

## January 27, 2018 – Weekly Review

Gold and silver prices resumed their upward climb from the December lows, with gold adding \$19 (1.4%) for the week and silver adding 37 cents (2.2%). Gold's weekly close was the best in more than a year, while silver ended at four month highs. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by a bit to 77.6 to 1.

I read an interesting commentary saying, in a quite matter of fact manner, that it was no surprise that silver had recently outperformed gold because its price was much cheaper, but still implying that was somehow beside the point of focusing on gold going higher. To me, silver's relative value is the central point. Which investor choosing among very comparable assets wouldn't first choose the most undervalued in that group with the expectation that would be the best percentage performer? Of course, it doesn't stop at silver currently being too cheap relative to gold, that's only the start. The reasons for buying silver over gold have to do with its relative rarity and scarcity and the high probability of an eventual shortage given its dual consumption demand profile; something not present in gold.

There were a number of developments of particular concern to gold and silver this week, away from general world financial developments, so as is my custom, I'll stick the things I deem most noteworthy. First was the turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses. This has been a regular feature of this weekly review for nearly 7 years, ever since the weekly turnover suddenly exploded around April 2011 and has continued to average around 4.5 million oz or more weekly ever since. I had always followed daily COMEX silver warehouse totals and changes for decades, with only a few true revelations, but that changed in early 2011, when the weekly physical movement suddenly erupted.

This week, some 13.7 million oz of silver were either brought into the COMEX warehouses by truck and physical labor or removed in that same manner. This has nothing to do with COMEX paper trading, just the actual movement of 13.7 million oz in the form of 1000 oz bars (13,700 of them). When the dust settled, total COMEX silver inventories were lower by 0.8 million oz, to 246 million oz. Big movement and not such a big weekly change in total inventories has generally been the pattern over the past 7 years; although total inventories have climbed over this time, largely due to the surge in deposits of silver in the JPMorgan COMEX warehouse.

This week, nearly 3.5 million oz were brought into the JPM warehouse, as those inventories rose to a record 124.6 million oz. There can be little doubt that JPMorgan is moving into its own warehouse the metal that it took delivery on in the December COMEX futures delivery period. If it intends to move it all, about another 8 million oz can be expected to come into the JPM warehouse, although that is not necessary to affirm that JPM holds 133 million oz of the 246 million oz of total COMEX silver inventories.

Again, the fact that JPM holds 133 million oz of physical silver in the COMEX warehouses is as straightforward as it gets and that amount of silver is more than the amounts that the Hunt Bros. or Warren Buffet ever bought – to say nothing about the other 550 million oz JPM owns away from the COMEX.

More to the point is that the daily and weekly physical movements of silver in and out of the COMEX warehouses are verifiable and readily available and are every bit as dramatic and unprecedented and unique to silver as I report, yet no one seems to notice or comment on them. It's not a question of anyone disagreeing with my reasons for the movement (tied to physical tightness and JPM); it's more a case of not commenting on something that should be commented on. 13,700 physical one thousand ounce bars of .999 silver were moved in and out of the COMEX warehouses last week, six days of total world mining production, and no one says anything. Go figure.

While there hasn't been much to comment on in terms of COMEX gold or silver deliveries this month, since January is not a traditional delivery month in either metal, that could change this week as we approach the first delivery day in the COMEX February gold futures contract which is a traditional month for gold. There's no way of predicting what might occur, but I will be particularly sensitive to what role JPMorgan may play. JPM did take a pile of gold in the December deliveries, with HSBC the featured issuer, and what either entity does this time will be of interest.

