A sharp Friday rally, which continued in afterhours trade, resulted in gold and silver prices finishing higher for a second week, with gold up $30 (1.6%) and silver up $1.40 (5.9%). Silver's stronger relative performance resulted in the silver/gold price ratio tightening in by more than three points to 76.5 to 1. The price ratio is now close to 50 full points tighter than it was at the crazy all-time extremes of mid-March, but seems destined (at least to me) to tighten in by at least another 50 points in time.

What stood out most about yesterday's rally was that it held until the very end of trading, very much unlike the abortive rallies earlier in the week. It was starting to feel like every budding price rally would get quickly quashed until yesterday. The Grammy Award-winning song from 60 years ago, "What a Difference a Day Makes (24 Little Hours)" popped into my head because the rally was both long-expected by me, yet surprising at the same time.

Yesterday's late close was the highest daily close in three weeks for both gold and silver, since the dramatic price plunge of Sep 21, when the 50 day moving average in each was penetrated to the downside for the first time in months. In addition, it has been two full months that both gold and silver have been correcting in price since setting important highs in early August. While I haven't fully converted to the Holy Church of the Sacred Technician, it does seem that the time elapsed and price action seen would be sufficient to allow for a resumption of the powerful uptrend in force since mid-March – to say nothing of the mind-boggling developments in overall COMEX positioning, physical metal developments and regulatory settlements over this time.

I still hold that whether the 8 big shorts in COMEX gold and silver add aggressively or not to their short positions on the next rally is still the critical point, including whether the previous prime manipulator, JPMorgan, joins in on the short selling. That will only be known in the fullness of time. And I can't resist mentioning that yesterday's sharp rally gave a hint of validity to my "way out" speculation on Wednesday about the CFTC's Enforcement Director seeking to beat it out of Dodge before a sharp price rally. His last day was Thursday. Just sayin'. A big test may come when we penetrate the 50 day moving averages to the upside, which after yesterday's rally is now only around $15 above gold's close and less than a dollar above silver's close.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses "cooled off" to 7.1 million oz this week, as another 1.6 million oz were added to a new record total inventory of 380.5 million oz. Still, on an annualized basis this week, the more than 350 million oz is only slightly less astounding than the 600 million oz rate we've been running at for the past two months. Silver holdings in the JPMorgan COMEX warehouse grew by 1.2 million oz to 187.9 million oz, another new all-time high.

Total COMEX gold warehouse inventories grew by 0.5 million oz to 37.4 million oz this past week. While this is a new record (by 0.2 million oz), it's still closer to the truth to call COMEX gold warehouse inventories as unchanged over the past two months, following a near-incredible increase of 400% (29 million oz) from March. Just a slight increase in the gold holdings in the JPM COMEX warehouses of around 10,000 oz this week (13.658 million oz).

Gold deliveries in the October contract are the heaviest in history for that delivery month, as more than 28,600 total contracts (2.86 million oz) have been issued, with customers of JPMorgan dominating the issue side with 13,706 contracts and Barclays as the main stopper with 9870 total contracts stopped, fairly evenly divided between customers and its house account.

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

Increasingly, I am unsure about the unprecedented and massive number of COMEX gold (and silver) deliveries and increases in warehouse inventories. Certainly, over the past couple of months, gold and silver prices have been congesting even as deliveries and warehouse inventories increase. Just as certainly, prices are substantially higher than they were in March when the growth in futures deliveries and visible inventory holdings (COMEX warehouse and ETF inventories) began, so it would be wrong to call the increases anything but bullish. More than anything, I think the increases (in deliveries and COMEX warehouse and ETF growth in both gold and silver) are directly related to the concentrated short positions in each metal.

