

December 10, 2016 – Weekly Review

Weekly Review

For the fifth week in a row, gold fell in price, this week by \$17 (1.4%) and again set new lows extending to February. For the second consecutive week, silver rose, this time by a slim 15 cents (0.9%). As a result of silver's outperformance, the silver/gold price ratio tightened in again, this time by a full point and a half to 69 to 1. We're still in the trading range of the past couple of years, but are now at levels indicating silver is closer to its strongest relative valuation relative to gold for that time. Should this be taken as some sort of signal that silver may be embarking on the long term price journey that I have long expected it to take relative to gold?

Because I'm beyond convinced that silver and gold prices are artificially manipulated by COMEX positioning, short term price movements are in the hands of the large paper traders. Sadly, those traders don't inform me of their intentions beforehand, at least not deliberately. Therefore, I continue to plead the Fifth when it comes to short term price forecasting on the silver/gold price ratio. But I would like to share some observations of recent relative silver and gold price performance.

It's now undeniable that the US presidential election has had a big impact on asset prices, from the soaring stock market and interest rates, to plunges in gold and silver. But a month later, the price patterns in gold and silver have differed. Silver prices, after first largely ignoring the big moves lower in gold on Election night, fell a steep nearly two dollars over two days ending Nov 14 (a Monday). Gold also fell sharply over those two days. But since then, silver, while not setting the world on fire, has managed to close yesterday at the levels it closed on Nov 14. In contrast, gold has slid an additional \$60 from where it closed on Nov 14.

In essence, the silver/gold price ratio has tightened in by more than three points over the past month due strictly to weakness in gold, rather than by strength in silver. This is somewhat unusual because it's generally accepted that silver goes up and down faster than gold usually and here's a clear example where that hasn't been the case. Is this some type of further tipoff, supporting my feeling that something is afoot, largely due to COMEX market structure considerations? As an advocate that silver will vastly outperform gold over the long term, I don't want to look a gift horse in the mouth and dismiss the recent short term relative strength in silver out of hand.

On the other hand, a price manipulation means prices can be changed artificially at will and I would never assume the recent short term price changes alone meant that the manipulators were no longer in control. In other words, I'm cheered by the recent relative strength in silver as it is supported by what I see coming in the end, but not to the point where I would deny that the crooks at JPMorgan couldn't smash prices in a heartbeat if they chose to.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses picked up this week to just under 6 million oz., following two weeks of half that rate. Total COMEX silver inventories rose by 1.7 million oz to 179.5 million oz, another fresh year and a half high. The JPMorgan warehouse took in 0.3 million oz before shipping out 0.6 million oz a day later. The out movement was more notable than the in, but it would be nuts to try to try to decipher deeper meaning at this point.

There was nothing confusing about the continuing acquisition of physical gold and silver by JPMorgan and/or its customer(s) in the December COMEX futures deliveries. A few big deliveries in silver after Wednesday's article were taken by JPMorgan (followed by Macquarie), increasing the total number of contracts taken by JPM in its house account to 1280, with only 220 contracts to go to hit the 1500 contract (7.5 million oz) limit. In a development seen in the past, a customer of JPMorgan was a large recent issuer of silver, something that looks funny, if not downright conflicted.

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

What is so amazing to me is how little is written about JPMorgan's pattern of being the largest taker of physical silver via COMEX futures deliveries over the past couple of years, with mostly all of it in the bank's name. It's not as if the data is hard to find and is further substantiated by the growth of silver held in the JPMorgan COMEX warehouse over the past five and a half years. Based upon this data alone, it's hard not to see that JPM has been on a physical silver acquisition binge, while at the same time, holding the largest paper short position in COMEX futures. Short sell paper contracts to depress the price so it can scoop up physical silver at the prices it depressed. The only thing that could be more obvious would be stealing silver at gunpoint.

There was another big (3.1 million oz) withdrawal from the big silver ETF, SLV this week, as well as continued big redemptions from the gold ETF, GLD. The funny thing about the silver redemption is that it followed Wednesday's sharp and higher trading volume rally, which implies net investor buying, not investor selling. GLD's redemptions have followed very punk price action in which net investor liquidation would be expected. I have no doubt that the net result in both SLV and GLD is that JPMorgan is accumulating more physical material. It's just that in the case of SLV, JPMorgan looks to have been the buyer on Wednesday's rally and quickly converted purchased shares into metal for the purpose of avoiding SEC reporting requirements.

In fact, the big theme, as I see it, is JPMorgan becoming more aggressive in acquiring physical silver and gold, while at the same time reducing its COMEX short positions in each almost as aggressively. It's hard to imagine a more bullish backdrop for future prices.