The short report on securities, for positions held as of Jan 15, was released Wednesday and indicated a reduction in the short position on the big silver ETF, SLV, and a very large increase in the short position on GLD, the big gold ETF. In SLV, the short position fell by 1.3 million shares to just under 11 million shares (ounces). The big surprise was in GLD, where the short position increased by a whopping 8.5 million shares to nearly 17.2 million shares (1.7 million oz). You may recall that GLD experienced a massive reduction in its short position in the prior short report. Still, an 850,000 equivalent-ounce increase in GLD's short position is noteworthy in that it represents 8,500 COMEX gold contracts and nearly \$1.2 billion worth of gold.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

My takeaway from this new data (assuming it wasn't a reporting error in GLD) is that both the decrease in the SLV short position and the big increase in the short position in GLD seemed to match up with the corresponding positioning changes on the COMEX over similar time periods. In other words, there has been a much bigger relative increase in the total commercial net short position in COMEX gold than there has been in COMEX silver and that coincides with the recent short report on SLV and GLD. I think this is an important point that I'll dig into when discussing the COT report.

The changes in this week's Commitments of Traders (COT) Report were largely as expected in COMEX gold and even better than what I was hoping for in silver. As a reminder, gold's basically flat price during the reporting week ended Tuesday, as well as the unchanged total open interest led to expectations for a generally unchanged result, while silver's relatively weaker price action, slight moving average downward penetrations and the increase of total open interest of 3500 contracts led to hopes of an improvement in market structure by that amount.

In COMEX gold futures, the commercials increased their total net short position by a slight 2000 contracts to 234,600 contracts. While the weekly change was small, this is still the largest (most bearish) commercial net short position since Nov 28. There were bigger changes by commercial category, as the big 4 added 6400 new short contracts, while the big 5 thru 8 added 2300 new shorts. Raptor (the smaller commercials apart from the big 8) buying of 6700 new longs resulted in a net long position of 41,500 contracts and kept the increase in the total commercial net short position in check.

Since I make a big deal out of the concentrated short positions in COMEX silver and gold, I must remain consistent and express concern that the concentrated short position of the 4 largest traders in gold is now larger than anytime since Sep 2016. I am somewhat torn in that the entity I believe to be the largest COMEX gold short, JPMorgan, is also the owner of more than two or three times as much physical gold as it is short and that means it can't lose should gold prices surge higher. One distinct possibility is that JPMorgan could double cross its fellow big commercial shorts in COMEX gold and silver at any time and let prices rip higher.

The managed money technical funds were net buyers of just over 8000 gold contracts, including the purchase of 8630 new long contracts and the new sale of 626 short contracts. I still maintain the short position of the managed money traders is so small that it is hard for it to get meaningfully reduced. The net long position of the managed money traders, at nearly 210,000 contracts, leaves room for 50,000 or more additional new contracts, but even more room than that for liquidation.

In COMEX silver futures, the commercials reduced their total net short position by a very hefty 8600 contracts, to 41,500 contracts. This was much more than I hoped for and highlights the disparity in the recent positioning changes in gold and silver (as also occurred in short positions of SLV and GLD), in that the commercials have been much more aggressive in selling gold than silver. This is also reflected in changes by commercial category.

The big 4 in silver (read JPM) bought back 1500 short contracts and while the big 5 thru 8 added 600 new shorts, the newly added shorts look to be the work of managed money traders and not commercials. I'd peg JPMorgan's silver short position to be 31,000 contracts, down 1500 contracts on the week and down 2000 contracts over the past two weeks. It's always good news when JPMorgan reduces its dominant short position in silver and not such good news when its short position increases (as was the case in gold).

Also as was the case in gold, the raptors were the big buyers in silver in that they added 7700 new longs to a net long position amounting to 51,900 contracts as of Tuesday. The difference with gold is that the raptor long position in silver is much larger than it is relative to gold and in this equation, the bigger the raptors long position the better, in terms of eventual higher prices.

While I suppose that it's possible that JPMorgan could induce a price selloff that would result in raptor selling on lower prices, the much higher probable outcome is that the raptors will profit from their big net long position by selling at higher prices. Up until now, the raptors seem to be more in control of short term price movements than even JPMorgan and have certainly been the biggest financial beneficiaries from overall COMEX paper trading.