Speaking of ETF holdings, there was a reduction in the holdings of the big silver ETF, SLV, this week of around 2.3 million oz, but net increases in other world silver ETFs of around 7 million oz which brought total visible silver inventories to a shade under 1.5 billion oz (including COMEX warehouses holdings), a new record. Since mid-March, a remarkable 400 million oz have been added to ETF and COMEX silver warehouse inventories, the most ever in such a short period of time. Heck, I don't recall such a large amount of physical silver being deposited in a full year or even longer.

A similar circumstance exists in gold and the most plausible explanation is that there is great demand to hold physical silver and gold, which seems hardly negative for price. That we don't see that expressed in price on a daily basis can be explained by the overarching influence of mindless HFT computer to computer day trading on the COMEX. This won't last forever, but it has until now.

The sharp and I would claim deliberate selloff into the end of the third quarter appears to have resulted in fairly sharp reductions in the short positions of both SLV and GLD. For positions held as of Sep 30 (last day of the third quarter), the short position in SLV declined by 7 million shares to 17.1 million shares (ounces) and declined in GLD by 3 million shares to 12 million shares (1.2 million oz). While not particularly significant when compared to COMEX positioning changes on an equivalent ounce per ounce basis, this period's ETF short position reduction is significant and fits in with the whole manipulation premise.

https://www.wsj.com/market-data/quotes/etf/SLV

Turning to yesterday's Commitments of Traders (COT) report, I was thoroughly non-committal as to what to expect in that it was a fairly flat and low-volume reporting week and there were no real surprises in the headline numbers of the commercials and managed money traders; although the "who are those guys?" in the other large traders category in gold continued to amaze. Additionally, nothing stood out in yesterday's publication of the monthly Bank Participation report worth commenting on.

In COMEX gold futures, the commercials increased their total net short position by a scant 2300 contracts to 288,500 contracts. By commercial category, there was a bit of a reversal this week as the 8 largest shorts reduced their concentrated net short position by 4000 contracts to 238,333 contracts, while the smaller commercials (the raptors) increased their net short position by 6400 contracts. JPMorgan appears to have stood pat at flat (no net long or short position).

The managed money traders bought an even scanter net 240 gold contracts, consisting of the sale and liquidation of 970 long contracts and the buyback and covering of 1210 short contracts – the equivalent of watching grass grow in terms of excitement. The standout feature in gold this week was, once again, the other large reporting traders who bought another 4688 net gold contracts, including new longs of 5786 and new shorts of 1098 contracts. Thus, these other large traders have set new records for both gross and net longs.

I find it nothing less than remarkable that the managed money traders in gold, historically the largest speculative counterparty category opposed to the commercials (also very much speculators themselves), hold a significantly smaller net long position (94,399 contracts) than do the other large reporting traders (153,975 contracts). Why so remarkable?

As long time readers may recall, for many years (decades, actually), I kept waiting for the managed money (technical funds) to wake up and wise up to the fact that they were largely the stooges to the manipulative commercials. I remember using the analogy that the commercials were the Harlem Globetrotters and the managed money traders were the deliberately hapless Washington Generals, who never won a game. But everyone, including the Generals, knew that was the game, namely, it was all about showcasing the Globetrotters, so no harm and no foul.

Not so in COMEX silver and gold, which are government-regulated markets that are so important that they largely set the price for gold and silver for everyone in the world, but have evolved into little more than a sophisticated three card monte game in which the commercials hoodwinked the managed money technical funds at every turn. The facts – mainly that the managed money traders never won and the commercials never lost – were so obvious that I always believed it was just a matter of time before the managed money palookas would wake up and smell the coffee. Alas, that was not to be, even to this day, where the managed money longs in gold (also mostly the case in silver) are historically low due to the corrective price action over the past two months.

But lo and behold, even if the managed money technical funds never fully wised up, these other large reporting traders are doing a pretty good imitation of waking up and taking on the manipulative commercials. Time will tell if these other large traders have stumbled onto what appears to be a very vulnerable commercial short position, particularly the larger concentrated portion of it, but it seems to be setting up that way. It's as if the Washington Generals were replaced by the LA Lakers in a game against the Globetrotters – no offense meant towards Meadowlark Lemon, but I'd bet on LeBron (or the Miami Heat and Jimmy Butler – no relation).

