

## October 28, 2020 – The Next Four Years

With the US presidential and general election less than a week away, I thought it might be instructive to use the occasion as a reference point to both review and project. This year's election, given the sharpest political divide in our lifetimes, would seem to provide a particularly opportune perch to ponder both the last four years as well as the next. Don't worry, this has nothing to do with political opinions; more just what occurred in financial markets, both on a retrospective and prospective basis, on what is a pretty meaningful chunk of time – four years.

In order to construct as objective a starting point as possible and since all the major markets are higher than they were then (with the exception of crude oil), I've chosen the lowest point for each in the immediate aftermath of the election in 2016 through December of that year. Please note, I'm not trying to attach any causal relationship to what occurred in markets in the period immediately following the 2016 election, I'm just reporting how markets reacted over the following four years.

The major US stock indices moved higher over the past four years, with the Dow Jones up about 55%, the S&P up 60% and the Nasdaq (QQQ) up 130%. Interest rates were low four years ago, but are even lower today, meaning the face value of all fixed income investment assets moved higher over this time. Real estate is higher on a residential basis, although there are some strong headwinds for commercial real estate, given the pandemic. The US Dollar Index rallied sharply immediately following the 2016 election results to around 103 and has subsequently fallen by about 10% to recent levels around 93 four years later.

Gold is about 65% higher than its 2016 post-election lows (\$1150) and as was the case with stock markets those price lows proved to be the absolute price lows over the next four years thru today. Thus, gold fully matched or came close to matching the performance in the equity, bond and (residential) real estate markets. From its 2016 post-election lows (\$16) thru today, silver didn't do badly, up a bit over 50%, but its price path was quite different from other markets in performance terms. Whereas stocks started climbing immediately following the past election and where gold began the most significant segment of its price rise in the summer of 2019, silver, up until quite recently lagged badly. As recently as mid-March, silver was actually down a full 25% (to \$12) from its 2016-post election lows, setting new 10 year price lows, while no other investment asset market, including gold, ever set post 2016 price lows through today.

So while silver did manage to "catch up," mostly over a three-week trading period this summer, it was clearly a "Johnny-come-lately" move that can't completely erase its stunning underperformance to that point. As for why most markets, including gold, moved higher over the past four years, it would appear that ultra-low interest rates and an extremely accommodative monetary policy would seem to be the major cause. That being the case, it would beg the question as to why silver wouldn't be subject to that same price-lifting force as all other markets? I'll get to that momentarily.

So a summary review of the past four years would indicate most major investment markets, including gold, climbed since the end of 2016 (with silver very late to the party). What about the next four years? Obviously this is much trickier, however, there are some things that can be stated in general terms that most would agree on.

While additional monetary and fiscal stimulus looks certain, after four years of such accommodation, the current level of debt (admittedly due now to the pandemic) is already at levels thought unimaginable four years ago. As such, massive additional borrowings and other accommodation seem more likely to create more anxiety than over the past four years. We are all deep into a deficit experience like none before it.

Certainly, it is possible for stock markets to continue to rise, although it's hard to imagine interest rates falling as much as they have to this point. And with the stocks being more fully invested in than they were four years ago and traditional valuation measures as richly priced as they have ever been, the possibility of a severe decline exists to a much greater degree than four years ago. Maybe my memory is faulty, but there does seem to be many more respected analysts and commentators classifying today's equity markets as being in a "bubble" than there were four years ago.

As far as future economic conditions – who knows? But I would remind you that four years ago, we were not in the grip of a worldwide pandemic or anything close to that. This has injected a degree of economic uncertainty none of us have ever witnessed before. We're all just guessing as to when things get back to "normal" and how much lasting damage has been wrought to the economy and our collective sentiment. Generally, financial markets don't respond bullishly in times of great uncertainty and if this isn't the most uncertain time ever, then I don't want to experience what is.

Of course, not all markets respond negatively in times of extreme uncertainty and, historically, gold and silver are thought by many to be refuges or safe havens in such times. My own views on silver are not based primarily upon it being a safe haven asset, but I wouldn't downplay that aspect either. As for why silver and gold would get thoroughly trashed on a day like today, when financial uncertainty is on full display, I'll deal with in a moment.

Looking at gold and silver today as compared to four years ago, a relevant objective measure is how much physical metal has been bought and deposited in the publicly-traded Exchange Traded Funds (ETFs). Not that there hasn't been physical gold and silver accumulation in forms other than the ETFs, but these vehicles provide stunningly objective data. For this measurement, I am leaving out the amount of metal that has come into the COMEX gold and silver warehouses, for the simple reason that while it could represent plain-vanilla investment demand – there are other possible explanations. With publicly-traded gold and silver ETFs, any growth of metal deposited over the past four years would seem to represent pure investment demand.

