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## February 10, 2018 – Weekly Review

Gold and silver prices fell for a second week, gold by \$15 (1.1%) and silver by 30 cents (1.8%). As a result of silver's relative underperformance, the silver/gold price ratio widened out to 80.7 to 1, still barely within the three-year trading range of the ratio and the cheapest silver has been relative to gold over this time. Regardless of what's in store for the short term, it's impossible for me to imagine how silver won't outperform gold over the longer term. For a variety of reasons, this strikes me as an ideal time to switch just about any investment asset, including gold, into silver. The chief reason, of course, is that silver is dirt cheap, both on an absolute basis and relative to everything else.

This week's decline in the precious metals came against a backdrop of exploding volatility and turmoil in world stock markets, which registered some of the sharpest point declines on record. Since a significant decline in equity markets was thought by many to be just the catalyst necessary to launch precious metals prices higher, it is understandable for there to be disappointment at the failure to launch and for questions to be asked about what happens next.

The price action in stocks and precious metals also raised questions about investors having to sell off precious metals positions to meet margin calls from the declining stock market. This is a recurring story with little foundation when one considered the actual facts. The stocks in the S&P 500 index lost \$2 trillion (\$2000 billion) in value in little more than a week. All the silver in the world in the form of 1000 oz bars, which I will overestimate at 2 billion oz, is worth less than \$33 billion. Even if all that silver was suddenly sold by its owners, in terms of funding stock market margin calls, it would have less effect than spitting into the wind of a Cat 5 hurricane.

I'm not suggesting that further stock market turmoil won't result eventually in diverting investment flows into precious metals and, in fact, I would expect that it would. My point is that the stock market selloff, to this point, has not had much impact on precious metals prices. Then what did affect precious metals prices this week? (I thought you'd never ask). The answer is the same thing that has driven metal prices to this point – COMEX futures contract positioning changes. In fact, this week's dramatic developments in world stock markets make COMEX positioning stand out like never before.

As has been the case in just about every notable price decline in gold and silver over the past three decades, this week's decline was driven by managed money selling accompanied, of course, by commercial buying. That's a pretty bold statement and my use of "just about" is merely intended to downplay any nitpicking if even one or two of the hundreds of such declines over the years may have featured an exception to the ironclad rule that managed money (technical fund) selling drives prices lower.

Nothing else matters in gold and silver price movement except COMEX positioning changes and that's why more people than ever turn to the Commitments of Traders (COT) report to ponder past and prospective price behavior. I do believe that someday COMEX positioning will cease being the main, if not sole price driver for gold and silver, but that day has clearly not yet arrived. I'll get into this week's COT report momentarily, after discussing some developments I believe will be important

at some point, if not today.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained active this week as more than 4.7 million oz were moved (mostly of the "variety") and total COMEX inventories rose by 3.8 million oz to 250.3 million oz. This is yet another new 20+year high and only 35 million oz or so from the all-time record COMEX silver inventories of the mid-1990s. It's important to note that increases (or decreases) in COMEX silver inventories are not the same as increases in total world silver inventories and are more reflective of the repositioning of existing inventories from warehouses outside into the COMEX warehouse system.

The standout feature of this week's COMEX silver warehouse data is the continued movement of silver into the JPMorgan COMEX warehouse. This week, more than 2.7 million oz came in, increasing the total amount in the JPM silver warehouse to 129.1 million oz. By my back-of-the-envelope calculations, that's more than 11 million of the 14 million oz JPMorgan took delivery of in the December COMEX deliveries, leaving another 3 million oz or so yet to be brought in. I have to say that JPMorgan is certainly not shy about wearing its official silver accumulation uniform when it comes to acquiring physical silver via COMEX futures deliveries and then moving the metal into its own warehouse.

