July 21, 2018 – Weekly Review

Gold and silver prices (along with platinum and copper) fell for the sixth consecutive week, setting fresh full year lows, despite a slight bounce yesterday. For the week, gold ended down by $11 (0.9%), while silver finished off by 28 cents (1.8%). As a result of silverâ??s relative underperformance, the silver/gold price ratio widened out by nearly three-quarters of a point to 79.2 to 1. Since silver has a long history of outdoing gold in both directions, up or down, no one should be surprised with silverâ??s relative weakness. Instead, I am still more taken aback by how closely joined at the hip the prices of both metals, along with other metals, have remained.

My explanation, of course, for why so many different metals can move in such close price lockstep revolves around COMEX futures market positioning and I remain amazed how more donâ??t see it. This weekâ??s Commitments of Traders (COT) report once again confirms that paper positioning is responsible for price change, as I will review shortly. But I thought it would be instructive to look at an often mentioned alternative explanation for the recent coordinated metal price decline â?? strength in the US dollar.

Six weeks ago, on June 14, gold closed at $1301, silver closed at $17.15 and the US dollar index closed at 94.40, with all three closing strong that day. Yesterday, July 20, gold closed at $1231, down $70 (5.4%), while silver closed at $15.55 down $1.60 (9.3%) from June 14. The US dollar index closed at 94.23 yesterday, down slightly from June 14, but certainly not higher as would be expected by the strong dollar/weak metal price premise. Very similar price declines over this same time were seen in platinum, palladium, copper and other base metals; none of which can be attributed to dollar strength.

If you looked at all the metal price declines over the past six weeks with an open mind and tried to uncover an alternative explanation away from the clearly erroneous strong dollar premise, you would find a compelling explanation in the amount of selling done by the traders in the managed money category of the COT report. From the COT report of June 12 to the COT report ended Tuesday July 17, managed money traders sold 80,000 COMEX gold contracts (the equivalent of 8 million oz), 50,000 COMEX silver contracts (the equivalent of 250 million oz) and 105,000 COMEX copper contracts (1.3 million tons) on copperâ??s 55 cent per pound (16%) drop in price. So you make the call â?? was the unchanged dollar responsible for the coordinated drop in metal prices or was it managed money selling? This is not a trick question.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled dramatically this past week, as only 1.1 million oz were moved, the third week in a row where movement was well below the 4.5 million oz average weekly movement of the past seven years. Total COMEX silver inventories remained at 280.5 million oz, unchanged from Last weekâ??s 25 year record high and less than 5 million oz from setting all-time highs. In a twist, 300,000 oz were removed from the JPMorgan COMEX warehouse, which holds 143.5 million oz, down slightly from last weekâ??s record high holdings.

As I have maintained since April 2011, when the unprecedented frantic physical movement commenced in COMEX silver inventories and not in any other commodity, I believed in two things. One, the movement highlighted physical demand and tightness and two, the unprecedented turnover was used by JPMorgan as a means of acquiring physical silver by skimming off a portion of the weekly turnover. All told, since 2011, some 1.5 billion ounces of physical silver have been moved in and out of the COMEX silver warehouses and I believe JPMorgan has skimmed off at least 200 million oz or a little over 13% of the total silver moved and maybe a lot more. Along with its accumulation of silver through its purchases of Silver Eagles and Canadian Maple Leafs (150 million oz) and conversion of shares to metal in the big silver ETF, SLV, (250 million oz), this is where JPMorgan got hold off the 600 million+ oz of metal it holds away from its COMEX warehouse holdings.

At some point, however, I believe the unprecedented physical movement in and out of the COMEX silver warehouses will end; most likely, just as abruptly as it began and COMEX silver inventory movement will begin to then mirror the movement in other commodities, like COMEX gold or copper. I donâ??t think the end of the extraordinary physical silver inventory turnover will indicate an end to physical tightness, but I do believe it will indicate an end to JPMorganâ??s skimming. In other words, I believe a sudden cessation in the frantic physical turnover in the COMEX silver inventories will coincide with a price explosion. To my mind, this will be another marker or signal that JPM will let the price rip to the upside; the main determinant, of course, will be the bankâ??s decision not to add new short positions in COMEX futures. Perhaps I am too sensitive to the very recent cooling off in the COMEX silver inventory turnover, but that sensitivity is based on a whole set of indicators and thereâ??s no good reason for me not to share them with you.

Since I hadnâ??t done so in a while, I took a look at sales of Silver Eagles from the US Mint. Where there were six years running of annual sales of around 40 million ounces (or more), that all came to a halt starting in 2016. Current sales for 2018 seem at a pace for annual sales of no more than 10 to 12 million oz, down 75% from the string of 40 million oz sales for six years running. If thereâ??s a better explanation than JPMorgan being the big former buyer and quitting before too many questions were asked, then someone needs to provide that explanation, because I canâ??t.

