February 9, 2019 – Weekly Review

Gold and silver prices fell slightly for the week, with gold ending lower by $4 (0.3%) and silver finishing down by 10 cents (0.6%). Still, the weekly closing prices were the second highest in nine months for gold and seven months in silver â?? which â??feelsâ?• somewhat surprising given the low-volume and lackluster trading for the week.

Truth be told, there are factors which suggest a sharper selloff, particularly in silver, should have occurred or may be at hand, including yet another delayed COT report yesterday in which managed money buying and commercial selling increased sharply as of January 8. At the same time, there are other factors pointing to a very different resolution to the market structure readings than have played out in the past.

While I wish I could certify what the coming resolution will be – either the normal manipulative flush out of managed money traders to the downside or a bust out to the upside for the very first time â?? I believe you know that is impossible. However, I do feel certain that we will know which it will be in fairly short order and, moreover, the odds of an unprecedented upside breakout are higher than theyâ??ve ever been, as I hope to explain as I proceed today.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses turned in an average result this week as nearly 5.3 million oz were moved and total inventories fell slightly, by 0.4 million oz to 296.9 million oz. Then again, â??averageâ?• turnover equates to more than 250 million oz annually and over the eight years this unprecedented and exclusively unique to silver physical warehouse movement has existed – that comes to more than 2 billion oz. Simply stated, the entire worldâ??s total inventory of silver in the industry standard form of 1000 oz bars has, basically, moved physically in and out of six COMEX warehouses in and around the NY metropolitan area. I, for one, find that not only strange but worthy of an explanation. Silver holdings in the JPMorgan COMEX warehouse increased by nearly 0.5 million oz to 150.3 million oz.

Iâ??m going to jump to the new (delayed) Commitments of Traders (COT) report issued yesterday, in which the delayed Bank Participation report was also published, with both reports reflecting data as of January 8. As a reminder, the reporting week included new multi-month price highs in both gold and silver, although there were also fairly sharp price pullbacks which resulted in only minor overall gains for the reporting week. This was the reporting week in which gold touched and slightly exceeded $1300 for the first time since June and in which silver came close to hitting $16 for the first time since July.

Therefore, my expectations were for increased managed money buying and commercial selling in both gold and silver. We did get a sharp increase in managed money buying and commercial selling in silver, but the opposite in gold. Let me dig into both, starting with gold, but let me first acknowledge that my expectations at the time were for less of an increase in managed money buying in silver than actually occurred (since the price bottom of Nov 13) and way more than what actually occurred in gold. Accordingly, Iâ??m shying away from contract predictions until we get caught up on past COT reports (although I would expect next weekâ??s two delayed reports to feature no increase in managed money buying in either gold or silver, given the price weakness which occurred through the dates of the pending reports).

As of January 8, the commercials reduced their total net short position in COMEX gold futures by 23,400 contracts to 121,200 contracts. What makes the reduction much larger, of course, is the expectation of an increase. So much so, that as of Jan 8, I would consider the gold market structure to be way more neutral to bullish than neutral to bearish; quite remarkable considering goldâ??s $100 price rally from Nov 13 thru Jan 8. Moreover, I was also bullishly surprised by JPMorganâ??s apparent lack of participation on the short side of gold on the rally thru Jan 8, largely confirmed in Bank Participation report.

That the managed money traders sold 17,713 net gold contracts (fairly evenly split between selling longs and adding short contracts) on an up price week (that did include a sharp intraweek selloff) was the biggest surprise. The most plausible explanation is that after being so consistently on the wrong side of price movements for so long, the managed money traders were sensitive to getting whipsawed again and took some profits off the table before those profits disappeared. Regardless of the reason, their new-found caution is bullish in the overall scheme of things. Such new-found caution was not evident in silver, however.

As of January 8, the commercials increased their total net short position in COMEX silver futures by a hefty 10,900 contracts to 68,800 contracts. This is the largest commercial net short position since late 2017, even slightly exceeding the extreme readings of Feb, April and June of 2018 when silver exceeded $17. This time, I would point out – the price of silver didnâ??t even exceed $16. As a reminder, absolutely none of this commercial selling is even close to representing legitimate and bona fide hedging; itâ??s all just as speculative as was the buying.

