

June 10, 2017 – Weekly Review/Faulty Prognosis?

After moving higher for four straight weeks and hitting new yearly price highs in gold early in the week, both gold and silver fell for the week; with gold finishing \$11 (0.9%) lower and silver ending down by 35 cents (2%). As a result of silver's underperformance, the silver/gold ratio widened out by nearly a full point to 73.7 to 1.

The key feature for the week was the usual key feature, futures positioning on the COMEX, centered on the new Commitments of Traders (COT) Report and prospective changes since the Tuesday cutoff. We're fortunate that the reporting week ended at the pinnacle of the month-long price rally in gold and silver and the three days since the cutoff featured a sharp takedown in price. No, we're not fortunate that prices were, yet again, manipulated by futures contract positioning games; it's just that the sharp demarcation on the cutoff day helps bring clarity to COT analysis.

Also to be mentioned as a key feature was the fresh bout of spoofing, particularly in silver late in the week, which, of course, flies in the face of the CFTC's press release of a week ago or at least my take on it. I'll have more to say on this later.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled off this week to just under 3 million oz, with zero movement occurring on the last two days of the reporting week, a rare occurrence. Most of this movement was of the "in" variety, as total COMEX silver inventories grew by 2.3 million oz to 204.5 million oz, another new 20 year high.

There was some interesting movement in the JPMorgan COMEX silver warehouse, as 2 million oz were brought in and 0.3 million oz were withdrawn this week, increasing the JPM totals to just over 110 million oz, also another new record. The recent inflows to the JPMorgan warehouse certainly weren't expected by me, as the bank has laid low on stopping futures deliveries recently (or buying Silver Eagles). You'll remember the clear and traceable pattern over the past two or three years in which all the silver taken in futures deliveries by JPM in its own proprietary account found its way, almost to the ounce, into the bank's COMEX warehouse. Since JPMorgan hasn't stopped any COMEX silver futures deliveries lately, where did this silver just put into the JPM warehouse come from?

A couple of weeks back, a subscriber asked me to explain what I meant by JPMorgan "skimming" off silver from the near frantic and highly unprecedented physical turnover in COMEX silver warehouse movement. I answered him privately, but I'm not so sure I did an adequate job in explaining my premise, so please let me have another crack at it here.

I've always thought that the incredibly large physical "churn" in the COMEX silver warehouses created the opportunity for someone to dip into the turnover and extract metal without it being widely noticed. I mean, if there was hardly any physical turnover in publicly trackable exchange warehouses, as is the case in just about every commodity except for COMEX silver, then there wouldn't be any real opportunity to dip into a movement that didn't exist.

Try to think of it this way. We've all seen footage of the bears lining up and positioning themselves for a salmon run in Alaska. There are so many fish running, that no matter how many the bears may catch and gorge on, it hardly reduces the run. When the salmon aren't running, the bears must eat

something else. There have been no big salmon runs in other commodities, just in COMEX silver. This consistent six year salmon run in physical silver between the COMEX warehouses has allowed just one big grizzly to gorge on physical silver nearly undetected and unchallenged by other bears. I think JPMorgan may have secured as many as 150 million oz of its 600 million oz hoard in this manner.

I'm going to skip over updating changes in the short positions of SLV and GLD and sales of Silver Eagles, as they will just put you to sleep and use up space. There have been, up until recently, some notable deposits in GLD, the big gold ETF, but that appears normal, as net investor buying usually occurs on price rallies, requiring physical metal to be deposited. The more anemic silver rally hasn't kicked off net new investor buying according to SLV trading volume and subsequent deposits and withdrawals in SLV seem to be dominated by the hidden hand of JPMorgan.

Turning to the new COT report, I was a bit under in gold and close enough in silver. Based upon the march to new yearly price highs, the \$30 price advance during the reporting week and the sharp 60,000 contract increase in total open interest, I had expected an increase in commercial selling of 50,000 to 60,000 contracts in COMEX gold futures. I fell way short, as the commercials sold only 33,000 contracts (managed money traders bought nearly 42,000 contracts, bringing me a bit closer on the alternate headline number). In silver, the commercials increased their total net short position by 4500 contracts, as opposed to my guess of 5,000 to 10,000 contracts (the managed money traders bought more than 8100 net silver contracts, within my bracketing).

