June 15, 2019 – Weekly Review

Early yesterday (Friday) morning, gold was trading at new one-year highs and silver, while lagging as has become its recent custom, was up on the week and back above two of its key moving averages. By dayâ??s end, however, both metals gave up the early gains, with gold finishing unchanged for the day and week and silver ending 20 cents (1.3%) lower for the week. As a result of silverâ??s continued relative underperformance, the silver/gold price ratio widened out to yet another 25 year high of 90.75 to 1.

What struck me most about yesterdayâ??s price action was the aggression of the sellers. For sure, the price action yesterday (and every day for that matter) was strictly a COMEX futures positioning affair. What that means is that prices were determined by paper buying by the managed money technical funds met with paper selling by the commercials.

It was real easy to understand why the technical funds were buying â?? new highs in gold and upside moving average penetrations in silver â?? to say nothing of just about every imaginable reason to buy precious metals, from open endorsements from legendary traders and an economic and political backdrop that did nothing but favor higher gold (and silver) prices. Who wants to go against Paul Tudor Jones and Jeff Gundlach, just the latest in a series of world class gurus recommending gold?

At the same time, I was truly puzzled, not by the selling, which, by definition, has to match the buying contract for contract, but by the aggressive nature of the selling. Any legitimate seller always aims to receive the highest price possible on any and every sale. And who doesnâ??t know by now that the technical funds are willing and eager buyers the higher prices move? So my puzzlement had to do – early Friday morning â?? with why werenâ??t the commercials standing back and demanding higher prices that the technical funds would have surely paid?

I got my answer by the end of the day when it became obvious that the aggressive commercial selling achieved its purpose, namely, snuffing out both higher prices and additional technical fund buying. Yesterdayâ??s action in gold and silver was perhaps the most egregious example of not-for-profit selling â?? at least since that Sunday night of May 1, 2011, when silver got bombed for $6. Let me correct that a bit â?? yesterdayâ??s aggressive and almost unnatural commercial selling was intended to profit eventually, but through the manipulative intent of capping and cooling the gold rally in order to induce technical fund selling later. Yesterdayâ??s new Commitments of Traders (COT) report did further clear up a bit of my puzzlement, as Iâ??ll explain in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses increased significantly once again, as just under 8 million physical silver ounces were moved this week. Thatâ??s an annual rate of about half the total world mine production of silver. If there were any other commodities that exhibited the highly unusual and unprecedented circumstance of the inventory turnover that has existed in COMEX silver over the past eight years, Iâ??d have dropped the discussion as if it were hot. But the near-unexplainable turnover exists only in COMEX silver. Why more arenâ??t discussing it continues to escape me.

Despite this weekâ??s very high physical turnover, total COMEX silver stocks were down by a mere 0.3 million oz to 302.7 million oz â?? thus confirming my broader conclusion over the past 8 years that the weekly physical turnover has been much more significant than the total level of warehouse stocks. Case in point â?? the cumulative turnover, more than 2 billion oz over the past 8 years, towers over the current total inventories.

After seven weeks of nothing but spider webs and dust collecting in the big JPMorgan COMEX silver warehouse, the last two days saw 1.2 million oz deposited, bring the total there to 151.8 million oz. Since this is still a bit below the 152.3 million oz peak reached in this warehouse late last year, Iâ??m not giving up on the thought that this warehouse is close to maximum capacity, but neither would I be surprised if a bit more silver was deposited. As for why this latest deposit was made, I would note that clients of JPM did stop 261 contracts (1.3 million oz) in the current June COMEX futures delivery, out of total deliveries of 350 contracts. To reiterate, in addition to the 151.8 million oz in the JPM warehouse, I believe the bank owns or controls (through its clients) at least an additional 50 million oz to as many as 100 million oz in other COMEX silver warehouses. As well as another 650 million oz elsewhere.

Turning to yesterdayâ??s COT report, the numbers in silver were slightly above what I hoped for, while goldâ??s numbers were mostly close to expectations. Youâ??ll remember that silver penetrated its 50 and 200 day moving averages to the upside early in the reporting week, only to be smashed below those same moving averages last Monday. I was hoping for more liquidation than likely occurred on that Monday in expecting 5000 contracts and hopefully not more than 10,000 contracts of managed money buying and commercial selling. Since gold made new highs early and didnâ??t come close to any moving average penetrations on its Monday selloff, I expected 20,000 to 30,000 contracts of managed money buying and commercial selling.

