (2 billion oz).

Over the past month, roughly 5 million gold ounces, a truly large amount, has been deposited into the world's gold ETFs. Over that same time, however, some 25 million oz of physical silver has been deposited into the world's leading silver ETFs. Over the past year, close to 30 million oz of physical gold have been deposited into the world's gold ETFs, more gold than ever deposited in such a short period of time. However, over that same time, close to 200 million physical oz of silver have come into the world's silver ETFs.

The glaring difference, of course, is that the price of gold has risen by as much as \$500 over the past year, while the price of silver, albeit with some rallies in the interim, is largely where it was a year ago. The rally in gold makes absolute sense considering the surge in ETF demand, while the much greater

investment demand in silver with no increase in price makes no sense at all.

So a reasonable person would seek what could possibly explain such a conundrum, particularly in the face of silver being cheaper relative to gold than at any time in recorded history. Any such reasonable person would not be very reasonable until and unless he or she uncovered the most excessive concentrated short position in COMEX silver futures and the unique role of JPMorgan in the whole sordid affair. That's why it's so amazing to me that so many can write about what a bargain silver is relative to gold, but stop short of explaining why and how silver got to be so darn cheap.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained at the prior week's elevated level or 5.4 million oz. Total COMEX silver warehouse inventories fell by 1.7 million oz to 314.9 million oz, the lowest level in 6 months (since last November). No change in the JPMorgan COMEX silver warehouse, still at 160.8 million oz, although I should add that there were big category shifts of 12.5 million oz in that warehouse from eligible to registered this week (in preparation for the May COMEX deliveries).

I would point out that it was unusual for COMEX silver warehouse inventories to fall going into the May deliveries, as typically metal is brought in to get ready and accommodate deliveries. Therefore, even though it's still quite early in the May delivery process after only three days of deliveries, it is notable that there were no net additions to COMEX silver inventories over the past month — notable in the sense the lack of new net deposits congers up a definite sense of physical tightness.

Before touching on the COMEX May deliveries in silver and gold, a word on gold COMEX warehouse movements and levels. While silver inventories decreased (when they would be expected to increase), it has been the opposite in COMEX gold warehouse inventories, where total inventories increased yet again this week to new all-time high levels, up 1.5 million oz to 20.5 million oz. Over the past few weeks, COMEX gold warehouse inventories have surged by nearly 150%, although much of the increase appears to be related to the inclusion of metal stored in London.

This may sound contradictory on my part, but I can't help feeling that the sharp increase in COMEX gold inventories is just as bullish as the decrease (or lack of increase) in COMEX silver warehouse inventories. I say this because the sharp increase in gold inventories looks much more like a deliberate attempt to show that plenty of gold exists to make delivery, when that gold isn't truly available for delivery — a bluff, so to speak. My principle reasoning is based upon the "stickiness" in the May gold deliveries.

After three days of gold deliveries totaling 3100 contracts, there are still roughly 5000 contracts of open interest remaining in the May COMEX futures contract, with virtually no closeouts of open contracts other than by delivery. Roughly 12 million oz of physical gold "came into" the COMEX warehouses over the past few weeks and 500,000 oz remain open after three days? That's not especially compatible.

About a month ago, on the occasion of the Great April/June gold spread blowout, I remarked how the steep discounts in the nearby gold months would only encourage spread traders to buy the nearby months, simultaneously selling June, then taking delivery and redeliver on June and lock in guaranteed high money market returns. This is a classic "cash and carry" transaction that may have been put into play in the May gold contract. I did note that the May/June gold spread tightened sharply on Friday into less than \$6.50, the tightest it's been in a month and if it continues to tighten, cash and carry

spread traders may liquidate and take easy profits in lieu of taking delivery and tying up cash for a month or so. Otherwise, the remaining May gold longs look ready to stand for delivery.