The managed money traders (technical funds) were the biggest sellers in silver, selling more than 9800 net contracts, including the sale and liquidation of 6192 long contracts, as well as the sale of 3645 new short contracts. Even though I hoped for new short selling by these traders, I was somewhat surprised they did so, considering the low price of silver. Undoubtedly, there was strong managed money buying in silver on Wednesday's sharp rally, as well as raptor selling, which, by definition, caused a deterioration in silver's market structure. But the subsequent sharp selloff late Thursday seemed to mend and undo much of the deterioration of Wednesday.

Looking at the recent positioning changes in silver, particularly relative to the changes in gold,

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something feels different. Granted, gold's \$110 rally since December looks much stronger than the \$1.70 rally in silver, but the tradeoff is that the market structure in gold has deteriorated much more than it has in silver. Put simply, there appears to be much more room for managed money buying in silver, both in terms of new buying and short covering, than there appears to be for potential buying in gold.

If you had told me in December that we would get a \$110 rally in gold and a \$1.70 rally in silver by this date, I hope you know I wouldn't have been surprised in the least (although I would have been disappointed at the magnitude of silver's rally). But if you told me that the rallies (since the COT report of Dec 19) would involve more than 106,000 net contracts of gold being sold by the commercials, but only 23,000 contracts of commercial net selling in silver, I would have been both deeply surprised and excited about the small amount of commercial selling in silver, particularly the small amount of selling by the raptors over the rally (less than 14,000 contracts as of Tuesday).

You always want to be very careful about ever saying this time is different; but the lack of greater commercial selling in silver to this point is more than noteworthy to me. These boyz (the raptors and JPM alike) may have something different up their sleeves this go around, in terms of much higher silver prices ahead. Whether they do or not will be determined in the fairly short term and it wouldn't do much good if I kept my feelings to myself. The bottom line is that the changes in the silver market structure on this rally are light enough to leave open the possibility that my big move up premise is still alive.

Finally, two new developments have caught my eye on which I profess a high-degree of skepticism, but also in which I wish my skepticism to be misplaced. First was a Reuters report late yesterday about a major case being brought by the CFTC, the DOJ and the FBI against Deutsche Bank, UBS and HSBC for illegally spoofing markets. You know who (the crooks at JPMorgan) were conspicuously missing from the report and even more disheartening is that if the Department of Justice and the FBI couldn't uncover the silver and gold manipulation on the COMEX by JPMorgan after investigating for more than a year, then I truly fear for the future of my children and grandchildren. The CFTC is nothing but a screw-up in my mind, but, as far as the DOJ and FBI, please say it ain't so Joe. Of course, I hope to have to eat those words someday.

<https://www.reuters.com/article/us-usa-cftc-enforcement-exclusive/u-s-cftc-to-fine-ubs-deutsche-bank-hsbc-for-spoofing-manipulation-sources-idUSKBN1FF2YK?il=0>

The other development is the explosion in the number of proposed crypto-currencies about to be introduced that will be connected and convertible in some way with gold and silver. Color me skeptical. I'd love to see a rush of investment buying coming into the metals, particularly silver, as that would undoubtedly set off the big move higher. But the crypto-currencies tied to gold or silver appear to be little more than a slight variation on existing gold and silver ETFs, at best. There is no question that the introduction of GLD and SLV were truly innovative and game changers of the first order. Moreover, I still consider the SLV to be the Death Star (copyright Carl Loeb) that has just been sleeping for seven years before it reawakens to eventually consume all the silver on the planet (that is, the stuff not owned by JPM). I hope I'm wrong, but I don't expect much from the precious metal/crypto rave.

Ted Butler

January 27, 2018

Silver – \$17.40 (200 day ma – \$16.91, 50 day ma – \$16.74)

Gold – \$1350 (200 day ma – \$1279, 50 day ma – \$1295)

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