In COMEX gold futures, the commercials increased their total net short position by 29,500 contracts to 202,000 contracts. This is the largest (least bullish, most bearish) commercial short position since March 27, 2018 and puts the market structure at neutral. Please understand that we have reached the same level of commercial selling as well as the same level of gold prices back then, not because the commercial selling caused prices to rise, but because of managed money buying driving gold prices higher. Undoubtedly, there has been more managed money buying and commercial selling since the Tuesday cutoff (likely on the order of an additional 30,000 contracts).

On the buy side of gold, the managed money traders bought 32,978 net contracts, comprised of 9977 new longs and the buyback and covering of 23,001 short contracts. The resultant net long position of the managed money traders as of Tuesday was 129,160 contracts (169,640 longs versus 40,480 shorts). Thereâ??s not much room for additional managed money short covering, particularly after trading since the cutoff and any further managed money buying must come in the form of new buying (also above and beyond what has occurred since Tuesday).

The real story in the gold COT report was the concentrated nature of the commercial selling,something I havenâ??t had to focus on in some time. The four largest traders (all commercials sincethe managed money short position is now so low) sold 90% (26,417 contracts) of the 29,451 netcontracts sold by the commercials, an unusually large amount. The concentrated short position of the 4and 8 largest commercial traders is now the highest it has been since the most recent top in goldprices of $1350 in February of this year. Youâ??ll recall after the big concentrated shorts loaded up onthe short side back then, gold quickly fell $70 and remained steady to lower for several months, untilrecently moving higher.

There should be little doubt that the big concentrated commercial shorts intend a repeat of the snuffing out of the current gold rally, just as they did in February (and countless times before that). Will they succeed? No one knows, certainly not me. You hate to bet against these crooks, since their track record is so darn good, despite it being unalloyed manipulation. That said, I donâ??t recall a time when so many things lined up on the side of gold zooming higher and overrunning the big shorts. Then again, the overall sentiment in gold is so uniformly bullish at this time so as to be a bit unnerving. Taking from a title Iâ??ve used in the past, it would seem that just four traders (maybe eight) are aligned against the rest of the world.

Iâ??ve left out the role of JPMorgan on the short side of gold, and my sense is that it has lent its shoulder to the commercial shorting effort, but not excessively so or to the extent it has in the past. I believe JPMorgan to be one of the big gold shorts at this time, but not the dominant short, as has always been the case previously. I base this on this weekâ??s disaggregated COT report which featured much heavier swap dealer shorting than producer/merchant shorting. Also, compared to the distribution of commercial shorts back on Feb 19, the swap dealers are proportionally much more short today than they were back then. While JPMorgan appears to be short gold, to the tune of 30,000 COMEX contracts or so (3 million oz), thatâ??s a small percentage of the 20 to 25 million physical gold ounces I believe it holds. Should gold truly run to upside, JPMorgan would laugh all the way to the bank (wait, it is the bank), while being able to claim it was short, so donâ??t blame them (I can almost hear it say). Bottom line, against a multitude of reasons why gold should surge higher, should it fall instead, there will be only one reason â?? concentrated commercial shorting has succeeded yet again.

In COMEX silver futures, the commercials increase their net short position by 12,900 contracts to 25,200 contracts. Even though the commercial net short position has increased by more than 26,000 contracts (130 million oz) over the past two reporting weeks and more since the Tuesday cutoff, on a historical basis, the market structure in silver is still decidedly bullish. If the big commercial gold shorts succeed in driving gold prices lower, can they also pressure silver lower as well? Does a wild bear poop in woods? You know the answer to both questions.

The managed money traders bought 11,476 net silver contracts, comprised of 8560 new longs and the buyback and covering of 2916 short contracts. I was surprised at the mix, expecting more in the way of short covering and less new buying. The resultant managed money net short position of 8060 contracts (65,783 longs versus 73,843 shorts) is still somewhat remarkable in the face of the large and growing managed money net long position in gold, but is also explained by the rotten price performance of silver versus gold.

