September 26, 2020 – Weekly Review

The two-month fairly tight price consolidation in gold and silver was shattered to the downside as prices fell sharply this week, with gold down $92 (4.7%) and silver down by a much sharper $3.95 (14.7%). There havenâ??t been many sharper weekly losses in either metal.

As a result of silverâ??s much sharper fall, the silver/gold price ratio blew out by 10 full points to 82.5 to 1, also shattering the tight two-month trading range for the ratio. Ironically, if one were to blot out the extremes of the ratio over the past six months, which ranged from 125 to 1 to as low as 70 to 1, this weekâ??s close put us squarely in the ratioâ??s range of the past few years . Of course, only if one had been marooned on a deserted island for the past six months could the price extremes of the ratio and the absolute prices of gold and silver be blotted out.

Most ironically, very few, if any, actually trade the silver/gold price ratio, certainly not on a short term physical basis and the only reason I reference it continuously is that it is the most objective relative comparison between the two metals known to man for all of recorded history. And while I refrain from short term price projections of most kinds, even before this weekâ??s blow out on the ratio, I was confident that in time silver would vastly outperform gold. This weekâ??s absolute and relative price plunge in silver only strengthens my conviction.

Among reasonable men and women, very unusual circumstances are generally the topic of reasoned discourse seeking to explain those circumstances. This applies to unusual price movements in widely followed markets. For example, earlier this year when crude oil prices fell dramatically, in fact, to unprecedented steeply negative prices, almost everyoneâ??s attention was drawn to that occurrence. While I still hold that those negative oil prices were â??impossibleâ?• and could only be explained by corrupt trading practices on the NYMEX, at least there was some reasonable-sounding explanations available (Saudi Arabia and Russia flooding the market and no place to store oil).

However, this weekâ??s plunge in gold and particularly in silver, offered no obvious fundamental justification, at least in terms of real world supply/demand developments. No obvious surge in supply, no demonstrable falloff in demand. For sure, something had to account for the price plunge in the metals and Iâ??ll get into that later. First, let me run through the weekâ??s other developments and news before returning to this important discussion.

Iâ??m holding off on commenting on the pending settlement between the US Justice Department and CFTC with JPMorgan, leaked this week to Bloomberg and Reuters, in which the bank would be fined one billion dollars to conclude a criminal investigation into precious metals manipulation now a couple of years old. Hopefully, the official announcement will be made soon. I am reminded of the advice of my friend and mentor Izzy Friedman on such occasions, namely, that there is the announced itself and the real story. Iâ??ll try to drill down to the real story in my future comments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses continued in the pattern of the past couple of months, namely, quite active and mostly â??inâ?•. This week, 11.5 million oz were physically moved, very close to the average over the past 10 weeks and at an annualized rate of 600 million oz, an astoundingly large amount. Total COMEX silver inventories rose yet again, by 7.7 million oz, to 372.7 million oz, another all-time high.

Deposits into the JPMorgan COMEX silver warehouse of 5.5 million oz accounted for the bulk of the total increase, pushing the holdings in that one warehouse to 183.7 million oz, also a new record.

Over the past 10 weeks, COMEX silver warehouse inventories have risen by nearly 50 million oz on a total turnover of 120 million oz. Yet you can count on one hand (with several fingers left over) the number of analysts or commentators mentioning both. The price of silver first rose by $10 and then fell by $7 over this time, so I guess itâ??s in the eye of the beholder whether the influx and turnover of this much physical silver was bullish, bearish, or didnâ??t have much of anything to do with the price movement.

I suppose the inflow could be considered bearish if it came as the result of there not being anyplace else to store surplus silver, but that borders on the absurd given the documented data available. It would seem more reasonable to conclude the silver coming into the COMEX warehouses was the result of demand, but how do you explain the sharp price fall? Iâ??m more inclined to believe the physical silver is coming in due to demand, but something else explains the price weakness (more later).

