

April 1, 2017 – Weekly Review

Gold and silver prices advanced for the third week running to finish just under multi-month highs. Gold ended \$5 (0.4%) higher, while silver tacked on a full 50 cents (2.8%). As a result of silver's outperformance, the silver/gold price ratio tightened in by one and a half points to just over 68.5 to 1, at the low end of a fairly tight trading range that has extended for years, but still very much within that range. I'm starting to think silver is vastly overvalued relative to gold on a long term basis – there, I just got April Fools' Day out of the way.

There were two main highlights to the week's key precious metals features, the significant and (mostly) expected changes in the new Commitments of Traders (COT) Report for gold and silver and the quite unexpected and extraordinary developments in the COMEX-approved silver warehouses. I'll stick to the usual format and deal with COMEX silver warehouse matters first.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses increased this week to the 5 million oz level, even as total inventories remained at 190.2 million, unchanged from a week ago, but still at a two decade high. I hope you see the regular pattern – big movement, little net change. Included in this week's COMEX warehouse physical silver movement was an early week addition of a 480,000 oz deposit in the JPMorgan warehouse, followed by yesterday's 1.8 million oz withdrawal from that same warehouse. As a result, the total holdings in the JPM warehouse now total 92.2 million oz.

I would admit that the withdrawal was unexpected, given JPM's regular pattern of adding silver to its warehouse following it stopping big COMEX futures deliveries, but I sense not a bit that this represents a disposal of silver by the bank. Most likely, JPMorgan was merely transferring the metal to a depository out of public view. Maybe the JPM COMEX silver warehouse was getting full; after all, it holds nearly 3 or 4 times as much silver as the other leading COMEX warehouses and perhaps the bank needed to free up some space in its own facility.

What I just described, as I do each week, is the physical turnover of silver in the six COMEX-approved warehouses. The emphasis here is that this is real-as-rain physical silver in the form of 1000 oz bars (roughly 70 lbs. each) being just as physically moved into and out of the various listed warehouses in and around the New York Metropolitan area. This past week, 5 million oz, or more than 150 tons of silver were physically moved, all involving warehousemen, forklifts and trucks and all the things logistically required to physically move 150 tons of metal.

While fascinating and revealing in many important ways (otherwise I wouldn't feature it), the physical movement of silver into and out from the COMEX warehouses wasn't the big warehouse story this week. The biggest story was in the beyond extraordinary changes in the category classifications of metal in a number of COMEX silver warehouses over the past two days. First, please understand that I am not trying to drag you into the complicated weeds of unnecessary and arcane details to make some minor point. But since I claim that the category changes were so extraordinary this week, I want to ensure we're on the same page.

The COMEX turnover is physical movement of silver; the category changes are simply paperwork. There are two classifications for the metal in COMEX silver (and gold and other metals) warehouses,

registered and eligible. The metal is always exactly the same for each category, meeting strict exchange requirements for grade and weight specifications – essentially, only the paperwork is slightly different. Essentially, registered metal is considered somewhat superior for delivery purposes against a COMEX futures contract and as such, commands a slightly higher cost in terms of monthly storage charges. But the important point is that since the metal attached to every COMEX delivery receipt or warrant meets exchange requirements, it's easy enough to change from registered to eligible or vice versa. The turnover is physical movement; the category changes are strictly paperwork.

Even though the COMEX category classifications and changes are strictly paper designations, they are also publicly reported and as such, can serve as valid sources of highly verified and documented data, something never in oversupply. And while changes between the registered and eligible categories in COMEX silver warehouse inventories are not particularly revealing most of the time, there can be notable exceptions to that pattern. You may recall that I have recently commented on some switching from the eligible category to the registered category in COMEX silver as the highly unusual March delivery period proceeded. My comments concerned the shorts making delivery this month having to switch to registered in order to make delivery to JPMorgan and its client(s). It looked somewhat unusual to me and suggested that the shorts were having some stress in making delivery (among other factors).

