

January 19, 2019 – Weekly Review

Gold and silver prices fell for the week, with gold down \$6 (0.5%) and silver down by a much steeper 29 cents (1.9%). As a result of silver's relative weakness, the silver/gold price ratio widened out by 1.3 points to 83.5 to 1. Thus, silver remains deeply undervalued relative to gold, a condition the casual observer would conclude to be near permanent and normal based upon price performance alone. Away from past price performance, it's nearly impossible to find solid justification for silver's extreme relative (and absolute) undervaluation, but that matters little because the past and present price pattern overrules any objective review of why silver is priced way too cheaply.

Silver's weekly close (\$15.36) brought it back down to and slightly below its key 200 day moving average, a circumstance usually of great significance to the managed money technical funds which feed off moving average penetrations. Gold, by contrast, is still \$30 above both its 50 and 200 day moving averages. You'll remember that the price of silver penetrated to the upside its 200 day moving average for the first time in seven months on the last trading day of December, setting off an undetermined amount of managed money buying. (Undetermined because there have been no COT data due to the government shutdown). After 14 trading days, a penetration to the downside now looms large.

While there have been no COT reports to pinpoint the amount of managed money buying in silver and gold since Dec. 18, price action and increases in total open interest suggest the amounts were significant, enough to push the extremely bullish market structures in each that existed at the recent price bottom of Nov 13, to no better than neutral; with neutral meaning the chance for the rally continuing or reversing as roughly equal. Thus, a selloff shouldn't come as a complete surprise; although such a selloff is not necessarily pre-ordained.

Gold and silver prices ran up as much \$100 and \$2 respectively since the Nov 13 lows on what appeared to be managed money buying and commercial selling. If there were any other causative reasons for the rallies, then I missed those reasons. The US dollar index did sell off somewhat during the precious metals rally, so I can't deny some correlation between dollar weakness and metals strength. But truth be told, I am becoming more convinced that precious metals strength influences dollar weakness and vice versa more than the other way around.

Therefore, more than ever, COMEX positioning seems to be the main price driver for silver and gold. The great wildcard in the usual equation is the role of JPMorgan as the short seller of last resort on all past silver and gold price rallies. The announcement of a Justice Department investigation into JPMorgan's role in a COMEX precious metals manipulation on Nov 6, makes the wildcard, well, even wilder. All things being equal, I suppose the commercials, even without the guiding force of JPMorgan backstopping them could induce the managed money traders to sell to the downside yet again and we may be seeing the start of that, particularly in silver. But if the Justice Department has neutralized JPMorgan, all bets are off. I'll come back to all this after a quick review of other usual weekly topics.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained high, as nearly 8.3 million oz were physically moved. Total COMEX silver inventories rose by 2.3 million oz to 295.4 million oz, about 2.5 million oz less than the all-time record

set less than two months ago. The holdings in the JPMorgan COMEX silver warehouse rose by nearly 1.1 million oz to 149.8 million oz, also about 2.5 million oz shy of the record in that warehouse set about three months ago.

You may recall that JPMorgan shipped out as much as 6 million oz from its warehouse over the past few months, but I don't believe it relinquished actual ownership of this metal and instead just shipped it to undisclosed locations. Therefore, I believe JPM holds much more than the silver in its own warehouse. Plus I think it is holding (for itself or clients) as much as 30 million oz in other COMEX silver warehouses.

At the same time that COMEX silver warehouses have experienced very high physical turnover and steady to higher total inventories, the story has been much different in other the stockpiles of physical silver held in the ETFs. More than 20 million oz have come out of the leading silver ETFs, including SLV, SIVR and the Central Fund over the past month and perhaps more than 30 million oz over the past couple of months. Unlike COMEX warehouse movement, which definitely involves physical movement, redemptions or conversion of shares to metal transactions in ETFs, don't necessarily mean the silver has been physically moved. A redemption of silver from the SLV or SIVR could involve the metal not being moved an inch, unlike the physical movement of metal in the COMEX warehouses that I monitor weekly.

And even if the redeemed metal in the silver ETFs is shipped out physically, based upon the clear experience in palladium ETFs, a decline in physical holdings is far from bearish and could be the most bullish circumstance possible. As I discussed on Wednesday, the driving force to the surge in palladium prices over the past few years has been industrial users redeeming shares of palladium ETFs to get the metal behind those shares in order to make up for the insufficiency of current production to satisfy current palladium industrial demand. I'm not necessarily saying that silver is coming out of the ETFs to satisfy a current industrial consumption deficit, because these things take time to recognize.