Compounding the issue of the flow of physical silver into the COMEX this week was that an outflow of similar proportions (6.5 million oz) occurred in the big silver ETF, SLV. In fact, considering the price beating suffered in silver this week, I was quite amazed that the outflow from SLV wasnâ??t much larger. In gold, there were actually net deposits of around 650,000 oz in GLD, despite the gold price smash. No doubt silver and gold prices fell sharply, but plain vanilla investor selling wouldnâ??t appear to be the culprit.

As to suggestions that silver from the SLV is being deposited into the COMEX warehouses, I suppose that is possible but does not appear likely due to timing and logistical concerns. Iâ??m still more convinced that outflows from the SLV donâ??t involve actual movement, as is the case with the COMEX warehouses. I would agree, however, that it sounds reasonable to connect outflows in SLV, around 25 million oz this month with COMEX inflows. I still think (aside from this week) that the â??outflowsâ?• from SLV are conversions of shares to metal. And Iâ??m going to gloss over the minor changes in the short positions in SLV and GLD and look ahead to the next short report which will include the big selloff.

Turning back to the COMEX warehouses, this week the gold warehouses saw an inflow (mostly as a result of big deposits yesterday) of 600,000 oz to 37.1 million oz. This is still within the near unchanged range over the past two months, which followed a near quadrupling of the holdings in the COMEX gold warehouses in the few months prior. Â Â Â Â Â Â This week, the holdings in the JPMorgan gold warehouses increased by around 300,000 oz to 13.657 million oz, a new record. Obviously, any proposed settlement with the regulators doesnâ??t end JPMâ??s dominance of all things gold and silver. Ditto with JPMâ??s dominance on this monthâ??s gold and silver deliveries, now nearly concluded.

Turning to yesterdayâ??s Commitments of Traders (COT) report, prices thru Tuesdayâ??s cutoff were down sharply (mostly on Monday), with gold down as much as $75 and silver by $3.50 over the reporting week, with the 50 day moving average in each being decisively penetrated â?? gold for the first time in three months and in silver for the first time in more than six months.

Trading volumes also exploded and reasonable expectations were for significant positioning changes, with the only argument against significant managed money selling and commercial buying was the relatively washed out market structures going into the selloff. As it turned out, yesterdayâ??s results featured both â?? significant positioning changes in gold, but not so much in silver.

In COMEX gold futures, the commercials reduced their total net short position by 18,800 contracts to 266,400 contracts; tying the lowest level since mid-June when the gold price last penetrated its 50 day moving average to the downside and with gold at $1700. After that downside penetration gold then proceeded to climb more than $350 to new all-time highs in less than two months. No guarantees, of course, but it sure seems to me that gold could easily replicate and greatly exceed that performance in the near future. In commercial shorting terms, gold is $150 higher than it was in June with the same low level of commercial shorts as it had back then.

By commercial categories, the 8 big shorts reduced their short position by 7400 contracts to 223,440 contracts (all due to big 4 short covering of 8300 contracts), while the smaller commercials (the raptors) bought back 11,000 gold shorts. JPMorgan appears to have gotten its share this week, as it bought 5000 gold contracts, flipping a 2000 contract short position to a 3000 contract long position. While total commercial buying was impressive considering the rather low total short position to begin with, it was close to 11,000 contracts less than what the managed money traders sold.

The managed money traders sold 29,650 net gold contracts, consisting of the sale and liquidation of 21,901 long contracts and the new sale of 7749 short contracts. The resultant managed money net long position of 81,448 contracts (144,670 longs versus 63,222 shorts) is the lowest (most bullish) position since June 2019 when gold was close to $1350. Here we are, after a $200 decline from the price highs, but still $500 higher than where gold was priced the last time the net managed money long position was this low.

Based upon the pronounced price weakness since the Tuesday cutoff, itâ??s reasonable to conclude the managed money net long position is even lower and more bullish. Can gold go lower? Of course, it can, but that will only make the market structure that much more bullish.

As far as how could the managed money traders sell 11,000 more contracts than the commercials bought, the answer is the same as has been the case of late â?? other large reporting trader and smaller non-reporting trader buying, of 7733 and 3139 net contracts respectively. In fact, the other large reporting traders now (as of Tuesday) hold a record gross long position of 164, 345 gold contracts, as well as a record net long position of 137,612 contracts – at the same time the managed money traders hold their lowest net long position in more than a year.

