
July 15, 2017 – Weekly Review

Following five consecutive weeks of lower prices and after hitting new price lows on Monday morning, both gold and silver rebounded, ending the week \$16 (1.3%) higher in gold and by 40 cents (2.6%) in silver. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by a full point to 77 to 1, still within a trading range that has lasted for what seems like forever. Again, the only reason the relative price of each has varied so little is because the absolute price of each is set by the same price process – COMEX futures positioning changes. My kingdom for an alternative explanation (that also makes sense).

The standout developments for the week did include, yet again, significant and largely expected changes in positioning as indicted in the new COT report, as well as the unexpected and large metal deposits into the big silver ETF, SLV. First, a brief word on the physical turnover of metal in the COMEX-approved silver warehouses, as is my custom. As an analyst, it would seem negligent if I overlooked the weird and unprecedented movement over the past six years in what is the world's second largest visible stockpile of silver; as well as this week's unusual activity in the world's largest visible physical silver holdings (SLV).

The COMEX physical silver turnover this week cooled off markedly, as only 2.2 million oz were moved, with most of that being of the "in" variety, as total inventories rose 1.4 million oz to 213.3 million oz, yet another multi-decade high. There was a net 535,000 oz brought into the JPMorgan COMEX silver warehouse, increasing the amount of silver there to 112.4 million oz, also a new record. While this is the lowest weekly movement in a few months, there has never been any way I'm aware of to handicap future weekly movements. The real story is still how much physical silver has been moved and why.

Now, onto the strange happenings in SLV, the big silver ETF. Actually, the latest short interest report isn't so strange, but when combined with the recent string of metal deposits into the trust, strange may be an understatement to describe what has occurred. First, the short interest in SLV, for positions held as of June 30, declined by nearly 1.8 million shares to just over 10 million shares (ounces). The short position in GLD, the big gold ETF also declined by a similar amount for the two week period, down by 1.7 million shares to 8.7 million shares (870,000 ounces).

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

This is not the lowest the total short position in SLV has been, but it is close to the lower levels seen historically, certainly as a percentage (2.7%) of total shares outstanding (369 million). I remember a time when shorted shares in SLV made up 12% of total shares outstanding. I still believe there should be no short position allowed in SLV or GLD, for reasons related to the unique structure of these securities (a hard and precise physical metal backing for each share outstanding), but I will not litigate that issue today. I will say that the lower the short position, the better it is and, certainly, the reduction in the short position in SLV and GLD is in conformity with the sharp reductions in the total commercial net short positions on the COMEX. Then what's so strange?

What's so strange in SLV has been the large deposits over the past week or so, as more than 9.5

million oz have been deposited in the trust. This is strange because, as you know, the price of silver has been notably weak over this time, hitting new lows for the year this past week. Dramatically lower prices go hand in hand with overall net investor selling and liquidation, meaning there *should* have been metal redemptions from SLV, not big deposits. Big metal deposits on consistently lower prices is beyond counterintuitive and is downright strange. And this is very much specific to SLV and silver, as there have been the expected liquidations and withdrawal of metal from GLD on lower gold prices, although not to an excessive degree.

Whenever this phenomenon, metal deposits in the face of lower prices, had occurred in the past, the most plausible explanation I could come up with was that metal was deposited into the trust with the result that the new shares that were created by the metal deposits were then used by the metal depositors to get shares to close out existing short positions. That's what makes these securities (SLV and GLD) so unique, namely, new shares could be created by net investment buying which required the Authorized Participants (APs) to deposit metal equal to the new shares created by new net buying – or – the metal could be deposited first and new shares created that way. The same either/or mechanism applies to metal redemptions, in that metal would be withdrawn from the trust on net investor selling and liquidation – or – metal could be taken out by the conversion of shares into metal by existing shareholders. (This last feature is what I believe JPMorgan has used extensively over the past six years as a major source of its massive physical silver accumulation.)

Why would someone go to the trouble of depositing physical metal in order to get new shares issued in order to then use those shares to close out a short position in SLV, when it would be far simpler to just buy back an existing short position on the open market? I would contend that the plain vanilla short covering purchase of nearly 10 million shares of SLV in a week would have sent the price strongly higher; while the deposit of metal (that could have been bought over a longer time than a week) wouldn't exert any real upward price pressure, but would have the same practical result of a simple short covering buyback – the closing of the short position.

