August 8, 2020 – Weekly Review

Despite a Friday selloff, gold and silver prices surged higher again for the week, with gold ending up $50 (2.5%) and at yet another all-time closing weekly high and with silver up a stunning $3.80 (15.4%) and establishing a new 7 year high. As a result of silver's pronounced relative outperformance, the silver/gold price ratio tightened in by a very hefty 9 full points to 72 to 1 – the most fully valued silver has been relative to gold in three years.

Year to date, the changes in the silver/gold price ratio have been nothing short of astounding. The ratio started the year at 85 to 1, rose to a 5000 year high (extreme low relative valuation of silver compared to gold) of 125 to 1 in mid-March, before collapsing to 72 to 1 in less than 5 months.

Never in the history of the world has the relative price ratio between silver and gold changed so much in such a short time span. Please remember – this is an age-old objective price ratio plotted and calculated for, quite literally, hundreds of centuries. Why and how the heck has it changed so much (in both directions) over these past several months? It's a question everyone with the remotest interest in either gold or silver should be contemplating.

Certainly, nothing in the real world of actual supply and demand explains the near-incredible changes in the relative ratio of gold to silver prices. Of course, I'm fully aware of what's going on in the world. I'm aware of the tremendous health, economic and political happenings of the day (in many ways, I wish I wasn't so fully aware). But remember – I'm talking about the relative changes in price between gold and silver and none of the unprecedented happenings in the world should have any bearing on the relative value of each metal.

Such incredible changes in the relative value of gold and silver – changes that no one has ever witnessed – must have an obvious and mandatory explanation. And there is such an obvious and mandatory explanation, which happens to be the very same explanation I've offered for more than 35 years, namely, that silver has been manipulated and suppressed in price due to concentrated short selling on the COMEX and now that manipulation and concentrated short selling appears to be ending.

I'm not arrogant enough to pretend I can lay out the exact price roadmap ahead, but with the death throes of a decades-long silver price suppression will come countervailing price reactions proportionate to the previous suppression. In other words, if something has been manipulated in price for as long as I allege silver has been manipulated, the price reaction when the manipulation ends will be in line with how long the manipulation lasted. We all know that when manipulations end, they end violently in the opposite price direction and in much shorter time than the life of the original manipulation.

My best guess is that the unraveling of the silver manipulation has only just begun and that unravelling isn't close to being reflected in the current silver/gold price ratio. What's the proper silver/gold price ratio? Who the heck knows? The problem is that the price of silver and therefore the ratio itself has been artificially altered for so long that a legitimate number can't be known. A ratio around 20 to 1 sort of sounds reasonable to me, but if silver truly blows off in price with speculative enthusiasm at full peak and the industrial users in full panic, the ratio could blow through that number like a drunk driver through a stop sign.

The surest sign, of course, that the silver (and gold) manipulation may be ending lies in what the big

COMEX shorts are up to and the current COT report released yesterday continues to offer encouraging indications, as I'll discuss in a moment. No doubt the big COMEX shorts are under increasing financial pressure to quit a manipulative game that had worked so well for so many years, but that has turned truly horrid for them over the past year.

At yesterday's close, the 8 big COMEX gold and silver shorts took in the teeth for another $2.4 billion for the week, raising their total loss over little more than a year to $17.9 billion, their worst weekly showing ever. And given silver's remarkable relative outperformance this week, it accounted for more of the big shorts' total losses this week ($1.4 billion vs. $1 billion in gold). Not to be overlooked, the master criminals at JPMorgan, having completely covered all its COMEX short positions in gold and silver are now ahead by a remarkable $27 billion on its 25 million oz physical gold position and remaining 700 million oz of physical silver. At the mid-March price lows, JPM was basically even, meaning the $27 billion gain came in less than five months (as did the bulk of the big shorts' losses).

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained very strong this week as 9.7 million oz were moved, close to 4 million oz below the movement of the past two weeks, but still nearly double the weekly average over the past 9 years. This week's physical turnover is the annualized equivalent of 500 million oz. (For the benefit of new subscribers, if you have any questions about this or anything I write, please know I answer all email questions, so please don't hesitate to ask).