But the last two days of category changes in COMEX silver were like none I have ever seen, only this time, the big switch was from registered to eligible. All told, over the past two days, more registered silver was transferred to the eligible category than ever before, close to 13.5 million oz and involving three separate COMEX warehouses. (There was even a large 1.3 million oz transfer the other way, eligible to registered yesterday, unrelated to the big registered to eligible switch). I certainly don't remember many (any) 13.5 million oz two day changes in categories before. What does this mean?

The bottom line – the most plausible and perhaps only explanation – is that the owner of 13.5 million oz of registered silver decided to switch the metal into the eligible category in order to save on storage fees (since eligible silver is cheaper to carry than metal in registered form). There can be only one such owner – JPMorgan, which just stopped (took) delivery on 17 million oz in the March silver delivery on a combined basis with its client(s). While this can't be a big surprise to anyone semi-aware of the important issues in silver, the revelation and confirmation of the role JPMorgan plays in silver is nonetheless staggering.

One thing it tells you is that, in addition to the 92 million oz of silver in the JPM COMEX warehouse (out of the COMEX total inventory of 190 million oz), JPMorgan now owns at least 13.5 million oz in other COMEX warehouses and, possibly, a lot more. I suppose it's possible that this silver might eventually get moved to the JPM warehouse, but not if that warehouse is nearing capacity. At this point, it doesn't matter – the data have revealed all we need to know (and have known) – JPMorgan is the silver market.

While I have taken pains to point out the difference between physical turnover and paper category changes, as well as covering in detail the just completed and unprecedented March delivery process, please know that all are inextricably linked. Over the past month, I have reported (as well as marveled) at the extraordinary development of JPMorgan stopping more silver than on any COMEX delivery before, both in terms of the raw combined amount (17 million oz) and as a percentage of total issuances (90%). Now there is the equally extraordinary development in the largest category change in

history. Put it all together and the conclusion is undeniable â?? JPMorgan is sucking up physical silver like there is no tomorrow.

Most incredibly, there is virtually no independent recognition of this extraordinary situation. In fact, I even read a recent report explaining how the just completed March COMEX silver deliveries were no big deal. I would beg to differ, particularly in light of the extraordinary category changes over the past two days. In any event, you can get all the data at this master link, but please remember the data change daily.

<http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notice.html>

If I didnâ??t think all of this was of the greatest importance, I wouldnâ??t waste your or my time in reporting it. But what and how I look at things is directly related to my experience and background and because we have unique backgrounds, then it is my responsibility to make sure you understand what Iâ??m talking about and not for you to automatically understand what Iâ??ve written. Therefore, if you have any questions on this, please let me hear from you, as the only stupid question is the one that doesnâ??t get asked. Itâ??s my job to make sure you are picking up what Iâ??m putting down.

The first two days of delivery on the traditional COMEX April delivery month for gold have been remarkably featureless, in that a very small number of contracts have been issued and a fairly small number of April gold futures contracts remain open. In fact, the non-traditional April silver COMEX delivery looks somewhat more of interest, but the standout feature for both is the notable near-absence of JPMorgan or its client(s). As regards the COMEX April gold deliveries, all the features I look at, including spread differentials, suggest virtually no big interest in taking delivery of gold.

Of course, Iâ??m basing this on only the first two days of delivery and things can definitely change as the delivery month progresses. Still, the apparent and visible lack of demand for physical delivery in COMEX gold stands in stark contrast both to the incredibly strong physical demand in COMEX silver and widespread reports of physical gold demand away from the COMEX. Maybe someone is buying physical gold in places that canâ??t be documented, but not on the COMEX where verification is usually apparent. Itâ??s different in silver in that there is no question that JPMorgan is gobbling up physical metal like itâ??s going out of style.

Sales of Silver Eagles continue to reflect JPMorganâ??s cessation of acquiring the coins, although sales ended a bit higher than the previous month. We can debate why JPMorgan stepped away, but not that it did step away. It certainly didnâ??t step away from buying physical metal on the COMEX.

<https://competition.usmint.gov/bullion-sales/>

The changes in this weekâ??s COT report were, somewhat unfortunately, close to expectations, although I deliberately offered no predictions by specific numbers of contracts. Prices did move higher by \$12 in gold and by 65 cents in silver during the reporting week, adding to gains in the previous weeks, so a significant increase in managed money buying and commercial selling was in order (although I was hoping for another surprise).