It goes without saying that the sharp price decline in gold over the reporting week featured significant managed money selling and significant other large reporting trader buying. Clearly, the previous respective track records of each category of traders favors the other large reporting traders.

In COMEX silver futures, the commercials bought and reduced their total short position by â??onlyâ?• 2800 contracts to 53,200 contracts, in apparent stark contrast to what transpired in gold. Still, in a broader context, the total commercial net short position is only 20,000 contracts higher than the dead low in commercial shorting of May 5 ($15) and close to 50,000 contracts lower than the high point of February ($18). In other words, itâ??s still remarkable how high silver prices have climbed from the lows of spring with so little commercial selling. I still consider that remarkably bullish.

By commercial category, the 8 big shorts reduced their short position by just over 500 contracts to 70,901 contracts, while the raptors added 2200 new longs, of which JPMorgan accounted for the bulk in flipping a 1000 contract short position to a long position of that same amount.

The managed money traders in silver sold almost the same amount the commercial bought, as these traders sold 2770 net contracts, consisting of the sale and liquidation of 1700 long contracts and the new sale of 1070 short contracts. While the resultant net managed money long position of 36,495 contracts (61,547 longs versus 25,052 shorts) is not as low as it is in gold, it is not bearish on a historical basis. I would guess there has been more managed money selling since the cutoff and would point out that the managed money position in silver has not been the prime driver of the price rally before this weekâ??s smash.

Of interest was that while the commercials and managed money traders equaled each other out this reporting week, there was an interesting dynamic between the other large reporting traders and the smaller non-reporting traders. The other large reporting traders bought around 3300 net contracts (mostly short covering), while the smaller non-reporting traders sold the same amount. I have to hand it to the other large short traders who have done quite well on the selloff (contrary to what I was expecting). These traders are now slightly net long. The non-reporting traders, which donâ??t have a particularly impressive track record, now hold their lowest gross and net long position since before the silver rally commenced in earnest this summer â?? generally considered an omen for higher prices.

Before getting into what drove the massive decline in gold and especially in silver prices this week, Iâ??d like to comment on an announcement made by the CFTC yesterday in which it and 30 states, essentially, shut down an extremely crooked precious metals dealer from Los Angeles, which took in $185 million over three years, mostly from elderly citizensâ?? retirement accounts.

https://www.cftc.gov/PressRoom/PressReleases/8254-20?utm_source=govdelivery

I believe the Commission is to be commended for shutting down this crooked outfit and hope and expect the Justice Department to go after all associated with these crooks, meting out serious jail time (Iâ??d propose waterboarding and bull-whipping). But a quick search on the Internet reveals this outfit should have been shut down even earlier if the CFTC and states were really on the ball.

https://finance.yahoo.com/news/precious-metals-scheme-used-fear-110008855.html

The scam basically targeted conservative elderly victims through leads generated from Fox News and Facebook in which anyone responding would become subject to relentless boiler-room telephone bombardment. Although the politically conservative were targeted, Iâ??m sure the crooks involved would have and did scam anti-Trumpers as well. What made the scam so pernicious was that the goal of the fraudsters was to get the victims to transfer their retirement accounts and then buy gold and silver coins at two to three times the true value of the coins.

While the regulators will seek to recover as much of the victimsâ?? funds as is possible, Iâ??m pretty sure the fraudsters knew that the jig would be up some day and, therefore, it will be slim pickings in terms of recovery. To that end, I see no reason why Fox News and Facebook shouldnâ??t be held liable for reimbursing the victims. After all, the scam was predicated on getting leads from these organizations and Fox and Facebook have the resources and responsibility to oversee how their platforms are being used.

