

July 6, 2019 – Weekly Review

Ending a most volatile day to day holiday-shortened trading week to the downside on Friday, gold and silver prices finished lower, gold by \$12 (0.8%) and silver by a much sharper 35 cents (2.3%). It was the first down week for gold in six weeks, but its continued relative strength compared to silver caused the silver/gold price ratio to widen out to a fresh 25 year+ level of 93.3 to 1.

That's the simple arithmetic way of saying silver has never been cheaper relative to gold since you were 25 years younger than you are today. I would ask you how many things are cheaper today than they were 25 years ago when measured by a truly objective yardstick? And considering that the current relative value between silver and gold is not that far (10% or so) from the most undervalued silver has been in hundreds and even thousands of years, the question becomes how many things are cheaper today than they were centuries ago? Since silver is an investment asset, how many investments are cheaper today than when Christ walked the earth?

Digging a little deeper, what if the reason silver was so dramatically undervalued was because of a complicated and illegal pricing scheme being pulled off in full view that was destined to end suddenly, with that end resulting in an even more dramatic upward price adjustment? Would it matter much if the ending, while certain to arrive, was delayed for an extended and impossible to pinpoint period of time? Wouldn't you just arrange your financial and mental preparations to wait out the inevitable adjustment?

Friday's price smash down, following a week of greater day to day price volatility than witnessed in years, took silver below two of the three key moving averages that appear to matter (the 100 and 200 day moving averages), although it managed to close only below the 100 day moving average (\$15.09). COMEX trading volume was very high yesterday in both gold and silver and I did sense active managed money selling and commercial buying, certainly in silver and maybe in gold. I'm somewhat ambivalent as to what to expect in Monday's delayed COT report, as of the Tuesday cutoff, but feel there were fairly big positioning changes yesterday (in silver).

The question now becomes will the commercials press their advantage in silver further to the downside, considering how close the remaining moving averages are to downside penetrations and will the managed money traders succumb to that downward price pressure yet again? Unfortunately, I only have questions, not answers. It's different in gold because the closest moving average (the 50 day ma) is \$75 below Friday's closing prices, with the 200 day ma still \$120 below. Thus, it would seem easier for the commercials to rig silver lower than gold.

With all the recent hoopla about the Justice Department and the CFTC cracking down hard on spoofing, I sensed a good amount of what looked like spoofing on yesterday's decline. I'm sure no one needs to be told that the common reason given for the precious metals smash yesterday – the surprisingly strong monthly employment report – borders on the moronic, but there can be no doubt that the monthly report has often served as a cover story for big price moves. If my sense that the commercials deployed spoofing as a part of their price-rigging efforts is correct, I suppose we might see a reaction from the regulators in 5 to 8 years, judging by their past timelines. Let's see what happens in 2027.

While it won't be available until next Friday's (not Monday's) COT report, you can be certain that yesterday featured significant commercial buying and managed money selling in silver, the same as has occurred on every deliberate price smash, well, forever (or at least the last 35+ years). Additional price weakness on Monday and Tuesday (should it occur) will increase the amount of silver commercial buying and managed money selling to be reported on Friday.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled this holiday shortened week to 2.8 million oz, as total COMEX silver inventories inched up by 0.3 million oz to 306.6 million oz (less than a million oz below the record set two months ago). No change in the JPMorgan COMEX warehouse, which stood pat at the record 153.8 million oz.

Of course, I assert that JPMorgan holds an additional 50 to 100 million oz in other COMEX-approved silver warehouses, bringing its total COMEX warehouse holdings to 200 to 250 million oz, as much as 80% or more than total COMEX silver inventories. Should my assertion be accurate, even the most diehard manipulation denier would have to agree that JPMorgan owning or controlling that much of the world's second largest physical depository of silver would be all the proof anyone would need to conclude that JPMorgan was a stone cold silver crook since it was also the largest paper short seller while this physical silver was acquired. I also assert that the Justice Department (or the CFTC or the CME Group) could quickly ascertain how much COMEX physical silver JPMorgan controls with a few phone calls (and maybe the threat of a subpoena).

After a full week, there's not much new to report in the ongoing July COMEX silver deliveries, which now total 3425 deliveries (including redeliveries). The JPMorgan house account has been conspicuously missing-in-action, with customers of JPM issuing 1415 deliveries and stopping 596 contracts. HSBC is the biggest stopper with 1674 deliveries in its house account. There are a bit over 700 contracts left open in July.

