April 21, 2018 – Weekly Review

Gold and silver prices diverged this week, as gold fell $10 (0.7%), while silver rose by 50 cents (3%), largely as a result of silverâ??s price jump on Wednesday. As a result of silverâ??s strong relative outperformance, the silver/gold price ratio tightened in by three full points to 78 to 1. Both the flat price of silver as well as its price relative to gold, closed at three month highs; but both still remain in the trading ranges of the past few years. Iâ??ll not wax enthusiastically about the relative and absolute undervaluation of silver today, but it would take a price movement of many times the size of this weekâ??s move to begin to instill thoughts of silver being close to fair or overvaluation.

There is much to discuss this week, with so many new developments in silver that Iâ??ve had to completely rearrange what I originally intended to cover. Of course, futures market positioning on the COMEX leads the list, but unexpected developments in the physical world of silver have emerged, as well as a new podcast featuring James McDonald, Enforcement Director at the CFTC, that caused a fitful night of sleep, reminiscent of the night ten years ago when I first viewed the 2008 August Bank Participation. Iâ??ll save that for the end.

Iâ??ll also hold off for a short time discussion about the Commitments of Traders (COT) Report released yesterday, which covered paper market positioning through Tuesday, in order to cover some very interesting developments in the physical silver market. As much as I rely on changes in the COT report to explain price movements, I hope it doesnâ??t come as a surprise that Iâ??ve always held that the big price move in silver would be based upon physical market considerations. Yes, it may turn out to be quite ironic that just as more have come to embrace my version of COMEX futures market positioning than ever before, we may get a physical surprise.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses came to just over 4.7 million oz this week, very close to the weekly average over the past seven years. Total inventories fell 1.5 million oz to 261.7 million oz, just off the multi-decade highs of the past couple of weeks. But just because this has been the average weekly physical turnover for seven years running does it make it any less extraordinary or unprecedented in any other commodity.

Not for a moment would I equate the two in terms of human suffering or importance, but it occurs to me that the physical movement in the COMEX silver warehouses is somewhat akin to people living in a constant state of war for so long that it begins to almost look normal. That I never (and I do mean never) hear any analyst comment on the extraordinary turnover of physical metal into and out of the COMEX silver warehouses, alone among all commodities, just blows my mind. I know they are looking at it, but for some reason canâ??t seem to connect the dots.

The standout feature in this weekâ??s physical turnover was the removal of 3 million oz from the JPMorgan COMEX silver warehouse, reducing the amount there to 139.1 million oz. Certainly, many have noticed that this is a strange break in the normal pattern, but in and of itself, not much can be concluded about the withdrawal. But perhaps other unusual physical developments may help fill in the blanks.

One unusual development was the withdrawal of 3.5 million oz from the big silver ETF, SLV, over the past two days. I say the withdrawal was unusual because it occurred as silver prices jumped and trading volume in SLV hit the highest two-day trading volume (nearly 38 million shares) on Wednesday and Thursday in a year and a half. Price rallies accompanied by heavy trading volume connote net investor buying and most always translate into big deposits of metal (or a sharp increase in short selling). I was thinking more than 5 million physical ounces were due to be deposited into the trust as a result of the price move and heavy trading volume. Big metal withdrawals in that circumstance were completely counterintuitive to say the least and when things get truly counterintuitive in silver, all thoughts should turn to what are the crooks at JPMorgan up to now? My best guess is that JPMorgan may have been the big buyer of shares of SLV on Wednesday and Thursday and immediately redeemed the shares into metal to avoid SEC share ownership reporting requirements and get hold of more physical silver. Remember, this has been the principle mechanism behind JPMâ??s accumulation of 700 million oz over the past seven years

Perhaps connecting the strange withdrawals in the JPMorgan COMEX warehouse, as well as the strange withdrawals in SLV was the even stranger massive deposit of nearly 14 million oz into the Deutsche Bank physical silver ETC, XAD6, this week (ETC = Exchange Traded Commodity â?? same as ETF). At first, I thought the massive deposit was a reporting error, but I am assured itâ??s correct by my source, Nick Laird of Sharelynx, who keeps meticulous and up to this point flawless data.