Going back to the commercial short position in silver, Iâ??m not sure what JPMorgan may have been up to, but Iâ??m pretty sure they were not net short as of Tuesday â?? either flat or still net long. Thatâ??s a big difference from what has transpired in gold and is not the only difference. Whereas the concentrated short position in gold is alarmingly large and exclusively commercial, the concentrated short position in silver is neither unusually large (relatively speaking) nor purely commercial. Thatâ??s because the managed money short position was still quite large as of the cutoff date, meaning that two or more managed money traders were still likely classified in the big 4 and 8 concentrated net short category. This has the effect of further reducing the purely commercial concentrated component. This may prove to be only temporary, as the amount of commercial selling yesterday morning in silver did look to be of the same price capping and rally snuffing variety as occurred in gold, so weâ??ll have to await the bloodless verdict of future COT reports.

But if JPMorgan is only going along with shorting moderate additional amounts of gold contracts and no silver short contracts, then nothing could be more significant. Admittedly, Iâ??m super-sensitive to this feature, as I have contended whether JPMorgan adds aggressively to the short side of silver to be the key factor to a genuine silver price explosion. So itâ??s only natural for me to sit up and take notice if signs, although they may only be temporary and fleeting, point in that direction.

As way of a like-kind comparison, back on Feb 26, when the total commercial net short silver position was 78,200 contracts at the $16.20 silver price high (53,000 more contracts than last Tuesday), the concentrated short position was just over 73,000 contracts, more than 27,000 contracts greater than last Tuesday. Coincidentally, I estimated JPMorganâ??s silver short position to be 28,000 contracts back then versus no worse than zero on Tuesday. Yes, I know full-well that the silver price action has been horrid and that explains why JPMorgan has not had to add to its silver shorts. What I donâ??t know is if JPM has been instrumental in the horrid silver price performance (clandestinely) for the prime motive of not having to add to short positions. I wouldnâ??t put anything past these crooks.

One thing is for sure, if we do go lower in gold and silver, it will be due exclusively to the commercials and JPMorgan successfully pulling the rug out from under the managed money technical funds and inducing these funds to sell on lower prices. Particularly in silver, where the price remains in the gutter and JPMorgan does not appear to be at all on the short side, thereâ??s little choice to remaining fully committed on the long side.

Taking a slight break from silver and gold, I thought it appropriate to look at some other important commodities in light of managed money/commercial positioning as of Tuesday, specifically, the 3 Câ??s â?? corn, copper and crude oil. Up front, while I firmly believe that futures positioning in these commodities reflects commercial snookering of the managed money traders, the commercials in these commodities are not the commercial banks or JPMorgan, but rather the large commercial interests specific to those commodities.

As previously mentioned, the price of corn was driven to multi-year lows ($3.50) by the record short sale of 530,000 contracts (2.65 billion bushels) by the managed money traders in late April. As of last Tuesday, more than 400,000 of those short contracts have been bought back (plus another 70,000 contracts of new longs) as corn prices have now surged to $4.50, the highest in years as of Friday (amid even more managed money buying). The price of the USâ??s most important crop has rallied near 30% in a few weeks and the largest buyers were the brain-dead technical funds which likely bought the equivalent of close to 20% of the US corn crop.

To be clear, Iâ??m not assigning value judgments to corn or any other price being bad or good by how low or high they may be. My point is clear â?? it is unequivocally bad when prices are set by speculators which have no genuine interest in the commodity other than to make a speculative bet.

And Iâ??m not against speculators â?? I am against them making such large collective bets so as to dictate prices to real producers and consumers.

In copper, the COMEX short position of the managed money traders set a new all-time high as of Tuesday. Therefore, it is no coincidence that copper prices are not far from the distressed levels of less than $2.65 per lbs. that occurred last December, when I remarked about the low copper price and large managed money short position. We did get a decent rally of more than 30 cents into the spring, as the managed money traders bought 70,000 COMEX copper contracts (875,000 tons). Now these same have sold even more copper contracts, driving prices unreasonably low. I say unreasonably because I know of no actual copper supply/demand fundamentals that support the move to new lows. Sooner or later, the managed money mechanical nitwits will stop selling copper contracts and we will, undoubtedly, experience another spirited rally.