Best of all, if the managed money technical funds stay true to form and buy as and when the moving averages are penetrated to the upside, their buying, in conjunction with the record long position of the other large reporting traders could overwhelm the manipulative commercial shorts, particularly if JPMorgan refuses to join the commercial shorts. To be sure, I can't know what will transpire, but the possibilities are much different than they have been in the past.

In COMEX silver futures, the commercials added 3000 contracts to a total net short position amounting to 56,200 contracts as of Tuesday. By commercial categories, the big 8 added just over 400 new shorts (to 71,367), while the raptors sold off around 2400 longs. I'd peg JPMorgan as remaining flat (no net short position), based on changes in the Producer/Merchant category.

As was the case in gold, the managed money traders did very little in silver and actually sold 403 net contracts, consisting of the purchase of 528 new longs, offset by the new sale of 931 short contracts. Explaining how the commercials and the managed money traders could both be net sellers, the other reporting traders and smaller non- reporting traders were net buyers, predominantly by covering shorts. The other large reporting traders in silver added close to 1000 net longs, bringing them to a 6000 contract net long position (from a 5000 net short position a months or so ago) – the same pattern as the other large reporting traders in gold, just nowhere near as large in quantity.

In light of all the above, including the massive inflows of physical silver and gold into the ETFs and COMEX warehouse inventories since mid-March, the increased and record COMEX futures deliveries, the announced historic regulatory settlements (as well as the likely behind the scenes wrangling) and the highly unusual and historic price action this year (gold to all-times highs and silver to ten year lows and then to seven year highs within months), it would be a vast understatement not to suspect even greater price changes to be in store.

Combining all this with the unusual price rally on Friday and it is hard for me not to expect that we may be in the liftoff stage of what could (and should) be a very significant price advance. It’s no secret that I have been expecting such a price eruption for the past month or so and have been surprised it hasn’t occurred (and as kamikaze call option premiums have melted away and expired, like ice melting on a hot day). So are we at the ignition point for what should be a sharp rally? I think so, but have also thought so previously and have been wrong. Therefore, I’m not in position to say in unequivocal terms.

What I can say is that in the totality of the unusual factors just mentioned, if some sort of investment rush on the COMEX commences in managed money buying as the 50 day moving averages are penetrated to the upside and joined by a rush to ETF and other physical type buying – unless the 8 big shorts aggressively add to shorts (accompanied by heavy shorting by the ultimate crook, JPMorgan) – it’s hard for me to see how we don’t explode. And if things do develop along these lines, what has been mostly a curse we’ve had to endure – HFT computer to computer day trading – can and should kick in to further goose prices.

Taken all together, whether yesterday was the start of the official liftoff or not is less important than whether the factors as I’ve just described are accurate. Certainly, I believe things to be as I outlined them and are likely to remain in force, making the actual timing less important (unless you engage in reckless short term options) than holding appropriate longer term investment positions.

As far as the financial fortunes of the 8 largest COMEX gold and silver shorts this week, yesterday’s rally accounted for the entirety of the week’s gains, meaning that for yesterday and the week, the big shorts took it on the chin – adding $1.2 billion in additional losses to a total now amounting to $14.4 billion. While the big shorts were able to rig prices lower into the quarter’s end and improve their mark to market losses by up to $3 billion, the past two weeks have seen them give back most of their contrived reduced quarterly losses. Hey, it’s not as if this should be any great mystery for the CFTC to solve – we’re talking about 8 crooked traders.

Ted Butler

October 10, 2020

Silver – $25.30 (200 day ma – $19.53, 50 day ma – $26.14)

Gold – $1935 (200 day ma – $1747, 50 day ma – $1949)