February 3, 2018 – Weekly Review

Gold and silver prices fell for the week, with gold down $20 (1.5%), while silver got thumped for 80 cents (4.6%). As a result of silverâ??s much weaker relative price performance, the silver/gold price ratio widened out by two and a half full points to just over 80 to 1. This is cheapest silver has been relative to gold in nearly two years, but still within the three year trading range.

Like a lot of price measurements, the silver/gold price ratio reflects a simple arithmetic calculation, in this case derived at by dividing the price of gold by the price of silver. Itâ??s quite useful as a general measure of how cheap or expensive silver may be relative to gold today compared to the past, but tells you nothing about why the relative value exists or what its future level may be.

One thing for sure is that the silver/gold price ratio does not represent any notion of a widespread active market of either actual physical metal being exchanged for the other. I know it must seem like some sort of an active physical transfer must be occurring between gold and silver all the time, but that is simply not true. It is true that gold and silver holders of physical metal can elect, if they so choose, to switch holdings from one to the other; but what I am saying is that very few choose to do so. Thatâ??s regardless of what the relative value may be in the future.

So if the switching of physical metal has nothing to do with changes in the silver/gold price ratio, then whatâ??s behind the changes and the level of the ratio? (I thought youâ??d never ask). The answer is the same thing that drives the level and changes in the absolute price of gold and silver â?? COMEX paper positioning. Iâ??ll get into the details of the positioning changes that drove this weekâ??s and yesterdayâ??s dramatic selloff in silver in a moment, but my point is that nothing transpired in the world of actual gold or silver to account for price action. As has always been the case, COMEX paper positioning sets the price of gold and silver and not anything in the world of actual supply and demand, so itâ??s impossible for that same positioning not to set the silver/gold price ratio.

It would be fair to ask â?? â??whatâ??s new with that?â?• What I think is new is that I canâ??t find a commentator or analyst that doesnâ??t find silver to be vastly undervalued and cheap relative to gold, even those who dismiss the COMEX positioning manipulation argument (although none of the manipulation deniers seem to be as vocal as they once were). More are asking why is silver so darn cheap and why are its price declines so severe, particularly when compared to everything else?

When I discovered the silver manipulation more than 30 years ago, not even one out of a hundred accepted the argument. Thatâ??s no longer the case, although the manipulation has lasted for so long that I donâ??t believe the realization that it must end is fully appreciated. Today I sense that many of those that accept the manipulation have come to believe that it may last forever. I believe that is a testament to how obvious the scam has become, including basic human nature about things generally remaining the same. Â Thatâ??s unfortunate because the bottom line conclusion of the silver manipulation is that it has created a once in a lifetime investment opportunity and a separate opportunity to participate by switching gold positions to silver. Itâ??s not that gold wonâ??t go up, itâ??s more that it wonâ??t come close to matching the gains in silver. But donâ??t take it from me â?? listen to just about any gold commentator.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses continued its recent frantic pace this week as nearly 6.2 million oz were moved (thatâ??s the annual equivalent of 320 million oz). Total inventories rose by 0.5 million oz to 246.5 million oz, also continuing the general pattern of the past 7 years of big weekly turnover with modest weekly changes in total inventories.

There were an additional 1.8 million oz brought into the JPMorgan COMEX warehouse, increasing the holdings there to 126.3 million oz, another new record and perhaps the most expected development of the week given JPMâ??s pattern since 2011. There may be another 7 million oz of silver still left to be moved by JPMorgan into its own warehouse from what it took delivery on in December, but itâ??s clear that JPM holds at least 133 million oz of total COMEX silver inventories.

After three days of delivery in the big traditional COMEX February gold contract a number of conclusions can already be made. One is that it is highly unlikely that total gold deliveries for the month will come anywhere close to the more than 9000 total deliveries in the December contract. So far, only 1302 total gold deliveries have been issued in February and less than 2000 contracts remain open (down from 6000 open on Wednesday).

The other conclusion is that JPMorgan is still taking (stopping) the lionâ??s share of gold deliveries issued, having stopped 875 contracts so far in its own name, or 67% of the total issued. Thatâ??s a higher percentage of total deliveries than what JPM stopped in December, although the month is still young. Iâ??m not so concerned with what JPM has been doing in client accounts, as Iâ??m more interested in what it does in its own name as that enables me to speak in more certain terms. I should also mention that JPMorgan stopped 400 of the total 698 gold contracts issued in the non-traditional January COMEX contract, or 57% of all the gold contracts issued that month. See a pattern here?

