February 18, 2017 – Weekly Review

Weekly Review

Despite a Friday selloff, gold and silver finished marginally higher for the week; gold for the seventh week in the past eight and silver for the eighth straight week (I can't recall when that happened last). The gains were modest, with gold ending $3 (0.2%) higher, while silver finished 5 cents (0.3%) up for the week. As a result of the nearly equal relative performance, the silver/gold price ratio remained unchanged at just under 69 to 1.

Prices remained close to the highest levels since the December 20 lows and the rise in gold and silver prices can hardly be called surprising given the extremely bullish COT market structure in place at the previous price lows. More surprising, however, is that while gold and silver advanced in a similar manner price wise, their respective market structures in COMEX futures positioning now differ radically. In a nutshell, since the most recent price lows, the COMEX silver market structure has deteriorated markedly, while gold's market structure hasn't indicated the slightest amount of managed money buying or commercial selling.

I can faintly recall instances in the past where the market structures in gold and silver parted ways temporarily, but none quite like now. The disparity in market structures currently is the thing I think about most. The just-released COT report underscored the disparity in spades and has to be considered the highlight for the week, although there was no shortage of newsworthy events. I'll dig into this week's COT report momentarily, after running through the usual format.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses slipped a bit this week to just under 4 million oz, but that still amounts to 200 million oz annually, unprecedented in any other commodity. Most of the movement was of the Â?inÂ? variety, as total inventories rose by 2.5 million oz to 184.2 million oz, putting COMEX silver inventories at or close to the highest levels in 20 years; not that I place any important price implications on total COMEX inventories. Certainly, the $2+ price increase over the past two months in silver occurred absent any drawdown in COMEX physical inventories.

There was another deposit of 570,000 oz into the JPMorgan COMEX silver warehouse this week, bringing the total in that warehouse to 90.7 million oz, also a new record. I remember a commercial from years back about Citibank with the tag line, Â?The Citi Never SleepsÂ?. Seems to me that when it comes to silver, it is JPMorgan that never sleeps, either in its physical acquisition of metal or in its underhanded actions in every aspect of this market. Some may think I overdo it a bit when it comes to pointing the finger at the silver crooks at JPM, but if anything I think I understate the matter.

There still haven't been any truly outstanding developments in this month's deliveries on the COMEX for gold or silver (Feb is a non-traditional delivery month for silver), but given my obsession with matters concerning JPM, I note the bank has been a recent stopper of gold deliveries. While JPM has not been featured much in silver, I did note that a decent number of contracts remain open in silver (313) after yesterday's increase in Feb open interest of 173 contracts.

Likewise, the deposit/withdrawal flows in the big precious metals ETFs seem mostly in order. In GLD, the big gold ETF, yesterday's withdrawal following a string of deposits seems to be adhering to the normal pattern of price and volume. In SLV, there have been no recent deposits or withdrawals of note, but then again, the low volume and subdued price changes wouldn't seem to warrant much of a change in metal holdings.

Sales of Silver Eagles have really turned punk, with February getting off to a very slow start. I've held the opinion for a while that JPMorgan may have backed off, for some reason, from buying Silver Eagles at its previous frantic clip of the past six years. For the record, I am still highly convinced that JPMorgan accumulated more than 100 million Silver Eagles, plus another 50 million Canadian Silver Maple Leafs since 2011 and has melted those coins into industry standard and good delivery bars of 1000 oz (since there would be no good way to dispose of that amount of metal in coin form whenever JPM so decided). The 150 million ounces of silver that JPMorgan acquired in this manner makes up more than 25% of the 550 million oz I claim that the world's leading silver crook now holds.

I'd like to think that JPMorgan has now backed off from buying additional coins in order to put some distance between itself and the underhanded lengths it went to in abusing the US Mint's bullion coin program to amass more silver than any private entity in history, and how that might suggest it is a signal for an upturn in price. However, the odds of JPMorgan ever having to answer to any concerns from regulators is now so remote so as to make such concerns a near impossibility. It could be that JPMorgan intends to start rebuying after it has adjusted silver prices lower, but no one knows except the crooks at JPM.

https://competition.usmint.gov/bullion-sales/

The changes in this week's Commitments of Traders (COT) Report added to the key feature of the stark contrast in the market structures of COMEX gold and silver. Gold's market structure improved and silver's deteriorated, by almost the same amount. Gold prices were modestly lower during the reporting week, while silver prices did advance somewhat, so there wasn't anything suspicious about this week's readings. But the key feature isn't what transpired this week, but what has transpired over the past 8 reporting weeks. Let me run through the numbers this week first.

In COMEX gold futures, the commercials reduced their total net short position by 6400 contracts to 127,800 contracts. Over the span of the past year, this is a very low total commercial short position, which is bullish on its face. It's not so much that the headline number declined so much this week, it is much more that it hasn't increased at all for two months on the $110 gold price rally.

