April 27, 2019 – Weekly Review

After four straight weeks of price declines and new year-to-date price lows early this week, gold and silver managed to finish higher by weekâ??s end; with gold ending up by $12 (0.9%) and silver finishing 7 cents (0.5%) higher. As a result of goldâ??s relative outperformance, the silver/gold price ratio widened out by nearly half a point to 85.8 to 1. Although oneâ??s senses become dulled by years of depressed prices, I have trouble discerning which is crazier â?? silverâ??s low absolute price or its low relative price to gold (and just about everything else). It goes almost without saying that when silverâ??s insane low price is corrected, the adjustment will be dramatic on both an absolute and relative basis.

Perhaps more than I can recall feeling in quite a while, I sense that the time is at hand for an upward adjustment of some significance in the price of silver and gold. To be sure, I canâ??t say I havenâ??t had similar feelings over the past several years and while price rallies did always seemed to occur following those feelings, none of the rallies could be termed truly significant, particularly in silver. In fact, 8 years of capped and failed rallies have made most of us feel like the dog in the Springsteen song thatâ??s been beaten so much, it spends most of its time covering up. I think thatâ??s about to change.

Principal among my reasons for thinking a great price sea change may be upon us, of course, is the current status of the market structure on the COMEX. As Iâ??ll detail in a moment, the futures contract positioning changes reported in yesterdayâ??s Commitments of Traders (COT) report came very close to expectations and indicate a quite dramatic and positive shift over the past two months. There are other reasons for my sense of impending price relief, like the recent parting of ways between the dollar and precious metals movement and the growing awareness that COMEX positioning sets the price, but the positioning changes are at the very top of the list.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled a bit this week as 3.3 million oz were moved and total inventories rose by 1.4 million oz to 307.1 million oz, another all-time high. Another 0.54 million oz were deposited into the JPMorgan COMEX warehouse, increasing the amount of silver held there to 150.6 million oz.

Following last weekâ??s comments, I canâ??t say I was surprised to see that Citibank redelivered the remaining 400 gold contracts of the 2340 contracts it had stopped early in the COMEX April delivery month â?? or that JPMorgan seemed to be the big stopper (for customers). In the February delivery period, Citi originally stopped 2474 gold contracts and ended up re-issuing 2424 of those contracts later in the delivery month (Iâ??m trying to figure out what happened to the 50 contracts it didnâ??t redeliver).

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Like many things there is some, but limited transparency in COMEX deliveries. But these are important transactions in that they represent the conversion mechanism between futures contracts and actual metal, the mechanism that gives the COMEX legitimacy. Therefore itâ??s important to try to comprehend as much about the delivery transactions as possible. There is never a disclosure about the customers who may be taking or making delivery, the information is limited to the 30 or so clearing member firms who take or make deliveries on behalf of customers. But the requirement that clearing members must disclose if they are conducting deliveries as principals in their own house account or on behalf of clients helps somewhat as far as transparency is concerned (but even then, full transparency is not hard to evade).

One thing we do know about deliveries on futures is that they involve physical metal being exchanged for full cash value â?? at the point of delivery, there is no more margin, just physical metal and cash for that metal. Itâ??s where the rubber meets the road, so to speak. The total gold deliveries taken and then redelivered by Citibank (in its house account) in both February and April amounted to a combined 4764 contracts the equivalent of 476,400 oz of gold; worth more than $600 million. First, Citi paid fully for the gold and then redelivered the physical metal and received full payment. Those are basically the facts as far as we can see them, it then becomes a question of determining the most plausible explanation for those facts.

Certainly, if Citibank wished to trade on a very short term basis (within a month) $600 million worth of gold, there were much more efficient and lower cost means of doing so â?? trading futures contracts, for instance. Why go to the trouble of paying full cash for physical metal and turning around and redelivering the physical metal for cash in the end? Everyone is free to construct their own most plausible explanation and mine is this â?? Citi served as a front for JPMorgan which was the ultimate owner of the 476,400 oz of gold.

I donâ??t think thereâ??s anything necessarily illegal about the transaction and I can fully understand JPMorgan not wanting anyone to know it is accumulating physical gold, something Iâ??ve maintained for quite some time. Come to think of it, since I spend more time deciphering JPMorganâ??s footprints in silver, Iâ??ve probably been negligent in estimating the true size of JPMâ??s physical gold holdings, which could now be more than the 20 million oz I estimate. Any other plausible explanations for Citibankâ??s recent gold delivery transactions are fully welcomed and solicited.

