

August 5, 2017 – Weekly Review

A sharp, post-employment report price smash put gold and silver lower for the week, following three weeks of gains. Gold ended \$11 (0.9%) lower, while silver declined a much steeper 50 cents (3%). As a result of silver's pronounced relative underperformance, the silver/gold price ratio widened out by one and a half points to 77.5 to 1; much closer to the upper band of the trading range of the past couple of years and confirming a continuation of silver's undervaluation.

Surely, this is the worst time to be a silver investor, as the vise-like grip of price manipulation on the COMEX has resulted in a stunning six plus years of truly abysmal price performance, enough to shake the convictions of its most ardent followers. Making matters much worse is that just about every conceivable investment asset in the world, from stocks to bonds to real estate and even to crypto currencies, has soared to new highs, following an unprecedented ginning of world money supply and credit. Let's face it – in many ways it feels downright dumb to be a silver investor and the temptation to throw in the towel and end the continued misery has never been stronger.

Paradoxically, this is perhaps the very best time to be a silver investor, in that the price has been manipulated so low and for so long that the question of severe undervaluation is not really a question. After all, is it not the prime objective of the investment quest to buy low (in order to sell high)? Further, the prime silver price manipulator, JPMorgan, has masterfully converted its control over the silver price to amass the world's largest stockpile of the metal, something I would have never believed possible until I saw it with my own eyes starting a few years ago. But the real kicker in silver is in how little exists in an investment world more flush with buying power than at any time in history.

I would consider yesterday's price smash to be a key feature of the week due to the very typical manner in which it was orchestrated. A sudden price crash caused by spoofing and strategically placed small commercial sales to get the price low enough and fast enough to trip off technical fund selling for the rest of the day. The price pattern is quite familiar to anyone paying the slightest attention, namely, smash the price quickly and allow the commercials to then buy from the technical funds for the very narrow trading range for balance of the day. There's no question that yesterday featured heavy commercial buying and managed money technical fund selling as that's the only reason silver sold off – so that the commercials could buy.

There's also no question that the technical funds are being jerked around like ragdolls, as is proven in just about every COT report and these funds' overall performance – which stinks. As to why they continue to persist in their manipulation-enabling, I say it has to do with the fact that they are trading other people's money (that's why they are in the managed money category) and not their own; but their motivation is beside the point that they are doing it. Perhaps market regulators can't prevent collective technical fund stupidity, even if this repetitive stupidity enables the silver manipulation and ends up punishing legitimate silver investors and producers.

But surely the regulators must see that there is no competition among the commercial buyers on a day like yesterday. All the commercials lay back and wait patiently all day, never reaching up to buy because they know that the technical funds will sell and eventually come to them. Much more

importantly, surely the regulators must see that this private and rigged betting game on the COMEX between a relative handful of large paper speculators is not how silver prices are supposed to be determined. Since there are few, if any real silver producers or consumers engaged in COMEX paper trading, how could this price discovery process be considered legitimate?

As to highlight the basic problem in silver, the CFTC has just come out with another semi-moronic program of podcasts designed to explain the role of the agency and our markets. In the introductory podcast, Andrew Busch, explains things in simple enough terms. (Yes, this is the same Andrew Busch I wrote to, along with James McDonald in early April, but apparently there was another Busch at the CFTC and the email address I used was wrong and I have never been able to get the correct email address, even after leaving a voicemail for Andrew). I prefer the written format to listening to podcasts, so I'm linking the transcript instead.

http://hwcdn.libsyn.com/p/e/3/6/e3684ac7919e6e0e/CFTC_Talks_Ep_1_Transcript.pdf?c_id=16276810&

You'll note that Busch describes the workings of the futures markets in the typical manner used over the years, namely, as a venue in which real producers, farmers and ranchers could lay off price risk to speculators and how users and consumers of commodities could do the same. That's why congress authorized regulated futures trading to encourage legitimate hedging. The problem is that there is little, if any legitimate hedging in COMEX silver trading; it is strictly a speculative positioning affair between the managed money traders and those leaching off them. Maybe a future podcast will deal with this. Yeah right.

I'm going to breeze through non-COT matters, since they exert little influence on price. The turnover of physical movement of metal coming into and out from the COMEX-approved silver warehouses cooled to 2.7 million oz this week, as total inventories rose by 1.8 million oz to 215.7 million oz, yet another 20+ year high. There was no change in the JPMorgan warehouse this week, as holdings there remained at 113.9 million oz. Rather than review data that offer little real meaning at this point, including COMEX deliveries, Silver Eagle coin sales, etc., I'm just going to jump to yesterday's report.