In COMEX May silver deliveries, there are still more than 3800 open contracts, on the large side, after more than 5500 total deliveries over the first three days. Scotiabank has been the leading silver delivery issuer, with 1618 contracts, but JPMorgan has also been a big issuer, both for clients (1366) and for its house accounts (500 contracts). JPM also issued 500 gold contracts from its house account. After seeing the large transfer of 12.5 million oz from eligible to registered in the JPM silver warehouse earlier in the week, I was somewhat relieved to see JPM issue relatively few contracts over the first three days, although the delivery month is long and JPM could deliver a lot more.

Without getting too deep into the weeds, there was a sharp contraction in the May/July silver spread on Thursday which no doubt prompted some cash and carry spread traders to take profits on about 1000 spreads, thereby reducing open interest by that amount in the May contract. It's hard for me to escape the conclusion that the wider than normal discounts of the nearby months in both COMEX gold and silver have contributed to this month's budding delivery tightness in both commodities. I see nothing bearish in either warehouse stocks or deliveries. In fact, I see nothing bearish about anything in gold and silver (except the intent in the black hearts of the big shorts).

Turning to the new Commitments of Traders (COT) report, I refrained from specific contract predictions, but suspected there would be some managed money buying and commercial selling in reporting week that featured price gains in both gold and silver, albeit on low volume. There was some minimal managed money net buying of around 700 contracts in silver and an even less 135 net contracts in gold. There was a lot more commercial selling in gold, but surprisingly, no net commercial selling in silver.

In COMEX gold futures, the commercials increased their total net short position by 13,600 contracts to 293,600 contracts, no doubt the catalyst for the price weakness following the Tuesday cutoff. The commercial selling was largely split between the 8 big shorts, which increased their net short position by 7000 contracts to just under 263,000 contracts and the raptors (the smaller commercials) which increased their net short position by 6500 contracts to 30,700 contracts. The good news was some light, but not much new shorting from JPMorgan, which will continue to peg at zero short position in gold (since I sensed they were slightly net long going into this reporting week).

As mentioned above, the managed money traders bought a miniscule net 135 gold contracts, consisting of the sale and liquidation of 1467 longs and the buyback and covering to 1602 short contracts. It was the other largest reporting traders that provided the buying to the commercial selling this week. These traders bought 13,023 net gold contracts, comprised fairly evenly by the purchase of 6586 new longs and the buyback and covering of 6437 short contracts. These other large reporting traders are more difficult (at least for me) to handicap, but in the past have definitely not demonstrated that they are "dumb" money, so their rather large net long position of 116,000 contracts is another marker on the bullish side of things.

In COMEX silver futures, the commercials actually reduced their net short position by 2500 contracts to 36,900 contracts, yet another new bullish headline number extending back to last June. Even more encouraging was the composition of the commercial activity. The 8 biggest shorts actually increased their total net concentrated short position by a hefty 3000 contracts to 74,847 contracts, while the smaller raptors increased their net long position by 5300 contracts.

JPMorgan, now a card-carrying member of the raptors, increased its net long position by at least 2000 contracts to 7000 contracts minimum. And by virtue of the selloff since the cutoff and the deliveries made by JPM over the first few days of the May delivery month, which will automatically reduce JPM's gross short holdings, it is hard for me to peg JPMorgan's net long position in silver as anything less than 10,000 contracts as of yesterday's close of business. Can you spell "double cross"?

On the buy side of silver (away from JPM and the raptors), the managed money traders bought 698 net contracts, consisting of the buying of 1785 new longs, as well as the new sale of 1087 short contracts. Unlike the situation in gold, the other large reporting traders in silver sold 3701 net contracts.

Summarizing the COT report, the overall changes weren't particularly significant, however, I can't help but be impressed by how much JPMorgan seems to be pressing its advantage of being more than ideally set up to make a bloody fortune on a decisive turn up in gold and silver prices. Even though it has delivered gold and silver contracts in the May delivery month and may very well deliver more, it somehow still manages to increase its overall bullish exposure when all is said and done. And while I haven't mentioned it in a while, it has now been a couple of months that silver has consistently traded below its two key moving averages (the 50 day and 200 day moving averages), while gold has traded above its key moving averages. This suggests a greater pop (all things being equal) in silver as and when its moving averages get penetrated to the upside.