While I didnâ??t offer any contract predictions, yesterdayâ??s COT report did fully meet expectations for positioning changes of some significance. Both gold and silver prices were down through the Tuesday cutoff in classic new price low fashion, virtually guaranteeing managed money selling and commercial buying. The only limitation to the amount of managed money selling was the extent of previous selling going into the reporting week, something that was particularly evident in silver.

In COMEX gold futures, the commercials bought and reduced their total net short position by 21,000 contracts to 57,400 contracts. This is the lowest (most bullish) level since Nov 27, when gold was around $1220 and embarking on a three-month rally to $1350. If my hunch that we have bottomed out proves to be accurate, I would imagine the rally this time would be much greater.

There was some slight increase in the concentrated short position of the 4 and 8 largest traders, but there can be little doubt that the increase was due to managed money shorting, not commercial. Iâ??d peg JPMorgan to be net long 20,000 gold contracts (2 million oz), in addition to its physical long position of at least 20 million oz.

On the sell side of gold, the managed money traders sold 18,442 net contracts, nearly matching the commercial buying, consisting of the sale and liquidation of 7207 long contracts and the new short sale 11,235 contracts. The net short position of the managed money traders on Tuesday was 33,829 contracts (88,989 longs versus 122,818 shorts), the largest (most bullish) position since the end of

November and the mirror image to the small commercial net short position.

After this week, it wouldnâ??t appear there is much room for additional managed money gold long liquidation based upon historical standards. There might be some room for additional managed money shorting based upon the extreme levels seen last year, but there is little doubt that any added gold shorts will only end in losses for the managed money traders, something one would imagine they would see themselves from past actual experience.

Remarkably, in the 9 weeks since the Feb 19 top in gold prices at $1350, some 109,000 net commercial contracts (10.9 million oz) have been bought and 116,200 net managed money contracts (11.6 million oz) have been sold. Eleven million gold oz are equal to $14 billion. Itâ??s important to recognize that these are actual overnight positioning changes, not the hyper-active day trading involved in perhaps 99% of daily trading volume. I know these are paper contracts, not real metal, but the quantity of the actual positioning changes are so large that they cause real world physical gold dealings to look tiny by comparison. For instance, no other entity or trading venue in the world featured 11 million oz of gold positioning over the past 9 weeks (particularly, not the phony bologna LBMA).

Itâ??s not right, of course, that a small and very select group of paper speculators (managed money traders and speculating banks) are setting the price of gold, silver and other commodities; but a lot of things in the world are not right. But denying reality is even more wrong and there is no excuse for not seeing what really sets price. Itâ??s even worse in silver, as Iâ??ll show.

In COMEX silver futures, the commercial reduced their net short position by 3,700 contracts to 20,000 contracts. This is the lowest (most bullish) commercial net short position since Dec 4, when the price of silver was around $14.50 and embarking on a move to $16.20 on Feb 26. The total concentrated short position of the 4 and 8 largest traders actually fell a bit, which is somewhat remarkable since there was commercial buying and managed money shorting; meaning the commercial share of the concentrated short position is even less than the actual numbers suggest. As expected, JPMorgan appears to have increased its net long position to 3000 contracts, up a thousand for the reporting week.

The managed money traders sold more than the commercials bought, as these traders sold 6611 net silver contracts, comprised of the sale and liquidation of 323 long contracts and the new short sale of 6288 contracts. The resultant managed money net short position of 17,539 contracts (49,667 longs versus 67,206 shorts) is the largest (most bullish) since Dec. For the third week running, there was very little managed money long liquidation, confirming expectations such selling has been exhausted. I doubt the managed money traders will add many new shorts, and Iâ??m scratching my head trying to comprehend why they sold as many as theyâ??ve sold short to this point.

In the 8 weeks from Feb 26, on a silver price drop of $1.50, the commercials, quite remarkably, bought 58,200 net contracts, the equivalent of 291 million oz of silver. I would calculate that JPMorgan accounted for 31,000 contracts (155 million oz) of that total commercial buying. Over that same time, the managed money traders sold 65,300 net contracts (326 million oz), including both long liquidation and new short selling.

