

July 14, 2018 – Weekly Review

Gold and silver prices closed lower, effectively, for the fifth straight week and in the process set not only year-to-date lows, but lows extending back a full year. Gold ended the week down \$12 (1%), while silver ended 24 cents (1.5%) lower. As a result of silver's relative underperformance, the silver/gold price ratio widened out to just under 78.5 to 1. Considering how little the price ratio has changed overall these past few years, my biggest takeaway is just how much in lockstep gold and silver prices have been.

The only plausible explanation I can see for the price of both metals being joined at the hip is that both metals share the same price setting mechanism – COMEX futures positioning. Underscoring this point, over the past five weeks gold has declined \$60, or \$6000 per COMEX contract, while silver has declined one dollar, or \$5000 per COMEX contract. Not coincidentally, there has been significant managed money selling and commercial buying over that time – 40,000 net contracts in gold and 30,000 contracts in silver. If there is any other possible explanation for the near-identical price declines in each metal, other than the commercials deliberately inducing managed money selling, then I can't come close to seeing what it might be.

While this knowledge doesn't necessarily remove the financial and emotional pain felt by precious metals investors watching account balances erode, knowing the cause and the ultimate result from the ongoing COMEX positioning is vastly better than not knowing. Quite frankly, if I weren't certain how prices are set and particularly JPMorgan's role in the price setting, I would have thrown in the towel long ago and wouldn't dare to write about it (and charge others). That doesn't mean I can pinpoint the exact coming price bottom, but I do know in time (and not much of it) we will be looking down at current prices from much loftier levels. How much loftier? That depends on JPM, as it has for the past decade.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled off this week as just over 2.1 million oz were moved. Most of that was, once again, of the "in" variety, as total COMEX inventories rose by 1.7 million oz to 280.5 million oz, another 25 year high and now less than 5 million oz from setting an all-time record.

Another 540,000 oz were brought into the JPMorgan COMEX warehouse, increasing the amount of silver there to a record 143.8 million oz. Having thought that JPM had already moved in the 4 million+ oz it had taken delivery on in the May futures delivery, I'm inclined to think this new deposit is part of the 151 contracts (755,000 oz) that JPMorgan has taken so far in the July deliveries. If JPMorgan is trying to hide the fact that it is continuing to acquire physical silver, then it has a funny way of doing that.

It's no secret that my basic narrative on silver has revolved around JPMorgan for the past ten years, ever since the bank took over Bear Stearns. The central theme of my narrative is that starting 7 years ago, JPM set out to accumulate physical metal as a way to offset what was an otherwise impossible to cover dominant short position on the COMEX, a move I still consider near-genius.

Having bought as much physical silver as was necessary to cover its COMEX short position within two years or so from when it started in 2011, JPMorgan decided to turn what was initially a defensive move

into a super offensive move and continued to accumulate physical silver to the tune of more than 700 million oz (now likely 750 million oz), 140 million oz of which is held in its own COMEX warehouse. In addition, JPM has picked up at least 20 million oz of physical gold. The total dollar outlay by JPM for buying 750 million oz of silver at an average price of \$18.50 or so comes to around \$14 billion, while the dollar cost for 20 million oz of gold (at \$1200 or so) comes to \$24 billion, or a total combined cost of around \$38 billion.

Some have questioned how it could be possible for JPMorgan to have acquired such amounts of physical gold and silver from a sheer cost basis, to say nothing of how it could hide such an enormous outlay on its books. To that I would say just look at the quarterly earnings report from JPMorgan yesterday. For the quarter, JPM reported net earnings of \$8.3 billion, or an annual rate of more than \$33 billion. These are net profits, not total revenue (which is more than four times as much). In addition, JPMorgan reported that it held more than \$2.6 trillion in total assets.

Yes, I admit that \$38 billion worth of gold and silver is a stunningly large amount and the most ever held by any non-governmental entity in history. But to JPMorgan, it is a proverbial drop in the bucket. \$38 billion is barely more than JPM's net profit for a year; who wouldn't buy the largest hoard of silver and gold in history with just one year's earnings? Wouldn't you? A \$14 billion investment in silver will make JPM \$75 billion on a \$100 rise in price. And as far as JPMorgan being able to hide a \$38 billion asset on its books, don't you think it could hide assets worth less than 1.5% of its total assets of \$2.6 trillion if it really wanted to? The simple point is that JPMorgan needs to make this size and type of investment to assure future profits.