The changes in this weekâ??s COT report were spectacular, mostly expected and very relieving. How could they be all of those things? As a reminder, prices were hammered to full-year lows in classic salami slice manner, so aggressive managed money selling and commercial buying were fully expected, yet the positioning changes were large enough to be considered spectacularly bullish, with a number of new record extremes achieved. The relief part has to do with any unspoken fears on my part that it might be somehow different this week being completely dismissed. Rarely has my take on what drives prices been more confirmed than it was this week.

In COMEX gold futures, the commercials reduced their total net short position by a very hefty 26,800 contracts to 73,600 contracts. This is yet another new and very bullish low dating back a full year and just like the managed money reciprocal selling amount, was closely correlated with the increase in total open interest of 25,000 contracts for the reporting week (despite a pretty hefty increase in spread positions). Expected, but still quite bullish.

The changes in the commercial categories in gold were also as usually occurs on big price drops, in that all three categories bought, with the raptors leading the way. This week, the big 4 bought back 4200 short contracts, the big 5 thru 8 bought back 2800 shorts and the raptors added 19,800 new longs to a net long position amounting to 88,100 contracts as of Tuesday.

The raptors buying the bulk of the commercial contracts on big price declines does absolutely nothing to undermine my double cross premise because JPMorgan has been buying its gold short positions back non-stop for months; it just buys more on the temporary rallies in which the raptors sell. The big 4, essentially JPMorgan, hold the lowest short position in at least a year and a half and I would consider this even more important than the obviously important low and bullish level of the total commercial short position.

The managed money traders sold just under 24,000 net gold contracts including the new short sale of 24,295 contracts, as well as the purchase of 373 new long contracts. The slight addition of new longs would seem to suggest that the 107,775 contracts of managed money longs are not likely to be liquidated much on lower prices, or at least those that havenâ??t been liquidated on the price weakness since the cutoff. As a reminder, the level of remaining managed money longs is not far from the very lowest levels seen since the CFTC started publishing the disaggregated version of the COT report in 2009.

However, the real story in gold is the size of the managed money short position, which at 134,224 contracts, makes it a record both on a gross and net basis, exceeding the previous record of late Dec 2015-Jan 2016. It was no accident or coincidence that the previous record managed money gross and net short position is what drove the price of gold higher by $350 into the summer of 2016 and I, for one, expect the rally to be even more powerful this time around.

In COMEX silver futures, the commercials reduced their total net short position by a very large 13,500 contracts, to 25,100 contracts. This is the lowest (most bullish) commercial net short position since mid-May. Whereas the large reduction in the commercial short position in gold mirrored the change in open interest, the change in commercial, as well as managed money positioning in silver was much greater than the near 5000 contract increase in total open interest over the reporting week. This made the positioning change in silver more surprising and most pleasantly so.

By commercial categories in silver, the big 4 reduced its net short position by 3100 contracts, while the big 5 thru 8 bought back 1500 shorts and the raptors added a very hefty 8900 new longs to a net long position of 71,200 contracts as of Tuesday. Iâ??d peg JPMorganâ??s short position at 23,000 contracts, down 3000 contracts for the week. Iâ??m tempted to peg them even lower, given the large increase in managed money shorting this week, but choose to remain conservative given the proportionate reduction in the producer/merchant category.

However, it is more than possible and even likely that JPMorgan has bought back the entire 20,000 short silver contracts it added recently to cap and contain the silver price rally into June 14, if not over the reporting week ended Tuesday, then surely on the price weakness after the cutoff. One thing should be crystal clear â?? these damn crooks have kept their impossibly perfect trading record of the past ten years intact. I would estimate that JPMorgan made at least $50 million and as much as $100 million on the 20,000 short silver contracts it added into June 14 and now has bought back. The real poke in the eye to the market is that JPMorgan only added the silver shorts to cap prices so it could buy back at least 60,000 contracts of gold shorts, which it made even more on and got to double crossing other commercials as well. It really is sick how much control the crooks at JPMorgan have on gold and silver prices.

On the sell side of silver, it was all managed money traders and then some, as these traders sold 16,637 net contracts or the equivalent of more than 83 million ounces. It is not possible that the sale of 83 million oz of paper silver over five trading days was not the sole driver of the 50 cent price decline. To those that would counter that just as many contracts were bought, I would agree with the caveat that the mostly commercial buyers were highly collusive in their buying and hoodwinked and snookered the managed money traders into selling by rigging prices lower and waiting for the managed money sellers to come to them. Thatâ??s as manipulative as it gets, except for the many hundreds of other times this scam has been pulled off.

Of the 16,637 net contracts of managed money selling, 10,247 contracts were in the form of new short sales, which pushed the total of managed money shorts to 71,249 contracts, less than 2600 contracts below the record of April. While itâ??s certainly not inconceivable we could be at a new record in trading since the cutoff on Tuesday, this weekâ??s managed money short position is already the second largest in history and as such provides guaranteed rocket fuel type buying potential up the ying yang.