A 14 million oz silver deposit or withdrawal from SLV, with roughly 317 million oz in total deposits would have tongues wagging in the world of silver and for good reason. But the Deutsche Bank ETC, which has been in existence since 2011, only had 19 million oz before the large deposit this week increased the amount of silver held there to nearly 33 million oz, a sudden increase of nearly 75%. Itâ??s certainly not as if 14 million oz of physical silver is all that much in dollar terms (around $230 million at $16.50) and itâ??s perhaps more a wonder why someone hasnâ??t moved sooner to buy physical silver in such quantities in an international venue. Silver is, after all, a truly international commodity.

So my sense is that the big withdrawals from the JPMorgan COMEX warehouse and from the SLV may be related to the big deposit in the Deutsche Bank ETC. Over the past seven years, JPMorgan has picked up about 8 million oz of physical silver monthly, so a sudden purchase by any other entity (say Goldman Sachs of 12 million oz in the March deliveries or whoever may be behind the DB ETC purchase) could set the physical silver world off kilter, with â??off kilterâ?• being decidedly bullish on price. Oh, and by the way, guess who is the custodian for the Deutsche Bank silver ETC? Yeah, you know who.

Also, there have been some pretty hefty deposits into the DB gold ETC of nearly 190,000 oz yesterday and more than 320,000 oz over the past month, quite large for an ETF holding just over 4 million oz of gold. In dollar terms, more has gone into gold than silver, but 14 million oz of silver has miles more significance in physical terms than does 320,000 oz of gold because silver is so cheap relative to gold that the same amount of money has a more profound effect in silver.

Speaking of JPMorgan, it has emerged (no surprise) as nearly the sole net stopper in the waning April COMEX gold deliveries, as HSBC has now flipped from being an early gold stopper to issuer. The numbers of gold contracts stopped by JPMorgan in its house account are not large in any way, except as a percentage of all contracts stopped. In addition, those remaining April gold contracts being closed out by offsetting futures transactions (as opposed to delivery) have occurred with a pickup in relative spread price strength for the April futures month, a mini-move towards backwardation. Bottom line is the April gold deliveries, while small in number, still look tight in physical terms. No, nowhere near as tight as physical silver appears, but tight for gold nonetheless.

The changes in the COT report released yesterday were certainly in the expected direction, in that there was a deterioration, or managed money buying and commercial selling in both gold and silver. As much as I tried to downplay reliance on my specific contract estimates, the deterioration was much less than I expected in gold (20,000 contracts) and much more than I feared in silver (my guess was for half the expected increase in gold, or 10,000 contracts). The alternative of not putting out contract estimates of some type is simple wimping out to me at this stage of my life.

In COMEX gold futures, the commercials increased their total net short position by 9600 contracts to 185,300 contracts. From just about every perspective, the changes in gold were not extreme. By commercial category, the big 4 added 1300 shorts, the big 5 thru 8 added 500 shorts and the raptors sold off 7800 longs, reducing their net long position to 65,800 contracts. As a reminder, gold prices did briefly set close to new highs on the first day of the reporting week, up nearly $20, but by the reporting weekâ??s end had only finished $5 or so higher and no moving averages were penetrated.

The managed money traders in gold bought even less than the commercials sold, as these traders bought just over 7000 net contracts, comprised of 3881 new longs and the short covering of 3195 contracts. Thus, the market structure in gold remains squarely in the neutral category, quite capable of rising by a hundred or more dollars and falling by less than that amount.

In COMEX silver futures, the commercials increased their total net short position by 12,400 contracts to 17,000 contracts (I was somewhat disappointed until I got a gander at the amount of managed money buying, which was nearly double the net commercial selling). By commercial categories (and please remember the big 4 and big 5 thru 8 have not been purely commercial since a number of managed money traders entered the ranks of the big 8 shorts in silver), the big 4 added 700 new shorts, the big 5 thru 8 added 1200 new shorts and the raptors sold off 10,500 existing longs, reducing the raptor net long position to 57,600 contracts.