In other physical inventory news, there continues to be a radical departure in the patterns between gold and silver. Over the past month, there has been a very steady decline in world gold ETF inventories, with a total decline of one million oz in the big gold ETF, GLD; while at the same time (and same price pattern) there has been a notable increase in the holdings in the big silver ETF, SLV and also in COMEX inventories of more than 20 million oz combined. There have been notable declines in other world silver ETFs, but after netting things out, world visible silver inventories have increased by 12 million oz, while gold visible holding shave declined by a million oz.

I'm inclined to think the gold outflows are "normal" in that ETFs generally experience outflows when prices have moved consistently lower, as investors are generally net sellers on lower prices. However, the increase in silver inventories is more counterintuitive in the case of SLV, although the increase in COMEX silver inventories looks more related to sellers having to bring in metal for delivery demands in the big July COMEX delivery, where more than 5100 total contracts (25.5 million oz) have been delivered to date. As for the increase in the holdings of SLV, I think it's a combination of deposits intended for short covering and accumulation by JPM, which appears unable to take as many COMEX deliveries as it would prefer.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

The release this week of the new short data on securities reminded me that I skipped mentioning the previous report. The previous report featured a pretty big increase, while the new report features a smaller decline in the short positions in both SLV and GLD. Although I feature this data on a regular basis, in reality and compared to COMEX positioning, the changes over the past year and longer are not germane to silver or gold prices. For instance, the 1.1 million oz reduction in the current report for SLV is equal to a little over 200 COMEX contracts, hardly a rounding error in the sole driver of price

â?? COMEX positioning. I am concerned about potentially very large increases in the shorting of SLV and GLD, so let me save discussion on that in the event it occurs.

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

The changes or lack thereof in the new Commitments of Traders (COT) report, at least in the headline numbers, were fully expected given the lack of significant price change during the four day reporting week ended Tuesday. There was even a rather rare unchanged reading in the commercial total net short position in silver. However, there were some rather dramatic changes under the hood in both silver and gold, particularly in regard to my recently discovered premises.

In COMEX gold futures, the commercials increased their total net short position by 7200 contracts to 100,400 contracts. Despite the increase, this is still a low (bullish) reading and except for the two previous reporting weeks, the lowest commercial net short position in a year. However, the biggest and most pleasant surprise was in the commercial categories. The big 4 (aka JPM) reduced their short position by a rather hefty 9900 contracts, while the big 5 thru 8 added 3600 new shorts and the raptors (the smaller commercials away from the big 8) sold off a hefty 13,500 long contracts, reducing their net long position to 68,300 contracts.

The 4 biggest shorts in gold now hold their lowest net short position in a year and a half, which is another way of saying that my double cross premise returned with a vengeance this week, after not doing much over the previous two reporting weeks. I found it nothing short of remarkable that JPMorgan was able to buy back so many shorts over a four day week and for there to be such heavy raptor selling. Gold prices did rally as much as \$20 during the reporting week from the price lows of the previous week, but I am scratching my head about what motivated the raptors to sell so many long contracts.

I am not surprised in the least that JPMorgan would buy as many short contracts back as it did and I'm convinced it would have bought back many times more were it able to. And I'm also convinced that this was an exclusive JPMorgan production and it waited until this week to buy this many gold contracts back so it would not be reflected in the monthly Bank Participation report released the previous week. Look, if you controlled the market as much as JPMorgan does, you would be foolish not to position yourself according to desired cutoff dates.

I am simply amazed that since May 22 (seven weeks ago) on little more than a \$50 decline in the price of gold and on only a 15,000 contract reduction in the total commercial net short position, that the 4 biggest shorts in the form of JPMorgan have bought back 52,000 short contracts while the raptors have sold out 36,000 longs. To my way of thinking, that represents an 88,000 contract double cross, the equivalent of 8.8 million oz of gold. I believe I know why JPMorgan has engineered this, namely, as a final preparation to an eventual gold price launch; but how it snookered the smaller commercials into selling so many longs is a manipulative work of art and open question.