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

If the COMEX physical silver delivery scene is quiet, the same cannot be said in physical dealings in the most popular silver ETFs, including the largest, SLV. This week, an additional 5 million ounces were deposited into the SLV, following last week's 3.6 million oz deposit, bringing to 8.6 million oz being deposited over a five-day period. I had previously estimated that the SLV was owed as much as 10 million oz. In addition, there was a 2.5 million oz deposit yesterday into the second largest silver ETF, SIVR. All told, some 20 million oz have been deposited into the three largest silver ETFs (SLV, SIVR and ZKB) over the past 4 weeks.

What makes the very recent deposits all the more unusual is the clear suggestion that physical conditions in the wholesale silver market are tight. How so? Because there appeared to be a noticeable delay in this week's deposits from when the net new share buying occurred that required physical metal be deposited (as required by the prospectus). The net new investment buying that occurred in SLV and SIVR occurred when silver prices were strong certainly not this week, but previously.

This means it took some time for the authorized participants which sold the shares and were required to deposit physical metal to match the shares bought. This required the rounding up and securing of

the physical silver for deposit, because if the physical was readily available, it would have been deposited immediately, as was the case in GLD.

It is the time delay between when the net new investment buying occurred and when the actual physical metal deposits occurred which indicates tightness. After all, a physical shortage is the temporary unavailability of enough physical supply to satisfy physical demand. And nothing, as you know, is more bullish for any commodity than a physical shortage.

But because the delay in this case was in satisfying physical silver investment demand and not industrial user physical demand, there was no great fanfare or crisis. That's because the investment buyers of the silver ETFs, in my opinion, are largely unaware of the actual mechanics of how the trusts operate, namely, that physical metal must be immediately deposited to match net new investment demand. Industrial users of silver will not be as tolerant of delays, as and when they occur. When the day comes that industrial users are told they must wait for a material vital to their ongoing operations, they will do what everyone would do when faced with such a circumstance - they will panic and rush to buy as much physical silver as possible, regardless of cost. That's the difference between silver investors and silver industrial users when faced with delivery delays.

Even though it was silver ETF investors, largely unaware, which were delayed in physical deliveries and not industrial users this time, there is not a great gulf separating the two. Should that gulf narrow further and the delays spread from investors to users, then it's time to watch out to the upside. And it's not as if the delay in having physical metal deposited into the silver ETFs came as any great surprise. In last week's review, I wrote that I believed the SLV was owed 5 to 6 million additional ounces following last week's 3.6 million (also delayed) deposit. This week's 5 million oz deposit, therefore, can't be called unexpected.

Trying to put some meaning into the above, the fact that JPMorgan has refrained from demanding delivery in the July COMEX deliveries in its house account suggests to me that it is doing so as not to inflame a tight physical situation. Further, the obvious delays in depositing physical silver into the silver ETFs on a timely basis suggest to me that JPMorgan was not a leading seller of ETF shares, obligating it to deposit metal. Since JPMorgan owns more physical silver than anyone in history, there would be no obvious reason why it would delay delivery and set off the type of discussion I just engaged in. I'm sure there may be all sorts of Machiavellian-type possibilities at play, but the most plausible explanation for the obvious delays in silver ETF deposits is that JPMorgan wasn't a big seller - otherwise it would have deposited metal quickly.

While physical considerations will matter in the future, for the present all that matters for price in silver, gold and other commodities is futures contract positioning. Most likely, I won't have to time to discuss it late Monday in my COT report comments that day, but the recent changes in managed money positioning fully explain the big moves in a number of really important commodities, like copper, corn and crude oil.

The copper sell off from nearly \$3 to \$2.60 (13%) was caused by the selling by managed money traders of 75,000 COMEX contracts or the equivalent of 937,000 tons. The corn rally from \$3.40 to \$4.60 (35%) was caused by managed money buying of more than 500,000 CBOT contracts (2.5 billion bushels). The crude oil price fall from \$66 to \$51 (23%) was caused by the selling by managed money traders of more than 220,000 NYMEX contracts or the equivalent of 220 million barrels. The data are derived from the COT reports published weekly by the CFTC, so the accuracy is assured. The problem

is that the CFTC and now the Justice Department sit around twiddling their thumbs while blatant and documented price manipulation is occurring in real time; both content to prosecute ancient instances of short term price manipulation (spoofing), while the much more serious long term manipulation remains ongoing and unaddressed. Excessive speculative futures positioning is setting prices, yet those in charge refuse to acknowledge the obvious.