Apparently, JPMorgan was much less open about its epic accumulation of 150 million oz of silver via the purchase of Silver Eagles and Canadian Maple Leafs over the six years ended about a year ago. I say this because the US Mint suddenly decided to make public the names of the firms on its authorized dealer list this week, after refusing to make public the list while JPMorgan was gobbling up the coins. Now that even a child would conclude that JPMorgan has stopped buying the coins and, therefore, wouldn't be on the list, the Mint suddenly felt obligated to be transparent? You got to be kidding me.

As to why JPMorgan feels no need to camouflage its epic physical silver accumulation via COMEX deliveries and then openly moving the metal into its own warehouse, my answer is that there is nothing outwardly illegal about the practice (if you overlook that JPM has manipulated prices lower by being the dominant short seller). The COMEX deliveries and movement into the JPM warehouse are being done in full view; it's more that too few commentators refer to it (why, I don't know).

In contrast, JPMorgan's purchase of 150 million Silver Eagles and Maple Leafs was downright sleazy; maybe not completely illegal, but underhanded nonetheless. If you recall, it took me a few years to discover what JPMorgan was up to and even after I started writing about it, it continued for a couple or so years. But the issue started to attract more attention, mainly because the sale of more than 40 million Silver Eagles annually couldn't be explained without my big buyer premise and eventually JPM stopped buying the coins. It was either openly admit that it was seriously gaming the Mint's bullion coin program in ways never intended by law, or for JPMorgan to stop buying the coins. Even if what JPMorgan was doing wasn't bald-faced illegal, it was sleazy as all get out and just the kind of thing that would expose the bank as being the true sleazebag and market crook that it is. So while it continues to buy physical silver in every other way imaginable, JPM stopped buying the coins.

The current February COMEX gold delivery indicates that JPMorgan is continuing to buy as much physical gold as it can without driving prices higher. As is the case in silver, JPMorgan is the largest paper short in COMEX gold futures and I continue to maintain that makes JPM the prime price

manipulator of both metals. So far this month, JPMorgan has stopped (taken) 1337 gold deliveries out of the total 1783 deliveries issued, or more than 63% of the total issuance. Since December, JPMorgan has stopped 7257 gold deliveries (725,700 ounces), or close to \$1 billion worth of gold. By the way, whenever I refer to JPMorgan taking delivery of gold or silver, I am only referring to the metal taken by JPM in its own name and not for clients.

[http://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

Over the past few days, JPMorgan has taken nearly all the gold contracts issued, which means according to COMEX delivery allocation procedures that JPM owns most of the remaining open interest in the February contract, which amounts to more than 1100 contracts. It's hard to guess whether JPM will stand for delivery or liquidate or even add to its holdings in the February contract, but that's the point - this is JPM's show and what it does matters most. What JPMorgan has shown most of all is that it is continuing to buy as much physical silver and gold as it can.

There have been some notable redemptions in the big gold ETF, GLD, this week, but considering the weaker price action, I'm inclined to view the redemptions as plain vanilla investor net liquidation. The new short report on stocks indicated small reductions in the short positions in SLV and GLD, as of Jan 31. The short position in SLV fell by 700,000 shares to just less than 10.3 million shares (ounces). The short position in GLD fell by one million shares to just under 16.2 million shares (1.6 million oz). The short position in GLD still looks relatively high compared to the short position in SLV, but as far as the new report, there isn't much to get excited about.

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

While there are always surprises to uncover, this week's changes in the COT report came as close as humanly possible to my published expectations in headline number terms. I say this not to pat myself on the back, because truth be told, I'd much rather be dead wrong on COT predictions if that meant prices would explode. But that's not the choice and the whole purpose of handicapping upcoming COT reports is as a test to challenge myself to gauge if I'm reading the positioning tea leaves accurately. I do fully confess to feelings of severe anxiety in the moments just prior to the report's release for fear of publicly embarrassing myself if my guesses are way off.

