December 14, 2019 – Weekly Review

Gold and silver prices rallied this week, with gold ending $15 (1%) higher and at its highest weekly close in 6 weeks, while silver tacked on 40 cents (2.4%), snapping back from the prior weekâ??s lowest close in 4 months. Due to silverâ??s relative outperformance, the silver/gold price ratio tightened in by a full point to 87 to 1, which still leaves silver more undervalued compared to gold than words can describe â?? free market words, anyway.

Yesterdayâ??s Commitments of Traders (COT) report came in almost exactly as expected, thus confirming not only the expected changes for the reporting week ended Tuesday, but also what have been unprecedented changes (or lack thereof) for the past few months. What makes yesterdayâ??s report so promising is that after last weekâ??s dismal price performance, particularly in silver, there was absolutely no price follow through to the downside and silver closed higher every day this week.

No, I havenâ??t given up my skepticism about attaching too much importance on short term price movement, but on last Fridayâ??s close, it did look like silver would fall out of bed and the fact that it didnâ??t is in keeping (at least until now) with the unusual positioning changes in COMEX futures contracts. Iâ??ll run through those changes after some usual non-COT weekly developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off a bit this week as just under 3 million oz were moved, with virtually no movement on two days. Total COMEX silver inventories rose by 1.8 million oz to 316.3 million oz, still about a million oz shy of the record set a few months back. No change in the JPMorgan COMEX warehouse, still stuck at 161.1 million oz for the seventh week.

For a change, there was more to comment on this week regarding the changes in the COMEX-approved gold warehouses, with the changes apparently directly connected to the December COMEX gold deliveries. More than 400,000 gold oz (4000 contracts or $600 million) came into the JPMorgan COMEX gold warehouse, with a good chunk coming from the HSBC warehouse. This is in conformity with the delivery data for December. I peg JPMorgan (or entities under its control) as owning 25 million oz of physical gold, but the data indicate it is still accumulating physical metal and likely owns more than I suggest.

As far as the delivery data on the December COMEX gold futures, this month is now the largest delivery month for the year (13,328 total contracts). HSBC is still the largest net issuer, having issued more than 4000 contracts early on, with JPMorgan both a giant issuer and stopper for clients. Goldman Sachs, as is its custom, has delivered nearly all of the 1300 contracts it stopped earlier in the month, while Citigroup has re-issued just 463 contracts of the 1493 contracts it stopped earlier in the month, but there is still some time for it to re-issuer the rest (to conform to its pattern). As a reminder, I can come up with no legitimate reason why Goldman or Citi or anyone else would demonstrate a pattern of stopping deliveries early in a delivery month, only to redeliver later that same month. I do believe there are reasons for this behavior, just none that are legitimate. (Yeah, I know â?? next Iâ??ll be saying the whole COMEX setup is corrupt).

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

There was a wealth of information confirming my expectations in the new COT report, even though I

deliberately refrained from making predictions by numbers of contracts. First there was the expected larger relative selling by the managed money traders in silver compared to gold, as roughly 15,000 contracts were sold in silver compared to the 24,000 or so contracts sold in gold (COMEX gold is roughly 3 times the size of the silver market in terms of volume and open interest).

The reason I refrained from contract number predictions was because the relatively small change in total open interest over the reporting week was most likely due to the fact that managed money long liquidation, combined with new managed money short selling, would result in little change in total open interest but big changes in net positioning. This week in silver, the managed money traders liquidated 8846 longs and added 6115 new shorts, which (mathematically) would result in a change in total open interest of only 2731 contracts, but a whopping 14,961 contract change in net positioning.

Finally, whatever the changes in this weekâ??s COT report, I felt confident that it would still confirm the highly unusual pattern of the past several months of there not being as much managed money selling as has been seen in the past. Plus the snap back in prices seems to confirm that the managed money selling in the reporting week was â??itâ?• (all that would likely occur) â?? although only time will confirm or reject that premise.