In COMEX gold futures, the commercials added 33,100 contracts to a net short position now totaling 216,400 contracts. While less than my projections, this is still the largest (most bearish) commercial short position since the COT report of Nov 8, Election Day. You'll remember (perhaps not fondly) that gold traded close to \$1300 at the time and the subsequent selling of nearly 100,000 net contracts by the managed money traders (and bought by the commercials) into late December caused gold prices to fall nearly \$80.

Am I saying that I expect gold prices to again fall significantly amid similar amounts of induced managed money selling as occurred after Election Day? Not necessarily, but that outcome can't be ruled out, seeing as it just happened and there is a reason this whole futures positioning price discovery process is referred to as the typical wash, rinse, spin cycle. After all, we're not talking about some philosophical debate concerning the origin of the species; it's a hard fact that should the commercials spoof and plot and scheme to induce the technical funds to sell, gold prices will go lower, same as it ever was.

On the other hand, we're still 100,000 contracts shy of the maximum level of managed money buying and commercial selling which occurred last summer, leaving room for gold prices to rise further. On a market structure basis in gold, we are bearishly construed relative to the time going back to November and more neutral going back to last summer. I suppose this is a time to rely on the fundamentals, but as I hope you know, I'm not quite as sure of the rock-solid fundamentals in gold, as I believe I am in silver.

By commercial categories in gold, the big 4 added a hefty 19,900 contracts and the big 5 thru 8 added an also hefty 9300 new shorts. The raptors (the smaller commercials) sold off 3900 longs, reducing their net long position to 11,400 contracts. Not only do the 4 largest gold shorts, all commercials, hold their largest concentrated net short position since Election Day, the percentage of shorting they have accounted for over the past three reporting weeks is notable (and alarming). On the increase of 73,000

contracts of net commercial selling since May 16, the four largest commercial shorts have accounted for 50,000 contracts and the big 5 thru 8 shorts have added 18,000 more gold shorts. Generally speaking, sharp spikes in concentrated short selling are not conducive for extended bull price runs.

On the buy side of gold, it was mostly a managed money affair, as these traders bought nearly 42,000 net contracts, including the expected (by me) purchase of 54,172 new longs and the unexpected sale of 12,256 contracts in new shorts. As you probably know, what's unusual about this is when you see big new buying by the managed money traders, as we did this week, you generally don't expect for there also to be notably large managed money short selling.

Usually (whatever the heck that is nowadays), when the technical funds buy, they normally add longs and buyback shorts; when they sell, they usually liquidate longs and add new shorts. That's because they are slaves to price movement and put on and take off positions in a uniform manner. So since the price of gold gave nothing but technical fund buy signals during the reporting week, you would expect both new buying (which we got, as expected) and short covering, which we definitely didn't get. Why not?

My best guess is that the collective managed money technical fund movement into and out of positions is so pronounced and regular (much like the salmon run I described above), that other traders are lining up to take a piece out of the technical fund salmon run, even other traders in the managed money category. Please remember that not all managed money traders are automatically technical funds. Managing other peoples' money is the category determinant, not how the money is managed. Think about the core non-technical fund long position in silver.

And if you look closely, you can see that traders in other categories appear to also be lined up on the river as the technical fund salmon migrate. In a very real sense, this amounts to growing competition among other trader categories to the up to now near monopoly the commercials held as feeders of the technical fund fish. The strangest thing about this growing competition to feed on the technical funds is that it makes sense. Further, the natural conclusion is that the competition to feed on the technical funds should continue until that competition depletes the food source — another factor that suggests an eventual end of the manipulation (not that I want to wait that long).