As far as the fact that JPMorgan started buying back its gold short positions \$50 higher and should have waited until prices sold off before buying back so many shorts, I understand the point, but it flies in the face of market reality. In order to reposition massively large quantities of contracts, as JPMorgan has just accomplished in gold (and silver), it must be done when it can be done. Had JPMorgan waited until gold prices declined \$50 before initiating its remarkable and massive buyback, it would not have found the required massive amount of willing sellers. An entity looking to buy 1000 contracts (or less)

could probably afford to wait, but not an entity looking to buy back 50,000 contracts or more. That's just market reality and no one knows this better than JPM.

Despite the net increase in the total commercial net short position, the managed money traders in gold actually sold 1273 net contracts, comprised of new longs in the amount of 3127 contracts and new shorts of 4400 contracts. The managed money short position is at an effective new record of just under 110,000 contracts, meaning there is more potential rocket fuel-type short-covering buying in place in gold than ever before.

And based upon the new price lows since the Tuesday cutoff and fairly sharp increases in total open interest, it would appear to be a pretty safe bet that managed money shorting has expanded even more in gold. In other words, while this was a very bullish report on gold under the hood, it has to be much more bullish as a result of trading since the cutoff.

In COMEX silver futures, the commercial short position was unchanged at 38,600 contracts. You can count on one hand the number of unchanged commercial headline numbers that have been recorded over the past 30 years. I remarked on Wednesday that I wasn't looking for much of a change, but would have taken the other side of any bet for exactly unchanged (rounded off to the nearest 100 contracts, of course). Perhaps not that surprisingly, the changes under the hood were much greater, starting with the commercial category breakdown. The 4 biggest shorts bought back 800 short contracts and the 5 thru 8 largest shorts bought back 2600 shorts, as the raptors did all the commercial selling in selling 3400 long positions and reducing their net long position to 62,300 contracts.

While a case could be made that a big managed money short in the big 4 short category could have bought back, I'm inclined to attribute the short covering by the big 4 to JPMorgan, considering what it was up to in gold. Therefore, I would peg JPM's silver short position to be down to 26,000 contracts. That's the equivalent of 130 million oz and is now less than the 144 million oz the bank holds in its COMEX warehouse. This means that JPM has bought back 14,000 contracts of the 20,000 contracts it added on the last silver price rally cap job.

This also means that as of the Tuesday cutoff, JPMorgan has only added 6000 net silver short contracts on this leg of its current maneuverings, while buying back as many as 60,000 gold short contracts over the past two months. This is a combination trade JPM would make at any time and in much larger quantities if it could. Based upon price action since the cutoff, I'm certain JPM is sitting even prettier through yesterday.

The managed money traders sold nearly 2200 net silver contracts, including the sale and liquidation of 3434 long contracts and the buyback of 1240 short contracts. The managed money traders still hold a very large 61,000 short contracts in silver, only 13,000 contracts less than the record short position of April and undoubtedly higher than as of Tuesday in trading since the cutoff. There have only been a small number of weeks when the managed money short position has been larger than it currently is. Eventually and most assuredly, most of this short position will be bought back on higher prices.

The big surprise for me was the sale of 4137 long contracts by the recently discovered concentrated longs, particularly on such a nothing reporting price week. Having only discovered the existence of the largest concentrated long position in the history of the COMEX silver market less than a week ago, I suppose I shouldn't be surprised by changes in a position that has only existed for a couple of months, but I'd be lying if I said I wasn't surprised. I did say that this was a position that can be

calculated to the nearest contract on a weekly basis and that I would report the position as the data indicated. (To calculate the position, merely multiple the total open interest by the percentage given for the net long position by the 4 largest traders — same as done for calculating the net short position).

As of Tuesday, the net long position of the four largest longs was 59,195 contracts down from the previous week's 63,332 contracts. Why some of the big longs sold is a separate question to which I have no definitive answer. I'm inclined to think it wasn't because silver prices were suddenly weak since prices ended the reporting week slightly higher (although they did sell off on the cutoff date). If the big 4 long liquidation was the result of price weakness on Tuesday, maybe that suggests further liquidation into the price weakness since the cutoff; but I'm just speculating, not making firm analysis.