Total COMEX silver inventories rose by 2.7 million oz this week to 337.2 million oz, another new all-time high. The total in the JPMorgan COMEX silver warehouse rose by 0.7 million oz to 164.4 million oz, also a new record. Even though JPMorgan did deliver 40 million oz in its house account over the past two big delivery months (10 million oz in May and 30 million oz in July), the metal has yet (if ever) to be moved.

And as far as the new record level of total COMEX silver inventories, it's important to keep this in perspective. While total COMEX silver inventories are up around 20 million oz over the past two months (and past year) to 337.2 million oz, that represents an increase of around 6% or so of previous levels. By comparison, the COMEX gold warehouse inventories have risen by more than 300% over the past five months.

This week, in fact, the COMEX gold warehouse inventories fell slightly (by 0.2 million oz) to 36.4 million oz, which I believe is the first weekly decline in five months. The gold holdings in the JPMorgan COMEX warehouses did increase by a slight 40,000 oz to 13.8 million oz. Recently, I've been of the opinion that the great inflow of physical gold into the COMEX gold warehouses, which started in March with total inventories at 8.5 million oz, may be drawing to a close, although the jury is still out on that.

My reasoning is based upon the net 28 million oz brought in closely matching up with the concentrated short position of the 8 largest traders on the COMEX and that was the impetus for the metal being brought in and used against COMEX futures deliveries (to close the shorts). Of course, if another 28 million oz or any amount close to that is brought in, then my premise is out the window.

Another premise that still seems to hold water (at this point) is my speculation that the great inflow of physical silver into the world's silver ETFs, led by SLV, may finally be cooling off as a result of JPMorgan reaching its mandated 300 million oz release of physical silver (as ordered by the Justice Department). Two weeks ago, some 36 million oz came into the SLV. One week ago, the total inflow dropped to 9 million oz. This week, only a little over 5 million oz were deposited into the SLV, even while silver prices and trading volume remained strong.

Of course, I'm really pushing the envelope in suggesting such short term trend changes, but if the falloff in deposits into SLV and other silver ETFs reflects the end of JPM's forced disposal of physical silver, then the price implications are potentially extreme. Without JPMorgan around to deposit physical silver, the implications for soaring prices are profound. Please understand that I am likely to be wrong in looking at such things so closely, but the alternative is to keep it to myself and never mention such feelings or worse, say afterward that was what I suspected all along.

Turning to yesterday's release of the Commitments of Traders (COT) report, I can't say I was as bullishly excited as I was with the prior week's report, but I believe that was because it wasn't possible to be more excited. Sticking with last week's analogy, how excited could a kid be at getting a second pet pony, after getting his first the week before? In many ways, that was like yesterday's report. I avoided precise predictions, but all my hoped for boxes got checked off, including the most important – no big increase in concentrated short selling.

As a reminder, over the reporting week ended Tuesday, both gold and silver prices surged to new highs, with gold up every day and $80 for the reporting week and silver up by $1.50 at the reporting week's end. In addition, there was a large reduction in total open interest in gold of close to 37,000 contracts (due to heavy August deliveries) and an increase of 21,500 contracts in silver, which is usually the formula for big new managed money buying and commercial concentrated short selling (although I had a sense or hope that the increase was due to the establishment of new spread positions, which turned out to be the case). Let me run through the numbers and then try to divine what they mean.

In COMEX gold futures, the commercials reduced their total net short position by 2000 contracts to 276,300 contracts. With such a small overall change in net positioning, big changes by trader categories were ruled out. The raptors (the smaller commercials apart from the 8 largest traders) bought back 2700 shorts and the 8 largest traders added an insignificant 600 contracts, increasing their concentrated short position to 210,689 contracts.

JPMorgan eliminated its 5000 contract gold long position to zero, by virtue of stopping just over 5400 contracts (540,000 oz) in its house account in the August deliveries. I speak in very round numbers when I claim JPM is holding 25 million oz of physical gold, but my sense is that the world's most crooked bank owns a lot more gold than that, having added half a million oz in the last week alone.