In COMEX gold futures, the commercials increased their total net short position by 23,100 contracts, to 152,100 contracts. (The bigger story was in larger managed money buying). It was a coordinated and collusive commercial selling affair by categories, with the big 4 adding 7400 new shorts, the big 5 thru

8 adding 2900 new shorts and the raptors (the smaller commercials) selling off 12,800 longs, reducing the raptor net long position to 14,600 contracts.

Going along with the largely expected increase in commercial selling in gold is the previously offered conclusion that such an increase would do little to alter the extremely bullish market structure, save perhaps for providing some short term profit incentive for a sharp, but brief selloff. In terms of gold market structure over the past year, we are only 35,000 contracts or so from the lowest and most bullish commercial headline number readings of yearend and still 190,000 contracts away from the highest and most bearish readings of last summer. Will the commercials rig gold prices lower to get back? • all or most of the 35,000 contracts sold since yearend, before gold takes off more significantly or can it advance strongly from here without such a flush out first? Please consult the fortune teller of your choice.

There has been a notable drop in total COMEX gold futures open interest over the past few days of around 30,000 contracts and I have read some reports suggesting this involves a massive reduction in the commercial short position or represents an important positioning change of some type. However, I am more inclined to view the big drop in total gold open interest as spread liquidation into the start of the April deliveries. As regular as the passage of the seasons, the approach of first notice of delivery day results in the peak spread liquidity (contracts have to be rolled over) and, as a result, the liquidation of spread positions. Gold has plenty going for it, but that doesn't include a special bonus from the recent drop in total open interest.

On the buy side in COMEX gold, the managed money traders bought significantly more than the commercial sold, in buying nearly 35,000 contracts, including 20,620 new longs and the buyback of 14,228 short contracts. As was the case in silver (as I'll show in a moment), there should be little doubt that the buying of nearly 35,000 net contracts (3.5 million oz) was the prime bullish price driver over the reporting week. If anything, the real question is why did gold advance so little over the reporting week (\$12), given the forceful buying by managed money traders? I don't always have the answers, but this time I do because the commercials were so aggressive in selling.

But I did just write that the managed money traders bought much more than the commercials sold in gold this week, so the commercials weren't as aggressive in selling as the managed money traders were in buying on a man to man (category) basis and there had to be notable non-commercial selling as well. There was such selling by large non-managed money traders to the tune of 12,000 contracts and I'll explain what I think this means when I next discuss silver.

In COMEX silver futures, the commercials increased their total net short position by a hefty 8000 contracts to 101,800 contracts. There have been only two recent weeks where the total commercial short position has been larger or more bearish and it's hard to expect that the short position isn't larger since the cutoff. By commercial category, the big 4 (read JPM) increased their net short position by 3900 contracts and the raptors also sold just over 4100 contracts, sending them back to a net short position of 1500 contracts. The big 5 thru 8 (which includes the some of the walking dead), stood pat for the week.

By my traditional calculations, I'd peg JPMorgan to now be net short 30,000 silver contracts, up 4000 contracts for the week. Next week brings the new monthly Bank Participation Report which will allow recalibration of JPM's position and I am hoping to see what I would consider to be a bullish surprise (a smaller JPM short position), but there haven't been many such surprises along the way.

On the buy side of COMEX silver futures, the managed money traders outdid their gold counterparts in buying twice as many silver contracts as the commercials sold; as they bought 16,385 net contracts, comprised of 14,086 new longs and the buyback of 2299 short contracts. With the managed money long position now at 93,000 contracts (exactly), we are now decently above the core non-technical fund long position which I'm still estimating to be around 80,000 contracts. On the other hand, that also means there are a decent number of contracts just bought by technical funds capable of being flushed out should the commercials rig prices lower.

As was the case in gold, since the managed money traders bought many more net silver contracts than the commercials sold, some further explanation is called for. In the case of silver this reporting week, the large reporting non-managed money traders and the smaller non-reporting traders sold more than 8300 net contracts of silver, truly a large and unusual amount. What makes the other reporting and non-reporting speculative selling so unusual is that it occurred on a sharp rise in price.