Nowhere is the price manipulation more obvious than in silver, given the always most extreme of all futures positioning on the COMEX. I have to laugh (although it sure isn't funny) at the stories being invented for why silver is so cheap relative to gold and on an absolute basis; everything from some imagined fall in industrial consumption to it no longer being a desired investment asset. Since every industrial commodity has seen its demand steadily increase for decades given the growth in world population and economic activity, it's virtually impossible for silver's demand to have fallen. And if silver has fallen out of investment favor, then why are there obvious and predictable delays in physical metal being deposited into the big silver ETFs to match investment demand (to say nothing of JPMorgan scarfing up 850 million oz over the past 8 years)?

The real question is why silver had only rallied by a dollar (7%) or so, while gold had risen by \$160 (12.5%) over the past month? After all, while the managed money traders bought nearly 200,000 contracts (20 million oz) of COMEX gold futures, these same traders did buy more than 60,000 COMEX silver contracts, the equivalent of 300 million oz of silver. Both 20 million oz of gold, the equivalent of 20% of world mine production and 300 million oz of silver, the equivalent of 35% of world mine production are truly significant quantities to be bought by the managed money traders in little more than a month.

Certainly, 20 million oz of gold are worth, in nominal terms, \$28 billion compared to the \$4.5 billion nominal worth of 300 million oz of silver; but no one bought or sold either \$28 billion of gold or \$4.5 billion of silver. Offsetting this is that 20 million oz of gold represent less than one-quarter of one percent (0.25%) of all the 5.7 billion oz of gold thought to exist, while 300 million oz of silver is fully 15% of the 2 billion oz of silver thought to exist in 1000 oz bar form. The bottom line is that one may go mad trying to come to a definitive answer of why 20 million oz of paper gold resulted in a 12.5% gain in price, while a 300 million oz paper silver purchase only resulted in a 7% gain.

I think the real answer resides in something else entirely; not the amount of managed money paper buying in gold and silver, but the degree of aggression of those which sold those paper contracts, aka, the commercials. The obvious answer to me for why measurably much greater paper contract buying in silver didn't amount to larger relative gains compared to gold is due to the sellers being much more aggressive in silver. In fact, I don't see any other more plausible explanation.

Now, if you ask me why the silver commercial sellers were so much more aggressive than they were in gold, I have to tell you I'm not sure (but as always, I'm open to suggestions). This is further compounded by my sense that JPMorgan wasn't near as aggressive a silver seller on the recent rally, although this Monday's and Friday's COT reports could cause me to revised my guess about JPM being a relatively light silver seller. Unless I uncover evidence that JPMorgan was a much heavier seller in silver than I suspect, then why the heck were the other commercials such extra-aggressive sellers? To that I have no good answer at the ready, but it does occupy my thoughts.

As it stands, particularly if we do experience a more pronounced silver selloff which results in a more complete flush-out of the managed money traders, this will be the weakest silver rally over the past

decade, in which every latest rally was progressively weaker than the last. What comes next â?? 25 or 50 cent rallies in which more than 300 million oz are sold? Coupled with evidence that JPMorgan may not have been the principle short seller this go around and with clear signs of developing physical tightness, I canâ??t help but feel we are extremely close to a defining moment in silver, with or without one more flush out to the downside.

As far as the money scoreboard, yesterdayâ??s fall in gold and silver brought the 8 big commercial shortsâ?? open loss as of Wednesday (\$1.75 billion) down to \$1.2 billion as of yesterday and maybe even a bit lower as a result of silverâ??s sharp fall. I can tell you that the 8 big COMEX commercial shorts were among the very few (if there were any others at all) to have profited on yesterdayâ??s price decline. Eight traders against the world indeed.

As a reminder, I plan to publish some brief comments on Mondayâ??s COT report, hopefully around or before 6 PM EST.

Ted Butler

July 6, 2019

Silver – \$15.00 (200 day ma – \$14.98, 50 day ma – \$14.86)

Gold – \$1400 (200 day ma – \$1281, 50 day ma – \$1326)

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