In COMEX silver futures, the commercials increased their total net short position by 4500 contracts to 75,600 contracts. In years past, this would be considered to indicate a bearish market structure in silver. However, going back more than a year, to February of 2016, a commercial net short position of 75,000 contracts has been much closer to the most bullish levels over this time, rather than what would be the bearish levels of years past. I've always been more sensitive to more recent levels than those of the distant past, but perhaps I may be making a mistake in that belief.

My main point is that there is a marked dichotomy between the market structures in gold and silver. Whereas gold is close to its most bearish readings since November, silver is closer to its more bullish readings over the past eight months than its most bearish. That said, the market structure in silver is where it was last November and silver then slid lower with gold prices into yearend. In fact, that's my biggest concern, should the crooked COMEX commercials succeed in rigging gold prices lower to induce technical fund selling, whether that will drag silver prices lower as well.

What it comes down to is whether the crooked COMEX commercials, led by JPMorgan, can induce a large increase in managed money short selling in silver. Without that selling, it's hard for me to see

where the selling power will come from. You'll remember, the technical funds didn't add silver short positions last fall, but did add them in spades on the takedown starting mid-April. I'd tell you what the braindead technical funds would do if I knew (and I wouldn't even have to kill you), but alas I can only observe and continue to play the piano. But I do know that's the key.

By commercial category in silver, the big 4 added 2300 contracts, the raptors sold off 2000 long contracts and the big 5 thru 8 added 200 contracts short. By running COT data alone, I would have calculated that JPMorgan was likely short 23,000 contracts. However, yesterday's release of the monthly Bank Participation Report causes me to significantly revise my estimate of JPMorgan's concentrated short position to 28,000 contracts and not the 23,000 contracts I would have estimated on COT data alone.

No, JPMorgan didn't add 7500 short silver contracts in the past week, it was a case that I had been miscalculating JPMorgan's position over the past month, in estimating it had covered more silver shorts than it had in reality. That's the purpose of waiting for the Bank Participation Report in order to properly calibrate JPM's silver short position. Generally, new Bank Participation Reports come very close to verifying what the COT reports suggest, but this month's miss by 5000 contracts is the largest amount I can recall. Admittedly, my methodology is very simple – treat any weekly changes in the big 4 category as being changes by JPMorgan – but for some reason this method has been remarkably accurate over the years. Not this time.

My best explanation is that other traders in the big 4 away from JPMorgan were more active in buying back short positions on the historic price drop and positioning change into early May. In hindsight and with the benefit of the Bank Participation Report, the lowest level to which JPM was able to reduce its silver short position was down to 20,000 contracts and not the 15,000 contracts I estimated in the May 16 COT report. It's still true that JPM added the same 8000 contracts of new shorts over the past three reporting weeks, just not from the level I originally concluded.

While seeing JPMorgan add new shorts is about as welcome as an extra payment demand from the IRS, I'm pretty sure the bank has bought back a chunk of the 8000 silver contracts that it did add in the price smash since the Tuesday cutoff, perhaps by 3000 contracts or more. And while I was at first bummed out when I calculated that JPM's short position was larger than I thought, the more I thought about it, I think it was a matter of buying competition from other categories and the necessity of JPM selling to contain prices. (I'll send this to him as always, but I sure hope James McDonald is picking up what I'm putting down).

On the buy side of COMEX silver futures, the managed money traders bought more than 8100 contracts, including the purchase of 7604 new long contracts and the buyback of 546 short contracts (I would have expected much greater short covering). The new managed money longs looked to be garden variety technical funds based upon silver price action and an increase in the number of managed money longs traders. Further, I would be very surprised if the newly added technical fund silver longs weren't already washed out through the late week trading that saw prices plunge below the key 50 and 200 day moving averages. This is why silver prices plunged so that the commercials, et al, could buy what the technical funds sold.

With the certain improvement in both market structures since the cutoff, the total commercial net short position in gold and silver is undoubtedly lower through yesterday's close. But the biggest difference between gold and silver is that the improvement in silver (as much as 10,000 contracts) puts it that

much closer to the historical bullish levels that existed on May 16, where in gold even a decent improvement (say 10,000 to 20,000 contracts) would still leave the structure bearish going back to November.