There was also notable managed money long liquidation of 6390 contracts, reducing the gross managed money long position to 62,439 contracts. Included in this liquidation was a further 4151 contracts of liquidation in the recently created record concentrated long position. That brings to nearly 8300 the number of concentrated long contracts sold off over the past two reporting weeks and it wouldnâ??t be a shock if even more were sold since Tuesday.

Just as a recap, the concentrated long position in silver for the four largest traders increased from just under 33,000 contracts on April 3, to 63,500 contracts in early June where it remained until July 3, falling to 55,000 contracts on Tuesday. Based upon the average price of $16.50 at which the concentrated long position was established, I would estimate the liquidation of 8300 contracts resulted in net losses of around $50 to $60 million on the closed out sales. The roughly 22,000 contracts of concentrated longs remaining open as of Tuesday would be underwater by another $100 million or so if still open as of yesterday.

The creation of the concentrated long position in silver and its subsequent partial liquidation has not been a winning trade to this point and I will continue to monitor it as the concentration data make it relatively easy to calculate. Clearly, this is hardly what the new concentrated longs intended, as no one enters into any position with the intent to quickly lose many tens of millions of dollars. But knowing what I think I know about silver and JPMorganâ??s dominant role, I canâ??t help but speculate that it had a lot to do with the creation and subsequent partial liquidation of the unprecedented concentrated long position.

My speculation, based upon the data, is that JPMorgan played some role in both the creation of the concentrated long position and, most assuredly, in its liquidation to date. When it comes to silver and gold, JPMorgan has its tentacles in every aspect of these markets and itâ??s actually unreasonable to think the unprecedented concentrated long position didnâ??t involve a JPM connection. Certainly, JPMorgan has been a noted buyer and profit-taker as the concentrated long position has been liquidated. I suppose one could imagine that occurred by pure happenstance, just like JPM never taking a loss in COMEX silver trading for ten years running was purely accidental. In other words, yeah right.

Under US law anyone accused of a crime is presumed innocent until proven guilty. Similarly, under the historical behavior of managed money positioning law, particularly in silver and gold, whenever the technical funds build up an extreme position they will eventually turn the large unrealized profits always associated with the creation of the extreme position into small to no realized profits and even losses. Sometimes individual technical funds can escape with realized profits when they act to close out positions before receiving moving average confirmation, but I have yet to observe the technical funds converting large unrealized profits into large realized profits on a collective basis.

Iâ??ve even come to believe that it may be impossible for the technical funds to collectively convert large unrealized profits into large realized profits for two reasons; one, they all buy and sell as one monolithic entity and two, the nature of the counterparties which trade against the technical funds. The way the markets are structured, the technical funds are always going through a narrow door in large numbers. Thatâ??s because whether they are buying or selling, they are all using the same signals, mostly moving average penetrations. Nobody knows this better than the commercial counterparties which prey on the technical funds precisely because the funds trade on the same price signals as each other.

Since nothing is entirely impossible in theory, I suppose there is some chance the technical funds might be able to convert their large open profits on the short side of gold and silver, which I would peg at a combined $400 to $500 million (mostly gold), but frankly I donâ??t see how. Back in the summer of 2016, these same funds held open and unrealized profits of as much as $4 billion for several months on the long side, only to see those open profits disappear completely when it came to closing out those positions in the fall.

While that was an extreme example of the technical funds frittering away large unrealized profits, I canâ??t recall any case where big open profits were booked collectively by these managed money traders. There was a time, in the fall of 2010 when the price of silver ran up into the low twenties from the high teens when a good number of managed money longs sold off long positions and booked very decent profits, only to see silver run another $25 into April 2011. But mostly the history of the market and the basis for my COT market structure premise is that itâ??s almost certain that the technical funds will get hoodwinked by the commercials in the end.

Therefore, the open and unrealized profits that the technical funds hold on their current greatly expanded short positions are nothing more than the necessary inducement for them to have established such large record short positions. These funds only expand their positions when the positions move in their favor. On paper, it sounds good â?? cut your losses short and let your profits run by adding to positions going your way. But like many things, there are pitfalls in extremes. The pitfall for the technical funds is that which may make sense on an individual basis becomes distorted when taken to an extreme by the fundsâ?? collective positioning. What Pogo said applies to the technical funds in spades â?? â??we have met the enemy and it is us.â?•

Based upon the collective extreme positioning of the technical funds in all the metals, itâ??s hard for me to imagine a more bullish setup. Throw in the specific and unique factors in silver and that market is easily the most bullish of all. To be sure, I would have said this a week ago and probably did and should the braindead technical funds sell more, you can be sure I will say it again next week as well. But thatâ??s minor compared to the coming big enchilada in silver â?? whether the stone cold crooks at JPMorgan will add to short positions on the next rally. If they do, weâ??ll still get a rally; if they donâ??t, it will be a lot more than a rally.

Ted Butler

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Silver – $15.55Â Â Â Â (200 day ma – $16.61, 50 day ma – $16.31)

Gold – $1231Â Â Â Â Â Â (200 day ma – $1301, 50 day ma – $1278)

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