As to the all-important question of what the crooks at JPMorgan did, unfortunately, Iâ??m not sure, as I feared might be the case. They might have added 4000 contracts or so of new shorts, but the truth is that Iâ??m just not sure. Hopefully, Iâ??ll know by next week and if not then by the following week, when the new Bank Participation report is due out. Yes, that does seem like an eternity and Iâ??m certain that is no coincidence, considering that the big move in silver took place just after this weekâ??s cutoff.

The managed money traders bought back a whopping 22,355 net silver contracts, consisting of new longs in the amount of 6055 contracts and the short covering of 16,300 contracts. As of the close of business on Tuesday, managed money longs amounted to just under 40,000 contracts, not at all large by recent historical standards (but up from the 32,000 contract recent low) and a still large short position of 54,598 contracts. Unfortunately, this was as of Tuesday and before the orgy of managed money buying on Wednesday and Thursday.

It was always a certainty that the managed money traders would rush to quickly buy back shorts and add longs the minute the key moving averages came close to being penetrated to the upside; so no one should be shocked that the managed money traders did so during a reporting week which featured only slight penetrations of the key 200 day moving average. The surprise to me was that the sellers to the managed money buyers demanded such small price gains to sell so many silver contracts. There is no question that those long the silver market had the managed money shorts over a real barrel and could have demanded much higher prices at which to sell to the certain managed money buying that had to come. I would remind you that silver only climbed by as much as 30 cents at its high point during the reporting week and finished less than 20 cents higher for the week.

So the important takeaway is not that the managed money traders bought so aggressively, but that the sellers to them were as aggressive as they were. One of the bright spots to this weekâ??s otherwise rather dismal report was that traders away from the commercials sold close to 10,000 net contracts into managed money buying, including the other large reporting speculators and the non-reporting small traders. Anyone selling other than JPMorgan is good news, period.

With commentary in the COT report at record extremes, I am more than curious what the eventual reaction will be to this (and next) weekâ??s report, once commentators have had a chance to react to it. The one thing that stands out to me is that 22,000 contracts of net managed money buying is the equivalent of 110 million oz of silver, a truly enormous amount to be bought on a 20 or 30 cent rise in price and which shows how screwed up the price discovery process has become. As I hope I explained above, in terms of actual silver, 8 million oz or so over the course of a month is about all the world can handle without going off kilter (which is coming). But ten times that amount in COMEX paper terms is accepted as normal, or so it would seem.

Most importantly, the 110 million paper oz bought by the managed money traders over just a few days, as well as the same amount sold to them was purely speculative on both sides; which is nothing short of an abomination in free market terms. Not one actual miner or consumer of silver had anything to do with the price setting process in COMEX silver, yet every single real producer and consumer in the world is at the mercy of the paper cowboys on the COMEX. As much as I lament the staggering amount of plagiarism that comes from those stealing my work, I just wish these thieves would hurry up and plagiarize the fact that such massive speculative positioning is tantamount to manipulation and is contrary to US commodity law.

As I indicated at the outset, I didnâ??t sleep very well last night. I was tossing and turning, trying to wrap my head around an audio interview released yesterday of the CFTC of Enforcement Director Jamie McDonald. As it turned out, McDonald was interviewed by Andy Bush, the Market Intelligence Officer for the CFTC (whatever that title means). These were the two individuals I wrote to a year ago upon their assumption of duties on April 10, 2017. Itâ??s probably advisable that you listen to the interview before reading my comments, but Iâ??ll leave that up to you.

https://www.cftc.gov/Â click on April 20 podcast with James McDonald

What youâ??ll hear is a somewhat boring and self-congratulatory review of what a great job the agency is doing in terms of market manipulation in precious metals and how the agency welcomes and takes very serious any legitimate complaints and always follows up and pursues all allegations to the fullest extent; even offering multi-million dollar rewards under its whistleblower program. Towards the end, McDonald launches into a chronology of the CFTCâ??s dealings in silver dating back to its first public letter addressing the silver manipulation in 2004 (when McDonald was barely out of his teens) and the second public letter in May 2008, followed by the initiation of a formal silver investigation in Sep 2008 and its subsequent termination in 2013 and the infamous public hearing in 2010 on position limits when everything but position limits was discussed.