It still comes down to whether the crooked commercials can rig a gold selloff that will cause selling in silver and whether the managed money shorts can be induced to sell short aggressively in silver. Please keep in mind that should the worst case occur, namely, we do get big managed money shorting in silver from here, in the end that short selling is very bullish as new technical fund shorts will be bought back, pushing prices higher. Further, should that technical fund short selling emerge in silver, it will only strengthen my silver price explosion premise.

A Faulty Prognosis?

It's now been a week since the CFTC's press release pertaining to manipulation in the COMEX gold and silver markets. Since I already made what I believe is a strong case for how significant and shocking I found the announcement to be, I'll try not to repeat myself here. While fully admitting that I could turn out to be wrong, it added to my premise of a coming end to the silver manipulation based upon the future actions of the agency's new Enforcement Director, James McDonald.

I believe there would be universal agreement (except perhaps by the most strident manipulation deniers) that a dramatic explosion in the price of silver accompanied by no increase in short selling by the largest COMEX commercial shorts, i.e., JPMorgan, would unquestionably prove a price manipulation had existed. Since there has been no price explosion (yet), does that prove the opposite, namely, that the manipulation will never end and that McDonald will never do anything about it?

I know it has only been a week since the announcement, but I have already read comments to this effect, particularly as a result of the obviously orchestrated price drop in gold and silver over the past three trading days. And I fully understand the initial skepticism of my premise of a coming silver price explosion in general and now additional skepticism about McDonald's potential role in ending the manipulation, given the three-day price smash.

Truth be told, it would be abnormal not to feel somewhat skeptical of my premise. After all, the past two days, in particular, were a textbook example of the illegal spoofing and deliberate price rigging cited in the agency's press release, only on a much larger scale. I happened to pay close attention to the sudden price takedown in silver on Thursday and it conformed perfectly to every previous price takedown I've ever observed. Specifically, on Thursday, prices suddenly dropped by 30 cents on exceptionally low COMEX trading volume (the surest sign of spoofing), but as prices remained low over the course of the day, thousands of technical fund contracts were eventually sold which the commercials bought. This was a case of full frontal spoofing. The only reason silver prices declined in this manner was so that the commercials could buy that was the intent and motivation for the decline.

None of this should be new to anyone reading this, but what stands out about this especially deliberate price smash is that it came within a week of the CFTC announcing both charges of the exact same illegal price setting and the agency's clear acknowledgement that the investigation had only just begun. How could this be possible? How could it be that the CFTC could announce its first charge of price manipulation in COMEX gold and silver in decades and within a week operators on the COMEX do exactly not only what the agency found wrong but do so on a much larger scale?

My first reaction was that the price takedown was a direct slap in the face to the CFTC and, particularly, a slap in the face of Director McDonald. It was hard to take it any other way. One would think the first charge of gold and silver price manipulation might discourage future manipulation. I know many shared this view. Others went on to conclude that the intentional price smash proved that nothing had changed and the CFTC still had no interest in ending the silver manipulation, despite last Friday's announcement. I'm not so sure.

I will admit (again) that maybe I'm seeing this all wrong and that last week's announcement was not the big deal I proclaimed it to be. It's also possible that James McDonald doesn't measure up to the high standards I bestowed on him. No, I don't mean at all that he's not as honest as I believed him to be, because I have no reason to doubt his integrity in the least, especially considering his exemplary background and impressive achievements. I believe him to be young, about the same age as my 37 year old son, but nothing about him suggests anything but the highest personal integrity (luckily for me, just like my son).

Where I think I might be wrong is in his comprehension of the issues. Here I am constructing a timeline starting with the letter I had sent to him on April 10 and while subsequent events all seemed to fit in and culminate with last Friday's press release; maybe I'm just too darn close to the issues related to the COMEX silver manipulation that I am assuming too much to think he fully understands what I wrote. Let's face it, my whole silver manipulation premise has been formulated over 30 years and while it has remained remarkably consistent, it's not easy to fully explain or comprehend instantly. Knowing something is not the same as being able to explain it to others, especially when the topic is complicated and involves allegations of a market crime more serious than any other.

