August 4, 2018 – Weekly Review

Despite a Friday rally that put prices temporarily higher for the week, gold and silver closed lower for the eighth consecutive week, something I donâ??t recall occurring previously. For the week, gold closed down by $9 (0.7%), while silver ended down by 7 cents (0.5%), with both closing at fresh full-year lows. As a result of silverâ??s slight relative outperformance, the silver/gold price ratio tightened in to around 78.6 to 1.

One would think that something substantial and obvious must have accounted for eight straight weeks of decline in gold and silver (and nearly that in other metals as well). However, if you looked to the usual causation suspects, such as the dollar, the stock market or economic developments, you would come up scratching your head; as the dollar, the stock market, interest rates and economic indicators are all roughly where they were eight weeks ago. Therefore, one would have to look elsewhere to uncover the cause for the highly unusual string of weekly declines in the price of gold, silver and other metals.

Fortunately, an objective seeker of the truth wouldnâ??t have to look far to uncover the only possible explanation for the historic and tightly coordinated metal price declines â?? deliberately engineered positioning changes in COMEX futures contracts. Specifically, the cause was the unqualified success by commercial interests, principally JPMorgan, to induce a narrow class of managed money traders (technical funds) to sell short record large quantities of futures contracts. This is fully borne out in the data contained in the CFTCâ??s Commitments of Traders (COT) reports, including the report issued yesterday. Something has to explain the literal explosion in the focus and commentary on this data series and this is one of those cases where the focus is correct.

Iâ??ll get into the new COT report in a moment, but first let me again acknowledge that the manipulative futures maneuvering on the COMEX, particularly by JPMorgan, has caused great emotional anguish and financial pain to metals investors and mining companies around the world. In fact, this is what makes price manipulation the very worst market crime of all since it punishes not only the direct and intended victims of the COMEX scam, the technical funds, but innocent bystanders not involved in the scam. For this, the crooks at JPMorgan and their protectors at the CFTC and the CME Group should be boiled in oil.

That said, the manipulative actions taken by JPMorgan have been so successful that they have resulted in a market set up so bullish that I can hardly contain myself. Quite literally, I feel we could explode upward in price at any moment, although I know that the crooks at JPMorgan could always have a few more dirty tricks up their sleeve.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses took a sudden turn higher this week after three weeks of very sub-par movement. This week, 7 million oz were physically moved and total inventories increased by 4.2 million oz to an all-time record of 286.1 million oz. I find it fascinating that total COMEX inventories have hit an all-time high, just as silver prices appear ready to explode and I suppose there will be those who equate the increase in inventories to an abundance or surplus of metal. I am convince that nothing could be further from the truth and time will tell.

I was somewhat surprised that JPMorgan added nearly 1.2 million oz to the bankâ??s COMEX warehouse, increasing the amount there also to a record 144.6 million oz; not because JPM continues to add to its massive silver hoard, but because the addition didnâ??t appear to come from deliveries on COMEX futures contracts, as is usually the case. If anything, JPMorgan has backed-off demanding physical delivery via futures contracts out of concern about throwing the tight physical condition of the market completely out of balance. And I still believe the increase in total COMEX silver inventories is more a sign of great demand and not of any notion of a surplus.

After I published Wednesdayâ??s article, the daily COMEX warehouse stocks report later that day indicated a transfer of 118,000 gold ounces from the eligible category to the registered category in the JPMorgan gold warehouse. This usually indicates a pending delivery issuance and last night JPMorgan did deliver 1154 gold contracts from its proprietary house account. Interestingly, this represents more than 90% of the 1262 total gold contracts issued over the first four trading days of the traditional August delivery month.

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

You may recall that JPMorgan issued from its house account more than 4000 gold deliveries in the June delivery month, the bulk of the 6900 total deliveries issued that month. Since I contend that JPMorgan has been on a short covering spree in COMEX gold since May, to the point of double crossing other commercials in the process, it is natural to ask why in the world would JPM issue and give away physical gold if it is so involved in covering gold short positions. I explained in June that JPM was issuing physical gold deliveries in order to enable it to buy back many times more in gold futures short positions, so let me update the figures today.

