August 17, 2019 – Weekly Review

Despite another lower Friday, prices for gold and silver finished higher for the week, with gold ending $16 (1.1%) higher and silver by 17 cents (1%). For gold, it was the highest weekly close in more than 6 years and the highest close in silver in a year and a half. Given the nearly identical percentage change for the week, the silver/gold ratio remained around 89 to 1. While down a bit from recent near millennia levels of undervaluation extremes for silver relative to gold, just how cheap silver has gotten compared to gold is still mindboggling.

Not that I want to dwell on very short term price movements, it looked to me that yesterdayâ??s price weakness in silver was related to options expiration in SLV, the big silver ETF, where the price settled at a big option strike price ($16). I didnâ??t detect a corresponding large open interest strike price expiration in GLD. Iâ??ll get to yet another bombshell of a Commitments of Traders (COT) report in silver in a moment, but Iâ??m trying to decide the biggest development of the week â?? the COT report or the continued massive physical inflows of metal into the silver ETFs, principally SLV, which Iâ??m convinced are connected. Â But there were other developments as well.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off from last weekâ??s â??spikeâ?• in movement to the 8 year average. This week just under 2.8 million oz were manually and physically moved, as total inventories rose by 1.4 million oz to 312.6 million oz, another all-time record high. (By contrast, ten times the amount of that increase came into the SLV).

For the past seven weeks, the weekly average turnover has been 2.9 million oz and I continue to speculate that JPMorgan may have finished its skimming of the COMEX weekly physical movement as a major source of its massive accumulation of silver. No change in the JPM COMEX warehouse for the seventh straight week (still at 153.8 million oz).

There were some interesting developments in the August COMEX gold deliveries and very recent COMEX gold warehouse movements (not something I typically consider newsworthy). HSBC continues to be the standout issuer, having issued more than 3800 contracts (380,000 oz) of the 6053 total contracts issued this month. What caught my eye was that many of the HSBCâ??s gold deliveries in recent days have followed big physical inflows into its COMEX warehouse, despite the bank already being the largest gold warehouse with more than 5.8 million gold oz on deposit (of the 8 million oz total COMEX gold inventories).

This suggests to me that the gold already on deposit in the HSBC COMEX warehouse was spoken for and new metal had to be brought in to satisfy HSBCâ??s open short positions in the August contract. To me, this is a sign of physical gold tightness and that the remaining longs in the August futures contract insisted on physical delivery. Other items of interest include Citibank being apparently full up on stopping gold contracts for the month by not stopping any additional contracts yesterday (although it is the largest stopper at 1853 contracts for the month. Customers of JPMorgan are still stopping gold contracts and have stopped 1600 contracts for the month on a net basis (2288 on a gross basis).

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

The big physical news in silver still remains the absolutely remarkable amount of metal that has come into the big silver ETFs, particularly SLV. This week, nearly 15 million additional ounces have been deposited into SLV, increasing total physical silver holdings to more than 380 million oz. And even though COMEX total silver inventories have also grown to record levels, it was only about two months ago that I commented that COMEX inventories were in position to exceed the holdings in SLV for the first time ever.

Since then, COMEX inventories have increased by 5 million oz or so, while SLV inventories have increased by roughly 70 million oz (close to 100 million oz when including deposits into other silver ETFs). Who would have thunk it? I continue to contend that the massive physical inflows into the silver ETFs are directly connected to the sudden appearance (and subsequent disappearance) of the highly unusual concentrated long position in COMEX silver futures. More on that in a bit.

Turning to yesterdayâ??s COT report, I was very careful in passing on any predictions for what the report might indicate, despite unquestionable price strength in gold and silver for the reporting week. There was a sizable and very high volume selloff on the Tuesday cutoff, to be sure, but despite that selloff, gold closed up $30 for the reporting week and silver ended higher by more than 50 cents. Such price action, as any COT observer would expect, would usually result in heavy managed money buying and commercial selling.

Call it what you will, but I had a â??spidey senseâ?• that there might not be a big increase in managed money buying and commercial selling, and I mentioned JPMorganâ??s role and last weekâ??s very surprising managed money selling in silver as reasons. I was assuming (hoping) we might not see a big increase in managed money buying and commercial selling, which turned out to be the case in gold. But in silver, we got very large managed money selling and commercial buying, for the second straight reporting week. In the parlance of a bygone era, it nearly blew me away.

