February 2, 2019 – Weekly Review

Despite a Friday selloff, most notably in silver, gold and silver prices finished higher for the week and at multi-month highs. Gold ended $15 (1.2%) higher, while silver finished 17 cents (1.1%) higher. As a result of the slight relative outperformance of gold, the silver/gold price ratio widened a titch to around 83 to 1. However, it certainly â??feltâ?• like silver was much weaker than gold, at least to me.

There were some confirmations in yesterdayâ??s resumption of the publishing of the Commitments of Traders (COT) report that appeared significant to me, even though yesterdayâ??s report only included data from more than a month ago. Iâ??ll get into those positioning changes momentarily, but I would like to first point out that yesterdayâ??s data release continues to show that the prime price driver for gold and silver (and other commodities) is still very much paper contract positioning.

Why I take pains to point this out incessantly is that if we were to experience either a sharp break to the downside or a clear bust out to the upside in price, the cause will be paper positioning on the COMEX. Let me amend that a bit â?? given that I see absolutely no outside influences that would warrant a sharp selloff in gold or silver, such a downside price break, should it occur, would be exclusively caused by COMEX paper shenanigans. There are an almost uncountable number of reasons for gold and silver prices to move sharply higher at this time, but should prices bust higher, the immediate cause will also be due to COMEX paper positioning.

A new thought has occurred to me concerning the sheer absurdity (and illegality) of having prices dictated and set by a handful of large paper futures contract traders setting prices to the real world of actual commodities producers and consumers in the time of an ongoing Department of Justice investigation into manipulative COMEX precious metals spoofing at JPMorgan. Iâ??ll get into that thought later on, after first reviewing the weekâ??s developments and the new (delayed) COT report.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained elevated as 6.6 million oz were moved this week. Total COMEX silver inventories increased by 1.2 million oz to 297.3 million oz, now only 0.6 million oz below the record set two months ago. No change this week in the JPMorgan COMEX silver inventories which remained at 149.8 million oz.

Stepping back a bit, we are about two months shy of the eight-year mark from when this unprecedented and yet-to-be explained physical silver movement in the COMEX warehouses first began in April 2011. Over this time, a total of roughly two billion ounces of actual silver in the form of 1000 oz bars have been physically moved in and out of, basically, six COMEX warehouses, with total COMEX silver warehouse inventory physically turning over at the rate of 100% annually for the past eight years.

Further, the two billion ounces of actual silver that physically moved in and out of the COMEX warehouses over the past eight years roughly equals the total world inventory for silver in the form of 1000 oz bars, the industry standard. Therefore, itâ??s no exaggeration to say that all the silver in industry standard 1000 oz bars in the world physically moved in and out of six COMEX warehouses over the past eight years. This is confirmed by CME Group statistics provided at no charge on a daily basis.

Yes, total COMEX silver warehouse inventories have climbed by around 150 million oz over the past eight years, nearly equaling to the ounce the increase in the JPMorgan COMEX warehouse, but who doesnâ??t know by now that JPMorgan has been the big silver accumulator and silver crook over this time? The big story is not the 150 million oz in its COMEX warehouse that the crooks at JPMorgan have acquired or the other 650 million oz acquired by these crooks, but the two billion oz that have been moved in and out over the past eight years. No other commodity comes close to such an inventory turnover â?? just COMEX silver.

This has nothing to do with paper trading â?? this is strictly physical metal movement. While Iâ??m convinced the movementâ??s explanation is directly connected to JPMorganâ??s accumulation of silver in addition to its COMEX holdings, one has been able to come close to explaining the movement â?? which in a rational world would demand explanation. Since no one appears willing to acknowledge the documentable turnover, thatâ??s why I included it in the questions that only the Justice Department can get answered.

Turning towards other matters, deliveries in the big COMEX February gold contract have been noteworthy over the first three days in that all the usual suspects have turned up, as if it were a reunion or scene out of â??Casablancaâ?•, plus a new one. Of the 8489 total gold contracts (848,900 oz) delivered over the first three days, the standouts include on the issue side, Goldman Sachs issuing the exact same 4005 contracts that it stopped net in December in its house account, JPMorgan 2836 from its customer(s) account and HSBC 830 contracts from its house account.

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

On the gold stopper (taker) side, the standouts included JPMorgan (no surprise) with 2452 contracts in its house account, plus another 2382 for customer(s) and a new name, Citigroup, which stopped 2295 gold contracts in its house account. The big surprise was Citigroup since this was the first time I recall it as a big stopper or issuer or, for that matter, as involved in physical gold or silver deliveries of any size on the COMEX.