In total, JPMorgan has issued and â??lostâ?• 5300 gold contracts via physical delivery between the June and August contracts to date, an amount equal to 530,000 gold oz. At the same time, JPMorgan has bought back close to 90,000 contracts of COMEX gold futures short contracts, an amount equivalent to 9 million oz. In essence, JPM has sacrificed and lost 530,000 physical ounces of gold in order to buy back 17 times more in the form of covering existing short futures contracts. It is a tradeoff JPMorgan would make all day every day. It is nothing short of market (and criminal) brilliance.

The reason JPMorgan â??donatedâ?• 530,000 oz of physical gold is that it needed to keep the gold physical market from acting up and flashing signs of severe tightness, while it proceeded to buy back 9 million oz of futures short contracts. The buyback of gold futures contracts by JPM took two forms; first the bank rigged prices lower in induce record technical fund selling, while at the same time temporarily rigging prices higher to induce other commercials (the raptors) to sell, thereby double crossing them. JPM even added to silver short positions in the interim to keep the overall scam going. These crooks at JPMorgan are in a league of their own.

The net result of this criminally brilliant maneuvering by JPMorgan is that I believe it has eliminated its COMEX gold short futures position, leaving its 20 million oz remaining gold physical position completely unencumbered. This means that JPM stands to make $2 billion on every hundred dollar rise in the price of gold. A $500 rise in gold gives JPMorgan a $10 billion profit on gold. And this is just on gold; on silver it stands to make many times more on a proportionate increase in the price of silver.

The new COT report issued yesterday does nothing to diminish my expectations for a price explosion at any time. While I didnâ??t offer any contract predictions, nothing in the report looked negative and quite a few things looked positive. Any surprise had to do more with the cumulative improvement in the gold and silver market structure over the past two months, than the particulars of yesterdayâ??s report, although some of the particulars were highly encouraging.

In COMEX gold futures, the commercials reduced their total net short position by a further hefty 17,800 contracts, to 47,900 contracts. This is another new and very bullish low extending back to early January 2016, as gold was just embarking on an upward price journey of $350. Please understand that because the managed money technical funds have grown so large on the short side of gold and silver that a number of them have displaced commercials in the big 4 and big 5 thru 8 categories. This is profoundly bullish, but the big 4 and big 8 are no longer purely commercial.

The 4 biggest shorts in gold actually increased their net short position by 4000 contracts while the big 5 thru 8 bought back 5900 shorts and the raptors (still a pure commercial category) added 15,900 new longs to a long position now amounting to 110,100 contracts. The most plausible explanation for the big 4 and big 5 thru 8 changes was that another managed money trader migrated into the big 4 category from the big 5 thru 8. Based upon changes in the producer/merchant category of the disaggregated COT report, JPMorganâ??s gold short position dropped by at least 5000 contracts this week and 90,000 over the past two months.

On the sell side of gold, the managed money traders â??onlyâ?• accounted for 6106 net contracts, including new longs of 331 contracts and new shorts of 6437 contracts. Both numbers were highly encouraging to me; the total managed money long position of 110,580 contracts by holding steady yet again, strongly suggests no further liquidation on lower prices. After all, with gold prices as weak as theyâ??ve been, these longs have certainly been experiencing a baptism of fire and their refusal to sell until now should indicate a reluctance to sell at even lower prices.

The managed money short position is still a sight to behold, since itâ??s now up to 153,108 contracts, by far the largest in the history of these reports. In fact, the managed money short position is about 50% larger than most previous peaks over the past few years. As such, itâ??s hard to imagine much more new short selling from this point from the source. So with managed money long liquidation looking increasing unlikely and new managed money shorting also looking problematic, just where will the selling come from to drive gold prices lower? Thatâ??s the question I ask myself continuously and because no good answer emerges, it makes me increasingly convinced of an up move instead.

As to who sold all the gold contracts that the commercial s bought and the managed money traders didnâ??t sell, the answer was other large reporting speculators as well as smaller non-reporting traders. Since this looked like text book speculative long liquidation, even though it wasnâ??t managed money selling, it was quite constructive to my mind.