I can't say I was thrilled that there was a sharp rise in the short position in SLV, as of the two weeks ending Nov 30. The short position jumped by nearly 3 million shares to 12.2 million shares (ounces). There was a less sharp increase in the short position of GLD, as well. The short positions in each were very low going into this report and I don't want read too much into the increases, except that 3 million oz is a lot of silver, both on in terms of SLV and in the physical world of silver, but somewhat less so in terms of the COMEX, where it is the equivalent of 600 contracts. Just trying to keep things in perspective.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

The changes in this week's Commitments of Traders (COT) Report were not out of line with my anticipated, but non-specific expectations of a reduction in the headline commercial net short position in gold and a tossup in silver. Of course, there's usually some element of surprise under the hood.

In COMEX gold futures, the commercials reduced their total net short position by 12,900 contracts to 154,900 contracts, the lowest (most bullish) total since mid-February. Hopefully, the essence of the market is clear — the lowest commercial short positions exist as prices are nearest their lowest, while the highest commercial short positions exist near price tops. Sure, it feels great at price tops and rotten at price bottoms, but feelings are like love and both have nothing to do with market structure. When the commercials are heavily short and the managed money traders heavily long, the price is getting ready to take a bruising, no matter how good the price feels. Other times, like now, it feels terrible, but the market structure says higher in time.

By commercial category in gold, the big 4 bought back an impressive 8900 short contracts and the raptors added 8500 contracts to a long position now sitting at 13,100 contracts. That meant the big 5 thru 8 added 4500 shorts, which would suggest they didn't get the memo to buy. But I believe they did get the commercial memo to buy and the reason for the increase in the big 5 thru 8 category is because a managed money trader increased its short position enough to reach big 8 status. The reduction in the total commercial net short position is good news, but the reduction in the big commercial concentrated short position is even better news for eventual higher gold prices.

On the sell side in gold, the managed money traders reverted to usual form and sold as much and more of what the commercials bought, as these traders sold a total of 24,623 net gold contracts, including the sale of 11,230 long contracts and the new short sale of 13,393 contracts. From the key Nov 8 COT report (Election Day), the managed money traders have added 30,000 new short contracts, while liquidating 60,000 long contracts.

There should be little question that the net sale of 90,000 contracts (9 million oz) by the managed money traders was the main reason gold fell over the past month. There should also be little question that if the managed money traders continue to sell important quantities of COMEX gold futures contracts, the price will go lower still. The right question is how many more gold contracts they are capable of selling, particularly of the short variety. The 30,000 contracts they have sold short so far is less than they have sold short in past similar pricing conditions and suggestive of some reluctance to add new shorts. The same question exists in silver, but there the answer seems to be clearer.

In COMEX silver futures, the commercials increased their total net short position by a scant 300 contracts to 75,700 contracts, another of a string of nearly unchanged headline numbers extending back eight weeks. By commercial category, the big 4 (read JPMorgan) added 400 short contracts, with the big 5 thru 8 adding 300 short contracts and the raptors buying 400 new longs. Certainly, we are talking hundreds of contracts, not thousands as in usually the case, so less should be read into the numbers.

Still, at first I was somewhat disappointed to see any increase in the short position of the big 4 and, in turn JPMorgan. By the way, yesterday's release of the monthly Bank Participation Report caused me to recalibrate JPMorgan's silver short position at 19,000 contracts as of Tuesday, up a bit from last week's 18,000 figure. But then it occurred to me there was another explanation for the apparent increase in JPMorgan's silver short position. I don't want to overly complicate matters, but it has to do with JPMorgan's taking of silver deliveries during the reporting week.

By taking (stopping) physical delivery against long futures contracts, as JPMorgan did to the tune of around 700 contracts or so during the reporting week, the long futures positions get liquidated when delivery is made. This is a simple mechanical process in every delivery on every futures contract. The net effect is that by stopping (taking) delivery of 700 silver contracts, 700 of JPMorgan's long December contracts were automatically closed out, which in turn increased its overall net short position by the same amount. In other words, JPM's total short position increased this week, not due to new short selling, but to the mechanical close out of long delivery contracts. Yes, I confess to watching this very closely.

As was the case in gold, the managed money traders did more than the headline commercial change would have suggested. The managed money traders sold more than 2000 net contracts in silver, including 803 contracts of long liquidation and 1264 contracts of new short sales. While the managed money traders added to short positions this week, it is still nothing less than shocking that these traders have added no short silver contracts from the COT report of Nov 8. Managed money longs have liquidated 16,000 contracts since then and the remaining long position of just over 56,000 contracts continues to look washed out.

Therefore, more than ever, I question where the selling power in silver will come from if the managed money traders won't liquidate many more longs or add many more shorts. Basically, the key features I look at – JPM's declining paper silver and gold short positions on the COMEX, its continued and accelerating accumulation of physical silver and gold and the continued absence of new managed money short selling in silver – have remained intact. If these features continue to remain intact, it's hard to see how prices won't turn sharply higher.

