December 16, 2017 – Weekly Review

Following three consecutive weekly declines and fresh new multi-month price lows mid-week, gold and silver prices finished higher for the week. Gold ended $8 (0.6%) higher, while silver finished 25 cents (1.6%) higher. As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by three quarters of a point to just over 78 to 1. Nothing in the world could account for silverâ??s other worldly undervaluation, other than the artificial pricing emanating from COMEX paper contract positioning.

COMEX futures market positioning, always the most important price influence in gold and silver (and other commodities), demonstrated that in the clearest terms yet, courtesy of the new Commitments of Traders (COT) report. I did have high expectations that the report would indicate a further move to more bullish market structures in gold and silver, but all I could say when I viewed the data was â??Holy Crap!â?• If I could have constructed a COT report according to my own fancy, I would be hard-pressed to make up a more bullish report than what was published yesterday.

Let me briefly run through the usual weekly format before delving into the new COT report. The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained high, at 5.4 million oz, mostly thanks to a big movement reported yesterday. The total level of COMEX silver inventories slipped slightly by 0.6 million oz to 239.3 million oz, the first net decline in weeks and just shy of multi-decade highs. JPMorganâ??s COMEX silver warehouse holdings stood pat at 117 million oz, perhaps awaiting a new inflow as a result of this monthâ??s stopping of 13.3 million oz in COMEX futures deliveries.

Turning to COMEX deliveries, the new twist this week was the continued give back of gold and silver deliveries by Goldman Sachs after the firm stopped unusually large quantities of each at the onset of the December deliveries. Goldman has now redelivered 1020 of the 1676 gold contracts it originally stopped and has re-issued 553 of the 1683 silver contracts it stopped originally. At first, I thought Goldman might redeliver some of its silver stops since it was above the supposed 1500 contract limit per month; but since the firm has redelivered many more silver contracts than needed, plus it has redelivered much of its gold stoppings, Iâ??m forced to revise my thinking. Now Iâ??m inclined to believe that Goldman was acting in cahoots with JPMorgan in that it may have been â??warehousingâ?• gold and silver deliveries temporarily, under agreement to redeliver them to JPM at a later time.

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

The shining North Star in the December COMEX deliveries is the dominance of JPMorgan on the stopper (taker) side of gold and silver. In fact, when you eliminate the â??noiseâ?• of redeliveries and drill down to either net issuance or net stopping, the December COMEX deliveries are mostly a case of JPMorgan taking most of the gold and silver contracts issued and with HSBC as the primary issuer. There is still a relatively large number of December COMEX gold futures open (more than 2000 contracts) and based upon recent movements and reclassifications in the COMEX gold warehouse of HSBC, I would expect that bank to be the primary issuer against the open gold contracts.

The bottom line on the December deliveries to date is that JPMorgan has gobbled up gold and silver like they were someoneâ??s last meal or opportunity. Nothing new here. But I am intrigued by the large number of gold and silver issuances from HSBC because it suggests this was a two-way matchup, in which only HSBC could provide the physical metal JPMorgan was stopping. In other words, the December gold and silver delivery period was strictly a two man affair, JPM vs HSBC. With HSBC having delivered most of the COMEX gold and silver contracts this month, particularly on a true net basis, I get the feeling HSBC may be close to being tapped out for future big deliveries (including my expectations for a further 200,000 oz of gold deliveries). When physical metal supply lines get tight, itâ??s always a heck of a lot easier to buy and take delivery than it is to come up with the physical metal with which to deliver and I see such times ahead. Yes, this is line with my â??big oneâ?• premise.

Since I covered the big gold and silver ETFs, GLD and SLV, on Wednesday, Iâ??m going to skip over them today, except to say in terms of the sharply reduced short positions in SLV, plus the expected further sharp reductions in the short positions of both SLV and GLD, the data in both ETFs are extremely supportive of a price bottom and possible explosion ahead.

Before I turn to the new COT report, let me address an issue more seem to be concerned about â?? EFPâ??s, or Exchange for Physical transactions being reported by the COMEX. There is continuing discussion and attention placed on a special type of transactions termed, â??Exchange for Physicalsâ?• or EFPâ??s, because the number of such transactions reported have recently surged. Iâ??m not exactly sure why EFP volumes have surged, but the volumes are so large as to appear almost impossible that they involve actual physical metal changing hands. (EFPâ??s are not to be confused with ETFâ??s, or Exchange Traded Funds, like SLV or GLD).

All told, some 200,000 gold EFPâ??s have been reported transacted over the past three weeks, the equivalent of 20 million oz of gold, worth more than $25 billion. Because so little is known about EFP transactions, all sorts of conclusions have been assigned, ranging from a surge in the flow of physical gold and silver from NY to London, where a delivery delay reportedly stretching to weeks has developed and a steep backwardation has accompanied the delivery backlog. If true, the conclusions would be powerfully bullish. However, on closer examination there is little to back up the claims.

