August 12, 2017 – Weekly Review

Gold and silver shrugged off last weekâ??s selloff and surged higher for the week; with gold up $31 (2.5%) and silver by 86 cents (5.3%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by nearly two full points to 75.5 to 1, continuing the recent flip flops in the ratio, but leaving it still within a fairly tight trading range of the past couple of years.

Over the past five weeks, gold has rallied just over $80, while silver has climbed by a bit more than $1.50. Goldâ??s price close yesterday puts it at just about the highs for this year and near the $1300 level of last November. If (emphasis on â??ifâ?•) gold were to tack on another $80, it would put it at the price highs of last summer and should those levels be exceeded, even by a little, then we will be looking at four year highs. I suppose this might drive home the fact that gold has been in a fairly tight trading range since mid-2013, rarely straying more than $150 up or down from the $1200 level. Considering some fairly monumental adjustments in various world financial markets over this time (to say nothing of non-financial world adjustments), the price stability in gold is noteworthy.

Likewise, silver has also been in a fairly tight trading range since 2013, centered on the $17.50 price level or so, rarely moving $3 higher or lower from there. Considering all that has transpired in the world of silver (as I see it, at least), I find the price stability in silver even more remarkable than that of gold. I would attribute the long period of price stability in each metal, particularly in silver, to the artificial and manipulative grip on prices exerted by futures contract positioning on the COMEX; where the past four years have featured a never-ending cycle of snookering of the managed money technical funds by the commercials. And I canâ??t imagine how any objective observer could conclude anything else.

As always, COMEX futures market positioning is the key standout for the week, not so much in the somewhat disappointing results of yesterdayâ??s Commitments of Traders (COT) report, but in the prospective changes in gold and silver market structure since the Tuesday cutoff. Most of this calendar weekâ??s gain (as of Friday) in gold and silver came in the three days since the cutoff for yesterdayâ??s COT report, so like it or not, one is forced to factor in what likely happened over the past three trading days in market structure, given the sharp rally and heavy trading volume on the COMEX. Iâ??ll do so after covering other weekly developments.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses rose to the highest level in six weeks, as 5.2 million oz were moved and total inventories rose by a relatively scant 0.3 million oz to 216 million oz, enough to establish another new 20+ year high water mark for total COMEX silver inventories.

Of more significance to me was that JPMorgan increased the amount of silver in its COMEX warehouse by more than 1.5 million oz to just under 115.5 million oz, another new record high. No one can dispute that JPMorgan has corralled more silver in its COMEX warehouse than anyone else, but the most important takeaway is that this is just the tip of the iceberg when it comes to JPMâ??s accumulation of physical silver over the past six years.

Even though JPMorgan has stopped taking delivery of COMEX silver futures contracts since the end of March and stopped buying Silver Eagles since near yearend, the bank has shown no signs of ending

its massive and historical accumulation of physical metal. Instead, it has ceased accumulating silver in the two most transparent forms to concentrate on the less-obvious forms. The principal means by which JPMorgan has acquired physical metal is by share to metal conversions in the big silver ETF, SLV.

As a reminder, total shares outstanding in the trust (same with GLD and some other ETFs) must be matched by a proscribed amount of physical metal. If shares outstanding grow (due to new net investment buying), new metal must be deposited (unless new short selling occurs). If shares outstanding fall (due to net selling), the appropriate amount of physical metal is removed from the trust. The catch is that the shares outstanding/physical metal process can work another way, namely, metal can first be deposited into the trust, creating new shares outstanding, or existing shares can be converted to physical metal and removed from the trust.

As to why an authorized participant in SLV would â??turn inâ?• or convert shares to physical metal, I have long maintained that such a practice would be used by a large entity seeking to accumulate physical metal on the sly, because too large a share position (over 5%) would require SEC reporting and public disclosure, where a conversion of shares to metal would avoid public disclosure completely (there are no reporting levels for physical metal ownership). JPMorgan is better equipped to pull off share to metal conversions in SLV than any other entity, because it is not only an authorized participant (AP), but is also the sole custodian of the physical silver in the trust. In terms of share to metal conversions in SLV, JPMorgan is in the catbirdâ??s seat.

