December 13, 2017 – The Last Roundup

Let me comment on some of the latest developments that I consider important to price before getting into the main topic of the day. First up is the large reduction in the short position of SLV, the big silver ETF, reported late Monday.

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

For positions held as of Nov 30, the short position in SLV fell by a hefty 7.2 million shares, to 12.9 million shares (ounces), one of the largest reductions in memory. Of course, the short position in SLV had just swelled to the highest levels in quite some time in recent prior reporting periods, so the size of the short position is not all that much different from where it was a little while back. Still, there is no denying that recent changes, both up and down, in the size of the short position in SLV have been large.

While itâ??s true that COMEX futures contract positioning dwarfs the changes in SLV, either in terms of new metal deposits/withdrawals or changes in the short position, thereâ??s no denying that the data on SLV are documentable and timely. Considering the paucity of similar data in the silver space, Iâ??ve always felt compelled to monitor SLV data. After all, it is the largest known physical silver stockpile in the world and not to focus on it would amount to negligence if one followed silver. I remember being interested and publicly commenting on the SLV even before its introduction in 2006.

Early on, say within a year or two of SLVâ??s creation, I became focused on the short position in SLV (and GLD) due to the unique properties of the shares. Unlike any other security, each share of SLV mandated a specific quantity of physical silver for each share outstanding. It quickly dawned on me that short selling of the shares was tantamount to shorting physical metal. To most, this was not a big deal and my idea that shorting in SLV (and GLD) should be outlawed was nearly universally rejected. Then again, I had already been on the COMEX short selling price manipulation bandwagon (mostly a one man band) for twenty years and I could see how concentrated short selling could be abused in SLV, just as it had been on the COMEX.

To keep a long story short, thatâ??s why I follow the short position in SLV. Certainly, peaks and troughs in the SLV short position tend to mirror changes in the total commercial net short position on the COMEX, particularly at market tops and bottoms. And while SLV changes influence the price of silver much less than positioning changes on the COMEX, every once in a while the SLV data stand out and are great food for thought. This appears to be one of those times.

Best I can tell, the big reduction in the SLV short position just reported had nothing to do with the recent string of large deposits of physical metal into the SLV, which have amounted to more than 7.5 million oz in little more than a week. Thatâ??s because the deposits of metal came after the Nov 30 cutoff date for the short report. I still believe the large recent metal deposits were designed to further reduce the short position in SLV and if thatâ??s the case, it might show in the next short report, due Dec 27. Even if the recently deposited metal was expressly designed to reduce the short position, as I believe to be the case, it may not be reflected in the next short report due to the possibility of a â??short against the boxâ?• reporting quirk. But let me not get overly complicated and instead deal with the big reduction just reported in the SLV short position.

I believe that the just-reported sharp reduction in the SLV short position was plain vanilla share buybacks of short positions on the open market. Usually, the short sellers in SLV tend to refrain from open market purchases of shares to close out short positions, because most often such outright purchases exert too much upward pressure on price. Most times, itâ??s more efficient to deposit metal to close out shorts in terms of not upwardly impacting the price of shares and metal; but there are occasions when the SLV short sellers can simply buy shares. Those times are when there is general and widespread investor selling of shares. In turn, those times occur when the price of silver and SLV break to new lows. And thatâ??s exactly what happened into Thursday Nov 30, when silver prices fell to multi-month lows.

Because much of the trading world has become mechanized and driven by price momentum, more than ever, higher prices beget more buying and lower prices create selling. No one knows this better than the big market operators and, in silver that means JPMorgan. JPM knows that new price highs or lows will trip off buying or selling that it can then use to its advantage. Since JPMorgan is eminently capable of setting short term prices in silver, it can arrange to trip off momentum buying or selling almost at will.

Therefore, the most plausible explanation for the big drop in the short position of SLV is that enough price-momentum selling by outside investors was generated to enable JPMorgan (and perhaps others) to buy back a big portion of its short position. Moreover, this coincides exactly with the same short-covering process underway on the COMEX by JPMorgan, as is verified in recent COT reports. Of course, one has to adjust for the somewhat conflicting cutoff dates for the weekly COT report versus the two-week reporting periods for the short report on stocks; but the message is clear – there has been a very large reduction in the commercial net short position on the COMEX, as well as in the short position in SLV under the same falling price environment. Far from being the exception, this is how it usually works.

By the way, the short position in GLD, the big gold ETF, went the other way and increased in the new short report, by 2.3 million shares to 14.9 million shares (1.4 million oz). While that would appear to be in conflict with what occurred in SLV, when you look closer, a different picture emerges. Granted, gold finished lower on the last three trading days of November, but still managed to remain above its 200 day moving average, whereas silver had decisively penetrated both its key moving averages on the last three days. You may remember in the COT report of November 28, there was a big increase in the commercial net short position in gold that week, while silver had a decent reduction in commercial shorting because silverâ??s price was much weaker. My sense is that there was investor selling of GLD in the last three trading days and short covering in GLD, but not enough to offset a much bigger increase in the GLD short position earlier in the two week reporting on new gold price highs. I would expect a big reduction in the GLD short position, as well as in SLV, in the next short report (notwithstanding the short against the box possibility). Sorry to get so deep in the weeds.