In COMEX silver, the commercials increased their net short position by 4100 contracts to 24,100 contracts. At first blush, the headline number looked somewhat disappointing, but any such thought quickly disappeared upon further analysis. The selling was mostly done by the raptors, which sold off 3500 long contracts, leaving them 69,200 contracts net long and by the big 5 thru 8 which added 1400 shorts. The four biggest shorts bought back 800 shorts, and while I wouldnâ??t attribute that short covering to JPM (due to changes in the producer/merchant category), neither do I think JPM added to shorts. Iâ??d still peg JPM at 20,000 shorts in silver and await next weekâ??s Bank Participation Report for further recalibration.

The managed money traders bought nearly 4700 net silver contracts, but fortunately, only 1024 was in the form of short covering, while 3668 contracts were of the new long variety. I consider this constructive because 76,152 managed money short contracts remained on Tuesdayâ??s close, the highest in history save for the prior weekâ??s report. Â It would be an understatement to say that plenty of short covering rocket fuel remained in the silver buying tank.

Whereas normally I would not consider managed money buying of new longs to be particularly encouraging, in this case I do; for the very same reason I just outlined for gold, namely, these new longs appear strong and not inclined to run and sellout on lower prices since they have gone through the baptism of fire of lower prices to this point. But thereâ??s even more to it in silver than there is in gold. A good chunk of the managed money buying of new longs this week was by the big concentrated longs I uncovered just a short while ago.

This reporting week, the 4 biggest silver longs, all from the managed money category, added 2600 new longs to a concentrated long position now amounting to 57,534 contracts. As a recap, after adding 30,000 new long contracts from April to June, the 4 or fewer big longs sold off 8300 contracts over two weeks in early July, sold off 100 contracts in the next (last) week and turned around and added 2600 long contracts this reporting week. All told, these big managed money longs now hold around 24,000 of the 30,000 contracts added into June.

I have been and still am concerned about the price prospects for silver should there be significant further liquidation of the big concentrated long position. On the other hand, I am also highly encouraged that there has been net buying over the last two reporting weeks, because if there is no big liquidation about to come from these big concentrated longs, then the question of where would the selling come from that I just asked in gold, applies in spades in silver.

Simply put, if no big selling emerges from the new concentrated managed money longs in silver, then I canâ??t imagine where the selling to drive prices lower would come from. In other words, no selling from this source means prices wonâ??t move lower. Now take that and superimpose over it the remarkably bullish position that JPMorgan has engineered for itself and youâ??ll get a glimmer of why Iâ??m so bullish that I can hardly contain myself.

While I donâ??t see anything but the most minimal amount of managed money selling ahead, either in the form of new technical fund shorting or long liquidation (with the wild card being possible concentrated long liquidation), I see nothing but truly massive managed money buying already baked into the price cake. Between the short covering of at least 60,000 contracts by the technical funds and the addition of that number of longs by these same technical funds to get long on higher prices, I believe I am being conservative to say that there is close to 120,000 contracts of net silver potential buying in place from the technical funds alone. On that same basis, I would estimate more than 250,000 net contracts of managed money technical fund buying in gold on higher prices as being already baked into the cake.

I think JPMorgan knows this equation better than anyone and Iâ??m still convinced this certain knowledge is what has been behind the bankâ??s absolutely remarkable positioning over the past two months. The only thing that can prevent a price explosion at this point is very aggressive short selling by JPMorgan, as raptor long liquidation alone wonâ??t come close to being enough to moderate prices. Iâ??m still convinced JPMorgan wonâ??t add to shorts aggressively on the next rally.

(On a housekeeping note, Iâ??m switching from the COMEX August contract to the December contract for closing price purposes. This does have the effect of adding about $9 to the price and explains why the closing price listed today shows no change from closing price in last weekâ??s review).

Ted Butler

August 4, 2018

Silver – $15.45Â Â Â Â Â Â Â Â Â Â (200 day ma – $16.54, 50 day ma – $16.13)

Gold – $1223Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1298, 50 day ma – $1263)

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