The Commitments of Traders (COT) report for positions held as of August 1, was not surprising in that there was substantial managed money buying and commercial selling in gold (a bit more than expected) and in silver (more than a bit more than expected by me). In reviewing my expectations on Wednesday, I did allow for the possibility of price selloffs following the expected deterioration, although not for the blood-letting in silver yesterday.

In COMEX gold futures, the commercials increased their total net short position by 40,000 contracts to 143,400 contracts (I had predicted 30,000 contracts). This is the largest total commercial short position in five weeks. By commercial category, it was decidedly a raptor dominated affair as the smaller commercials apart from the 8 largest commercial shorts sold 39,400 long contracts, reducing their net long position to 69,700 contracts. The 4 largest shorts added 2200 new gold short contracts and the big 5 thru 8 bought back 1600 shorts, although that may have included the last of any managed money shorts in that category.

Over the past two reporting weeks and on a \$35 gold price rally, the commercials have sold nearly 70,000 gold contracts (7 million oz) and the raptors have accounted for more than 51,000 contracts of that total. Prior to this, the raptors had added 110,000 gold long contracts on the \$85 slide in price from

June 6, out of the 143,000 total commercial contracts bought. My point is that the gold raptors have been more dominant than typically in seeking their share of the technical funds' hives. Since there are about 40 gold raptors in all, this tends to underscore the collusive manner in which these traders conspire against the technical funds.

On the managed money technical fund buy side in gold, these traders, once again, bought more contracts than the commercials sold, in buying nearly 45,000 contracts, fairly evenly split between new longs (21,723) and short covering (23,111 contracts). Over the past two reporting weeks, the managed money traders have purchased nearly 90,000 gold contracts (9 million oz) against commercial sales of 70,000 contracts; other non-commercial traders made up the 20,000 contract difference in competition for a share of the technical fund buying.

As a result of the two week deterioration in the COMEX gold market structure, I would consider the market structure to be more neutral than bullish since the managed money short position is now low enough (under 40,000 contracts) so as to preclude big gold buying from that source. Unlike the case in silver in yesterday's price smash, the price of gold remained above the key moving averages (the 50 and 200 day) and as such probably precluded heavy technical fund selling. My fear is that the gold raptors, should they decide to try to repurchase some or all of the 50,000+ long contracts that they just profitably sold over the past two weeks, would need to force gold prices lower (thru the moving averages) to get the technical funds to sell and what that might mean for silver prices.

In COMEX silver futures, the commercials increased their total net short position by 10,100 contracts to 39,700 contracts. I was somewhat evasive in contract terms but had expected (hoped) for an increase along the lines of the previous reporting week (7600 contracts). This is the largest commercial short position in four or five weeks, but by recent standards, this is still a very low (bullish) reading. This week's level is still 77,000 contracts (385 million oz) less than the all-time peak in the commercial short position on April 18 (\$18.50) and 36,000 contracts less than the short position on June 6 (\$17.70).

By commercial category, and as was the case in gold, the raptors accounted for nearly all of the commercial selling, as they pitched 9700 long contracts, reducing their net long position to 38,400 contracts. The four largest shorts added 1500 new shorts and the big 5 thru 8 bought back 1100 short contracts (undoubtedly managed money buying). Over the past two reporting weeks, the total commercial net short position increased by just under 19,000 contracts, with the raptors accounting for 15,000 contracts of the total and the big 4 adding 4000 new shorts, very similar to the story in gold.

The biggest surprise yesterday was in the Bank Participation Report. There was a sharp increase (close to 7000 contracts) in the net short position of the US banks, along with a slight reduction in the short position of the non-US banks. Due to the July 4 holiday, the Bank Participation report covered the last three reporting weeks and causes me to drastically increase the amount that JPMorgan was short as of August 1. I had been suggesting that JPMorgan may have been short by around two or three thousand more contracts than I was estimating as recently as last week (13,000 contracts), but there is now little doubt that the super crooks at JPM were much closer to being short 23,000 silver contracts as of last Tuesday.

In essence, JPMorgan was the sole commercial silver short seller over the past three reporting weeks (since the raptors were selling out long positions, not adding shorts). As such, can there be any doubt that silver is just a racket run by JPMorgan? On Wednesday, I wrote that the key test to come in silver was whether JPMorgan would add to silver short positions to cap the price and whether the CFTC's

Enforcement Director, James McDonald, would allow this. While that's still the key test to come, the increased short selling by JPMorgan through Tuesday is beyond troublesome and is nothing short of a personal slap in the face to McDonald.