I find it odd that Citi never turned up previously as a big issuer or stopper of COMEX gold or silver deliveries since it is a very prominent player in OTC precious metals derivatives for the past several years, as indicated in the quarterly derivatives report from the Office of the Comptroller of the US Treasury Dept. Although the OCC report is notoriously skimpy when it comes to net positioning (unlike the COT report), I have always assumed (and still do) that Citigroup was a big net short, so its stopping of physical gold on the COMEX raises all sorts of questions of skullduggery and double cross thoughts. I would point out that, once again, the COMEX deliveries are still dominated by the house accounts of a few big banks. I think I may be more distrustful of big banks than even Elizabeth Warren and Maxine Waters. Just sayinâ??.

For a change, roughly 3.4 million oz of silver were deposited into the big silver ETF, SLV, this week, after a steady redemption of more than 20 million oz over the past few months. Whatâ??s unusual about the metal inflows into the SLV this week is not that they occurred, but that they havenâ??t occurred earlier, as has been the case in GLD, the big gold ETF. The way it works (according to my take on the universe) is that gold and silver prices move higher when the managed money traders buy paper contracts in sufficient enough quantities to drive prices higher. After prices have risen enough, the upward price momentum encourages other traders and investors to buy shares of the ETFs, which have risen following COMEX cues. That net investor buying of ETFs requires (according to the prospectus) physical metal to be deposited that equals the net share buying. The demand for physical metal that must be deposited into the ETFs further accentuates the price move higher.

What was unusual in SLV over the past couple of months was that while silver prices rose, metal kept getting redeemed from the trust. For an explanation for why this was occurring, one need look no further than the crooks at JPMorgan, but no new metal deposits were an anomaly, as I pointed out over this time. Therefore, this weekâ??s metal inflows into SLV were quite normal and what was unusual was that deposits hadnâ??t occurred earlier.

Turning to the new (delayed) COT report, itâ??s been some time but the results were fully expected. This â??newâ?• report is as of the close of business on Christmas Eve, Dec 24, five weeks ago. Reviewing the price action for the four-day holiday reporting week ended on Monday, gold had gained a hefty $20+, notching new multi-month highs and closing above its key 200 day moving average for three trading days for the first time in many months. As such, it was reasonable to expect heavy managed money buying and commercial selling. Silver did establish slight new price highs of a month or so, but came nowhere close to penetrating its 200 day moving average. COMEX silver trading volume was high, however, suggesting decent managed money buying.

In the article of Dec 26 (â??The Solutionâ?•), I estimated that there would be at least 30,000 net contracts of managed money buying/commercial selling in gold and perhaps a few thousand contracts of such activity in silver, but hopefully, not much more. The predictions were mostly spot on, but then again, there are no gold stars or cookies awarded for such guesses (I wish there were).

In COMEX gold futures, the commercials increased their net short position by 35,500 contracts to 128,200 contracts, as of Dec 24. This is the largest (least bullish/most bearish) position since June 12. Interestingly, the price of gold was around $1300 on June 12 (when the commercial net short position was 140,600 contract, versus the price of gold on Dec 24 ($1272). Instructively, the commercial net short position was only 1,800 contracts on Nov 13 when the price of gold was $1200. No, Iâ??m not suggesting that commercial selling causes prices to rise, but comes as a result of managed money buying which the commercials must sell into.

Since the data in yesterdayâ??s report is now five weeks old, let me not bore you with the excruciating details, other than that the net amount of managed money buying in gold was 30,770 contracts (in case anyone is handing out cookies or stars).

In COMEX silver futures the commercials increased their total net short position by 4400 contracts to 39,900 contracts. This was the largest commercial net short position since June 26. Managed money buying was greater than commercial selling, as the technical funds bought 7023 net silver contracts, a bit more than the few thousand I had predicted and hoped for. Considering the horseshoe and hand grenade tossing standards that apply to COT predictions, close enough.

However, the absolute standout of yesterdayâ??s report was that it kept alive my hope that JPMorgan had not waded onto the short side of either COMEX silver or gold anywhere near as aggressively as it had prior to the Nov 6 Justice Department announcement. There is no doubt in my mind that this is the critical pricing factor going forward. In this sense, the COT report of Dec 24 was everything I hoped it would be.

Yes, there was significant commercial selling in gold and moderate selling in silver, but the vast majority of the selling was new (short) selling by commercials in the swap dealer category (as opposed to the producer/merchant category where JPM is carried). This reporting week the swap dealers accounted for more than 30,000 contracts of the 35,500 total commercial contracts sold and more than 3500 contracts of the 4400 total commercial silver contracts sold. This is a pattern that has existed for weeks from Nov 13 through Dec 24.