Here's where it gets even trickier. What I'm suggesting would seem to indicate that the next short report (on June 26) might show a drastic reduction in the short position to the point of near complete elimination of it, as of yesterday's cutoff for the report. Should the short position in SLV be drastically reduced on the next report, then case closed and the big metal deposits of the past week were unquestionably used to cover the short position. That would be proof positive that what I suggested was right on the money and fully explained this week's big physical metal deposits..

However, I don't think JPMorgan (who is undoubtedly the party behind all this) really wishes to inform the world that the short position in SLV was eliminated completely or nearly so. It seems to me that this is something JPM would prefer to keep to itself. And it seems to me there is a simple means to do just that.

About a hundred years or so ago, when I was a stock and commodity broker, there was a fairly common practice that I'm sure exists today in some form. It was called going short "against the box". It involved selling short on a security in a client's account in order to postpone the tax consequences a straight plain vanilla sale would generate (typically until a new tax year began). Even though the security was effectively sold as far as price received, both the short sale and long security position remained open until a later date when both were closed out by issuing instructions to a back office clerk.

Here's what has me thinking about "shorting against the box" - the new shares created by the 9.5 million oz physical deposit this week into the SLV could, quite easily, be intended to close out the remaining 10 million share (oz) short position in SLV. But I see no reason to think that whoever was behind the deposit, particularly if it was intended to close out a big short position couldn't leave both positions, the new long position and the old short position, open and simply not inform the back office to close out the positions. No one would be in a better position to do this than JPMorgan, which not only is a leading Authorized Participant in SLV, but also the trust's custodian. In other words, the short position in SLV might, in fact, have already been effectively closed out, regardless of what the next short report might indicate.

Why am I making a big deal out of this? It's certainly not to uncover yet another bullish factor in silver. After all, I need to discover a new super-bullish factor in silver as much as I need a (another) hole in my head. But if someone moved this week to completely eliminate the short position in SLV so suddenly, as I've suggested, what other motivation could there be for such an action than the expectation that prices will soon explode? That's not a trick question.

The changes in this week's Commitments of Traders (COT) Report were significant and largely expected, at least as far as the commercial side of the ledger, with the typical number of surprises under the hood. There were three days of the extended reporting week in which both gold and silver hit new price lows (salami slices), so we know the technical funds were selling and the commercials were buying. It was just a question of how much.

In COMEX gold futures the commercials bought 33,300 contracts, reducing their total net short position to 73,900 contracts, the lowest (most bullish) level since Jan 26, 2016. By commercial category, the big 4 bought back a rather skimpy 4000 contracts, as the gold raptors (the smaller commercials) added a very large 31,800 long contracts, increasing the raptor net long position to 109,200 contracts. This is the largest (most bullish) raptor net long position since December 15, 2015. The big 5 thru 8 added 1500 new shorts, but that included selling by a managed money trader, not a commercial.

On the sell side of gold, the managed money traders sold "only" 10,642 net contracts, including the sale and liquidation of 6161 long contracts and the new short sale of 4306 contracts. As close observers know, it's quite unusual for the managed money traders to account for only a third of what the commercials buy in a big reporting week and the simplest explanation this week is a large and out of place increase of more than 25,000 short contracts in the other large trader non-commercial category. My best guess is that this may be a trader classification reporting error and the 25,000 new shorts should have been reported in the managed money category, but I will handle the report as if it's correct.

Despite what may be a reporting error, the managed money net long position in gold is the lowest

(most bullish) it has been since early 2016 and the managed money short position is the largest (most bullish) it has been since then. Let me run through silver before offering overall comments.

In COMEX silver futures, the commercials reduced their total net short position by a very hefty 14,700 contracts to 24,600 contracts. This is the lowest (most bullish) total short position since December 15, 2015. By commercial category, the big 4 bought back 4500 short contracts, reducing their concentrated short position to 49,614 contracts, the lowest (most bullish) in a year and a half. The raptors added 9200 new longs, increasing their net long position to 52,800 contracts, the largest (most bullish) since August 2015. The big 5 thru 8 traders bought back 1000 short contracts, to round things off, but managed money traders now populate the big 5 thru 8 and perhaps even the big 4, and that must be factored into the calculations.

I would peg JPMorgan's short position to be 10,500 contracts on a variety of measures, but yesterday's release of the monthly Bank Participation Report is somewhat at odds with my calculations, suggesting JPM may hold several thousands of contracts more than I indicate, but it's not that critical. I don't want to get into all the details as they can become mind-numbing, but I am sensitive to stating the numbers as accurately as possible and will adjust accordingly. Certainly, if anyone is interested in this in greater detail, please contact me privately and I'll numb your mind as much as you can take it.