Normally, JPMorgan adds COMEX silver short positions as a price move up matures and nears completion, with the crooked bank serving as the short seller of last resort, providing just enough new short sales to provide whatever amount of selling at the margin is necessary to cause silver prices to top out and then decline. This time, these crooks came bursting through the door with both short selling guns blazing; a distinct change from past pattern.

As brazenly manipulative as JPMorgan's short selling must be considered, I would point out its short position is still lower than it was on April 8 (34,000 contracts) and no larger than it was on June 6. Additionally, JPM's silver short position on Tuesday was almost precisely equal to its COMEX silver warehouse holdings, meaning the bank was still net long 500 million oz of physical silver, making it head and shoulders the entity standing to gain the most in a silver price explosion.

On the managed money buy side in silver, these traders bought nearly 15,000 net contracts, including adding new longs of 4496 contracts and the buyback of 10,318 short contracts. As a result, the managed money long position is now 10,000 contracts above the most recent 56,000 core non-technical fund long position. The short position of the managed money traders was still historically large, at over 43,000 contracts, distinguishing it from the corresponding managed money short position in gold.

Over the past two reporting weeks, the commercials have sold 19,000 silver contracts, while the managed money traders have purchased 30,000 contracts, with other non-commercial traders taking a bigger percentage share of technical fund losses and positions than they did in gold. Thus, the competition for a share of the funds' repeated trading mistakes rages on.

A big difference in yesterday's trading between gold and silver is that there appeared to be much heavier technical fund selling in silver than there was in gold, since the technical sell signals in silver were more compelling. In the perverse nature of market structure analysis, this means that the still-extremely bullish market structure in silver got more bullish while the more neutral market structure in gold probably didn't change that much. But I would be lying if I told you I had no fear of a further selloff in silver, if the raptors decided to take gold lower to rebuild a large long position. Heck, the silver crooks could rig prices lower without resorting to smashing gold.

However, it would not be accurate to overlook the likely substantial improvement in the silver market structure as a result of yesterday's trading. As always, it's not so much a question of what price would it take to bring silver back to the maximum extreme bullish readings of only two weeks ago, but more a case of how many technical fund contracts the commercials and their new competitors can induce into being sold (minus yesterday's improvement).

The US Senate this week confirmed (unanimously, no less) two new commissioners to the CFTC, as well as confirming the acting chairman as chairman. This brings to four (from two) the number of commissioners in place at the agency and with a pending appointee awaiting confirmation, the Commission may soon be back to its full complement of five commissioners (although Commissioner Bowen has announced her intention to resign as soon as enough new commissioners came on board).

I mention this in passing, since itâ??s been quite some time (years) since the Commission was fully-staffed at the commissioner level and not because I am expecting any regulatory push from the new Commission structure. There was a time in the past, some eight years ago, when it was easy to get excited about Gary Genslerâ??s push to enact legitimate position limits, which, unfortunately, failed in the end. This time, I am not expecting any real change, so perhaps there is room for some unexpected positive developments â?? under the premise of when you ainâ??t got nothing, you got nothing to lose.

I continue to hold some hope for action by Enforcement Director McDonald, although I canâ??t tell if heâ??ll even recognize that JPMorganâ??s recent addition of silver short positions was an insult to free market behavior and to him personally. Itâ??s possible that McDonald has no intention of doing the right thing and that I was completely mistaken in believing otherwise. Certainly, that seemed to be the prevailing opinion in many of the comments in response to me making Wednesdayâ??s article public (along with the obligatory personal insults to me â?? hey lâ??m not looking to be everyoneâ??s BFF).

<http://silverseek.com/commentary/key-test-ahead-16791>

As miserable as overall investment sentiment is in silver right now (the absolute worst in my memory), that sentiment is not in conformity with the facts. Yes, the price of silver has stunk up the joint for far too long, directly resulting in the rotten sentiment. But if collective sentiment was always correct, there would never have been the repetitive series of historical market crashes in a wide variety of markets that investors felt too good about, nor the opportunity presented when sentiment was at its worst. Besides, we know why the price of silver has been so low for so long â?? because JPMorgan has put it there in order to buy as much as it can. Without that knowledge, there would be little reason to hold silver, but with it, everything is changed. And thatâ??s true whether McDonald does the right thing or not.

In a housekeeping note, lâ??m switching to December contract pricing in gold, which is six dollars higher than August and may cause the impression that I am overstating the gold price this week.

Ted Butler

August 5, 2017

Silver – \$16.24Â Â Â Â (200 day ma – \$17.13, 50 day ma – \$16.62)

Gold – \$1264Â Â Â Â Â (200 day ma – \$1232, 50 day ma – \$1254)

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