# June 15, 2016 – Same Setup, Different Outcome?

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Before I get into the current market structure on the COMEX, I'd like to comment on the continued extraordinary circumstances surrounding the current delivery process in the COMEX June gold futures contract. More physical metal has been delivered and accepted in the current month on futures contacts than ever before. The vast majority of the gold stopped or taken over the past two weeks has been by JPMorgan and its client(s).

Perhaps the most extraordinary aspect to the COMEX June gold delivery process is the lack of commentary it has generated. Let's face it Â? those interested in gold and silver are always on the hunt to uncover data that may have a bearing on future price. The problem is usually finding information that can be considered important and reliable enough to focus one's attention on. Too often the data are inconclusive or hard to document. Not in this case.

The data surrounding the COMEX June gold deliveries are easy to retrieve in that the CME Group (owner of the COMEX) provides detailed daily, monthly and year to date information on every delivery made in every commodity traded on CME exchanges. There are certain restrictions, of course, starting with the one bit of information we would all like to know, namely, the precise identity of the entity making or taking delivery. This is in the same category of knowing precisely who owns the metal stored in the COMEX warehouses Â? not knowing for sure who owns the metal doesn't diminish the attention paid to the warehouse statistics. Here's the master link for all the data available on deliveries and warehouse inventories Â?

http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notices.html

Delivery statistics are disclosed by clearing member firms only Â? not by individual customer identities. Clearing members are those companies that guarantee all the transactions on the exchange, from futures contracts to deliveries and anyone dealing on the COMEX must deal through a clearing member (or be a clearing member). One big aid to transparency is that clearing firms must disclose if they are making or taking delivery on behalf of a customer or for the clearing member firm's own trading account. Therefore, if a clearing member firm makes or takes delivery on large amounts of a commodity for its own account, that information is immediately made available. This is the information that reveals that JPMorgan has stopped or taken delivery on massive amounts of gold on the June COMEX futures contract.

So far this month, JPMorgan has taken delivery of 6425 gold contracts for its own house trading account and another 3788 gold contracts for a customer or customers, a combined total of 10,213 contracts or 1.02 million ounces of gold. The dollar amount of the combined total is more than $1.3 billion and is the largest amount of gold taken in delivery on the COMEX to my knowledge. And it looks like the total amount that will be taken by JPMorgan and its customer(s) before month's end will be 11,000 contracts (based upon COMEX delivery protocol). Here's the specific link covering the monthly details Â?

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

As I indicated on Saturday, even more extraordinary than the sheer size of JPMorgan's gold deliveries this month is the fact that there exists a hard spot month position limit of 3000 contracts that no one trader is allowed to exceed without an exemption from the regulators (the CME and the CFTC). Clearly, JPMorgan has been given that exemption for both itself and perhaps on behalf of a customer. So what makes JPMorgan's taking of gold deliveries this month so extraordinary is twofold Â? the size and the fact that the combined total is more than three times larger than the hard spot month position limit that has been in force for decades.

One would think this specific set of circumstances would be the talk of the gold investment community. Yet, you could count on one hand (with several fingers left over) the number of analysts and commentators who have mentioned it. If you ask me why this is so, my answer is I don't know. But I do know JPMorgan's taking of such outsized physical gold deliveries must be considered important. How important remains to be seen, but there are few in the precious metals community who don't anticipate that the forces of the physical world of metal will someday overcome the forces of paper derivatives trading on the price of gold and silver.

Here we have the most dominant and controlling force in gold and silver pricing, JPMorgan, openly taking physical delivery on massive quantities of gold and it has gone unnoticed or not commented on to date. Huh?

Maybe it's me, maybe I'm too obsessed on JPMorgan and need to ratchet back. There was a time, prior to 2008, when I considered the bank to be just one of several silver price managers. But that changed when JPMorgan took over the failing Bear Stearns eight years ago. Since then, I have written close to 800 articles and I have mentioned JPMorgan, I would estimate, in at least 90% of those articles and probably even more. So as not to appear to be criticizing the bank behind its back, I have sent every article in which I have mentioned JPMorgan to its CEO at email addresses given to me by the bank. Several years ago, I attempted to include the board of directors and the banks' general counsel in my emailing and was blocked in short order – but not so with my mailings to the CEO.

I can assure you that I hold no personal grudge or ill-will against the bank. All my conclusions are based upon verifiable facts and reasonable speculation. It was the flow of facts that led me to conclude that JPMorgan has accumulated 500 million ounces of physical silver over the past five years and more recently I started speculating that the bank was acquiring gold in the form of Gold Eagles and through GLD, the big gold ETF. In fact, the timelines are somewhat incredible.

I started speculating that JPMorgan was accumulating physical silver 2 to 3 years ago, long before the bank started to take deliveries of the metal in its most transparent form – via COMEX futures deliveries in its house trading account in March 2015. Since then, not only has JPMorgan been the largest and near exclusive stopper of silver deliveries against COMEX futures contracts, it has also physically moved almost all the stopped silver to its own COMEX warehouse. My point is that I had been asserting that JPMorgan was accumulating physical silver well before and not after it began to engage in COMEX deliveries and the movement of the silver to its own warehouse. Now the same timeline appears to be emerging in gold and I am dumbfounded more isn't being written about it.