At the end of 2017, there were about 70 million total gold oz in the world's gold ETFs (and equivalent vehicles) and today there are around 122 million oz, an increase of 52 million oz, requiring an outlay of roughly \$78 billion (using \$1500 as an average per ounce cost). In silver, total world ETF holdings amounted to roughly 730 million oz at the end of 2016 and today total ETF silver holdings amount to roughly 1.12 billion oz, an increase of 390 million oz over the past four years (with the bulk coming this year). The cost of the 390 million silver oz was roughly \$7.5 billion (using \$19 as the average cost per ounce).

Summarizing, investors bought roughly \$78 billion worth of gold and around \$7.5 billion worth of silver in their respective world ETFs over the past four years, or ten times more gold than silver in dollar terms. These purchases had much to do with the 60% increase in price for gold and 50% for silver over the past four years (before today's decline). However, in terms of actual metal in bullion form, the form most responsible for price change, a very different picture emerges.

The \$78 billion worth of gold (52 million oz) bought in world gold ETFs over the past 4 years, represents less than 2% of all the gold bullion in the world (3 billion oz out of 6 billion total oz). In silver the \$7.5 billion worth of silver (390 million oz) represents nearly 20% of all the silver bullion in the world (2 billion oz in 1000 oz bar form). Further, the total amount of gold held in world ETFs (122 million oz) equals only about 4% of all the gold bullion in the world, while the 1.12 billion oz of silver in the world's silver ETFs amounts to an incredible 56% of all the silver bullion on the world 4% compared to 56%.

So the question must be why did such a much larger percentage of the world's silver bullion inventory being bought compared to the much smaller percent of world gold bullion inventory not result in a much greater price advance in silver? The answer is not only blowing in the wind, it is also right in front of us silver is the most manipulated market in the world. The same answer applies as to why silver is getting more of the snot beat out of it today and on every day precious metals prices get smacked. It's very rare on big down days for precious metals that silver doesn't get beat the most. That's not an accident, or a case of it being smaller or less liquid than gold; it's a function of silver having the most concentrated short position of any market.

The fact that silver has and has almost always had the largest concentrated short position of any commodity (save for palladium briefly several years ago before its fundamentals took control) makes silver the most manipulated market in the world. I'm not just making this up the concentrated short position in silver makes it the most manipulated market in the world on a purely objective basis. The 8 big COMEX shorts are always looking to ambush prices to the downside in the hopes of shaking out as many speculative longs as possible. That's what explains today's dismal silver price performance.

Back to the comparisons between the end of 2016 and today. To my mind, the most important difference between then and now for silver (and gold) is the role of JPMorgan. At end of 2016, I had been estimating that JPMorgan held 550 million oz of physical silver and was short 100 million oz (20,000 COMEX futures contracts) for a net long position of 450 million oz, the most it had ever held net long to that point. JPMorgan was also short 5 million oz of COMEX futures contracts (50,000) against a long physical gold position I had not yet fully quantified (being more of a silver guy).

At that time (the end of 2016), since JPMorgan did hold its largest ever net long position (450 million

oz), I was naturally bullish and expecting prices to surge at any time. Alas, I was mistaken and prices (with the benefit of hindsight) continued to languish for years. But what I didn't anticipate then turned out for the stage for silver to be set even more bullishly, because JPMorgan continued to accumulate physical silver (and gold) in prodigious quantities and at super depressed prices. Today, JPMorgan holds anywhere from 700 million to a billion oz of physical silver (depending on whether it was forced to cough up 300 million oz by the Feds as I recently speculated) and anywhere from 25 million to 50 million oz of gold.

More to the point, where JPMorgan held a fairly large COMEX futures short position at the end of 2016 of some 20,000 silver contracts (100 million oz) and 50,000 gold contracts (5 million oz) back then, as I have been reporting for some time, it is essentially flat on the COMEX in each now. Of all the differences between the end of 2016 and today, the change in JPMorgan's position is the most significant to me. And I don't think the elimination of JPMorgan's COMEX silver and gold short positions was simply a matter of the bank finally deciding that it had enough physical and it was time to reel in and cover shorts to let prices rip higher.

Instead, I think there was an awful lot of behind the scenes negotiations with the Justice Department and CFTC to work out a deal in everyone's best interest. It was in the best interest of the DOJ and CFTC to bring the long term suppression of silver (and gold) to an end in a manner that didn't require a complete revelation of how negligent the regulators had been for allowing the silver suppression to last for decades. In practical terms, that meant it couldn't be a sudden one day ending in which prices exploded, raising questions. For JPMorgan, it would be in its best interest to agree to quit its manipulation of price and walk away from future legal liabilities, even if it had to forfeit 300 million oz of physical silver in the bargain.