In COMEX gold futures, the commercials reduced their total net short position by 20,500 contracts to 302,300 contracts. The four biggest shorts reduced their short position by about 5600 contracts, but the 5 thru 8 net largest shorts added about 2000 new shorts. Iâ??d peg JPMorganâ??s short position in gold to be back down to 25,000 contracts (2.5 million oz).

The total commercial net short position in gold has ranged between 288,000 contracts and 345,000 contracts, since late July or going on nearly 5 months, an unusually long time, particularly considering gold prices have traded mostly below all the key moving averages (except the 200 day moving average) for the past two and a half months. Historically, the 300,000 contract level for total commercial net shorts must be considered extremely bearish for future gold prices. This time, at least until this point, that has not proven to be the case, as Iâ??ve repeated incessantly.

While it is still possible, of course, for there to be significant managed money selling on still-lower prices that would allow for the commercials to drastically reduce their apparent extremely bearish short position, the lack of much more managed money selling and commercial buying to this point is striking. Itâ??s hard not to conclude that the lack of more managed money selling and commercial buying to this point sets the stage for Izzy Friedmanâ??s full pants down commercial overrun to the upside. Throw in JPMorganâ??s masterful positioning for a double cross of the ages and itâ??s even harder not to expect a price explosion.

On the sell side of gold, the managed money traders sold 24,314 net contracts, comprised of the sale and liquidation of 19,347 long contracts and the new sale of 4967 short contracts. The resultant net long position of the managed money traders is now 183,648 contracts (212,929 longs versus 29,281 shorts), which while down for the reporting week, must still be considered extremely bearish if these traders can be persuaded to sell aggressive ahead. If they canâ??t be persuaded to sell aggressively (and they sure havenâ??t sold aggressively to date), thatâ??s a completely different story.

I would note that the other large (non-managed money) traders in gold stood out as big buyers this week (of 4529 net contracts), in stark contrast to the selling seen by the managed money traders. In fact, these large reporting traders did establish a record gross long position of 116,240 contracts, but

fell slightly short of establishing a record net long position. While these other large reporting traders have been wrong in the past (they did get clipped pretty badly in the epic price decline of 2013), they have been much more correct than wrong most of the time.

In COMEX silver futures, the commercials bought and reduced their total net short position by 11,200 contracts to 63,100 contracts. Except for one week (Nov 12, when the position was about a thousand contracts less), this is the lowest (least bearish) commercial net short position since mid-July. Just to remain objective, the commercial short position is still more than 64,000 contracts larger than their net long position of 1100 contracts of May 28 and a commercial net short position of 63,000 contracts must still be considered bearish on a conventional historic basis. Then again, I donâ??t recall JPMorgan being as little short (7000 contracts) as Iâ??d peg it to be now when the total commercial net short position was greater than 63,000 contracts.

On the sell side of silver, the managed money traders (as previously disclosed) sold 14,961 net contracts, comprised of the sale and liquidation of 8846 long contracts and the new short sale of 6115 short contracts. The resultant managed money net long position of 29,212 contracts (64,531 longs versus 35,319 shorts) must still be considered bearish on a purely historical basis, although nowhere near as bearish as the same position in gold.

From the top in price in September, the managed money traders have now sold around 30,000 net contracts, but are still around 70,000 contracts more net long than they were back in May (when they were 40,000 contracts net short), despite a $3 price decline and more downward moving average penetrations than you could shake a stick at. Therefore, the operative questions remain why they havenâ??t sold more and whether they will ahead? In addition to the months that have transpired in which they havenâ??t sold (where they would have in the past), price action over the past week suggests they wonâ??t. Remember, unless we were to set meaningful new price lows, the likelihood on aggressive new managed money selling seems remote.

The explanation for why the managed money traders sold more this reporting week than the commercial bought lies in the behavior of the other large reporting silver traders which bought 5476 net contracts, including 5222 new longs. Iâ??ve been commenting on the other large reporting traders in gold for weeks, but until this week the other large traders in silver hadnâ??t mirrored their counterparts in gold. Where the other large traders in gold had been holding record or near record net and gross long positions, itâ??s been mostly the opposite in silver â?? until this week.

