

## February 8, 2017 – As Expected, At Least So Far

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At the start of this report this morning, both gold and silver have traded at price highs not seen since shortly after Election Day, three months ago. As way of review, by Nov 8, both gold and silver had retreated from the summer price highs and the historically bearish COMEX market structures that accompanied (caused) the price run up. In fact, gold and silver prices started to rise into Election Day, as the market consensus at that time began to factor in the likelihood of a Trump victory. As word of the actual election outcome became clear, gold and silver prices first spiked and then collapsed into late December (although silver's collapse didn't occur until days after the election).

On the price collapse into December, the COMEX market structure improved dramatically in both gold and silver, although one had to look under the hood in silver to see it, since the headline number of the COT report (the total net commercial short position) did not decrease anywhere near as much in silver as it had in gold. This had to do with the refusal, for the first time in years, by some managed money traders to aggressively add to short positions in silver. (A decision, at least at this time, that looks wise). Without this selling, it was mechanically impossible for the total commercial net short position to get greatly reduced.

As a result, into the price lows of Dec 20, it appeared to many that silver needed more of price decline in order to generate the managed money selling required to allow the commercials the opportunity to buy more silver contracts. The twist this time, however, was that without aggressive new managed money shorting or long liquidation (because we got down to the core non-technical fund long position), the commercials didn't have what to buy.

From the price lows of Dec 20, gold has rallied more than \$110 and silver by \$2. Therefore, a bullish interpretation of the COT market structure going into the price lows was clearly the correct interpretation to this point. In other words, so far, so good. I mention this, not for self-laudatory purposes, but in order to measure the efficacy of the premise that market structure, via COMEX futures positioning, is the main price driver in gold and silver. I follow the markets as intensely as anyone, and if something else caused price movement in gold and silver over the past six weeks, three months and over the years before that, other than COMEX positioning, then I missed that anything by as wide a margin as is possible.

Not only does the COMEX market structure and positioning fully explain the recent price rally in gold and silver, the rally seems to be having its usual effects, in the form of improving collective sentiment and in the recent metal inflows into the big gold ETF, GLD. The way it works, at least in my version of things, is that the price of gold and silver is set on the COMEX and once set, trips off ripple effects elsewhere. The recent higher prices for gold set off general investor buying interest in GLD, where net new buying of shares requires immediate deposits of metal to match the new number of shares created. At some point, however, if enough of an investor rush creates physical demands for gold to a high enough level, the resultant demand for physical metal can self-reinforce a rally. That's what happened last year.

There haven't been big deposits in SLV, the big silver ETF yet, as silver's price rally has been more subdued than gold's and trading volumes in SLV remain low. However, I don't see why this would be a permanent situation and I am inclined to overlook it at this point as temporary. I'm more inclined to think of the SLV as a sleeping Death Star (hat tip to Carl Loeb) that once a real investor rush develops in silver, it will gobble up all the available physical silver in the world. It is the obvious relative paucity of physical silver available for investment compared to gold that makes the situation much more critical in silver.

OK, now what? I'm sorry to say that the easy to predict part is past us. At least, it always seemed easier to me to get real bullish as prices were rigged lower to induce maximum managed money selling/commercial buying. You can lug around for a while, pricewise, but once the maximum number of managed money contracts are sold, the likelihood of a price bottom is always high. That was the case going into late-December and unless my faculties have abandoned me completely, I believe I represented as much on these pages. But while a hundred dollar+ rally in gold or two dollar rally in silver is nicer than nothing, it hasn't come with massive deterioration in the market structure yet in gold, although silver is more questionable. In fact, the very recent price pattern of stronger relative price performance for gold over silver would seem to be directly related to gold's better relative market structure.

I would expect that there has been an increase in managed money buying and commercial selling in both gold and silver in the Commitments of Traders (COT) Report to be issued Friday, although I would love to be wrong. Price action and increases in total open interest through yesterday's cutoff suggest a larger increase in gold than seen since early November and another increase in silver on a par with last week. But almost regardless of how large the increase of the total net commercial short position in gold (say around 25,000 contracts) may be, the standout feature remains how relatively small this position is at this point.

The rally in gold and silver since Dec 20 has resulted in an upside penetration of every significant moving average, save for the 200 day moving average in each. I would have thought much more managed money buying, particularly in gold, would have occurred at this point on this rally. That it hasn't, I still consider bullish. Playing the devil's advocate, I suppose the set up wouldn't be as potentially bullish as I see it if it was known that the managed money technical funds were never going to buy big in COMEX gold or silver again.

I fully concede that without significant buying ahead from the managed money technical funds, a large part of my bullish outlook disappears. Always under continuous consideration, I can't see why the managed money traders would decide, in effect, to stop including gold and silver in their portfolio allocation mix. I understand and pointed out that some managed money traders collectively abandoned the short side of silver over the past few months, but that decision made sense, at least to me. I wouldn't understand an abandonment of the long side and, in fact, no such abandonment is obvious yet, particularly in silver.