But if JPMorgan is off the hook and no longer manipulating the price - why today's vicious price smash? There is still a concentrated short position in COMEX silver (and gold) even if JPMorgan is no longer short. Silver would not continue to selloff the way it does or be as cheap as it is in the absence of it having the largest concentrated short position of all. The key question, as I've maintained nearly forever, is what happens on the next rally? Will the 8 big shorts (with or without JPMorgan) add aggressively to their short position on the next real rally? I've maintained that they won't, but just like everyone else, I will only know for sure on the next rally.

All things considered, this silver manipulation is quite long of tooth and recent developments suggest an end may be at hand. As painful as today's engineered price plunge may be, in terms of a prospective end to the manipulation, it is much more good than bad, since it holds the potential promise of being the final cleanout to the downside. Much more disappointing to me would be aggressive new shorting on a rally. Striving mightily to keep things in proper perspective, I am drawn to the unprecedented changes in market structure this year, particularly regarding how JPMorgan has behaved.

Back in February with silver over \$18 and gold touching \$1700 for the first time in years, the COMEX market structure was decidedly bearish with a total commercial net short position of more than 100,000 contracts in silver and 385,000 contracts in gold — with JPM short nearly 20,000 contracts in silver and 45,000 contracts in gold. On the subsequent price plunge into mid-March and trading into May, the total commercial short position in silver fell to 35,000 contracts — and 280,000 contracts in gold, with JPMorgan completely eliminating both its entire silver and gold short positions.

Over the past six months, the total commercial short positions, as well as the concentrated portion has increased relatively only slightly and JPMorgan has refrained from aggression shorting, despite silver prices more than doubling and gold prices rallying by 40% to all-time highs over the summer. Never has there been such a pronounced rally for this long a period of time without super-aggressive new shorting by either the 8 big shorts or JPMorgan. As I said, today's selloff is disappointing, but nowhere near as disappointing as would be aggressive new shorting by the big 8 or JPMorgan.

Trying my best to avoid political conclusions as to the outcome of next week's election, if there is a blue sweep in the presidential and senate contests (as many polls seem to suggest), it will mean an automatic rearrangement in the political makeup at the commission level at the CFTC, including a new chairman, as well as a restructuring of key senate committees, including banking and the overseeing of the CFTC. Not that either political party is in any way immune to the power and influence of the banking lobby, in addition to all the other things that have transpired this year, should the 8 big shorts (with or without JPMorgan) add aggressively to shorts on a future rally, they might be questioned under a new regime, where they may not have been questioned under the old.

In conclusion, it would seem to be a very different world today for silver (and gold) than it was four years ago. And it's hard for me to see, almost regardless of what happens, how silver won't perform, both relatively and absolutely, vastly better than it did over the past 4 years — even though it came on pretty strong more recently. I realize that silver is higher today than it was four years ago, but looking at the totality of what has occurred since then, it looks like a much better play today than it was back then. I will be shocked if four years from now, the good Lord willing, that I will report the manipulation still exists (I guess I'll be more grateful to be able to report anything).

Turning to other matters, the new short report on stocks indicated a fresh drop in the short positions on both SLV, the big silver ETF, and GLD, the big gold ETF. For positions as of Oct 15, the short position in SLV dropped from just over 17 million shares to just under 14.5 million shares (ounces). As a percent of total shares outstanding, the new short position represents only 2.4% of total shares, historically a very low percentage and no cause for alarm. I recall many years ago, the percentage of shorted SLV shares hitting over 12% of total shares outstanding. It also eliminates me having to confront BlackRock, not something I was looking forward to. The short position in GLD dropped from 12 million shares to under 8 million shares (800,000 ounces), also low and less than 2% of total shares outstanding.

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

As far as what to expect in Friday's COT report, price action was more mixed in gold and slightly negative in silver thru yesterday's cutoff, amid not that big of a change in total open interest. I'd guess market structure improved (managed money selling and commercial buying) but not with a bet the farm certainty. If I had a farm to bet, I might wager it on there being more than decent improvement

on today's high-volume price smash, but the results won't be known until the following week's report, adjusted for whatever happens thru next Tuesday.

I certainly didn't expect or predict today's selloff, but also knew the big shorts are capable of anything in the short term and they had recently increased shorts slightly. But I do have to laugh at suggestions that today's selloff in silver (and gold) was due in any way to stock market weakness. Give me a break – the big shorts will use any excuse for a selloff, in which it is known that they were big buyers.

The 8 big shorts certainly brought themselves financial relief (temporary in my opinion), as the gold and silver price decline since Friday's close reduced their total losses by \$1.1 billion to \$12.3 billion.

Ted Butler

October 28, 2020

Silver – \$23.45 (200 day ma – \$19.93, 50 day ma – \$25.65)

Gold – \$1880 (200 day ma – \$1769, 50 day ma – \$1928)

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