I'm not going to dwell on it now, but it's as if the managed money participation in the gold and silver market has become so pronounced and obvious, that other traders, away from the commercials, appear to be gaming the managed money technical traders. The commercials and the other large and small traders almost seem to be aligning against then technical fund segment of the managed money traders. This is a new observation, so let me let it mature for a bit, but there are quite a few strange things emerging recently.

Strangest of all is the behavior of JPMorgan in silver. Over the past month the bank has acquired more than 20 million oz of physical silver, mainly through stopping COMEX futures deliveries (17 million oz) and through metal for share conversions in SLV (4 million+ oz). No one came close to acquiring that much physical silver in the past month. At the same time, the market manipulators at JPMorgan also sold 20 million oz of paper silver short on the COMEX over the past reporting week. The three words going through your head right now are abbreviated by the crude but descriptive universal symbol of how can this be or WTF?

How could one financial institution, arguably the most important US financial institution of all, be allowed to have such a dominate control on both the physical and derivative market for a single commodity? The fact that JPMorgan is buying physical and selling short paper contracts leads to the unmistakable conclusion that the bank is pressuring prices to be lower than if the short sales didn't occur in order to buy as much physical silver as it can at those depressed prices. It is not possible there could be any more plausible or possible explanation or a more egregious example of classic antitrust behavior.

Most puzzling to me is still the sheer brazenness of JPMorgan in all matters related to silver. Why is JPMorgan so open and transparent in their silver dealings? I don't mean to be crude, but I have to conclude that the bank just doesn't give a crap about what anyone thinks when it comes to silver. Here we have an incredibly important institution, with hundreds of thousands of employees and whose public ownership is wide and deep and who tries to be a pillar of the community in charitable giving and

the hiring of veterans, engaging in what must be called overt market manipulation. Once again, my claims are based upon very public data only a mouse click away and have been sent to the bank and the regulators all along. If JPMorgan or anyone else thinks I'm out of place, I'd love to hear why.

Obviously, the non-disguised and intensified accumulation of physical silver by JPMorgan leads one to think the moment of price lift off must be at hand. Just as obviously, the new short sale of paper silver over the past week also suggests these crooks will try to rig a price selloff. I dislike intensely coming across as mealy-mouthed, saying, in effect, prices could go up or prices could go down. I believe that too often some use the either/or price outcome so as not to appear wrong regardless of a short term price outcome. I don't concern myself with reliance on short term price outcomes because I admit I don't know. But this is different in that there are strong reasons why prices could go either way short term.

We'll go lower if the commercials, particularly JPMorgan, succeed in rigging prices lower to induce the liquidation of the technical fund component of the managed money category which added to silver longs over the past reporting week as well as any subsequent buying since the cutoff date. Were the selling to commence immediately, based upon the technical fund long positions added so far, I'd estimate 15,000 such contracts to be sold in silver and around 35,000 contracts or so in gold, with a selloff amount of a dollar to a dollar and a half in silver and around \$40 to \$50 in gold.

On the other hand (and there's always another hand), the conditions in the physical silver market, based upon the same factors I've followed for more than 30 years, are tighter today and to such an extreme degree, that prices could explode momentarily. Because the upside is so disproportionately large compared to what I think any selloff could be limited to, I am still more frightened not to be fully exposed to the upside, than I am in absorbing temporary paper losses. And if we do get a selloff first, then that selloff will only strengthen the prospects for an even stronger rally.

While neither I nor anyone else knows the short term direction of silver prices, save, of course, for JPMorgan; I do know how I will position myself, namely, fully exposed to the upside presently, but also already resigned to scraping up every possible and reasonable amount of funds to up the ante in the event of a selloff. That's no April Fools' Day joke.

Ted Butler

April 1, 2017

Silver – \$18.25 (200 day ma – \$18.09, 50 day ma – \$17.66)

Gold – \$1250 (200 day ma – \$1262, 50 day ma – \$1229)

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