It's not as if the managed money technical funds have suffered any great withdrawal of investor assets under management that would translate into smaller positions being held. After all, these same funds have recently established massive new record long positions in other markets, like crude oil and copper, and that wouldn't support the less money under management concept. At this point, I think it's something else that accounts for the lack of technical fund buying to this point, particularly in gold.

I'm still under the impression that the reason the managed money traders haven't turned more aggressive buyers to this point is that the 200 day moving average hasn't been penetrated yet, as I've written of previously. I say "yet" with a degree of mathematical certainty that dictates that sooner or later, this moving average will be penetrated. The real question is if the penetration will be forthwith or at some much delayed point in time. It is my hope and expectation that the upside penetration of the 200 day moving average occurs quickly and sets off a torrent of managed money buying and this evolves into the big move up and we all live happily ever after (and we all get a pony for Christmas).

Unfortunately, it's not up to me "yet" it's up to the commercials and, most particularly, JPMorgan. As and when the managed money traders come in to buy above the 200 day moving averages (now just \$25 higher in gold and 20 cents higher in silver), what will determine price action will be the degree of aggressiveness with which the commercials sell to managed money buyers. I don't think anyone can know that in advance and we will observe it together.

A subscriber asked if I would update the evolving money scoreboard between the commercials and the managed money traders, as I did previously. The reason I haven't updated this measure earlier is that I was waiting to see greater positioning changes than have occurred to date. Last year, the strong rally at the start of 2016 found the commercials ideally positioned for the rally and they made almost a billion dollars on the run up. Into the summer, record commercial short positions led to as much as a \$4 billion open loss in COMEX gold and silver combined (and a big 8 commercial failure), before the commercials succeeded in turning prices lower, recouping all their open loss and perhaps another \$3 or \$4 billion, making 2016 the most profitable year ever for the commercials in gold and silver.

Since there is an almost permanent structural short position in COMEX gold and silver, I'm hesitant to start my count until more contracts are added and/or we see greater price movement than seen since year end. However and as always, the net short position of the 8 largest traders in silver is easy to calculate. Last week, these traders were net short 92,000 contracts or 460 million oz. Every dollar higher in silver means a negative \$460 million for these 8 traders.

Of course, one of those 8 short traders is JPMorgan, which by virtue of its physical ownership of more than 550 million oz has immunized itself against any loss should silver prices move higher. Therefore, it's the fate of the seven other big shorts in silver, which hold the equivalent of 350 million ounces (70,000 contracts) net short of most interest as and when silver prices move higher. The fact that JPMorgan is golden no matter what occurs pricewise is what also creates the potential of an epic double cross. Without assistance from JPMorgan as the COMEX silver short seller of last resort, I am convinced these 7 other silver shorts would be toast. With JPMorgan's helping hand, the silver manipulation will likely wear on.

That's what makes this Friday's Bank Participation Report important, namely, as some type of indication as to what the crooks at JPMorgan may be up to. If we do see a somewhat expected increase to as much as 25,000 short contracts for JPM, the odds of this being another failed silver rally are elevated, although even in that case there should still be room to go higher. And although it has yet to occur, nothing rules out a temporary increase in shorting by JPMorgan to set the hook in deeper for a potential double cross of the other commercials. Not in nine years has JPMorgan ever taken a loss on any added short position in COMEX silver, a record easy to prove and an outright embarrassment and an indelible stain of shame on the so-called regulators at the CFTC and CME. That said, the supply of dirty tricks that JPMorgan has up its illegal sleeve is inexhaustible.

The standout feature is still the many miles of potential buying to go in COMEX gold by the managed money technical funds. Even a larger increase in the commercial net short position than expected in Friday's COT report will leave us shy by at least 150,000 net contracts from where we were in the gold market structure at the summer price highs. If, as and when the managed money traders try to buy that number of COMEX gold contracts, the question becomes at what price that buying is accomplished and accommodated.

To be sure, the commercials can and may rig selloffs at any time and I'm not predicting short term price movements, other than to say that if we do move lower, we will only move lower due to collusive commercial price rigging on the COMEX. This is as obvious beforehand as is there being no legitimate justification for short selling of gold or silver here other than for price suppression purposes or future price rigging. I'm not saying the commercials can't rig prices lower; I'm saying there is nothing legitimate about the commercial short selling  $\hat{A}$ ? it exists only for the purpose of rigging prices lower. Here's to hoping it blows up in their faces.

Ted Butler

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Silver – \$17.78      (200 day ma – \$17.94, 50 day ma – \$16.77)

Gold – \$1241      (200 day ma – \$1267, 50 day ma – \$1179)

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