I raise this issue because there have been unusually large withdrawals of metal from the SLV over the past month and week. Over the past month, more than 13 million oz have â??come outâ?• of SLV, with 3.8 million oz this week alone. Remember, silver has rallied $1.50 over the past month with more than half of the gain coming this week. Normally (whatever that word means in our increasingly crazy world), higher prices denote net investor buying, as the buyers are more aggressive than the sellers, and that results in new shares outstanding being created and more metal deposited into the trust to back those new shares. So I just reported the opposite – strong buying on higher prices with metal coming out of SLV instead of going in. What gives?

What gives is that JPMorgan has ramped up its accumulation of physical silver through the share to metal conversion route in SLV and this, alone, accounts for the phenomenon of big metal withdrawals on rising prices. The motive for JPMorgan is obvious â?? accumulate more physical metal without having to disclose that fact. Not only is my explanation the only one offered, it is the only explanation I can possibly conceive. And I would point out that there is more silver in SLV than in any stockpile in the world, which should make the question of the recent notable withdrawals of prime interest to anyone who follows silver. Yet unless Iâ??m reading in all the wrong places, I havenâ??t heard any discussions on the big recent withdrawals or the reasons for them. That is astounding to me.

Between conversions of shares to metal in SLV and deposits into its own COMEX warehouse (by skimming from the weekly physical turnover), I would estimate that JPMorgan has acquired more than 17 million oz of physical silver over the past month or so. That means the worldâ??s most crooked bank now holds a lot more than the 600 million oz I pegged them at some months back. Iâ??m hesitant to add on 50 million oz to JPMorganâ??s physical silver hoard willy-nilly, but 17 million oz in a month is not exactly chump change.

I still donâ??t see anything worth reporting on in terms of COMEX deliveries for gold and silver, so I

wonâ??t. And, if anything, sales of Silver (and Gold) Eagles have cooled off even further from recent tepid levels. Certainly, no one would even try to connect the price action over the past month and week to the buying of coins from the US Mint.

The latest report for short selling in securities, as of July 31, indicated the short position in SLV fell by a very slight 140,000 shares to 11.8 million shares (ounces). Iâ??m still of the opinion that there was a big reduction in the short position on SLV a short while back, but that is being camouflaged due to the â??short against the boxâ?• considerations previously discussed. There was, however, a rather large increase in the short position on GLD, the big gold ETF. GLDâ??s short position rose by nearly 5 million shares to just over 12.7 million shares (1.2 million oz), an increase of more than 60%.

Five million shares of GLD are the equivalent of 500,000 oz of gold or a dollar amount of more than $600 million. It is also the equivalent of 5000 COMEX contracts, just to better put it into perspective. But shares of GLD represent physical metal and just like the case in SLV, the short position must be considered in terms of physical metal. In other words, in paper contract terms, 5000 COMEX gold contracts are not excessively large in terms of weekly positioning; but much larger in terms of physical metal. For instance, total COMEX gold deliveries this month are fairly large at just over 4500 contracts so far and the increase in the short position in GLD is larger than that. My main point is that the biggest reason for shorting shares of GLD and SLV is because physical metal is not available, so in effect, any large increase in ETF short selling is to likely evade the necessity of securing physical metal without driving prices higher. If thatâ??s not manipulative, then I donâ??t what is.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2

On to the COT report published yesterday. I had been expecting a slight improvement in gold and a bigger improvement in silver, meaning managed money selling and commercial buying, but none was to be found in this weekâ??s report. The only thing I got right was that, relatively speaking, silver was a bit better than gold. Iâ??ll run through the changes in this weekâ??s report, since the big price action and trading volume occurred after the Tuesday cutoff.

In COMEX gold futures, the commercials increased their total short position by 16,100 contracts to 159,500 contracts. This was the largest (least bullish) total level in six weeks. By commercial category, the big 4 added a large 9700 short contracts and now hold 164,500 contracts their largest level since June 6 and the start of an $80+ gold price drop. The big 5 thru 8 added 2200 new shorts and the raptors sold off 4200 long contracts. Kind of one for all, all for one-ish.

The managed money traders more than matched the commercial selling, as these traders bought just over 17,500 contracts, composed of 6746 new longs and the short covering of 10,781 contracts. I mentioned last week that the managed money traders had nearly exhausted their short covering capacity, so I was surprised at the extent of short covering, especially since gold prices were lower over the reporting week. But with less than 26,000 managed money short contracts still open, one of the lowest numbers in years, Iâ??m not being bold in doubling down on my assertion that not much short covering buying power remains from managed money shorts. After all, this is not a number that can go lower than zero.

