

## January 28, 2017 – Weekly Review

### Weekly Review

Gold fell in price after four weeks of gains, ending \$19 (1.6%) lower. Thanks to a sharp turnaround late yesterday morning, silver closed higher for the fifth straight week, ending up by 5 cents (0.3%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by more than a full point to 69.5 to 1, the strongest relative valuation for silver in six weeks.

As continues to be self-evident from simple observation, the price moves this week (and every week) were an exclusive COMEX paper trading production. Yesterday's sharp rally (40 cents+) in silver, for instance, took place after all other trading venues in the world had closed. Someday, gold and silver prices are likely to be influenced by events or trading in London, China, India, Russia or Timbuctoo; but that day isn't this day or any day up through this day. That's why any gold or silver analysis not focusing on the COMEX is simply not focused.

I felt particularly down Friday morning; not just because it looked like silver and gold were about to get flushed out below each's important 50 day moving average (which still may occur – although I don't think so), but because a newly-returned subscriber had asked me last week if I thought then it would be a good time to buy a substantial amount of silver or should she wait a couple of weeks? She acknowledged she knew that I avoided specific investment advice but her question was straightforward and I answered in that manner. Jody made specific reference to the commercial short position on the COMEX.

I said it could go down, but that I wouldn't wait. I told her that my reasoning was that the market structure in gold was quite bullish and while silver's total commercial net short position was high by historical standards, under the hood, it looked much better. I didn't think silver would likely drag down gold and it was more likely that gold's great COT structure would pull silver higher. What I didn't tell Jody, because I didn't want to overly influence her, was that I had just purchased additional recklessly speculative call options, meaning I was obviously short term bullish. Yesterday morning, I regretted my words, but by the end of the day I felt better. (I'll feel all better when silver puts on a real move).

The point of all this is to acknowledge just how hard it is to predict prices on a short term basis. The reason it is so hard is because the main price driver is COMEX positioning and you are forced to guess what some big traders, mainly JPMorgan, have up their sleeves. I do believe that this week's and yesterday's price action in silver was potentially significant and very much involved JPMorgan and I will come back to this later.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses amounted to a hefty 6.5 million oz this week, as total COMEX silver inventories fell a modest 0.4 million oz, to 179.7 million oz. Another week of extraordinarily large inventory turnover with a not so large change in total inventory Â? a phenomenon remarkably consistent and unprecedented for six years in COMEX silver (ever since JPMorgan opened its own COMEX warehouse in April 2011).

Speaking of JPMorgan (impossible not to when speaking of silver), the bank took in another more than 1.2 million oz earlier this week into its own COMEX warehouse, raising its total to 90.1 million oz, crossing over the 50% mark of total inventories for the first time. I don't recall a time, certainly over the past decade, when any COMEX silver warehouse held as large a percentage of total inventories as does JPMorgan currently. In terms of historical inventory patterns this is the equivalent of full frontal nudity. What possible interpretation could there be other than JPMorgan has embarked on a methodical campaign to acquire the most physical metal it could? And this is just the visible portion of the giant silver iceberg that JPM has accumulated Â? the bulk is six times larger and hidden from sight.

<http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notice.html>

I am starting to notice some pick up in the awareness of JPMorgan's incredibly large COMEX physical silver holdings, but nowhere near the full coverage and questioning it demands. For the record, this last 1.2 million oz that JPMorgan took in this week was 1.2 million oz more than I thought the bank would move in at this time. I thought JPM was done with moving the entire 7.7 million oz it took in December COMEX futures deliveries with last week's movement. Likewise, as much as I point the finger at JPM for setting out to acquire the largest hoard of silver in history, more often than not I believe I am understating the total amount of metal it has accumulated to date.

There was a withdrawal of more than 2.3 million oz of metal from the big silver ETF, SLV, earlier in the week, followed by 0.75 million oz deposit yesterday. It's impossible to pick apart individual deposits and withdrawals, but when viewed over time (the past six years) it is clear to me that most of the changes are the result of actions by JPMorgan acquiring metal. I continue to maintain that converting shares of SLV into (non-reportable) physical metal has been the principle source by which JPM has acquired its vast holdings of more than 550 million oz. Putting numbers on it, I'd say that more than 250 to 300 million oz of silver have been acquired by JPMorgan in this manner.

The new short report for positions held as of Jan 13, was mostly a yawner for SLV and GLD, with a small increase of 200,000 shares in SLV's short position to just over 12.5 million shares (ounces). There was a larger increase in GLD, but the short positions in both are not historically excessive. There have been times when the short position in SLV was material to the price of silver, but that's not the case presently, so I'll continue to move along.