Over the same 8 weeks, all the world mined no more than 130 million oz of silver, so the 80 or so traders in the managed money category sold 2.5 times more than the world was able to produce. These traders are most definitely speculators (as are their speculative counterparty buyers), so there was little to no actual legitimate hedging taking place. If you donâ??t think the sale of 326 million oz of paper silver over 8 weeks accounted for the silver price drop of $1.50, you might consider applying for a position at the CFTC, where you will find kindred folk.

Most importantly, now that all this extreme managed money selling has occurred in both silver and gold, what next? While I could never rule out even more selling ahead, seeing as these are the most crooked markets in the world, I would be lying if I told you anything but how excited I am about an imminent price liftoff. Iâ??m sure this shouldnâ??t come as a surprise since my feelings are based upon the process of getting more bullish, the more the managed money traders sell and the commercial buy. This process has been underway since the end of February and appears to me to have now been completed.

Yes, I know that back last summer and fall, the managed money traders held even larger net short positions in silver and gold than they do now and therein lies the measure of whether Iâ??ll be right or wrong. COT analysis, while based upon objective data, necessarily involves subjective interpretation. The data are always correct, not so the interpretation. The managed money technical funds, as a whole, have never been correct when they bet on the short side of gold and silver. The wonder is why they still persist. Whenever they get heavily short, itâ??s just a matter of time and price as to when they will buy back and how much they will lose. These managed money traders are heavily short now, more short in fact than they have ever been in history â?? save for last year. So the bet, as it were, is whether these nitwits press the short side to the extent they did in 2018. I donâ??t think they will and they are already in position to commence buyback operations.

In fact, I find it quite remarkable, considering the extent of the managed money shorting to date, just how close we might be to concerted technical fund buying ahead. Yes, prices did make fresh year-to-date lows earlier in the week, but by weekâ??s end, what stood out most to me was how close we are to breaking out to the upside. Consider that gold is only a few dollars below an upward penetration of its 100 day moving average and only $13 from a similar penetration of its key 50 day ma. A downward penetration of goldâ??s 200 day moving average (now at $1254) looked quite close early this week, but not so much now. Should the 50 day moving average be penetrated to the upside that means all the key moving averages in gold would be flashing buy signals to the traders to which these price signals matter most â?? the managed money traders.

In silver, yesterday we closed at the 50 day moving average and should we rally a further 30 cents or so, all the key moving averages will be penetrated to the upside, flashing unequivocal â??buyâ?• signals to the one group of traders demonstrated to move prices â?? the same group of traders which currently hold massive short positions. As I think you know, I find the whole topic of trading or investing based upon charts and moving averages to not be something that appeals to me intellectually. Nevertheless, I recognize that enough market participants, particularly those who actually set prices do rely on such price signals and mandates close observance of what these traders may be about to do.

It would appear that on not that large a price rise from here, great numbers of managed money buy orders should flood into gold and silver. At that point, it will be up to the commercial sellers to determine how much prices may rise. In particular, the selling behavior of JPMorgan will matter most, as I have outlined continuously. I can even see JPMorgan selling moderate amounts of gold and silver contracts â?? not enough to cap prices, but enough to demonstrate to the regulators that it tried to contain prices (that is, if the regulators were to even ask in the first place).

Regardless, even if the managed money traders get tricked into selling even more short contracts on new price lows, the next big wave from these traders will be buying to the upside. I think that buy wave will come sooner rather than later and truth be told, I think real soon.

I would be remiss if I didnâ??t mention the recent run to new highs in crude oil. In the weekly review of Jan 19, I commented how crude oil prices had fallen from the mid-$70 to the low 40â??s as a result of managed money selling of some 300,000 contracts (300 million barrels) and appeared to be reversing course. Prices have now risen as high as $66 a barrel as the managed money traders have now bought nearly 300 million barrels of oil on the NYMEX. Yes, I know there are countless stories about Iran, Saudi Arabia, Russia and the shale oil patch, but none of those things measure up to big managed money buying or selling. Just saying.

Ted Butler

April 27, 2019

Silver – $15.02Â Â Â Â Â Â Â Â Â Â (200 day ma – $15.02, 50 day ma – $15.29)

Gold – $1289Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1254, 50 day ma – $1302)

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