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

The pattern that I see is that JPMorgan is continuing to take most of the gold that is issued for deliver on the COMEX, a pattern also clearly visible in silver for the last 7 years. As was the case in silver, while JPMorgan is the biggest taker of physical gold, it is also the largest paper short holder in COMEX dealings. Among many other things, this circumstance presents prima facie evidence of price manipulation, including intent to manipulate; as there could be no evidence more compelling than for a large entity to depress prices artificially in a derivatives market in order to buy the physical commodity cheaply. That the regulators (CFTC and CME Group) look away is disgraceful, but the disgrace is theirs alone.

One good thing about JPMorganâ??s obvious scam is that it enables me to label the bank as crooked without fear of retribution. Early on, say five to eight years ago, I confess to being worried about the possible repercussions of publicly naming JPMorgan as a crooked bank, given its power and prestige. Iâ??m sure regular readers have heard this many times and it has become somewhat routine and unremarkable.

That is understandable until you try to come up with another example of someone levelling similar allegations of illegality against any important financial institution. Iâ??m not talking about internet trash talk about central bank conspiracies, anonymous or otherwise. Iâ??m talking about specific criminal allegations made against a commercial entity, directly and publically. I no longer worry along these lines and I do believe the allegations will make a difference in the future. I did retitle and remove the insults directed towards the CFTC from Wednesdayâ??s article, but I didnâ??t refrain from my open contention that when it comes to silver and gold, JPMorgan is as pure a crook as imaginable.

http://silverseek.com/commentary/unfinished-business-17082

Turning to yesterdayâ??s Commitments of Traders (COT) Report, the changes in positioning were mostly in the expected range, with gold positioning a bit better than my expectations. Youâ??ll remember that the reporting week ended Tuesday was tricky to predict because it contained a sharp rally into the first two days and price weakness after that. Therefore, there was definitely deterioration (managed money buying/commercial selling) initially and the opposite over the last three days of the reporting week.

I was expecting some overall net deterioration in both gold and silver, but hoping for unchanged in silver. In terms of managed money positioning, there wasnâ??t big change, as the these traders bought around 3000 net contracts in silver and sold around 2000 net gold contracts. The counterparty commercial positioning was larger, but not excessively so.

In COMEX gold futures, the commercials reduced their total net short position by 9500 contracts to 225,100 contracts. This was the first reduction in the total commercial headline number in 7 weeks. Prior to this weekâ??s reduction, the commercial net short position had increased by 115,000 contracts over that time, so this weekâ??s reduction must be put into perspective.

By commercial category, the big 4 reduced their net short position (for the first time in 6 weeks) by 6100 contracts and the raptors (the smaller commercials apart from the big 8) bought 4500 new longs, increasing the raptor gold net long position to 46,600 contracts. The big 5 thru 8 added 1100 new shorts to round things off. If I had to bet, Iâ??d say JPMorgan reduced their dominant gold short position by 5000 contracts or so to 70,000 contracts. Yes, the biggest paper short is also the biggest taker of physical gold on the COMEX, just in case I wasnâ??t clear above.

The managed money traders sold just over 2000 net gold contracts, comprised of the sale and liquidation of 5406 long contracts and the buyback of 3442 short contracts. There are still an unusually low 23,035 managed money shorts remaining and a still large number of 230,000 long contracts open.

In COMEX silver futures, the commercials increased their net short position by 5800 contracts to 47,300 contracts. Despite the increase, relative to gold, this is still a much smaller (more bullish) total net short position. By commercial category in silver, the big 4 bought back 300 short contracts, as did the big 5 thru 8 to the tune of 700 contracts (although that looked like managed money short covering to me). The raptors were the exclusive commercial sellers this reporting week, to the tune of selling off 6800 long contracts, and leaving 45,100 net long contracts remaining open.

Given the small change in the big 4 short position this week, Iâ??d peg JPMorganâ??s net short position to be unchanged at 31,000 contracts. I note with interest that JPMorganâ??s short position in silver is unchanged over the past 5 reporting weeks and is only 6000 contracts or so higher than the lowest level of silver shorts this crooked bank has held since August 1. I also think itâ??s possible that JPM may be back to its previous recent low levels of silver shorts as a result of trading since the Tuesday cutoff.

On the managed money side of the market, these traders bought 2830 net silver contracts, including the somewhat surprising sale and liquidation of 3732 long contracts and the buyback and covering of

6562 short contracts. I found the long liquidation somewhat surprising in that we did hit new price highs early in the reporting week before retreating and I was expecting an increase in long positions when the dust settled.

Now down to just under 50,000 contracts, the managed money silver long position is less than 4000 contracts away from the recent 46,000 core non-technical fund low water mark for this category. The number of managed money longs can always go lower than 46,000 contracts, but there is a stronger probability that they wonâ??t. And considering the trading action in silver since Tuesday, I would be surprised if the managed money long position isnâ??t already down to 46,000 contracts, implying not much further selling from this particular category.