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

There are still a couple of days left in the month for the US Mint to report on sales of Silver Eagles and I'm still up in the air as to whether JPMorgan is the big buyer of the nearly 5 million coins reported sold so far. The part of me that says they are still buying is based upon the almost complete lack of retail buying demand. Rarely have I seen retail demand this weak. Not only is this suggestive of a price bottom (investor sentiment always stinks at market bottoms), the lack of retail buying means that someone else must be buying the coins. You may remember that the prolonged periods of record sales of Silver Eagles (and Canadian Maple Leafs) over the past six years, in the face of widespread and credible reports of very low retail demand is what led me to the conclusion that JPM was the big buyer in the first place. There were some naysayers to my conclusion initially, but I would hope that has faded as the same conditions have prevailed for far too long without a plausible alternative explanation..

<https://competition.usmint.gov/bullion-sales/>

On to the changes in this week's Commitments of Traders (COT) Report. First off, the trading action since the cutoff on Tuesday appears to have been fairly significant and to have improved the market structures in both gold and silver from the changes in yesterday's report. I chickened out on offering specific predictions, but will confide I feared there would again be more deterioration than was actually reported. It wasn't so much consistently higher prices during the reporting week, but more the fact that we finished above the 50 day moving average on every day, not something that has occurred frequently in recent times.

In COMEX gold futures, the commercials increased their total net short position by a rather insignificant 3,300 contracts, to 126,400 contracts, still close to the lowest (most bullish) levels in year. Repeating the obvious, which does bear repeating, the standout feature in gold is the remarkably small increase in commercial selling and managed money buying on the near \$90 increase (at its peak) in price from Dec 20.

On the \$170 decline in gold from Election Day to Dec 20, the managed money traders sold and the commercials bought more than 110,000 (11 million oz) net contracts of gold. Yet the rally of decent proportions since Dec 20 has attracted no significant managed money buying or commercial selling. I can't interpret this as anything but bullish for the simple reason that, sooner or later, the managed money traders will buy (or try to buy) at unspecified higher prices. Further, since there has been a marked lack of managed money buying to date, it seems improbable great numbers of gold contracts can or will be sold (either long liquidation or new short selling). That's the main takeaway.

It wasn't all peaches and cream in the gold report, as the 4 big shorts added 4000 new shorts and those traders seem to be all commercials again, as a big managed money short was demoted to the 5 thru 8 category, as that category increased short positions by 200 contracts. The smaller commercials (the raptors) went the other way and added 900 new longs, increasing their net long position to 47,700 contracts, their largest long position in a year (also bullish).

The managed money traders in gold basically scratched, in buying only a net of about 1100 contracts, consisting of the liquidation of 6407 long contracts and the buying back and closing out of 7526 short contracts. Yes, it's somewhat unusual to see an almost equal number of contracts liquidated by managed money traders on both the long and short side in the same reporting week, but neither side was truly monumental in size.

And yes, as a subscriber asked, the spread positioning in gold makes one scratch his or her head. This reporting week, more than 20,000 new gold spreads were initiated, more than fully accounting for the 14,000 contract increase in total open interest. As of Tuesday, an astounding 147,000+ spread contracts existed in COMEX gold futures, with the managed money traders holding more than 92,000 gold spreads. Since we are approaching first notice of delivery day for the February COMEX contract, much of the sharp declines in total open interest since Tuesday is related to spread liquidation and should be evident in next week's COT report.

It's no mystery why gold spread positions have increased sharply going into first notice day and will decline afterward, as rollover periods offer the most liquid times for large positioning of spreads. The mystery, as I'm not at all embarrassed to admit, is why would anyone establish and liquidate large spread positions to begin with? The gold spreads in question represent a long position in one month and a short position in another month, most usually the two most current active trading months.

Since a spread holder neither profits nor loses as gold prices move up or down, but only when the spread differentials fluctuate and because the spread differentials haven't changed much in gold, I don't understand the economic justification for so many gold spreads to be traded. There was a time, nearly 40 years ago, when spreads were traded, particularly in COMEX silver, for tax purposes. According to then-current interpretations for US tax code, it was permissible to generate short term losses in the current tax year and shift gains to the new tax year on a long term basis, utilizing spreads. While the IRS finally cracked down and eliminated the obvious loophole after many years, I'm happy to report that I did get to participate in the practice with one such transaction amounting to many tens of thousands of COMEX silver contracts, back in prehistoric times when I was commodity broker.