In COMEX gold futures, the commercials reduced their total net short position by a scant 600 contracts to 323,700 contracts. On a conventional and historic basis, this is still a very large and, therefore, bearish market structure for gold. And, as I have indicated, is also the only bearish factor in gold at this time. I am not surprised in the least about the proliferation of articles pointing to the extreme market structure as about to cause a severe decline in the price of gold; nor would I disagree that might turn out to be the case. After all, the COMEX gold market structure is bearish and a severe selloff canâ??t be ruled out.

But as bearish as the COMEX gold market structure may appear, there are some extenuating circumstances; the most prominent to me being the potential double cross by JPMorgan of the other large commercial shorts. As regular readers know, I contend that JPMorgan has, singularly, amassed extraordinarily large quantities of physical gold and silver over the past 6 to 8 years. On Wednesday, I pointed out that JPMorgan has an open profit on its 20 million oz net gold position of more than $6 billion on the $300 rally in gold above its $1200 average acquisition cost.

As far as I know, there are very few commentators who agree that JPMorgan has acquired the quantities of physical metal that I allege. This is not a minor distinction, nor is my contention that JPMorgan runs the show in gold and silver. With such large quantities of physical metals in its control,it is not possible for JPMorgan to do anything but make a bloody fortune on a continued price rise ingold and silver, regardless of what its paper short position may be on the COMEX. On the other hand,not possessing significant quantities of physical metal puts the other big (and little) COMEX papershorts in great jeopardy (as my running financial scoreboard has reflected).

This reporting week, the 4 biggest commercial gold shorts reduced their net short position by 3000 contracts, while the next 4 largest shorts increased their net short position by 5000 contracts, a fairly significant parting of the ways and further evidence of a potential double cross. Iâ??d continue to peg JPMorgan as short 40,000 contracts to a bit more.

On the managed money side in gold, these traders were net sellers of 3222 contracts, comprised of the sale and liquidation of 3056 long contracts and the new sale of 166 short contracts. The resultant net long position of the managed money traders of 223,611 contracts (245,631 longs versus 22,020 shorts) must still be considered bearish by any conventional historic yardstick.

This question does arise, of course, as to why the managed money traders didnâ??t add to their net long position during a reporting week that featured significant new price highs, notwithstanding the sharp selloff on the Tuesday cutoff? The most obvious answers must be that these traders may be reaching the capacity of their buying power or are somehow wary of a selloff due to the run that gold prices have had. The latter is more bullish than bearish, while the former is the opposite.

Just to remain consistent, in any contest that pitted the managed money traders against the commercials, it would be foolish to bet against the commercials. Thatâ??s where I agree with the premise that gold prices could decline sharply. But Iâ??m not so sure itâ??s a pure managed money versus the commercials contest (as it has always been), given my take that JPMorgan may be involved in a double cross of the commercials. Â In that case, the managed money traders could get very lucky (through no credit of their own).

In COMEX silver futures, the commercials reduced their total net short position by a very large 10,000 contracts to 65,200 contracts. I canâ??t call the total commercial short position completely neutral, but itâ??s a heck of a lot more neutral than bearish over the past two reporting weeks. Combined with last weekâ??s results, the commercial net short position is down nearly 19,000 contracts, not exactly chump change.

And unless Iâ??m completely wide of the mark, this week JPMorgan reduced its short position by 5000 contracts, which combined with last weekâ??s recalibration brings it down to no more than 15,000 contracts. Between the recalibration and actual reduction in its short position, JPMorgan is as much as 13,000 contracts less short than I estimated two weeks ago. Thatâ??s the equivalent of 65 million oz that JPMorgan is now more net long than it was then and thereâ??s no way it could have gone out and bought 65 million physical ounces in that time any other way. It means JPM is now net long 775 million oz of silver (850 million oz physically long and 75 million oz short on the COMEX).

As much as I was blown away by the commercials reducing their total net short position by nearly 19,000 contracts on a 50 cent increase in the price of silver over the past two reporting weeks, Iâ??m nearly tripping out by the net managed money selling of 28,602 contracts over that same time. Didnâ??t silver prices go up and donâ??t the managed money traders always buy when prices go up? Whatâ??s going on?

This week, the managed money traders sold 12,902 net silver contracts (versus last weekâ??s net sale of 15,700 contracts), comprised of the sale and liquidation of 10,716 long contracts and the new sale of 2186 short contracts. The resultant net long position of 33,960 contracts (78,429 longs versus 44,469 shorts) can hardly be called bullish by historical standards but it was nearly cut in half over the past two weeks (on rising prices to boot). This is nothing short of extraordinary. What gives, specifically, why so much (28,602 contracts of net managed money trading in two reporting weeks?