Since JPMorgan has always been the most important clearing member on the CME Group's various exchanges, it dawned on me that the rather extraordinary announcement by the CME that it had secured a \$7 to \$10 billion credit facility insuring against a clearing member default, had a JPM twist to it.

<https://www.marketwatch.com/story/cme-group-secures-7-billion-credit-facility-to-protect-against-a-clearing-member-default-2020-04-30>

Certainly, I'm not suggesting that JPMorgan might fail in any way, endangering other clearing members or the exchanges themselves, as that's about as far-fetched as it gets. What dawned on me was that the credit facility was more likely intended for the protection of JPM against a default by other clearing members that might undermine the COMEX or any other CME Group exchange. While JPMorgan no longer has any short exposure in COMEX gold and silver, should the 8 big shorts get caught in a short covering inferno and not be able to fully meet their financial commitments, the way it works is that other clearing members must meet any resulting deficiency to the clearing house. Therefore, it seems entirely plausible and reasonable to me that the CME Group's securing of the credit facility was primarily intended to protect you know who.

Apropos of nothing normally discussed here, but always mindful of the many unique ways silver is used, given its incredibly wide variety of industrial applications (second only to crude oil), I just ran

across one use I wasn't previously aware of. I've often commented that silver is the best conductor of electricity, reflector of light and transfer agent for heat, so when my wife mentioned something she ran across in one of her decorating magazines, my ears perked up (plus she couldn't say I didn't listen to what she had to say – a real bonus). Now, not for a moment am I suggesting that this is going to turn into a major use for silver, because it doesn't seem particularly practical and I, for one, am certainly not about to rush out and get one (not for \$1800), but silver cookware is now available, something I've never seen. I kid you not.

<https://duparquet.com/products/solid-silver-cookware>

While the 8 big shorts did enjoy a respite from last week's \$7 billion open loss in COMEX gold and silver, to the tune of about a billion dollars or so, they are still \$6 billion in the hole at this week's close and every bit as exposed as they were, plus a bit more. The eight big shorts are now (as of Tuesday) 263,000 contracts (26.3 million oz) net short in gold and 75,000 contracts (375 million oz) net short in silver. And, yes, JPMorgan is still not short in gold (and now possibly long) and is net long in COMEX silver by as much as 10,000 contracts (50 million oz) – to say nothing of JPM's 25 million oz physical gold and one billion oz physical silver position. I'm wondering if the \$7 to \$10 billion credit facility secured by the CME Group might get bumped up a bit. I mean, we wouldn't want JPMorgan to get damaged or inconvenienced in any way – would we?

I suppose it goes without saying, but let me say it anyway – we appear to be locked and loaded for an upside move in gold and, particularly, in silver of no small significance. In fact, everything seems lined up for such a move like never before – although I freely admit to having said that before. No secret inside information, just a review of the public data and the world around us.

Finally, I've had a daily conversation with Jim Cook, President of Investment Rarities, Inc., for nearly 20 years, since I was first engaged as a consultant and IRI began sponsoring my work. Over the years, we've both wished out loud that the conversations could somehow be shared. While I doubt there will be much especially new for subscribers, sometimes the spoken word can augment and help clarify the written word. In any event, here's an audio recording of a conversation I had with Jim Cook yesterday (about midway down the page) –

<https://www.investmentrarities.com/>

(In a housekeeping note, with this review I'm switching from the May COMEX silver futures contract to the July contract, which adds about 7 cents or so the closing price for silver).

Ted Butler

May 2, 2020

Silver – \$15.05 (200 day ma – \$16.99, 50 day ma – \$15.43)

Gold – \$1710 (200 day ma – \$1545, 50 day ma – \$1651)

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