In COMEX silver futures, the commercials reduced their total net short position by 100 contracts where I was expecting (hoping) for much more, on the order of 10,000 contracts. The new total commercial short position of 39,600 is among the highest short positions of the past 5 or 6 weeks, but not excessively high (bearish) by the historical standards of the past couple of years. The real worry is

what transpired since Tuesday in silver (and gold) positioning.

By commercial category, the big 4 added 2000 contracts, while the other categories bought, including the big 5 thru 8 (900 contracts) and the raptors, which added 1200 new longs to a net long position now totaling 39,600 contracts, which happens to be the same number of total commercial net shorts (a statistical oddity).

Not a statistical oddity is that Iâ??d peg JPMorganâ??s short position at 25,000 contracts, up 2000 for the week. Yes, JPM may have purchased 17 million oz of physical silver over the past month, but it likely sold short 10 million oz of paper silver over the past reporting week and a lot more than that (perhaps 50 million oz) in paper short sales over the past few weeks. As far as I can tell, JPMorgan may have been the only commercial short seller in COMEX silver over the past three weeks. It doesnâ??t get more concentrated than that. Hey, have I ever mentioned that JPMorgan is a stone cold silver market crook?

Where the commercials were nearly flat on balance, the managed money traders bought back 4491 short contracts while they sold only 5 long contracts, even though silver prices penetrated to the downside the key 50 day moving average every day of the reporting week. I would attribute the managed money short covering in silver (and in gold as well) to the fact that the short positions held by the managed money traders in both gold and silver were so poorly placed (in a price hole), that these traders bought back short positions because the open loss per contract had grown quite large. I had commented previously that short sales by the managed money technical funds after an extensive price decline were usually lame trades that nearly always ended in losses and this time proved to be no exception. All that remains to be seen is whether these technical fund nitwits can be tricked into shorting on even lower prices by the commercials.

With nearly 39,000 short contracts remaining open by the managed money traders on Tuesday, the question is how many contracts have been bought back in silver since Tuesday? I would imagine plenty. After all, over the course of three days, silver not only decisively penetrated its 50 day moving average, it temporarily traded above its 200 day moving average for the first time in more than two months. It would seem reasonable to expect that as many as 20,000 net managed money silver contracts were bought over the past three days and I could imagine that amount of pure short covering alone, and even more when factoring in new managed money long positions. In gold there shouldnâ??t be as big an amount of managed money short covering (since the short position is low to start with), but new managed money longs could result in net buying of 40,000 gold contracts thru yesterdayâ??s close. Let me take a break from this before returning with some conclusions.

In the â??whatâ??s wrong with this picture?â?• department, the CFTC released another podcast, this time an interview yesterday with the chairman of the agency, J. Christopher Giancarlo, which covers the role of the CFTC in markets. I prefer the written transcript version over the podcast, but the choice is up to you. http://www.cftc.gov/Media/Podcast/index.htm

The great thing about the interview is that it brings into focus the very issue that I have recently emphasized â?? the disconnect between why futures markets were created and what they have evolved into, particularly in silver. Chairman Giancarlo correctly and clearly identifies the purpose of futures trading is to enable hedging; the laying off of risk by the real producers and consumers of commodities. He uses real commodity examples from coal and cotton to winter wheat. So far so good.

But then the Chairman tries to segue from the advanced technology he observed in the running of a modern cotton farm to the fact that 70% to 80% of commodity trading (much more in silver) is done by machines using algorithms, not by real producers and consumers. Huh? What in the world does mindless and overwhelming computer trading have to do with legitimate hedging?

There are no mining companies or industrial users of silver trading COMEX silver futures. Yes, there is a trading category in the disaggregated COT report titled, â??Producer/Merchant/Processor/User,â?• but there are no real producers or users in COMEX silver futures. We know this to be true based upon the positioning changes regularly reported in the COT and Bank Participation Reports. In COMEX silver futures, as I report incessantly, all the trading, effectively, is between the managed money technical funds and everyone else â?? the commercials and the other traders who have joined in with the commercials as counterparties to the technical funds.

My simple point and question is how can the positioning in COMEX silver futures be considered to be in keeping with the intent of Congress and commodity law if the natural hedgers, the actual silver producers and users, are excluded from trading? I didnâ??t say the silver miners and industrial users werenâ??t allowed to trader COMEX silver futures; just that they donâ??t trade. I understand that the modern world is increasingly computerized and digitized, but isnâ??t there something wrong when the participants that the futures markets were created for â?? the real hedgers â?? have no presence in trading?