The one bright spot in the commercial selling is that it appears that JPMorgan is nowhere near as aggressive in adding shorts as it had been previously. Thatâ??s not to say that silverâ??s big crook has not sold short any new short contracts, as I would calculate JPM to hold around 20,000 short contracts as of Jan 8. For sure, had JPMorgan not sold short any silver contracts on the rally from Nov 13 to Jan 8, the price would have rallied much more, thus proving yet again that JPM is the short seller and price controller of last resort.

That this crooked bank has chosen to add to COMEX silver shorts while the Justice Department is investigating may seem arrogant and in your face to an almost incomprehensible extent; but I would contend that letting silver rip uncontrollably to the upside while the DOJ is investigating might have been even a worse choice for JPM. What matters now, as I have pointed out previously, is what JPMorgan does at this juncture. If JPM openly participates in rigging silver prices lower in order to buy back its added shorts profitably (as it has done consistently for the past near 11 years), then the only thing to be said is that it will have told the DOJ to drop dead (yes, Iâ??m being overly polite).

If JPMorgan doesnâ??t help rig price prices lower in order to yet again buy back added shorts and instead allows prices to rise (and maybe even buy back shorts at higher prices for the first time ever), it just might convince the Justice Department not to drop the hammer on this crooked bank (for the greater good and all that jazz). To be sure, any loss JPMorgan would have to bear on its 20,000 contract (100 million ounce) COMEX short position would be more than overcome by its physical holdings which are eight times larger. Plus, JPMorgan will finally be able to say to the DOJ that â?? see, we did so take a loss on added short positions, so donâ??t listen to that Butler character.

The managed money traders bought even more net silver contracts than the commercials sold â??

12,665 contracts to be precise, comprised of 7,063 new longs and 5,602 contracts of short covering. The managed money traders hold 67,815 longs and 25,104 short contracts as of Jan 8. There is room for another 50,000 to 60,000 contracts of additional managed money net buying to get to the extremes of 2016 and 2017, but I would direct your attention to the fact that since Nov 13, the managed money traders have bought 83,544 net silver contracts thru Jan 8. Thatâ??s the equivalent of 417.7 million ounces of silver.

On Wednesday, in â??COT Report â?? So Bad, It Just Might Be Goodâ?•, I made the point that the managed money traders had bought and the commercials and other traders had sold 355 million oz of COMEX futures contracts from Nov 13 and how that was preposterous considering the actual production and consumption and inventory levels of real silver in the world. This report for Jan 8 adds another 63 million oz onto an already obscenely large derivatives position. Now weâ??re above more than 50% of equivalent world annual silver production having been purchased by one set of speculative traders and sold by another set of speculative traders over the past two months on the COMEX. And all on a price rise that couldnâ??t even break past $16.

Iâ??m tempted to say, have we all lost our minds for allowing this? But the only ones allowing this are the regulators, both the federal regulator, the CFTC, and the designated self-regulator, the CME Group. These same regulators have had a pretty clever scam in place for decades, namely, allowing an obvious silver price manipulation to occur (and spread to other markets) and openly publishing data which prove the manipulation exists and then refusing to even comment on it when asked. The CFTC refuses because it was too far along to ever admitting that anything was wrong in silver and the CME refuses because it was greedy for the trading fees generated by the excessive speculation. This refusal to respond in any way is the explanation for why the silver manipulation has existed for decades.

However, the entry of the Justice Department into the manipulation mix, among other developments, promises to upend the long running silver (and gold) manipulation. At least, thatâ??s why I wrote to the FBI nine months ago – to complain about the CFTC. Itâ??s not possible for the Justice Department not to grasp the big picture of the manipulation once itâ??s been explained to them and after it announced an ongoing investigation; otherwise the country would have been overrun by now by terrorists (other than those in elected office). It is possible, of course, that the Justice Department might step back from the enormity of the manipulation and seek some type of resolution as least disruptive as possible.