By commercial category, the report was even more bullish, in that the big 4 reduced their net short position by 6000 contracts to the lowest level (109,179 contracts) since last February. If any market is manipulated in price, then it must be manipulated by a few large traders and none are larger than the 4 largest traders. This reporting week, the four largest short traders in gold bought disproportionately more than other traders suggesting they are expecting higher prices. Rounding out the other categories, the big 5 thru 8 added 300 new shorts, while the raptors added 700 contracts of new longs.

On the sell side of gold, the managed money traders nearly accounted for all the commercial buying (as is usual), as these traders sold 6524 net contracts, including the liquidation of 6803 long contracts and the buyback of 279 short contracts. Most extraordinary of all, of course, is the very slight increase in the net long position of managed money traders in gold since Dec 20 and the actual slight decrease in the commercial net short position since then Â? that's the real headscratcher. (I did detect some increase in managed money buying and commercial selling in gold during trading on Wednesday and Thursday after the report's cutoff, but even more so in silver).

In COMEX silver futures, the commercials increased their total net short position by a hefty 6300 contracts to 99,000 contracts. In stark contrast to gold, not only is the headline commercial silver number much higher than at the Dec 20 price lows, this is the largest commercial net short position since the end of September. Just to help put the stark contrast in market structures in proper perspective, while the commercial net short position back on September 27 is roughly the same in silver this week as back then, the net short commercial position in COMEX gold futures is more than 186,000 contracts lower today than it was then. This contrast is unprecedented and, quite frankly, shocking Â? particularly considering price action in gold and silver has been mostly joined at the hip for the past two months.

Also in stark contrast to gold, the four largest COMEX silver shorts added notably to their concentrated short position, by adding 3200 new shorts to a position now amounting to 71,494 contracts, also the largest since Sep 27. By way of additional contrast, the big 4 short position in gold is roughly half today of its level back then. I would assign most of the increase in the big 4 short position to JPMorgan, according to my usual formula, and would peg the crooked bank as holding around 26,000 short COMEX contracts, but I readily admit it could be more or less. We're in between Bank Participation reports, with the next one not scheduled to be published for three long weeks (March 10).

I continue to believe that what JPMorgan does is what matters most in silver and I shouldn't be completely surprised that the bank may have markedly increased its dominant concentrated short position, although I fully admit to being disappointed if that proves to be the case. It's still possible that JPM has not been the big short seller and in that case the prospects for this being the big move higher I have long envisioned might still be alive at this point, but a conventional reading of the data doesn't support that. Then again, in a double cross one might expect false signals. Let's face it Â? it doesn't matter much if JPM sends false signals to you or me, as we're not the ones operating actively in COMEX futures. Any double cross will involve the other large COMEX shorts.

It would be wise to pause and put some of these numbers into perspective. The 99,000 total net commercial contracts held short amount to 495 million ounces, with nearly 98% of that held by 8 or fewer traders. That's nearly 60% of total annual world mine production and a third of all the industry standard silver bullion thought to exist in the world. In contrast, the less than 12.8 million oz of gold held net short by COMEX gold commercials is less than 13% of annual gold production and only an infinitesimal fraction of the 5.5 billion ounces of gold said to exist.

My point, as always, is that when you take a minute to convert COMEX net positions into real world quantities and try to assign any reasonable explanation for why there would be such lopsided numbers in silver, compared to gold or any other commodity, no reasonable explanations arise Â? only illegitimate and uneconomic explanations. Moreover, not one of the 8 shorts holding nearly half a billion oz of silver short is a miner or legitimate hedger of silver Â? every single big short is some type of paper speculator. Any suggestion that JPMorgan is now a legitimate hedger of silver by virtue of its clandestine and corrupt accumulation of physical silver over the past six years is akin to the guy pleading with the court for mercy for killing his parents because he's now an orphan. There is absolutely no economic legitimacy for the massive and concentrated short position Â? not now and not since I first stumbled across it three decades ago.

Finishing up in the silver COT report, the smaller commercials I refer to as the raptors, sold 2900 contracts this week and moved into a net short position of 2300 contracts the first time these traders have been net short since last summer. The big 5 thru 8 traders added 200 shorts to round out the commercial position. I can't tell if that stubborn managed money short is still in the big 5 thru 8 category, but it is possible.

On the managed money side of silver, these traders bought 6505 net contracts, including new longs of 6041 contracts and the buyback of 464 short contracts. As was the case in gold this week, it was strictly a managed money/commercial affair, in keeping with the usual composition of COMEX positioning. Yes, by definition, this was a complete speculative affair, since no legitimate hedging occurred in either market.

The managed money traders are now long 84,000 silver contracts, up 27,000 contracts from the lows of Dec 20 and 20,000 contracts shy of the all-time high of August. Factoring in managed money short contracts bought back, more than 30,000 net silver contracts have been purchased on the COMEX over the past two months. That's the equivalent of 150 million ounces of silver, coincidently the same amount of real silver produced and consumed in the world over the same two months. Please think about that.