Some quick comments on a story that garnered wide attention this week – developing legal twists related to the Deutsche Bank settlements on silver and gold manipulation. As a result of trader communications turned over by the bank in accord with settlement terms, new evidence of collusion in silver and gold pricing was alleged in the most graphic of terms. Here's a sample of one of the many stories featuring this, that in turn contains other imbedded links –

<http://wallstreetonparade.com/2016/12/bombshell-dropped-in-federal-court-proof-of-a-silver-market-mafia-among-big-banks/>

I think it is great news that more attention is being placed upon the issue of silver and gold price manipulation because at some point it becomes impossible to maintain a scam once the critical number of observers accept that something is wrong. Clearly, more question the price moves in gold and silver than ever before and increasingly conclude it can't be free market forces behind the moves. And it's also important that the questions surrounding the price moves are coming in the form of successful legal actions and not just as stories in the alternative media. By my count, Deutsche Bank paid \$100 million to settle the civil suits, undoubtedly encouraging the plaintiffs and their attorneys to press the case against other banks.

And I'm still hopeful the current legal efforts will lead to the real culprits behind the silver and gold manipulation, JPMorgan and the CME Group. I believe JPMorgan hasn't been named because it had been successful in fending off earlier civil suits alleging it manipulated silver prices. Best of all, it is impossible to imagine JPMorgan being oblivious to the recent legal developments because the bank knows it is the big silver and gold crook and it may be only a matter of time before that fact emerges. I can easily make the case that the actions JPMorgan has taken recently, including buying as much physical metal and paper short positions as it can, is exactly in keeping with it deciding to end its manipulation soon. And it clearly fits in with my sense that the next move up will be the big move up.

Today I received a few questions from a long time subscriber that others may share. First, Richard asked what the catalyst would be to start the coming silver rally. It could be anything or nothing at all. As and when silver does explode, there is no doubt that different explanations will be given as being the catalysts for the move, but that doesn't mean the correct reasons will be given. It has everything to do with the market structure on the COMEX and the condition of the physical market and less to do with what will set it off. But there are an almost infinite number of catalysts that could actually occur (or be invented) given silver's complexity as an important industrial commodity and investment asset.

The next question was if the managed money traders were not heavily short, what will be the mechanism to propel the rally? Would it be the commercials rushing to buy back their short position? As I mentioned on Wednesday, the managed money traders can't rush to buyback big short positions if they don't hold big short positions. But that leaves out big managed money buying of new long contracts on higher prices. From the top in prices this summer through the latest COT report, managed money traders sold out nearly 48,000 long contracts and there is nothing that suggests that they wouldn't buy back close to that number of contracts as silver price turn higher. That's what technical funds do. Commercial traders rushing to buy back short positions will likely occur at some point, but probably not initially, although that's a guess on my part.

Finally, Richard asked if the commercials don't add to short positions on the next rally, how will the managed money traders be able to buy any long positions (since there must be a seller for every buyer and vice versa)? This is the critical money question that lies at the heart of my price explosion premise. Because there must be a seller for every buyer in everything all the time, should the usual sellers decide not to sell (or sell short), different sellers must step forward to replace the usual sellers.

If the usual commercial shorting crooks on the COMEX (or enough of them) decide not to short on the next rally, I can't imagine substitute silver sellers stepping forward to replace them except – and this is the key – at very high prices. Ask yourself this – at what price would you (or any silver investor) sell your silver tomorrow or in the very near future? Chances are, not much actual silver would become available for sale except at much higher prices. And as far as what price would it take for new paper short sellers to replace the big concentrated shorts that have always added to shorts in the past, the price answer is even higher. Again, this is the key.

As it stands right now, eight commercial traders hold a net short position of more than 85,000 contracts or 425 million oz (the headline number is smaller due to the raptors' near 10,000 net long position). Because the short position is so concentrated and because the price of silver is so low, there is no other 8 or 8000 traders in the world who would take their place at anywhere near current prices. The only way other traders would come in and replace the 8 traders currently short would be at astronomically higher prices. This is the essence of the manipulation – there is no legitimate economic justification for these 8 traders to be so heavily short silver and no conceivable substitute traders to take their place at current price levels.

But this scam can't and won't last forever, particularly when physical conditions tighten sufficiently. This is also why JPMorgan has bought as much physical silver as I allege. JPMorgan is the smartest crook around and they figured out long ago that there are no legitimate substitutes to replace the current big concentrated short sellers on the COMEX (of which it is one). The only way for JPMorgan to cover its paper short position was to buy physical silver (and gold). The questions that Richard asked were asked and answered by JPMorgan, stating in April 2011 when it started to accumulate physical silver.

Ted Butler

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Silver – \$16.90 (200 day ma – \$17.72, 50 day ma – \$17.47)

Gold – \$1161 (200 day ma - \$1280, 50 day ma – \$1241)

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