Certainly, physical silver coming out of the big silver ETFs can't possibly be considered bearish or reflecting poor demand, particularly when past experience indicates metal should be coming in, given the price rally and increased trading volumes on the rally. I still believe that the big deposits into the gold ETFs reflected new investment buying as is typical on gold price rallies. I also believe there was similar investment buying in the silver ETFs that should have resulted in new metal deposits, but for some reason, those deposits never occurred. I think the reason the silver deposits never occurred may be more bullish than if they did occur. Of course, none of this is reflected in price, as the sole driver of price is still paper COMEX positioning.

We have now missed four weeks of Commitments of Traders (COT) reports and one monthly Bank Participation report. Perhaps today's promised announcement by President Trump might quickly lead to an end the shutdown, but even if it does, I'm not sure if we will get a COT report next Friday. But I do hope the political logjam is resolved quickly for a whole host of reasons away from getting updated COT data.

Such a long lapse in COT reporting, of course, is unprecedented and as time has progressed, I've become less sure of what the actual positioning changes have been. In retrospect, it was much easier being able to recalibrate weekly than I ever imagined. Trying to determine actual positions after five weeks (thru yesterday) of flying through the soup of fog with limited instrumentation leaves open the

possibility of flying upside down or into a mountain. But seeing as there is no choice, let me get on with it, trying to explain what I could be getting right or wrong.

The main remaining instruments still working in trying to determine the actual positioning changes are changes in total open interest, volume and price action and comparing that hard data with what has typically occurred in the past. Unfortunately, such hard data can't hope to capture what I feel is the key critical positioning factor, namely, what JPMorgan has done or not done in light of the Justice Department's involvement. Only by actual COT data can I hope to pinpoint what JPMorgan has been up to.

In COMEX gold futures, total open interest is up 96,000 contracts from the last COT report as of date, Dec 18, through yesterday's preliminary data. Changes in total open interest can result in net positioning changes (the only kind that matter or that I usually report on) that are larger, smaller or the same as changes in total open interest - so how's that for a qualifier? For example, if the managed money traders were adding new longs and buying back existing shorts on the rally then the net positioning changes will be larger than the changes in total open interest. I think that occurred on the gold price rally into very early January, but the more recent big increases in total open interest make me scratch my head - perhaps there were big spread positions put on which would account for big increases in total open interest, but no net positioning changes.

Therefore, let me present my guesses for the increase in net managed money long positions and the reciprocal increase in the commercial net short position in gold as somewhere between 85,000 and 120,000 contracts since Dec 18 (when it was 92,700 contracts). That would put the commercial net short position (the headline number) at somewhere between just under 180,000 to just over 210,000 net contracts. In terms of the managed money traders net long position (which was 11,000 contracts on Dec 18), I would guess as of yesterday's close that net long position to be somewhere between 95,000 to 120,000 contracts. On a historical basis, the lower end of the ranges would be more neutral, with the higher end leaning more towards neutral/bearish.

In COMEX silver futures, total open interest is up 18,000 contracts from the Dec 18 COT report as of date to yesterday's preliminary data. Based upon the same discussion just had in gold, I would estimate the net positioning changes in silver to be somewhere between 15,000 to 20,000 contracts, with the lower the number, the more bullish. That would make the commercial net short position to be between 50,000 and 55,000 contracts (versus 35,500 contracts on Dec 18). The managed money net long position on Dec 18 was 2000 contracts, so I would guess it would be between 17,000 to 22,000 contracts as of yesterday. In terms of historical standards, we would appear to be solidly in the neutral range.

In terms of what this might presage for price direction, any selloff in silver should put us into a bullish market structure much more quickly than a selloff in gold, although should such a selloff develop, the improving market structure in silver will likely be the last thing folks focus on. But any way I look at it, there hasn't been as much managed money buying in silver as there has been in gold on a proportional basis. From the price bottom on Nov 13, the managed money traders have bought no more than 50,000 net contracts in silver and perhaps more than 200,000 contracts in gold. The big question is how much of the reciprocal commercial selling was by JPMorgan? I wish I knew.

Since I haven't mentioned it in some time, please allow me to comment on other COMEX/NYMEX metals in the manner just described for gold and silver. In COMEX copper futures, total open interest

increased by 55,000 contracts since Dec 18, thru yesterday's preliminary data. This is even a larger percentage increase than the 23% (96,000 contract) increase in gold total open interest.

Unlike the price rally that occurred in gold and silver, the price of copper has remained below its key 50 and 200 day moving averages, until yesterday, when it moved above its 50 day moving average for the first time in more than a month. Therefore, it would appear that while the managed money traders have been net buyers in gold and silver, they have been net sellers in copper until yesterday.