I think the best course is to observe and analyze. There is no doubt that the concentrated long position was recently established and is unprecedented in size, despite this week's reduction. If my estimate of the average price at which the concentrated long position was established is accurate at being around \$16.50, that means that as of the cutoff date, the position was 40 cents underwater or \$60 million on 30,000 contracts (plus around \$40 million more thru Friday). This is a good chunk of money, but we are talking about a very large amount of silver — some 150 million paper oz.

I would assume the buyers of such a large amount of silver didn't just fall off the turnip truck and would be prepared for selloffs (but maybe I'm making an ass out of u and me). There are too many possibilities as to the intent of the position to cover them all, but the mechanics of the position are easy enough to calculate. 30,000 contracts would require roughly \$200 million in initial and maintenance margin to cover a 70 cent open loss (as of yesterday). Remember, we are talking about \$2.5 billion notional value of silver (150 million oz x \$16.50), and one would think some thought was given to its orderly eventual disposal.

Interestingly, while 30,000 contracts of silver is clearly a very large number of contracts to have been bought over a two month period, it comes down to only 750 contracts a day on average over two months. Plus, it appears obvious that most of the managed money concentrated long position was established as other managed money traders, the technical funds, were aggressive sellers. This would seem to demonstrate that the concentrated buyers had an awareness of how the COMEX positioning game was played.

I was asked if I thought the concentrated longs would ask for or demand physical delivery. I don't think so, as that would be asking for trouble from the exchange and regulators. Not only would this likely prove detrimental to the concentrated longs, it would appear unnecessary. I'm assuming (there I go again) that these big longs are interested in silver in order to make a big buck, not to cause problems, so I would imagine they wouldn't press for a delivery destined to rile things up.

In a real sense, my two recent discoveries, JPMorgan's double cross of other commercials in buying back a disproportionately large amount of gold shorts and the emergence of an unprecedented large concentration on the long side of silver seemed to clash this week. JPM's buyback of gold shorts this week seemed to vastly outweigh what I'm inclined to say was a somewhat disappointing, or at least surprising liquidation on the part of the concentrated silver longs. On balance, I would consider the two developments as net positive.

There is no question as to JPMorgan's intent in buying back so many gold shorts, or even, for that

matter its buying back of silver shorts, both of which have continued since the Tuesday cutoff. There is also no question of JPM's awareness or potential role in the recently created concentrated long position in silver, although any potential role must be considered speculation at this point.

One thing that isn't speculation is the extremely bullish set up that has developed in other markets related to gold and silver. I was surprised to see further additional net managed money selling in both platinum and palladium this reporting week, pushing both markets to new bullish market structure extremes. I wasn't surprised to see another massive bout of managed money selling in COMEX copper futures, since I specifically predicted this on Wednesday.

An additional 20,000 net copper contracts of managed money selling was reported as of Tuesday, bringing the number of COMEX copper contracts sold by the managed money traders to nearly 95,000 contracts over the past four reporting weeks and causing the resultant 50 cent drop in copper prices thru Tuesday. That's the equivalent of roughly 1.2 million tons of copper sold by the most speculative traders of all, with not one single ton representing a legitimate hedge by CFTC definition. Plus, these same brain dead speculators sold even more in paper copper contracts on the LME and Shanghai and the regulators sit around sucking their thumbs and making self-congratulatory announcements. On the copper price weakness since Tuesday, even more paper contracts were sold by the nitwit and out of control managed money technical funds worldwide.

As indicated earlier, I can't tell you that gold and silver prices can't go lower temporarily, but I can tell you they will stop going lower at some point soon and be above current prices by a large amount in the not too distant future. How much higher is up to JPMorgan and everything I see tells me that JPM is preparing for much higher prices. So should you.

Ted Butler

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Silver – \$15.83 (200 day ma – \$16.64, 50 day ma – \$16.43)

Gold – \$1242 (200 day ma – \$1303, 50 day ma – \$1286)

Date Created

2018/07/14