For one thing, no physical gold or silver appears to have left the COMEX gold and silver warehouses headed to London (or anywhere else) and, in fact those COMEXÂ Â warehouse inventories arehigher, not lower in each metal than they have been in a while. Â And if there are delivery delays inLondon, that hasnâ??t been reflected in COMEX deliveries for December which are quite active andtimely. Â Any data from London is opaque at best, but the spread differentials in COMEX gold andsilver futures are beyond full carry or contango, the exact opposite of backwardation. Most telling isthat the price action in gold and silver over the past three weeks has nothing in common with aphysical delivery squeeze.

The obvious conclusion is that, in this case, Exchange for Physical transactions have little to do with actual physical metal (other than sharing the word â??physicalâ?•). It would have been impossible for 20 million oz of physical gold to have changed hands in terms of true ownership over the past three weeks in these EFP transactions. The word â??physicalâ?• is being misconstrued, in my opinion. My best alternative explanation is that the large reported volume of EFP transactions involve a cross or arbitrage between futures contracts and OTC swaps contracts, or paper versus paper with no physical metal involved. After all, swap contracts are the same as futures contracts, except futures are traded on a licensed exchange, like the COMEX,Â with a structured clearing system; while swaps are traded over-the-counter on a principal to principal basis (mostly by and between banks).

Going one step further, I get the impression the EFP volume is mostly the day trading of swaps for futures and vice versa, given how little the EFP transactions seem to affect changes in open interest and positioning. Itâ??s as if these EFP transactions are occurring in their own narrow world and have nothing to do with what has been influencing price. Itâ??s fully established that changes in the COMEX market structure, as defined in the COT reports, are what move the price of gold and silver. If, as and when EFPâ??s explain and reflect price change, then they deserve to be followed. For now, no such price influence can be explained by the EFPâ??s.

The whole EFP discussion is highly reminiscent of the widespread talk a couple or so years ago about the difference between eligible and registered metal in the COMEX warehouses. All sorts of faulty conclusions were made at the time about the levels of each metalsâ?? classification which seemed misguided to me. Fortunately, the talk of eligible and registered has largely disappeared, which is a good thing to my mind. Likewise, I think placing too much importance on EFPâ??s is misguided. Of course, I reserve the right to be wrong and will fully acknowledge being so if that turns out to be the case. In the meantime, EFPâ??s are not the rave.

There were so many important changes in the COT report that Iâ??m bound to overlook some. Let me run through as many as I can in this weekâ??s report before summarizing where we stand in terms of market structure. I had been expecting big improvements in gold and silver, but hoping I would prove to be too conservative in my expectations, as I was in the prior week. Suffice it to say, even my hopes were too conservative.

In COMEX gold futures, the commercials reduced their total net short position by a record 70,400 contracts to 119,500 contracts. (This was gloriously more than double of my 30,000 contract prediction). All three commercial categories gorged themselves in buying every contract thrown atthem by the managed money sellers. The big 4 bought back 17,500 short contracts, as did the big 5thru 8 to the tune of 9900 contracts. This is the lowest (most bullish) concentrated short position by thebig 4 and big 8 since the price bottom of early July ($1210 gold), just prior to a rally of nearly $150.

The raptors (the smaller commercials away from the big 8) did the really heavy lifting in buying 43,000 new long gold contracts, which increased their net long position to72,500 contracts. While the cohesion of the commercials was every bit as artistic and impressive as the final sword fight in the Three Musketeers, I find myself most encouraged by the sharp reduction in the concentrated short position of the big 4 and 8.

There was an absolute orgy of managed money selling in COMEX gold futures, as these traders sold more than 58,000 net contracts, including the sale and liquidation of 44,035 long contracts and the new short sale of 14,249 contracts. The remaining managed money long position is now down to 123,139 contracts or very close to the washed out previous lows of the past couple of years, leaving little apparent room for heavy selling from this specific category. I suppose there is some potential room for new managed money shorting in gold, but that potential selling wouldnâ??t appear possible unless new price lows (salami slices) occur ahead.

In COMEX silver futures, the commercials reduced their total net short position by a very hefty 21,500 contracts to 24,800 contracts (I was expecting as much as a 15,000 contract reduction, but hoping for more). As was the case in gold, this was the lowest (most bullish) commercial headline number since the price bottom of July ($15.5 silver) and the subsequent $2.50 rally into Sep. By commercial category, the big 4 bought back 5600 short contracts and the raptors added 17,600 new long contracts, bringing their net long position to 59,200 contracts. This is the largest raptor net long position since Aug 2015, when silver was trading near the $14.50 level.