On Dec 18, the last date for COT data, the managed money traders were net short around 17,000 contracts in COMEX copper and would have appeared to have greatly expanded that net short position, based upon the increase in total open interest of 55,000 contracts. It would not surprise me if the managed money traders held a record net short position in copper, with the previous record being a bit less than 50,000 net contracts back in mid-2016. If this is the case, I would not be surprised in the least if copper were to experience a hellacious rally up ahead.

Another market I would draw your attention to in terms of positioning is NYMEX palladium futures; but for reasons unlike the discussion on gold, silver and copper, which featured large managed money positioning changes. In palladium, at least from Dec 18, there wouldn't appear to have been large managed money buying, since total open interest is virtually unchanged thru yesterday's preliminary data, despite a \$150 price rally. There was close to 15,000 net contracts of managed money buying on the \$300 palladium rally from mid-August to Dec 18, but since then, something other than managed money buying has driven the rally. As I discussed on Wednesday, that other something would appear to be pronounced physical tightness. My point is that real supply and demand drives prices only when it overcomes the curse of artificial paper positioning. It's been so long since that occurred last and so rare, but prices being driven by real supply and demand does occur, but only in times of critical shortage.

I know it's after the fact, but I'd like to include one thing I left out of Wednesday's discussion in comparing palladium to silver (chalk it up to things slipping your mind as you get older). One of the things that greatly exacerbated the physical supply deficit (shortage) in palladium was the fact that most palladium production comes as a by-product of other metals, principally nickel. The thing about by-product mine production is that it is much less responsive to changes in price for the metal that is the by-product. Therefore, when prices soar for the metal that is the by-product, palladium in this case, increases in production lag; where production would increase much quicker for a metal being primarily produced. I can't think of a metal more akin to palladium in terms of the by-product nature of production than silver. Someday, when silver soars in price (when the sheriff at the DOJ corrals the crooks at JPMorgan and throws them in the hoosegow), most will be shocked at the lack of increase in production in response to the price increase.

Finally, a brief mention on the goings-on in crude oil, the most important commodity in the world by far. On the sharp break in price of more than \$30 into the end of the year, I believe I commented how the price decline had little to do with any big changes in actual production and consumption and was caused by pronounced managed money selling. I still feel that way, although I recognize that I am distinctly in the minority according to published commentary. The fact is that the managed money net long position in NYMEX crude oil futures (the leading futures contract) reached a near record low position, falling 300,000 contracts on the selloff from the mid-\$70's to the low \$40's. With each contract being the equivalent of 1000 barrels of oil, that means 300 million paper barrels of oil were

sold by managed money technical funds on the \$30+ price decline.

I would contend that there was very little falloff in actual oil consumption and very little increase in actual world oil production on the price decline, magnifying the effect of 300 million barrels being dumped on the market. In other words, oil prices collapsed for the very same reason we have all observed silver and gold prices collapsing at regular intervals over the years – paper contract selling by the nitwit managed money traders – all while the regulators twiddle their thumbs and look away, desperate to avoid seeing the obvious.

Yesterday, crude oil futures closed above the 50 day moving average for the third straight day, the first upward penetration of that average since the oil price decline began in earnest in October. The 200 day moving average in oil sits a bit more than \$10 above yesterday's close of \$54. As was the case in copper, there appears to be a virtual mountain of managed money buying potential in crude oil and a molehill of potential selling. I'm not attempting to blueprint the coming daily price action in anything, I'm simply stating that, according to my premise that massive managed money buying and selling is what most drives prices, copper and crude oil prices appear destined to move much higher than lower over the reasonable future period of time. Yes, there will be starts and fits, but by the time the managed money traders get excessively long, prices will be much higher in each.

As for silver and gold, admittedly the focus of this service, I just wish each had the market structure of copper and crude oil and I could speak in the same terms. I also wish I were king of the world and could decree what was fair and just. Unfortunately, that's not the case and it is possible that the commercial crooks on the COMEX cast their manipulative spell on silver and gold prices. I intend to ride it out because silver is so darn cheap to begin with and there's a real question in my mind about JPMorgan's present and future role, given the certain knowledge that the Justice Department is investigating. There's no way silver is going to suddenly move higher without me on board. If that means suffering for a bit longer while the crooks at the COMEX rig prices a bit more, so be it.

Ted Butler

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Silver – \$15.36 (200 day ma – \$15.39, 50 day ma – \$14.85)

Gold – \$1282 (200 day ma – \$1253, 50 day ma – \$1252)

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