Also as I mentioned on Saturday, I am on heightened alert to my premise of a double cross involving JPMorgan and other commercials as a result of the aforementioned June gold deliveries (and GLD deposits) and the notable short covering by US banks in the new Bank Participation Report. I still believe the core of a double cross, should one develop, will center on silver, but it seems very natural to involve gold as well. In simple terms, I would define a double cross as JPMorgan breaking ranks with the other commercials when it comes to shorting silver or gold on higher prices.

Certainly, by virtue of its massive physical silver ownership, JPMorgan has been long immune from financial harm in the event silver prices explode. It has appeared the delay in the silver price explosion has been the result of JPMorgan continuing to buy more physical silver well below its average price of accumulation (near $20 an ounce) and looking to whittle down its COMEX paper short position. Now it appears JPM is attempting the same thing in gold. If you had told me any of this 30, 20, 10 or even 5 years ago, I wouldn't have believed you. Now, the flow of documentable facts says otherwise.

And with this flow of facts comes the great dilemma Â? does the current market structure on the COMEX, as depicted in the COT report, point to the probability of a selloff in the face of JPMorgan's recent gold accumulation and all the other seemingly bullish factors at play? For some time I have been of the opinion that if we do get a COT-induced selloff, it is likely to be the last such selloff, particularly in silver, before the big rally. I still feel that way, but I'm now more unsure whether we will get the selloff, rather than it being the last one, based on all the above.

But that's not to say that the likely COT setup should be disregarded as it would appear there has been a significant deterioration over the past two reporting weeks, perhaps completely reversing the improvement of the two prior weeks, particularly in gold. For the two reporting weeks ended May 31, on a gold price decline of $75 ($100 from the very top earlier in the month) and in which the 50 day moving average was decisively penetrated to the downside, the commercials bought (and the technical funds sold) 76,000 net gold contracts Â? the equivalent of 7.6 million oz.

In last week's COT report, the commercials sold (and the technical funds bought) nearly 30,000 contracts as gold prices rose nearly $40 to the 50 day moving average (the big jump came on the June 3 monthly employment report). In the reporting week ended yesterday, I would guesstimate that as many as another 40,000 gold contracts (or more) were sold by the commercials and bought by the managed money technical funds. I'm basing my estimate on the facts that total open interest increased by 49,000 contracts over the reporting week, that every trading day featured new price highs (salami-slicing works both ways, up and down) and that the 50 day moving average was decisively penetrated to the upside and then some.

Silver would appear to be somewhat different, in that the commercials bought 20,000 net contracts over the previous four reporting weeks on a two dollar price decline and appear to have sold 5000 to 10,000 contracts on the price rally in the reporting week to be published on Friday.

Therefore, it would appear we are at or close to the previous bearish high-water mark in terms of the total net commercial short position in gold, a market structure that did result in a price decline powered by technical fund selling through May 31.  We could still power, of course, to new price highs accompanied by additional technical fund buying, but once we are close to historic COT counts, it is also possible that the technical funds are spent out to the upside. Just like weekly COT predictions must not be considered of the type associated with pinpoint accuracy, neither is there anything rigid about the ultimate level of commercial or technical fund buying and selling. Close enough is usually good enough.

Along with the expected changes in the COT report to be issued Friday, allow me to update the financial scorecard that accompanies the changing market structure. Since the start of the year, I would calculate that the commercials have achieved closed out and realized profits of just over $1.1 billion in COMEX gold and silver futures trading. With today's surge to new price highs for the recent move higher, I would estimate that the commercials are now in the hole on an unrealized basis of around that same amount.

I've used an average price of $1265 for the near 285,000 net contracts the commercials are short in gold and the 80,000 net contracts they are short in silver is close to a $17 average sale price. Every ten dollar move in gold equates to $285 million for the commercials collectively. I would point out that the commercials are in much better shape than they were the last time gold was near the $1300 mark back at the beginning of May, given the closed out profits taken in the interim, plus the higher effective average sale price this time. Of course, at close to $300 million for every ten dollar move in gold, the commercials could find themselves in trouble in a hurry, particularly if JPMorgan has turned its back on its former comrades.

The most critical question is if the COT market structure premise will even work this time or will the commercials get overrun and the technical funds finally triumph? Considering the actions that JPMorgan has taken in silver and gold, as well as the palpable sense of bullishness towards gold and silver at this time, I don't think there's been a better opportunity for the commercials (ex-JPM) to have their heads handed to them on a silver platter.

Then again, it appears just as clear that technical fund buying on the COMEX is what has driven gold and silver prices higher over the past week or two and if past is prologue, these same traders will likely be aggressive sellers should the commercials rig prices below the important moving averages. For the technical funds to prevail, it would appear something must come out of the blue (like a fat black swan) to power heavy physical investment buying; it's not likely the technical funds can overpower the commercials in a straight up contest.

It would be no problem being an unconditional and ranting gold and silver bull were the commercials not so short and the technical funds not so long on the COMEX. Granted, it's the only potential negative price factor at play, but witnessing the technical funds slip on the banana peel set by the commercials for too many years, it's hard to discard the probability completely. But the current COMEX market setup has nothing to do with sharply higher silver prices to come and long term investors would be wise not to focus on it too closely; it's just that many want to know what moves price in the short term.

Ted Butler

June 15, 2016

Silver – $17. 50 (50 day moving average – $16.72)

Gold – $1294 (50 day moving average – $1254)

**Date Created**
2016/06/15