I canâ??t certify what has occurred since Dec 24, but from Nov 13 thru Dec 24, the swap dealers have sold 102,000 net gold contracts of the 126,000 total net commercial contracts sold. In silver since Nov 13, the swap dealers have sold nearly 26,000 net contracts of the 35,000 total net contracts sold by the commercials as a whole. Prior to Nov 13, I donâ??t recall the swap dealers as making up such a large percentage of total commercial selling. Therefore I canâ??t say JPMorgan hasnâ??t sold short any new silver or gold contracts from Nov 13 thru Dec 24, but I can say that if it did add shorts, it was much less aggressively than prior to Nov 13.

I canâ??t know what JPMorgan has done since Dec 24, since I need the actual data in the COT and Bank Participation reports to analyze its position. Weâ??ll get the next COT report, as of the close of business Dec 31, next Tuesday and another delayed report next Friday, so we wonâ??t have to wait too long to see not only how much the commercials have sold, but JPMâ??s share of that selling. But make no mistake, JPMorganâ??s share of the commercial short selling remains the critical factor in future gold and silver pricing. And even if JPMorgan has added more aggressively to gold and silver shorts since Dec 24, Iâ??m not sure it would intend to rig prices sharply lower, as it always had previously, now that the Justice Department is nosing around.

I mentioned a while back about a suggestion from a subscriber to re-initiate the money scoreboard tally I had calculated previously. Based upon this latest COT report and subject to very wide revisions as the delayed COT data are published, Iâ??m calculating that the largest 8 shorts in gold and silver hold at least 200,000 and 80,000 net contracts respectively; gold at an average selling price of $1275 and silver around $15. At Fridayâ??s close, I would calculate the losses to the 8 largest shorts to be around $950 million in gold and $375 million in silver, or just over $1.3 billion combined.

The current combined open and unrealized loss is nowhere near the $4 billion loss that existed near the top of the gold and silver price run into the summer of 2016, but the big difference (to me) is that JPMorgan was an integral and backstopping member of the 8 big shorts in 2016, whereas that may or may not be the case presently. This is why JPMorganâ??s participation or lack thereof is the critical factor. Should JPMorgan not wish to demonstrate to the Justice Department that it is every bit the market crook that I openly allege it to be, even if it has added aggressively to shorts (since Dec 24), it may not choose to slam prices lower to buy back shorts.

This puts the 8 big gold and silver shorts (either including JPMorgan or not) in a potential jeopardy not previously experienced. Iâ??m not saying these 8 big manipulative shorts canâ??t rig prices lower in order to induce managed money selling; after all, thatâ??s the sole premise for why we might have a selloff. But should any such attempted price rig job lower fail, that is precisely the premise for a price explosion. Letâ??s face it â?? the big 8 commercial shorts have never rushed, not once, to ever buy back gold or silver short positions on higher prices and incurring actual losses. I attribute no losses to JPMorgan, but it is also true that the concentrated commercial shorts have never had to buy back short positions at a loss, largely because JPMorgan has backstopped the other big commercial shorts.

I donâ??t know if the other big commercial shorts are aware that JPMorgan has been their benefactor and guarantor when the concentrated commercial short position has grown excessively large (as it is now); but I suspect not based on how extremely short these other commercials have just become in gold and silver. Therefore, these other big shorts could be in for a very rude awakening at some to-be-determined higher price for gold and silver. Without backstopping from JPMorgan, it is very easy to imagine Izzy Friedmanâ??s Full Pants Down premise as playing out for the first time ever. We could go either way in price in the near term, sharply down or much more sharply up depending on whether the commercials, with or without JPMorgan, either succeed in rigging prices lower or get hooked real bad (good) on rising prices in which they are forced to but back for the first time.

As far as that new thought that hit me, it is that the Justice Department appears likely to be given clear evidence of how the silver and gold markets have been manipulated, regardless of which way prices move in the short term. Either the commercials will succeed in rigging prices lower or they wonâ??t. Either way, there will be data from the CFTC to document whatever the outcome may be and since the Justice Department and the Federal Bureau of Investigation have openly admitted to being involved in an ongoing investigation of precious metals and JPMorgan, both should be able to ascertain whatever develops. Of course, I will endeavor to inform them as a backup. Letâ??s hope that the DOJ and FBI are more receptive to learning the real story in silver and gold than was the CFTC.

(In a housekeeping note, Iâ??m switching to the April COMEX contract for gold pricing, which does add more than $5 to the price temporarily. Silver stays with the March contract until month end).

Ted Butler

February 2, 2019

Silver – $15.92Â Â Â Â Â Â (200 day ma – $15.35, 50 day ma – $15.11)

Gold – $1322Â Â Â Â Â Â Â Â Â Â (200 day ma – $1252, 50 day ma – $1268)

Date Created
2019/02/02