On the sell side of silver, the managed money traders (the technical funds) sold a net 7527 contracts, including 4099 contracts of long liquidation and the new short sale of 3428 contracts. Therefore, the managed money traders only accounted for 50% of what the commercials bought, similar to the case in gold, although not quite as extreme. And the explanation appears to be the same – a very odd and out of place increase in the other large trader category of short sales of 8000 contracts, which also looks like a reporting error.

The core non-technical fund managed money long position is now down to just under 56,000 contracts, below my guess last week that 60,000 contracts may be the bottom. However, when I looked closer, this is the same level (56,000 contracts) of managed money longs that we hit at the extreme low in late 2016 and keeps the core long premise alive. Of course, if we witness further managed money long liquidation from here, then my premise will be downgraded accordingly. I will readily admit that previous suggestions of mine of 80,000 or 68,000 contracts being the bottom for managed money long positions didn't hold up, but I also admitted that the actual data would decide and that data now say that 56,000 contracts is the core long position – still about 35,000 contracts more than the nadir of managed money long positions since late 2013.

The increase of managed money technical fund shorts in silver to 62,000 contracts set a new all-time record and made the managed money category net short for the first time in two years. Should the 8000 new shorts reported in the other large trader category be in error (as I suspect), the managed money traders would be much more short than reported. But leaving that aside, the reported numbers are stunning as it is.

It's easy to get caught up in the details week by week, so it's important to step back and try to put things in a broader perspective, always difficult to do when the price is flying. While the changes in COMEX positioning were significant this week, over the past three months in silver (and one month in gold) they have been breathtaking. Let me keep this as simple as possible by using round and approximate numbers.

Since April 18, the managed money technical funds have sold 100,000 net contracts of COMEX silver (500 million oz) and the commercials bought those contracts as prices declined from \$18.50 to nearly \$15. In gold, since June 6, the technical funds sold 140,000 contracts (14 million oz) which the commercials bought on a price decline from \$1295 to nearly \$1205. Those are the numbers, as documented in the COT reports.

The amounts of equivalent metal transacted on the COMEX over these times were the largest amounts of silver or gold transacted in any other venue. This means that COMEX positioning was the main price driver in silver or gold. This positioning is almost exclusively a managed money versus commercial affair (with some competition to the commercials growing). And since the battle lines are so clearly demarcated, it's natural to ask questions about the nature of the battle between the technical funds and commercials such as who's zooming who?

History shows that not only are the commercials zooming the technical funds, they have just done so in a manner of unprecedented proportions. Never have the commercials snookered the technical funds in COMEX silver and gold as has just occurred. While I suppose it's always possible for the commercials to snooker and hoodwink the technical funds into selling even more silver and gold contracts, thus setting the bullish stage even more extreme, that's not the odds-on bet. The odds-on bet is that the commercials will now look to maximize in monetary terms what they have just created in positioning terms. In other words, it's time for the commercials to ring the cash register.

Now that the technical funds are more short in silver than ever and close to the least net long they have been in both silver and gold in history, the best way for the commercials to ring the cash register would be to let prices rip higher. Nothing would hurt the managed money traders or benefit the commercials more at this time than sharply higher prices. Those sharply higher prices will, obviously, also benefit gold and silver investors and producers, but that's beside the point in the exclusive private COMEX paper betting game. What happens to the rest of the world doesn't matter to the big COMEX betters, nor does it matter to the regulators (much to their great shame).

All that matters is that the COMEX commercials appear to be on the verge of extracting great sums of money from the technical funds as silver and gold prices move higher. As I indicated previously, no one appears better positioned than JPMorgan for a price explosion in silver. In fact, I am truly in awe of what this crooked bank just pulled off, as much as any criminal act could ever inspire awe. I know how they did it and why they did it, but I am still amazed that JPM actually did it. Even though it's all based on documented facts which keep getting more extreme, if I get any more bullish on silver, then my head will surely explode.

A couple of last minute notes. One, the managed money gross and net short position in NYMEX platinum futures just hit record extremes. I don't know much about platinum, but I do know this set up is bullish for price. Lastly, those subscribers having trouble reading or printing the articles might avail themselves of the PDF icon on the top of each article.

Ted Butler

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Silver – \$15.95 (200 day ma – \$17.24, 50 day ma – \$16.66)

Gold – \$1228 (200 day ma – \$1234, 50 day ma – \$1247)

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