The managed money short position is down to 23,555 contracts, leaving more contract room for selling on lower prices than could come from long liquidation. This, too, is as of Tuesday and undoubtedly many more managed money shorts have been added since then, judging from price action, trading volume, key moving average penetrations and increases in total open interest. Iâ??m no technical maven, but I would note that yesterdayâ??s price smash in silver looked like a rare â??golden crossâ?• in which the 50, 100 and 200 day moving averages were penetrated to the downside in a single day.

Given that as many as 15,000 or more contracts of managed money shorts may have been added since Tuesday, the question becomes how many more managed money shorts can be lured in by continued salami slicing to the downside. We know how the game is being played and the current score; we just donâ??t know the final score at this point. Regardless, the silver market structure is back to firmly bullish, with the only question being is it will get extremely bullish again on lower prices and greater managed money shorting from here.

Iâ??m convinced that if I hadnâ??t been talking about the raptors (the smaller silver commercials) over the past ten years, I would have had to start talking about them recently because the differentiation between the commercials explains so much. Quite frankly, I donâ??t understand why the raptorsâ?? positioning isnâ??t what everyone who follows the COT report focuses on, along with the concentrated short position. The silver positioning scam was formerly strictly about the matchup between the 4 and 8 big commercial shorts and the technical funds (managed money traders).

That started to change about ten years ago when the raptors began to compete with the 8 largest commercials for a piece of the managed money tradersâ?? action. Nowadays, the changes in the raptorsâ?? positioning is more often larger than the 8 largest commercials (excepting JPMorgan). I believe that the rise of the raptors as a market force was a strong contributing influence behind JPMorgan choosing the buying of physical metal as its solution to covering its concentrated short positions in COMEX silver and gold futures. JPMorgan can and will let prices go at any time, thanks to its massive physical silver and gold positions; but it also knows it is competing with the raptors.

Since the commercials are now two separate groups, the big 8 and the raptors, while the traders on the other side are still predominately the managed money traders, COT market structure analysis has evolved into not only how many contracts the managed money traders can buy or sell, but also which commercial group, big 8 or raptor, will take the lionâ??s share of what the managed money traders decide to buy or sell. Let me get specific to current circumstances.

Assuming that the managed money traders have sold as many as 15,000 to 20,000 net silver contracts since Tuesday (selling off 4000 longs and adding anywhere from 11,000 to 16,000 new shorts, I believe), I would estimate that the raptors took 75% of the positioning and JPMorgan the other 25%. Because the raptors have been very big recent winners in the skin the technical fundsâ?? scam (JPM has also done quite well, thank you), I believe they, more than JPM, have been responsible for this latest price smash. That the raptors have been big recent winners has enabled them to take bigger positions than if they had been losing recently.

Hereâ??s the bottom line â?? we are now much closer to a price bottom in silver, as a result of managed money selling since Tuesday than we have been since December. The market structure in silver wasnâ??t bearish prior to Tuesday and I wasnâ??t expecting the sharp selloff that occurred. That doesnâ??t change the fact that I, like every other holder of silver or mining shares took it in the teeth on the selloff and what teeth werenâ??t kicked out thru yesterday may well get kicked out on further orchestrated take downs. The reality, to me at least, is that Iâ??ve been through this rodeo enough times to know itâ??s way too late to sell, even if prices continue to drop in the very short term.

I believe I know why prices have declined (so that the commercials can buy from the managed money traders) and why prices will soon stop going down (when the managed money traders exhaust their selling capacity). I canâ??t know the precise inflection point for when managed money selling is exhausted until afterwards, as thatâ??s unknowable in advance. I also know that silver is the most undervalued investment asset in the world and that will be reflected in unbelievably higher prices once this COMEX scam is resolved. Additionally, I know that the CFTC and CME are corrupt regulators and that JPMorgan is the biggest silver and gold crook of all and canâ??t refute that because itâ??s true. Finally, I firmly believe in the end, the crooks at JPMorgan will drive the price of silver far higher than would have ever been the case had it not been the biggest silver crook.

(On a housekeeping note, Iâ??ve switched to the April gold contract for pricing and moving average purposes, which, effectively, adds $4 to $5 to the gold price).

Ted Butler

February 3, 2018

Silver – $16.60Â Â Â Â Â Â (200 day ma – $16.88, 50 day ma – $16.74)

Gold – $1335Â Â Â Â Â Â Â Â (200 day ma – $1280, 50 day ma – $1301)

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