Back then, the whole idea was to eliminate the price change (and real risk) in spread differentials by engaging in a variety of "butterfly" spreads, specifically designed for that purpose. I don't see any evidence of butterfly spreads today, but the spread differentials haven't appeared to be necessary anyway, since the spread differentials in gold haven't moved all that much. While I can't tell you why large traders are dealing in gold spreads, it wouldn't appear to be based upon real gain or loss or any other economic justification and, regardless, doesn't have much of an impact on absolute gold prices. I'm tempted to conclude it's just more evidence of a scam of some type on the scummy COMEX, but perhaps I'm missing something. Anyway, that's my take on the gold spreads and if anyone has an alternative explanation, I'm all ears.

In COMEX silver futures, the commercials increased their total net short position by 1300 contracts to 83,100 contracts, the highest level since Oct 4. Normally, based upon historical standards, such a large headline number would be considered bearish. Yet, I don't see it that way. For one thing, it's still closer to the truth to say that the headline number in silver is still in a fairly narrow band over the past three or four months and hasn't increased dramatically over this time. But it's even closer to the truth to conclude that looking under the hood shines a different perspective on market structure, to the point of downright bullishness. That different perspective, of course, revolves around the prospect of limited potential selling from managed money traders.

By commercial categories in silver, the big 4 added 2200 new short contracts, while the big 5 thru 8 bought back 600 short contracts and the raptors added 300 contracts of new longs. Unlike the case in gold, I do think a managed money traders is still in the big 4 category, but that trader didn't add to its short position. That leaves me little room but to conclude that JPMorgan increased its silver short position by 2000 contracts to 20,000 contracts (100 million oz). This is still below my "worry level" of a 5000 to 10,000 increase and at least explains the price weakness (and possible strength) into Friday.

The managed money traders bought a fairly significant 4512 contracts of new longs, increasing their net long position to 71,727 contracts, while also adding 187 new shorts. While this increases the number of potential managed money contracts that could be sold on lower prices (my previous estimate being 10,000 to 15,000 contracts), this was as of Tuesday. I would guess that at least the number of long contracts added by managed money traders this week have already been liquidated thru yesterday and perhaps many more. Whether this is borne out in the next COT report depends on what happens on Monday and Tuesday, which is unknowable at this time.

Through yesterday's trading, I sense a significant improvement in the gold and silver market structure on the COMEX, as managed money traders sold aggressively into the price decline since Tuesday and that threatened penetration of the 50 day moving average in each. Nothing about COMEX price or positioning changes are accidental or coincidental "I'm convinced there is a specific intent to everything that occurs. The trick is trying to get inside the head of those intentionally causing price and positioning changes and I get what I can from the public data. Maybe I'm imagining things, but this week I detected the strong presence of JPMorgan at every turn.

Yes, the crooks at JPMorgan may have added 2000 new shorts into Tuesday in silver and a different amount in gold, but in retrospect, that's why prices fell after the cutoff "so that JPM could buy those contracts back at a profit (which I think has been accomplished). Isn't that what their long term record of no losses suggests? Furthermore, I think the crooks at JPM were the big buyers on the price spike in silver that suddenly occurred late Friday morning. I say this because the silver price spike was unusual in that it shot up suddenly and then the rally was over. The gains were mostly held and that's good, but I'm thinking of something else.

In keeping with my premise that nothing is accidental on the COMEX and everything is orchestrated and arranged, the glaring meaning (to me) that silver suddenly spiked up and then made no further highs the rest of the day was that the ringmaster, JPM, didn't want to slice the salami to the upside and invite technical fund buying. Instead, JPMorgan bought as much as it could on the down move from the close on Tuesday through Friday morning and then bought on the upside for a short while. Then it capped prices so as to blunt any technical fund buying. Gold, on the other hand, didn't rocket higher when silver did on Friday, but was permitted to make nothing but new daily price highs the rest of the day.

Admittedly, aside from perhaps reading too much into such short term machinations, I'm also strongly opinionated about JPMorgan's role in silver and gold. But I test that strong opinion for flaws constantly and only seem to be even more convinced over time. I know the folly of focusing on very short term developments, but JPMorgan's actions this week, if I have represented them accurately, are quite bullish. They bought on an arranged price decline and bought on an arranged price increase.

It's always possible for additional rigged price declines in silver, but yesterday's sudden rally means silver must be rigged below Friday's low to generate enough managed money selling to make the exercise worth while. The apparent low levels of potential managed money selling remaining in gold and silver also argues against big price declines. That would seem to be very much in keeping with much greater upside potential than downside risk, never a bad thing.

Ted Butler

January 28, 2017

Silver – \$17.15      (200 day ma – \$17.91, 50 day ma – \$16.66)

Gold – \$1191      (200 day ma – \$1267, 50 day ma – \$1178)

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