Even more extraordinary is that of the 28,602 contracts of net managed money selling over the past two reporting weeks, there was a fairly even distribution of long liquidation of 16,470 contracts and new short sales of 12,132 contracts. The new short sales are particularly surprising considering that the price of silver hasnâ??t come close to penetrating to the downside any of its key moving averages (the 50, 100 or 200 day moving averages). The price of silver hasnâ??t even penetrated its 20, 30 or 40 day moving averages. Why such aggressive new shorting (as well as long liquidation?)

Best I can tell, the managed money traders seem to be highly skeptical of the upside move in silver, particularly in light of their much stronger belief in the gold rally (based upon their near record net long position). I suppose one could argue whether this is bearish or bullish (I would opt for bullish), but on a purely objective basis, any additional potential selling by the managed money traders on lower silver prices must be reduced by the amounts already sold. I count that as a positive in the overall risk/reward silver equation.

As far as the 16,470 contracts of long liquidation by the managed money traders over the past two weeks, close to 7000 contracts can be attributed to a continued reduction in the highly unusual concentrated long position of the 4 largest traders. As of Tuesday, the concentrated long position of the 4 largest longs was 51,211 contracts, down more than 16,000 contracts from the high point of 67,328 contracts on June 25. Seeing how the concentrated long position grew by 17,700 contracts from May 28, itâ??s not unreasonable to say that the record long position has been completely unwound over the past seven reporting weeks. Easy come, easy go in a manner of speaking.

Of course, the creation and elimination of the unprecedented concentrated long silver position didnâ??t occur without notice or debate, although there appeared to be a lot more debate as the position was established than on its elimination. The lack of follow up discussion as the concentrated long position has been eliminated strikes me as disingenuous or even deceitful. Hereâ??s an interview I would put in that category (although I have as much interest in continuing an open debate on this as jabbing an ice pick into my ear) start at the 17 minute mark –

https://www.tfmetalsreport.com/podcast/9624/thursday-conversation-alasdair-macleod-goldmoney?page=1

For my part, having noticed and written on the establishment of the concentrated long position very early in the process, as well as on its eventual elimination, I have been consistent in tying it to the other great silver happening over this same time, namely, the unprecedented flow of physical metal into the silver ETFS, particularly SLV. All told, the creation of the concentrated long position in COMEX silver futures and the inflow of physical metal into the silver ETFs, in addition to matching up in timing, also matched up in quantity â?? roughly 100 million oz.

Therefore, Iâ??m more convinced than ever that whoever established the concentrated long position in COMEX silver futures did so with the full intent of converting the futures position into physical silver via the silver ETFs, as I surmised early on. I attributed such an operation to be on the part of a particularly well-informed market participant and based upon the most recent data, I would conclude the operation was successfully completed or nearly so. Bottom line, someone locked in a price of $15 for 100 million oz of silver and converted the futures to physical. Whoever it was â?? it was very well played. Who knows, if silver gets smacked down, maybe he or she will do it again.

So the question remains if gold and silver prices get smacked down or not. The market structure in gold is much more bearish than it is in silver and thatâ??s the sole reason prices might move lower. Countering a price fall is the fact that should gold move higher instead, JPMorgan stands to gain on its physical holdings about as much ($20 million) as the seven largest COMEX shorts will lose on every dollar rise in the price of gold. In silver, JPMorgan stands to gain roughly twice as much as the $400 million the seven big COMEX shorts stand to lose for every dollar increase in the price. Thatâ??s the basis for the double cross.

For the week, the seven big commercial shorts trimmed their open and unrealized combined loss in COMEX gold and silver futures from Wednesdayâ??s close, but still ended the week worse off by $400 million from last Fridayâ??s close. The total combined open loss to the seven big COMEX gold and silver shorts now stands at an even $4 billion, or an average loss of $570 million per trader. A billion here and a billion there and pretty soon youâ??re talking about real money.

A selloff canâ??t be ruled out, but the remarkable managed money selling and commercial buying over the past two weeks in silver does suggest that even if silver does selloff, there is that much less managed money selling left to sell. It also hints at a lot more potential managed money buying on higher prices, particularly in the form of short covering. The fulcrum, of course, is whether the 7 big commercial shorts save their collective hides and rig prices lower yet again. One day they wonâ??t.

Ted Butler

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Silver – $17.10Â Â Â Â (200 day ma – $15.25, 50 day ma – $15.82)

Gold – $1524Â Â Â Â Â Â (200 day ma – $1317, 50 day ma – $1422)

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