So what does this all mean? The sharp reported reduction in the short position on SLV, plus the prospects for even further reductions from Nov 30 adds strongly to my â??big oneâ?• premise on silver. You know the premise (since youâ??ve heard it so often); at some specific point, the price of silver will erupt and never look back and the silver manipulation that has existed since 1983 (by my reckoning) will be no more forevermore. I fully admit to having uttered these words on numerous past occasions and no such big move occurred. But I also fully contend that the reasons to expect that the next price rally to be or turn into the big one is more compelling than ever.

I would define the big move higher in silver in mechanical terms to be at hand whenever the eight largest concentrated commercial traders on the COMEX (mostly US and foreign banks) donâ??t add to short positions on any future silver rally. The only time I can recall when the 8 big shorts didnâ??t add to their short positions on the COMEX was in that brief time into early 2011 when silver soared to $50 before collapsing. The big shorts didnâ??t buy back their short positions back then (they rode it out), but they didnâ??t add any new shorts and thatâ??s all that is needed ahead. Thatâ??s pretty specific.

In fact, I can be a lot more specific than that â?? weâ??ll get the big one if, as and when JPMorgan doesnâ??t add to its short positions on the next silver rally. JPMorgan has always added to its dominant COMEX short position on every silver rally over the past ten years and I contend that is the core of the silver manipulation. Sell short enough at the margin to satisfy technical fund buying and then wait until that buying turns into technical fund selling. And then wash, rinse and repeat as often as can be arranged and then just count the short term profits rolling in. Just as it has done with every silver short position it has added over the past ten years, JPMorgan has done so again, namely, bought back recently added short positions at a profit.

And when it is done buying back as many short positions as it can possibly buy back, JPMorgan will then be in position to go back, Jack, and do it again; or so it would seem. Of course, it is certainly possible or even probable that JPMorgan will add to its silver short positions on the next rally and, as a result silver faces the prospect of another anemic and eventually capped price rally of a couple or a few dollars. Same old, same old.

Then again, itâ??s not written in stone or in the Bill of Rights that JPMorgan must add to its silver short positions on every silver rally to come until the end of all our days. In any event, it is entirely up to JPMorgan how much longer it will add to its short positions on every silver rally. Only JPMorgan will decide whether to add silver shorts or not; itâ??s up to them, not you or me. I can tell you that if JPM doesnâ??t add to shorts on any coming silver rally, then that rally will be the big one on cold market mechanics alone. No selling by JPM and the big 8 on a rally means the price goes boom to the upside.

Why wouldnâ??t JPMorgan go short on the next silver rally, in the expectation and perhaps full knowledge that it would succeed in adding new shorts to contain the price and be able to buy back those shorts at a profit yet again? I donâ??t have just a few reasons to expect that JPMorgan might not add to its silver shorts again, but rather a few hundred million reasons â?? its massive physical stockpile, acquired with almost maniacal precision over the past near 7 years.

The combination of its continued accumulation of physical silver, most evident in JPMâ??s 12.5 million oz stopping of COMEX deliveries so far this month, plus its much more massive short covering in COMEX paper and SLV (as much as 80 million oz combined) has brought JPMorgan to its largest net long silver position ever. Iâ??d peg the bankâ??s COMEX short position to be 25,000 contracts (125 million oz) and its total physical holdings to be at least 675 million oz, meaning JPM is now net long 550 million oz, its largest net long position ever. This means that JPMorgan now stands to make a net profit of $550 million for every dollar that silver advances in price, $5.5 billion for every ten dollars higher and $55 billion for every hundred dollars higher. In essence, there are now 550 million reasons or more for JPMorgan not to cap the price of silver on the next rally.

Because a big rise in the price of silver would benefit JPMorgan the most and because the bank understands this better than anyone, it stands to reason that it is just a matter of time before JPM takes the action that would most benefit itself. Actually, the â??actionâ?• that would benefit JPMorgan the most in silver is not any action at all; in fact, just the opposite. Iâ??ve long maintained that all JPM had to do to most benefit itself is to do nothing, simply not add to short positions. Thatâ??s easier than falling off a log or slipping on the ice. My point is that there has never been better set up for JPMorgan to do nothing and make itself a windfall.

Of course, the moment of truth will come after JPMorgan and the other commercials have induced as much managed money selling as possible. Weâ??re well into that process as Iâ??ve indicated recently and Iâ??m fully prepared for what happens next, either further price erosion and continued managed money selling or a sudden turn up. Itâ??s not up to me (or you), itâ??s up to JPM and the other commercials aligned against the managed money traders; Iâ??m just looking a bit ahead and declaring that the next move up in silver be treated as if it will be the big one for the simple reason that if it is, thatâ??s the best and only way to play it. Best I can tell, this looks like the last roundup of technical funds to the sell side and should be treated that way.

As far as what to expect in Fridayâ??s Commitments of Traders (COT) Report, considering there was classic new salami slicing throughout the reporting week, there has been certain additional and significant commercial buying and managed money selling in both gold and silver. For contract numbers, Iâ??m sticking with my original estimates for the prior week, or 30,000 net contracts in gold and as many as 15,000 net contracts in silver. And just as fervently as I hoped for last week, Iâ??m hoping Iâ??m low once again.

Ted Butler

December 13, 2017

Silver – $16.05Â Â Â Â (200 day ma – $17.05, 50 day ma – $16.81)

Gold – $1256Â Â Â Â Â Â (200 day ma – $1268, 50 day ma – $1279)

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