Congress did not intend to create a regulated futures market for the purpose of enabling an exclusive arena for gamblers and speculators. It intended for speculators to assume the price risk not wanted by real producers and consumers. But if there are no real hedgers involved, then all that remains is a sophisticated gambling den. With real hedgers absent from COMEX silver futures, all thatâ??s left are speculators trading against speculators. The obvious problem with an all-speculator market composition is that the trading becomes completely detached from the influence of real production and consumption. In other words, the price effect of the real law of supply and demand is replaced by whatever the paper speculatorsâ?? motivation may be â?? moving averages and momentum considerations. Algorithmic trading is not legitimate producer or consumer hedging.

Because this point is so simple, it is something that Chairman Giancarlo and the Commission can deal with, just as simply. No need for expensive and time-consuming studies or investigations; just a simple answer to a simple question, namely, how can COMEX silver futures trading be considered legitimate if there are no legitimate hedgers involved? Not only is this not a trick question, it goes to the core of the COMEXâ??s legitimacy.

The one good thing that may come to pass as a result of the recent price move higher is a resolution of a key question I have raised for months. Iâ??m not saying the answer will be good, just that we should get an answer. As a result of moving up in price almost exclusively due to COMEX futures market positioning in gold and silver, next Fridayâ??s COT report should reveal much. In particular, we should be able to draw a bead on whether JPMorgan has continued to add aggressively to its COMEX silver short positions, although it might take a few more reports to determine that. As you know, this is the key issue for me, particularly in terms of the new Enforcement Director of the CFTC, James McDonald.

If there is a big increase from here in JPMorganâ??s silver short position, then it would be unreasonable to believe that McDonald had any intention of ending a silver manipulation, despite some

pretty impressive enforcement cases heâ??s brought to date. After all, McDonald has been in office for four months, a time in which JPMorgan has orchestrated two pronounced silver price manipulations to the downside; one starting a week or so since his first day on the job on April 10 and another one starting on June 6, after JPM had added to its silver short positions once again. On each engineered price drop, JPMorgan bought back added short positions at profits (all while continuing to accumulate physical silver on the cheap). Iâ??d give McDonald a pass on the first silver price take down in April, but he should have taken action as JPM added short positions into the June 6 price top.

Should JPMorgan continue to add aggressively to short positions into next weekâ??s COT report, I canâ??t see how it would be reasonable to think that McDonald had or has any intention of dealing with an ongoing manipulation thatâ??s been explained to him (by me) in paint-by-the-numbers terms. If he hasnâ??t picked up what I put down, thatâ??s on him. I may not go so far as concluding heâ??s just another useless and corrupt government official (as many or most of you have concluded) but Iâ??ll drop any thought of him doing the right thing like itâ??s hot. Good or bad, the resolution of this matter always had a limited shelf life and the recent rally and prospective positioning changes have brought the expiration date to an end.

While itâ??s no surprise that gold and silver prices have rallied solely on managed money buying, that buying has been spent to the point that we have a different market structure. No longer are we at the drop-dead extremely bullish readings we were at on July 18, just three reporting weeks ago. Something caused the $80 rally in gold and $1.50 silver rally from the lows and if it wasnâ??t managed money buying on the COMEX, then you shouldnâ??t be reading this.

However, that doesnâ??t mean itâ??s a foregone conclusion that we must soon top out and move lower. We may do just that, but itâ??s certainly not guaranteed. We could just as easily move sharply higher from here on continued managed money buying and a whole variety of other buying forces that could be set off (in case you donâ??t follow world news). Based upon previous historical extremes, there is plenty of potential managed money buying in gold and silver before the market structure turns extremely bearish in either.

While the chance of selloff looms much larger as a result of the very recent price run, so does the chance of a continued run. I canâ??t pound on the table about the extremely bullish market structure, as a result of the recent and prospective positioning changes, but big gold and silver price run ups can easily occur long after the market structure turns neutral or even bearish, with the run up in 2016 a case in point. In the meantime, I am holding tight to all silver positions, including my throw the money out the window kamikaze option positions.

Ted Butler

August 12, 2017

Silver – $17.10Â Â (200 day ma – $17.11, 50 day ma – $16.56)

Gold – $1295Â Â Â Â Â Â (200 day ma – $1233, 50 day ma – $1255)

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