While the number of net contracts bought by the other large traders in silver was only slightly larger than the number of contracts bought by the other large traders in gold, when you factor in the relative size of each market, the amount bought in silver stands out. Up until this week, the other large reporting traders in silver were much closer to the lowest levels of long positions, both on a net and gross basis, in stark contrast to what was transpiring in gold. In one week, the other large traders in silver surged to the highest long levels seen since June, both on a net and gross basis.

The reason Iâ??m harping on this (as a bullish portent) is that price action in silver was particularly weak over the reporting week, with two days of distinct and sharp price declines. To see these two days of highly-orchestrated price smashes met with unusually large buying from a large trader category basically missing in action for many months, strikes me as notable.

I received an interesting comment from a subscriber in reaction to my comments on Wednesday about

a possible connection between the eruption in the repo market and the Justice Departmentâ??s investigation of precious metal manipulation by JPMorgan. By the way, I published a standalone public article on the connection.

http://silverseek.com/commentary/missing-motive-17804

Anyway, Vinceâ??s comment had to do with the precise timing of the two matters. While I was aware of a general timing overlap, Vince pointed out that the Justice Department brought its latest indictments against senior traders from JPMorgan on Sep 16 and the repo explosion occurred starting the very next day, Sep 17, making the connection even more precise (or as Vince noted â?? â??cue in the eerie musicâ?•).

One thing is for sure; before the Justice Department officially indicted the three traders on Sep 16, there were intense negotiations with senior JPM management intended to negotiate a settlement in lieu of the very public indictment. There can be no doubt that JPMorgan management rejected whatever the DOJ proposed, otherwise the indictments wouldnâ??t have been filed and the DOJ wouldnâ??t have held the very public press announcement on the matter. But I hadnâ??t quite made the connection with the filing and announcement and the literal next day eruption of the repo market, thus tending to confirm my speculation. Thanks Vince.

As far as the financial standing of the 7 big shorts in COMEX gold and silver futures, there has been little change since Wednesdayâ??s report, but still significant change since last Friday, when their open and unrealized losses had been reduced to a combined $1.8 billion, the lowest it had been in four months. The rally this week added more than $550 million to an open loss of now nearly $2.4 billion, or nearly $350 million per average trader.

While the open and combined loss of the 7 largest shorts is still in the same general range of the past several months, there are other strong signs that the price correction and consolidation since September may have run its course. Those signs include the COMEX futures positioning as detailed above, general macroeconomic developments, the possible connection between the DOJ indictments and the repo market as concerns JPMorgan and the still-persistent outperformance of the silver mining sticks. No one can rule out a gold and silver price selloff from here, but Iâ??m still betting on an upside move and one likely to surprise by its strength.

I would be negligent if I did not point out the upside move in copper, which closed over its 200 day moving average for the first time in a year last Friday. This weekâ??s copper COT report indicated more than 30,000 net managed money contracts (375,000 tons) were bought as of Tuesday, with more since then. If there were any real changes in actual copper supply/demand fundamentals, then Iâ??m unaware of them. Instead, it seems clear to me that managed money buying accounted for the rise in copper â?? about as bogus a reason as one could offer when compared to US commodity law which holds excessive speculation as being illegal.

While itâ??s true that there existed in copper a near-historic managed money net and gross short position before copper prices penetrated its 200 day moving average, obviously fueling the surge in buying and there is no such equivalent historic managed money short position in either gold or silver, it is reasonable to envision some managed money buying if the last remaining moving average (the 50 day ma) is penetrated to the upside. In the case of gold, thatâ??s only a few dollars from yesterdayâ??s closing price.

Ted Butler

December 14, 2019

Silver – $17.00Â Â Â Â Â Â (200 day ma – $16.26, 50 day ma – $17.31)

Gold – $1480 Â Â Â Â Â Â Â Â (200 day ma – $1410, 50 day ma – $1483)

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