McDonald acknowledged that the Commission has received more complaints on precious metals (silver specifically) than any other market and wished to assure the public that the CFTC was diligently protecting it from the evils of price manipulation around the clock and yada, yada, yada. His chronology read like something out of one of my articles since I was instrumental in both public letters and the formal investigation; although I was â??uninvitedâ?• from the public hearing even though my signature solution to the manipulation for more than 20 years to that point was the implementation of legitimate position limits (and still is). In other words, McDonald lied through his teeth.

Before demonstrating that McDonald did, in fact, lie; let me point out why the interview was posted, namely, neither he nor the agency can address my allegations. This was a smokescreen designed to avoid having to do so. Yes, itâ??s true that back in 2004 and 2008 many thousands of public participants wrote to the agency on the matter of the silver manipulation at my urging. But I havenâ??t urged anyone to write in recently, and as far as I know, Iâ??m the only one who continues to write to McDonald and the agency (twice weekly). So rather than a public assurance that everything is on the up and up in COMEX silver, why not just pick up the phone and explain to me why I am wrong in my allegations?

Iâ??ll tell you why â?? because neither he nor the agency can offer a legitimate rebuttal to my allegations, including how the price of silver (and other commodities) has been illegally hijacked by excessive speculation on the COMEX. The truth is that no one from the agency has ever inquired, followed up or challenged any of my allegations. I like to think thatâ??s because all my allegations are based upon the agencyâ??s own public data and hereâ??s a perfect opportunity to prove me wrong. So much for the agency earnestly following up on every credible allegation.

Conspicuously missing from the interview was any mention of the highly unusual circumstances around the publishing of the May 2008 public letter dismissing any thought that there might be the slightest problem on the short side of COMEX silver (and gold) by large traders and the sudden initiation of a formal investigation just a few months later in September. The circumstances involved two words â?? Bear Stearns. The Bank Participation Report of August 2008 led conclusively to the fact that Bear Stearns went tits up in March 2008 as silver prices were at 30 year highs and gold was at all-time highs because Bear was the biggest short seller on the COMEX and its epic short position needed a decidedly unfree market solution to be resolved – a transfer of the short position to the crooks at JPMorgan.

At least, that was what CFTC officials wrote to congressman and senators at the time (although not in those words). So either the CFTC was lying to lawmakers at the time (Sep 2008) or it was lying to the public in its May 2008 (and earlier 2004) letter and subsequently when it asserted all was well in silver. Or both. In any event, there can be little doubt that McDonald is lying in this interview. Just a week before this smokescreen of an interview yesterday, I wrote to him and publicly in detail about how JPMorgan had continued its always winning, never losing perfect trading record to the tune of at least $400 million in paper profits while it continued to scoop up another 100 million oz of physical silver on the cheap â?? all since he assumed the role of enforcement director and all based upon the agencyâ??s own data. And this guy has the gall to assert he is leading the charge against precious metals manipulation? You know that crude saying â?? Donâ??t piss on my leg and tell me itâ??s raining.

Weâ??ve truly reached a deplorable state when not only political figures lie regularly, but those supposedly non-political and who have sworn an oath to uphold the rule of law and are in the sacred position of protecting the publicâ??s interest chose instead to turn their back on the public and lie about it. Look, if Iâ??m wrong in even the slightest way in any of this I will apologize profusely and seek to retract any and all of my admittedly harsh words. But Iâ??m not going to tolerate BS interviews and the lack of a legitimate response to what I know are highly legitimate allegations. Iâ??m way too old for that any more.

As far as what all this means for silver going forward, Iâ??m somewhat disappointed in how easily the managed money traders were let off the short hook, but I want to see more conclusive proof that silver criminal number one – JPMorgan – has begun to add aggressively to short positions. I am highly encouraged by developments on the physical side of the silver ledger and anxiously await the start of the May deliveries late next week. All things considered, Iâ??ve been too afraid to even think about selling and chance missing the move Iâ??ve awaited for decades. Truth is that Iâ??m more afraid of missing that move than ever before.

Ted Butler

April 21, 2018

Silver – $17.15Â Â Â Â Â Â (200 day ma – $16.77, 50 day ma – $16.54)

Gold – $1338Â Â Â Â Â Â Â Â Â Â (200 day ma – $1301, 50 day ma – $1333)

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