Maybe McDonald didn't fully understand what I wrote, but there can be no denying that what I alleged is firmly in violation of the agency's prime mission. He has no prior experience in commodities, as far as I know, but he is a lawyer and former prosecutor and would know a serious allegation concerning his jurisdiction from a frivolous claim. That alone should have prompted him to determine if any of the facts I presented were inaccurate in any way, according to the agency personnel he could surely consult. I don't believe my representations were off in the slightest.

I'm going through this exercise to fully confront my own doubts in light of the obvious in your face nature of this week's price smash almost immediately following the agency's press release. But the truth is that I have no real doubts at this point as to McDonald's intent to end the manipulation. There is a time limit, of course, on how long he and the agency will tolerate continued slaps in the face, but it would seem fair to give him more than a week.

So if the agency (McDonald) does mean business in finally confronting the silver manipulation, as I contend, then how could it allow this latest price smash? I think because this has turned into a monumental problem affecting not only COMEX silver and gold, but most other commodity futures

markets. And there can be no doubt that the CFTC's failure to intervene as a highly deformed price discovery process took hold contributed mightily to the problem. It's absolutely nuts and illegal that a relative handful of large speculative derivatives traders, competing against another small set of different large speculative derivatives traders (often, but not always banks), have come to set commodity prices and where real producers and consumers are effectively excluded from participation.

I've described the circumstances in COMEX silver incessantly, because no commodity features the extremes between paper positioning and real world supplies as in COMEX silver, but this is not confined to silver. Last September, in an article titled "The Biggest Scandal" which I subsequently made public, I highlighted how the ICE's world sugar contract had risen from 13 cents/lbs. to more than 23 cents as result of the buying by managed money technical fund traders of 250,000 net contracts, the most in history. This caused the world's consumers of sugar to pay an additional \$35 billion/annually as a result of the highest sugar prices in 5 years, about \$4.50 each for every world consumer. All due to the managed money/commercial artificial price setting process.

<http://silverseek.com/commentary/biggest-scandal-15982>

Now we have gone full circle and the managed money traders have been induced into selling all 250,000 net sugar contracts and then some, more than 300,000 net contracts in all, as sugar prices fell the same 10 cents (40%) they originally rose. Not one of these 300,000 net contracts sold involved a single legitimate hedge transaction – by CFTC classification these were all purely speculative sales. I don't follow actual sugar fundamentals closely, but the fundamentals didn't change that much to account for first a 75% price rise in eight months followed by a 40% decline over the following seven months. This is a clear demonstration that the managed money/commercial derivatives tango has become the sole price determinant. This is what the CFTC and McDonald are up against – how to undo decades of ignoring the obvious.

The problem is that the regulators have waited so long to address this problem that no easy solutions exist as to how to rectify what has become a highly defective price discovery process. Let me correct that, the solution is simple – impose legitimate position limits – but the agency has refused to institute or enforce position limits for so long that to do so now might serve as a severe shock to the system.

I remain convinced that the biggest hurdle facing McDonald is in not detonating what is, effectively, a bomb that has been planted in the silver market by virtue of decades' worth of a defective price discovery process. How do you go from having a small group of large paper traders capturing the price setting mechanism in silver to the price setting process dictated by US commodity law, also known as the free market? This does not promise to be a simple and smooth transition. I take that back; it is simple enough, just not smooth.

I still feel that last week's press release by the CFTC was a shot across the bow to the silver price manipulators, particularly JPMorgan. That said, I'm not sure the message was received and understood by the target audience. Clearly, if it was intended to be a warning to the bad guys by the agency and McDonald that was not reflected in this week's price response. Assuming McDonald was trying to send a message, admittedly a very big assumption on my part, the postman better knock twice, because the silver crooks aren't reading their mail.

Ted Butler

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Silver – \$17.20 (200 day ma – \$17.59, 50 day ma – \$17.39)

Gold – \$1268 (200 day ma – \$1244, 200 day ma – \$1260)

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