This week, the expectations were for managed money selling and commercial buying because prices moved lower over the reporting week. I thought the managed money selling and commercial buying would be relatively more pronounced in silver because the key moving averages were penetrated to the downside, always a strong signal for technical fund selling. That did turn out to be the case.

In COMEX gold futures, the commercials reduced their total net short position by 19,600 contracts to 205,500 contracts (I guessed 20,000 contracts). This is the lowest (least bearish) commercial short position since Jan 2, but in the overall scheme of things, this still leaves the basic market structure in gold as on the bearish side, although there was a continued improvement since Tuesday's cutoff. I did take some comfort in the changes by commercial category, as both the big 4 and big 5 thru 8 shorts accounted for all the commercial buying. The big 4 bought back 9200 short contracts and the big 5 thru 8 traders bought back a very impressive 11,400 short contracts. The gold raptors (the smaller commercials apart from the big 8) actually sold off 1000 long contracts, reducing the raptor net long position to 45,000 contracts. If a market is manipulated, as is the case in gold, it's always better when the manipulators take their foot off the gas.

The managed money traders did all the selling and then some, as they sold nearly 24,000 net contracts, including the liquidation and sale of 24,220 long contracts and the new short sale of 413 contracts. Undoubtedly, more gold managed money longs have been sold since Tuesday, as a number of shorter term moving averages have been penetrated. But as of yet, the 50, 100 or 200 day moving averages have yet to be penetrated and that remains the main bearish factor unresolved to this point.

Usually, I'd suggest there would be little question that these moving averages would get penetrated to the downside and that may well turn out to be the case ahead. But I am also mindful that JPMorgan holds much more physical gold and silver than it is short in paper COMEX contracts and given all the turmoil that has erupted in world equity markets that creates the possibility of a massive double cross and a price explosion in metals.

In COMEX silver futures, the commercials reduced their total net short position by 16,700 contracts, to 30,600 contracts (about midway between my 15,000 to 20,000 contract prediction). This is the lowest (most bullish) commercial short position since Jan 2, as was the case in gold, but the big difference is that the commercial short position in silver is only 12,000 contracts or so from the drop dead bullish figures of December. And considering the rotten price action since Tuesday, in which successive new price lows were set each day, I wouldn't bet against the market structure in silver being now at those December readings. After all, this is the essence of salami slicing.

By commercial category, it was a slightly different configuration than what occurred in gold, in that all three categories were buyers. The big 4 bought back 2900 short contracts and the big 5 thru 8 bought back a very hefty 3800 short contracts. The silver raptors were the biggest commercial buyers and they added an even 10,000 long contracts to a net long position now amounting to 55,000 contracts.

I was slightly disappointed that JPMorgan didn't buy back as many as the 5000 contracts I was hoping for, but 3000 contracts wasn't all that bad and puts the biggest silver crook's short position at 28,000 contracts. I would wager JPM is down to 25,000 contracts short in trading since Tuesday, or about the lowest level it has been short in many months. The release of the monthly Bank Participation report yesterday leaves some room for JPM's short position as being slightly larger than what I am estimating, but all things considered, I'm comfortable with the numbers above. What is unquestionable from yesterdays and previous BPR's is that Scotiabank is not waiting until it sells its ScotiaMocatta unit to close out its silver short position. Scotia may not even be in the big 4 (or 8) category any longer.

On the sell side of silver, it was a standout managed money affair, as these traders sold nearly 50%

more net contracts than the commercials bought. All told, the managed money traders sold 23,409 net silver contracts, including the sale and liquidation of 11,615 long contracts and the new short sale of 11,794 contracts. (Interestingly, in terms of total open interest, this should have resulted in an unchanged total open interest and as it turned out, total open interest only increased by more than 7000 contracts over the reporting week due to new managed money spreads of that amount being initiated. In market structure terms, spreads don't matter in the slightest).