Rounding out the commercial categories in silver, the big 5 thru 8 added 1700 new shorts but itâ??s very safe to conclude that at least one and maybe two managed money traders have infiltrated the domain of the 8 largest shorts, so their presence further reduces the pure commercial concentrated short position, always good news. Iâ??d peg JPMorganâ??s all-important silver short position to be 25,000 contracts, exactly what I expected in Wednesdayâ??s article. Over the last three reporting weeks, JPMorgan has reduced its concentrated short position in COMEX silver futures by 15,000 contracts or the equivalent of 75 million oz. This reduction increases JPMâ??s true net long position to at least 550 million oz (675 million long physical oz minus 125 million paper short oz), the largest ever for the bank.

On the sell side of COMEX silver futures, the managed money traders went nuts in selling more than 27,000 net contracts, including the sale and liquidation of 10,171 long contracts and the new short sale of 17,110 contracts. I had been anticipating the previous level of the core non-technical fund long position of 56,000 contracts might give way to the downside and that was the case and more as only 47,000 managed money long positions remain. This is not bearish in any way since the number of liquidated long contracts sold to date has already had its impact on price and, at this point, the lower the long position, the better. Still, something accounted for the non-technical fund managed money long liquidation at this time and my best guess is that the commercials (mainly JPM) whispered in the ears of the managed money longs about the benefits of selling silver now. Which also fits into my all-out commercial preparations for the coming big move like a glove.

The managed money traders are now short 52,924 silver contracts, up roughly 40,000 contracts or four fold over the last two reporting weeks. In other words, managed money technical funds shorted 200 million oz of silver contracts in just two weeks. Thatâ??s the equivalent of three months of world mine production sold by a few paper traders who wouldnâ??t know a real bar of silver if they tripped on it and who stand absolutely no chance of actually delivering the metal they just went short. Much more remarkable, of course, is that these clowns were snookered into shorting silver in the first place. How many times does Lucy have to pull the football away from Charlie Brown before he wises up? The managed money traders are now net short in silver, a fairly rare event that has always led to price rallies in the past.

Youâ??ll recall, Iâ??m sure, that over the past couple of months I have identified on countless occasions the key unknown feature in silver as whether the managed money traders could be lured into selling short bigly. Either the managed money traders couldnâ??t be tricked into aggressively selling short and the commercials wouldnâ??t have the capacity to buy as many contracts as they desired, or the commercials would succeed in luring the managed money traders to the short side. After having to wait for months to see which it would be, the verdict has suddenly come in â?? the commercials have hoodwinked the managed money traders magnificently and in the process have created an extremely bullish market structure in silver from what was an extremely bearish structure in early September.

The big story is the remarkable positioning change in COMEX gold and silver over the past two reporting weeks in gold and three weeks in silver. The actual numbers are nothing short of mind-boggling. In just two weeks, the commercials have bought 127,000 net contracts of COMEX gold, the equivalent of 12.7 million oz, mostly due to managed money selling. Thatâ??s more than the 9 million oz in the COMEX gold warehouses and nearly half of what is held in the worldâ??s largest publicly held gold stockpile, GLD. No gold trading venue in the world came close to matching the positioning change on the COMEX, all sold by paper speculators and scoped up by other speculators called commercials. How the heck can a closely knit group (the commercials) buy so much equivalent gold in such a short time on declining prices in the absence of market trickery? The trickery is the biggest component of the equation.

In silver, the situation is even more extreme, as is befitting the most manipulated market in the world. Over a little less than three reporting weeks (actually two weeks plus one day), the managed money traders have sold 70,000 net contracts of COMEX silver futures, including long liquidation and new short selling. Thatâ??s the equivalent of 350 million oz or more than 40% of world annual mine production and more silver than exists in either the SLV or COMEX warehouses, the two largest stockpiles of silver in the world. How the heck can it be legitimate that a few large speculative traders can hurl about such large quantities of paper silver, clearly setting the price in the process, while the regulators pretend all is well in commodity price land?

Weâ??ve now passed the 8 month mark into the tenure of the new director of the CFTCâ??s Enforcement Division, James McDonald, yet the crooked game plays on. The commercials and JPMorgan have washed and rinsed the managed money traders a couple of full cycles in the manner exactly described by me in my April letter to McDonald. Again, all my data comes from CFTC data.

Hereâ??s to a very Merry Christmas for a regulatory job well done from silver investors and free market advocates everywhere; or in other words, thanks for nothing â?? but with strong seasonal feelings.