Particularly heinous was the targeting of retireeâ??s retirement funds, where the average account was over $100,000, no doubt robbing the victims of security in their old age, which is right up there with health for most retirees. Itâ??s also personally hurtful that scams involving silver and gold are so often used to defraud the innocent. Here I am, trying to expose an institutional fraud on a much higher level and involving much greater sums of money and low-lifeâ??s of every sort are trying to cheat people on a daily basis. Itâ??s downright depressing. The only irony in this case is that one of the names chosen by the crooks was Chase Metals â?? which, I must say, was quite fitting.

Now to what caused the massive decline in silver prices this week. There was no actual fundamental news, no obvious investor liquidation of physical metals on a widespread basis and not even the significant futures positioning changes seen in gold. Yet silver dropped like a lead balloon â?? on what? The answer is clear â?? mindless computer to computer selling that goes under many names â?? High Frequency Trading (HFT), spoofing and near spoofing.

As Iâ??ve mentioned on countless occasions, all markets are now tarred with the blight of mindless computer bot trading in which such mindless day trading accounts for more than 99% of total trading volume. Even that understates the case in silver this reporting week, where more than 500,000 total silver contracts were traded (the equivalent of 2.5 billion oz â?? or more than all the silver in the world) and there was a net positioning change of less than 3000 contracts (15 million oz). This reporting week, in which silver dropped as much as $3.50 (13%) on 2.5 billion paper oz traded, only six tenths of one percent of that trading resulted in an actual positioning change. That means 99.4% of all trading was â??airâ?• trading â?? day trading, largely between computers in which positions are held for a fraction of a second.

Importantly, none of this trading represents legitimate silver hedging in any way, in which real producers and users lock in legitimate buy or sell hedges. This is why congress authorized futures trading in the first place. So on top of the trading being â??airâ?• day trading, all is speculative by definition â?? even the tiny bit of overnight positioning involving the commercial and managed money traders. Â How this has been permitted to come to be is beyond me and if the regulators have a legitimate answer, I certainly havenâ??t heard it.

Iâ??m not naÃ¯ve enough to suggest that anything will be done about the current state of price discovery on the COMEX. That is not my intent today; all I was attempting to do was explain why silver prices dropped so much this week, namely, because the day trading computer bots went wild on the downside. And if we go lower from here, that will likely be the explanation as well. But my real point is not to moan or complain about the way things are, because, believe it or not, there is a real positive message here, with positive meaning bullish.

Just as the mindless computer bots drove prices sharply lower this week, they will someday soon drive prices higher. In fact, they have in the recent past. On the roughly three-week $10 silver rally that occurred in mid-July, you may recall how there was relatively little positioning change on that rally, either in silver or gold. Unlike any other rally over the past few decades, the managed money traders didnâ??t plow onto the long side, driving prices higher. And if it wasnâ??t managed money buying driving prices higher, then it had to be something else. By process of elimination, that â??something elseâ?• was mindless computer bot day trading.

Therefore, it seems to me that once this day trading computer bot selling gets exhausted to the downside, which it will because it is so the opposite of what the real fundamentals dictate, it wonâ??t be long before the computer bots go nuts on the buy side. You know I canâ??t tell you when that will be, so please donâ??t ask. Iâ??m just explaining things as they appear to be, but let me add one final twist. Iâ??m still of a mind that the big commercial shorts have no interest in adding aggressively to the short side on the next rally (whenever that comes) and if they donâ??t sell (as they havenâ??t for quite some time) then when the computer bots kick in on the buy side, silver (and gold) prices can soar much higher than they fell.

As for how the 8 big traders fared this week, there was not much change from Wednesday, when I calculated they made back $3.5 billion from last Fridayâ??s close, putting their combined losses at $11.9 billion. I suppose the big shorts have something to gun for with the third quarterâ??s end on Wednesday. They certainly succeeded last year at this time, but since then things havenâ??t gone their way. I donâ??t know who is more despicable â?? the slimy crooks the CFTC just busted from LA, or the bigger crooks on the COMEX. They are certainly birds of a feather.

Ted Butler

September 26, 2020

Silver – $23Â Â Â Â Â Â Â (200 day ma – $19.19, 50 day ma – $25.86)

Gold – $1865 Â Â Â Â Â (200 day ma – $1726, 50 day ma – $1947)

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