At 35,349 short contracts as of Tuesday, the managed money traders did add close to the number of short contracts expected, but the liquidation on the long side was much greater than the 4000 contracts I was expecting. While certainly surprising, in no way can this be considered anything but good news, as once a long contract is sold, it can't be sold again and its sale is already reflected in price.

Still, I was surprised that there was such a deep dip below what had previously served as the bottom of core non-technical fund managed money long position of 46,000 contracts. As of Tuesday, the managed money long position dropped to just over 38,000 contracts, nearly 8000 contracts below what had served as the low point in managed money long holdings for the past two years. You have to go back to 2014 to find a lower managed money long position than what was just reported. Since Tuesday, I would venture that this long position is lower still. Again, this is not a problem in any way and can't possibly be considered bearish, but it still generates the question of why this liquidation now?

After mulling it over (letting it bounce around my otherwise empty head), I'm convinced that the portfolio adjustments at year end by those managed money longs holding non-technical silver position were much greater than I originally estimated. This wasn't obvious until this week because silver prices only penetrated both its key moving averages (the 50 and 200 day ma's) in the reporting week ended Tuesday. Once the key moving averages were penetrated to the downside, no card-carrying technical trader would be caught on the long side. The evidence strongly suggests managed money technical funds were pitching longs this week, not core long holders. If there's a more plausible explanation for what happened, please don't hesitate to send it my way.

One other thing that baffled me at first was that the short position of the big 5 thru 8 traders dropped as much as it did (by 3800 contracts) despite a very hefty increase in short selling by the managed money traders. Usually when the managed money short position is as high as it is now, one or two of these traders infiltrate the ranks of the big shorts. Therefore, I was puzzled that such a large increase in managed money shorting (nearly 12,000 contracts) occurred accompanied by a big drop in big 5 thru 8 shorting. Upon further investigation, this apparent anomaly made sense.

Not only was there big selling of managed money longs and new short selling by managed money traders, but there was a big change in the number of traders in each category as well. Compared to the previous reporting week (Jan 30), there was a drop of 11 traders in the managed money long category (down to 35 from 46) and an increase in the number of short managed money traders by 12 (up to 40 from 28). I would not dispute that some or many formerly long managed traders switched from the long side to the short side in this week's COT report on the penetration of silver's key moving averages. Further, in simple terms (the kind I prefer), it looks like each trader was swinging a position of around 1000 contracts each.

Not only would this explain why no new managed money traders entered the ranks of the big 5 thru 8

shorts, it also tends to confirm my previous finding about this week's big long liquidation by managed money traders being done by purely technical funds and that the liquidation of core non-technical funds had already occurred near year end (when such decisions are usually made). Sorry to get so deep into the weeds on this, but I'm sure some readers might appreciate it.

Summing up, in market structure terms, silver is back to an extremely bullish structure, and even more so since the Tuesday cutoff. As such, it is almost guaranteed that at some point in the reasonable near future, the price of silver will be significantly higher than where it traded yesterday. The fly in the ointment is that the price of silver could still move lower in the very short term as the COMEX commercial crooks (JPMorgan and the raptors alike) hoodwink the managed money traders into selling short even more silver contracts in the price hole and that will end in losses to the managed money traders, just as it always has. And with gold still having yet to penetrate its key moving averages, a gold price smash could be just the ticket for the commercial crooks to wring even more blood from the bullish silver stone.

But with things swirling in other world developments (stock market volatility) and JPMorgan good to go on the upside in silver and gold whenever it so decides by virtue of its physical holdings of each metal, the greater risk is not being fully on board when the silver rocket lifts off (yes, I'm still expecting the big one). Accordingly, I am fully invested (and taking it on the chin) and down to the last 20% or so of option mad money that will be quickly expended on further short term weakness.

Ted Butler

February 10, 2018

Silver – \$16.30 (200 day ma – \$16.84, 50 day ma – \$16.68)

Gold – \$1315 (200 day ma – \$1281, 50 day ma – \$1305)

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