The 150 million ounces of real silver produced and consumed over the past two months, essentially, had zero impact on price Â? because all producers and consumers are price takers, not price makers. Prices are made on the COMEX, in the continuous duel between the managed money traders and the commercial speculators; as is evident in the 150 million oz of paper silver in CFTC data. There can be no question that the 150 million oz of paper buying by the managed money traders is what accounted for the $2 price rise.

However, the real question is not why silver prices rose by $2 due to 150 million oz of managed money buying, but rather why did silver prices only rise by $2? Stated differently, why the heck were the commercials so aggressive in selling so much paper silver so cheaply. This is not that complicated. While silver has risen in price over the past two months, it has seemed to have been one of the most anemic silver rallies of all. There can be no question that the cause for the price anemia has been the aggressive sale and short sale of 150 million additional ounces of coordinated and collusive selling by traders labeled as commercials but who are in reality just speculating and manipulating their butts off.

I enjoy writing this as much as I would enjoy stabbing myself in the head with an icepick and would imagine you enjoy reading it as much. The increase in managed money buying and commercial selling in silver does increase the likelihood of a selloff, either soon or eventually. It's nothing short of disgusting and shameful that this is occurring in a market said to be regulated. Along those lines, a recent article on Bloomberg touched on the matter. The article indicated that the CFTC is way over its head, underfunded and understaffed and unable to keep up with the explosion in high speed computer trading.

https://www.bloomberg.com/news/articles/2017-02-16/hunting-for-dirty-deeds-in-the-34-trillion-u-s-futures-market

There is little to disagree with in the article, but I would make a different point. The real problem is not just that the CFTC can't keep up with the explosion in trading data; of more concern is that the agency doesn't understand or refuses to do anything about data that should be apparent. Based upon data that have been continuously published for more than 35 years, I just told you that 8 traders in COMEX silver are net short nearly 500 million oz of silver with not even the hint that this short position could be based upon legitimate hedging.

The 150 million oz of paper silver was both bought by speculators and sold by other speculators over the past two months, with not the slightest hint of legitimate hedging activity by miners or industrial consumers, which is supposed to be the cornerstone for why we have futures trading in the first place. The problem is not just that the CFTC can't keep up with new trading; the problem is the agency can't or won't react to data it should fully grasp. I just pray the CFTC isn't on a par with other important government functions, like national defense. And please don't tell me that it is the same everywhere else, as that would be too depressing.

The biggest question of the day is what the heck happened to the manage money buyers in COMEX gold? I still lean to the lack of upward penetration of the 200 day moving average as the main reason these traders haven't bought yet, but I am still puzzled considering how much managed money buying occurred in silver prior to it recently penetrating its 200 day moving average. To be sure, that the managed money traders haven't plowed onto the long side or abandoned the short side of gold is still a big positive that I wish existed in silver as well, because it leaves open the possibility of big buying ahead and not much in the way of selling. Still, it is puzzling nonetheless.

If anything, had you told me that there would develop such a stark contrast in market structures between COMEX gold and silver as has occurred, but left out the particulars, I would have assumed big managed money buying in gold and not silver. I say this because gold is a much broader and more liquid market and not as manipulated as is silver. Gold is usually traded and held by more managed money traders than silver and the recent refusal by some managed money traders to refrain for adding to short position in silver suggested to me that these traders may be wising up to the fact that silver is the most manipulated market in the world, certainly compared to gold. Therefore, it would follow that these traders would be more leery of betting bigger in silver than gold on fairly similar price movements. Yet the opposite has occurred, namely, the managed money traders plowed heavily onto the long side of silver, instead of or before gold. Hopefully, we'll uncover the answer to this mystery in time.

In the meantime, I can't help but be more concerned about price risk to the downside in silver, although I am not inclined to do much about it at this time in terms of personal positions. Silver is still as cheap as dirt on an absolute long term basis and relative to gold and any selloff would likely be a relative short-lived affair. That said, considering the disparate market structures, I couldn't rule out gold outperforming in the short term. Certainly, if we do see a price takedown, no one should fail to see that it came at the hands of the commercial COMEX crooks, with special attention placed on the biggest silver crooks at JPMorgan.

Finally, in a housekeeping note, I have belatedly come to the realization that my web site is near hopelessly out of date, particularly in the face of the new mobile devices used by many of you to access these reports. The problem is that this site was created before mobile devices truly came into vogue and not having a smart phone (please don't laugh at me), I was oblivious to the issue. I'm much more of a Â?fuzzyÂ? than a techie in computer matters, priding myself on content rather than delivery mechanics, but I realize it has been frustrating for many of you to access these reports. It's likely to take several weeks and perhaps a couple of months to transition to a new site, but the process has been initiated and I ask for your patience. In the interim, we'll try to email reports to those having technical difficulties.

Ted Butler

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Silver – $17.98 (200 day ma – $17.96, 50 day ma – $16.97)

Gold – $1236 (200 day ma – $1266, 50 day ma – $1188)

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