Finally, falling crude oil prices have been in the news, as all I seem to read are stories about falling demand, increased production and a glut of inventories. Funny, back in April, when crude oil prices (WTIC) were over $65 per barrel and $13 more than they are today, all the news was about growing demand, reduced production and developing inventory shortages. Itâ??s remarkable how prices set the news and not the other way around. Tell me the price of what any commodity will be months from now and I bet I can tell you what the stories will be at that time.

The real story to me in crude oil is what the managed money traders have done and will do. Prices slid from over $70 to the low $40â??s into yearend 2018, as the managed money traders sold more than 300,000 NYMEX contracts (300 million barrels). The prices rallied from late December to April by more than $20, as the managed money traders bought more than 270 million barrels of NYMEX crude oil futures. Since then, these traders have sold more than 210 million barrels through last Tuesday. No, I canâ??t tell you when these traders will be done with selling to the downside and driving prices lower still, but I can tell you that they will be back to the buy side in time and when they do buy significant quantities of NYMEX contracts, oil prices will rise significantly.

Again, Iâ??m not assigning any value judgment on whether oil prices being high or low is bad or good. I am saying itâ??s very, very bad that managed money traders set the price. And itâ??s not as if these managed money traders are rolling in profits. For the most part, their performance stinks, which makes it a real wonder why they do what they do. Many are quick to point out conspiracy theories to explain the managed money tradersâ?? insistence on sticking to a strategy that hasnâ??t worked well, but my feeling is they have little choice but to proceed and continue to collect hefty management fees. Thereâ??s been quite a few reports on AQR, one of the largest managed money traders around, like this one â??

https://www.fnlondon.com/articles/redemptions-hit-quant-king-aqr-in-performance-slump-20190509

Lastly, Iâ??d like to reference a recent speech by CFTC Commissioner, Dan Berkovitz, on the matter of speculative position limits. As a reminder, Iâ??m a fan of Commissioner Berkovitz as I wrote in an article several months back welcoming him as a new commissioner. He had been an outspoken advocate of legitimate speculative position limits in his role as General Counsel, back when Gary Gensler was chairman and even before that. It had been a very long time since I heard anyone from the agency address the issue of position limits as Commissioner Berkovitz does in this speech â??

https://www.cftc.gov/PressRoom/SpeechesTestimony/opaberkovitz4?utm_source=govdelivery

While I would be quite happy by any enactment of what Berkovitz proposed about instituting legitimate speculative position limits, he is but one man on a Commission seemingly engaged in other matters, so I am not holding my breath. There was one thing that Berkovitz did say, however, that contrasted sharply with what I just outlined above, namely, the need to institute collective speculative limits on the managed money traders which are clearly setting the price of too many major commodities.

Commissioner Berkovitz strongly disagrees with the concept of instituting collective position limits, insisting such limits must be on individual traders, not collectively on a trader category. Since I am the only one (to my knowledge) advocating collective position limits, I canâ??t help but think that Berkovitz at least reads and considers the articles I send to him and the other commissioners and officials at the agency â?? which is a credit to him. I think I understand that Berkovitzâ?? rejection of a collective position limit on the managed money traders stems from his legal background and the importance that creates for following long established legal precedent.

On the other hand, Iâ??m not a lawyer, but an analyst. As such, it seems obvious to me that the managed money traders and their constant hoodwinking by the commercials is setting the price of too many important commodities in a manner never intended by US commodity law. I can think of no better way of eliminating that unfortunate price setting than by collective position limits on those individual traders which trade uniformly and as one. Should the CFTC not take preemptive action to institute such collective position limits beforehand, it will likely do so after some major market calamity brought about by excessive managed money speculation that has truly gone off the rails.

Ted Butler

June 15, 2019

Silver – $14.82Â Â (200 day ma – $14.92, 50 day ma – $14.80)

Gold – $1345Â Â Â Â Â Â (200 day ma – $1268, 50 day ma – $1297)

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