Obvious regulatory failure aside, there was little about the COT reports and resultant positioning changes that wasnâ??t constructive. All the missing pieces seemed to turn up. One missing piece was the lack of a big increase by managed money traders to the short side of NYMEX platinum futures; that is, until this week. The new COT report indicated that the managed money traders have now been tricked into a net short position and now sit close to a record gross short position in platinum. These managed money traders are real palookas. Thereâ??s no laws against stupidity, but there are laws against market manipulation, even if one side, the enablers, are as dumb as a bag of dirt.

The truth is that the manipulation doesnâ??t matter all that much at this point, as the commercials have been so good at rigging prices lower to attract selling from the managed money traders that there doesnâ??t look to be much more, if any room to the downside. Thatâ??s because so much managed money selling has occurred to this point. Of course, pinpointing the exact price low is something that can only be declared with the benefit of hindsight, or after the price low has been shown to be the low (by subsequent rising prices).

Is it possible that the commercials have a few more dirty tricks up their sleeves and could still rig even lower prices ahead? Of course, that is possible and Iâ??m a bit concerned about more managed money potential shorting in gold. But even if we do get some new price salami slices to the downside, the bulk of the managed money shorting looks near complete in silver and platinum. Little more than two weeks ago, there was a question in my mind about whether there would be substantial managed money shorting in silver. Needless to say, after the 40,000 contracts of new managed money shorts sold in the interim, the question has been answered. Now itâ??s time to look ahead.

The big question at this point is the same question presented whenever there has been aggressive managed money selling (long liquidation and new short selling) in the past, namely, what will JPMorgan do as and when silver prices begin to climb? Thereâ??s little question in my mind that as and when silver and gold prices turn upward, as they surely will in time, that the smaller commercials, the raptors, will sell out at big profits their large long positions into managed money buying. But as large as the raptor net long position is in gold and silver, it is hard for me to imagine that selling alone succeeding in capping and limiting prices to a $2 to $3 rally in silver or $100 or so in gold; like weâ??ve witnessed repeatedly over the past few years. Itâ??s going to take more than raptor long liquidation alone to cap prices on the next rally, whenever it commences.

In order to cap prices in the manner they have always been capped will require the special sauce from JPMorgan, namely, an increase in short selling by the crooked bank once prices begin to move higher. Same as always. And while itâ??s certainly reasonable to speculate that JPMorgan will once again add to its sharply reduced silver and gold short positions of late, it also seems just as reasonable to speculate that it wonâ??t add aggressively to its short positions, at least to me.

The key point is in looking at the likely price consequences of either scenario of whether JPMorgan will or wonâ??t add new shorts on a price rally. In the event that JPM does add to COMEX silver short positions on the next silver rally, history shows that we will still get a rally of at least two or three dollars or possibly even more before the managed money buying that drove the rally gets absorbed and satiated. Then we will all face the decision of what to do about it, like it or not and, namely, whether to trim long positions at that point or ride out the inevitable price decline as the managed money traders move to sell.

I believe it is just as likely that JPMorgan wonâ??t add to its COMEX silver short positions on the next rally and would calculate the odds as pretty much even as to whether it does or doesnâ??t add to shorts. But no matter how one calculates the odds of will they or wonâ??t they add to shorts on the next silver rally, the most important point is the asymmetrical nature of either outcome. Should JPMorgan add to shorts, the rally gets capped and prices will likely fall back over time. Should JPM not add to its silver shorts, then the price goes boom to the upside. The odds are probably pretty close as to whether they will or wonâ??t, but the result of JPM not adding to shorts is a whole new world for silver prices, a world in which silver investors will think they went to heaven (without dying).

I think the growing body of evidence of factors pointing to JPMorgan not adding to silver shorts tips the odds of no new shorting by the bank ahead. What new factors? For starters, the stunning recent improvement in the COMEX market structure as indicated in recent COT reports. By the way, I donâ??t think there has been any deterioration or managed money buying since the Tuesday cutoff and strongly suspect added managed money shorting over the past three trading days, since we are so far below the moving averages in silver. Other factors include the shocking declines in the short position in SLV and the prospective declines in future SLV and GLD short reports. Not to be denied is the obvious aggressive grab for physical silver and gold by JPM in the COMEX deliveries this month.

I canâ??t and wonâ??t rule out further new price lows ahead and I do realize we are at the time of year when trading and prices can grow quiet and featureless. But I donâ??t think things are anywhere near bearish or quiet beneath the surface. I remain all-in and looking to fund bullish kamikaze-type silver call options as they expire until I grow up or run out of money.

Ted Butler

December 16, 2017

Silver – $16.10Â Â Â Â Â Â Â Â (200 day ma – $17.01, 50 day ma – $16.77)

Gold – $1258Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1268, 50 day ma – $1277)

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