The managed money traders in gold reduced their net long position by 3664 contracts, as anticipated, by buying 5463 new long contracts and the new short sale of 9127 contracts (part of a cash and carry transaction). The other large reporting traders increased their net long position by 5609 contracts and not only do these traders hold a near record net long position, they also are back to holding a larger net long position than the managed money traders, a rather rare occurrence when gold prices are setting new highs. One surprise in the gold COT report for me was that more than 50,000 contracts of spreads were liquidated, which when combined with the heavy deliveries made me wonder how total open interest didn't decline much more.

In COMEX silver futures, the commercials increased their total net short position by 3700 contracts to 51,200 contracts, definitely within the range of the small increase I hoped for. Further, the raptors sold off 2100 longs and the 8 big shorts only increased their concentrated short position by 1500 contracts (to 72,757 contracts), greatly easing fears of new concentrated short selling in light of the 21,500 contract increase in total open interest. I'd peg JPMorgan as still being 2000 contracts net long after selling off 3000 contracts. All this seemed to line up with yesterday's Bank Participation Report (for gold as well).

The managed money traders in silver were net sellers of 648 contracts, consisting of new longs of only 20 contracts and new short selling of 668 contracts. This week, the other large reporting traders were net sellers of more than 3200 contracts, but still remain net short to the tune of 2200 contracts. The only surprise in the silver report was that the other large reporting traders were the largest initiators of spreads – not that it really matters.

I believe the biggest takeaway for this week's COT report is not so much this week's report per se, but when viewed with last week's report and beyond that. Over the last twelve trading days ending on Tuesday (the cutoff day for the COT report), the price of gold rose by close to $220 and the price of silver rose by close to $6.50, one of the largest such price gains in history. Going back to the extreme price lows of mid-March, gold ended Tuesday some $560 (38%) higher and silver by a remarkable $14 (117%) higher. Yet for the very first time in history in both time frames, the concentrated short position of the 8 largest COMEX traders did not increase (and in fact, fell in gold).

For most of my adult life, I have harped on one central theme, namely, that concentrated short selling on the COMEX had suppressed and manipulated the price of silver. I became so obsessed with the issue of concentrated short selling that it was the one issue I raised repeatedly with the CFTC and the CME Group, going back nearly 35 years and which resulted in two public responses from the CFTC in 2004 and 2008 and a formal 5 year silver investigation later in 2008. The CFTC's public letter of May 13, 2008 was the agency's last word on the matter.

https://cftc.gov/sites/default/files/idc/groups/public/@newsroom/documents/file/silverfuturesmarketreport05

Now, silver has risen more in a faster period of time against a backdrop of a cessation in additional concentrated short selling and the complete absence of any short selling by what was formerly the largest short seller, JPMorgan, since 2008. Call me delusional, but it would appear that there is an incontrovertible and direct connection between no new concentrated short selling and exploding silver prices, despite years of emphatic denial by the CFTC. Most ironically, all my allegations are based exclusively on the concentration data published by the CFTC in its weekly COT reports.

Of course, I can speak with high degree of certainty of that which has already occurred and is, thus, provable; meaning this is the real story on the recent silver and gold price advance. More difficult (if not impossible) is predicting the future. But if it is true, and as I believe to be the case, that the lack of additional concentrated short selling is the most proximate cause of the price rally to date, then it would seem to follow that if concentrated short selling does not begin to aggressively increase, particularly by JPMorgan, then there is no reason for silver prices not to continue to advance (notwithstanding periodic sharp selloffs due to increased price volatility). I see no legitimate reason for why silver (and gold) would be subject to increased concentrated short selling in the future, but then again, concentrated short selling has always been the opposite of legitimate.

Therefore, my approach is still one that holds that we are still early in the rectification and restoration of silver to a price level that is compatible with gold and every actual fundamental in the world today. The only real question is how long the upward adjustment might take. Considering my advanced age and time served in grade, I'm hoping for sooner, rather than later.

Ted Butler

August 8, 2020

Silver – $28.40 (200 day ma – $17.57, 50 day ma – $20.13)

Gold – $2045 (200 day ma – $1646, 50 day ma – $1820)

Date Created
2020/08/08