I suppose itâ??s also possible for the Justice Department to shirk its responsibilities and abandon its code completely, same as the CFTC, and look away entirely in the end. Having experienced just that with the CFTC, I canâ??t say that the thought that the Justice Department might do the same never crossed my mind. But my opinion of the Justice Department is so high that I hope I never live to see that high opinion crushed. Even if the DOJ finds some type of solution that allows JPMorgan to continue as a going concern (for the greater good), it still may be the end of the line as far as the silver manipulation continuing for much longer based on other developments. What other developments?

By now, it should be obvious to all that spoofing is largely a thing of the past. Itâ??s a shame that the practice of entering and immediately cancelling large orders for the express purpose of artificially moving prices was allowed, by the CFTC and CME, to have existed for the many years it did exist, but there should be little question that sad chapter of market history is behind us. Perhaps Iâ??m biased, but I would give much credit to the Justice Department and its Nov 6 announcement for nailing the spoofing coffin shut tight in silver. Criminal guilty pleas do have a way of concentrating the minds of would be silver spoofers. I just hope the DOJ realizes that spoofing is but a tool of the silver manipulation.

It also should be obvious to all that price action in silver and gold has changed since the announcement. This is harder to quantify, but price action is different than I ever recall, including a decisive fall off in trading volume (directly a result of the sudden lack of spoofing). Not only has JPMorgan refrained from adding as aggressively to COMEX silver and gold shorts since the date of the DOJ announcement, it remains to be seen (as described above) whether JPM moves to buy back the silver shorts it has added on blatant price takedowns ahead.

I find it strange that after the absolutely enormous buying by the managed money traders in silver from Nov 13 thru Jan 8, that the subsequent price selloff through Jan 24, which slightly penetrated silverâ??s 200 day moving average for at least three trading days to the downside, didnâ??t lead to more price pressure as has generally occurred in the past. Instead, silver moved to successive new highs over the next five trading days. Iâ??ve mentioned how recent silver price action has been different from what I would have expected and this is a reflection of that.

As long term readers may know, Iâ??m very sensitive to anything that might seem different in silver from what existed previously under the premise that should things continue as they have in the past, then it is probable that the manipulation would continue as before. Certainly, some things appear to be the same, such as the enormous amount of managed money buying on the fairly piddling price rally to date, along with the promise that managed money buying will turn into an enormous amount of selling. As always, thatâ??s the sole risk of a downside price flush out.

But in acknowledging the possibility or probability of an engineered selloff ahead, itâ??s also important to acknowledge whatâ??s different at this time. Quite frankly, the differences are starker than ever before, starting with the Justice Departmentâ??s involvement. I wish I knew how it was going to play out for sure, but I do know an upside resolution will be many times more pronounced in price magnitude than another downside resolution. Plus I know an upside resolution must come at some point. Finally, I know that the Justice Department is, at least, sniffing around, by virtue of its very public announcement on Nov 6. Having attempted to engage the Justice Department in this matter for more than three decades without success, thereâ??s no way that wouldnâ??t be the biggest difference in my book.

Just to be clear, an upside price resolution (explosion) would be little more than the largest concentrated commercial silver short sellers not being able to buy back the more than 450 million ounces (90,000 contracts) they held short as of Jan 8 on a selloff. In the world of derivatives, it is not unknown for big short holders to get caught on the short side and be forced to buy back to the upside; although this has never occurred in COMEX silver. Hopefully, the Justice Department finds it odd that the big concentrated commercial shorts in COMEX silver have never had to cover positions at a loss, alone across the entire spectrum of derivatives trading, and moves to rectify what can only be considered a rigged market.

So even if we do get yet another engineered selloff ahead, if will be the first such selloff since the Justice Department openly acknowledged it was engaged in an ongoing investigation on Nov 6. And while it may not be necessary to remind the DOJ as to what is occurring on its watch, I intend to make sure it is fully aware that a selloff would be just that, in addition to being an unmistakable crime in progress. And not just a crime in progress, but the most serious market crime of all â?? price manipulation. All this adds up to the unavoidable conclusion that the most correct approach for whatever resolution is going to unfold is a fully-invested position.

Ted Butler

February 9, 2019

Silver – $15.82Â Â Â Â Â Â Â Â (200 day ma – $15.32, 50 day ma – $15.26)

Gold – $1318Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1251, 50 day ma – $1277)

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