

June 16, 2018 – Weekly Review

Courtesy of one of the most deliberate and intense one-day price smashes yesterday, the price of gold and silver finished lower for the week; with gold down \$20 (1.5%) and silver down by 20 cents (1.2%). As a result of silver's very slight relative outperformance, the silver/gold price ratio tightened in by a fraction, remaining just below 77.5 to 1. I'm sure I don't need to tell anyone that changes in this price ratio weren't behind the trading activity this week.

It might sound like a broken record, but the sole cause of price movement this week, initially quite strong, particularly in silver, but then quite weak on Friday was the same COMEX futures contract positioning I go on about endlessly. If anything, this futures positioning has shown no signs of diminishing and has intensified instead. In fact, on Thursday, precious metals prices were quite strong in the face of an incredibly strong move higher in the US dollar, often given as a prime price influence on gold and silver and something that had no bearing this time. (Dollar strength or weakness doesn't go into my analysis at all).

This week and particularly on Friday, price movement in gold, silver, copper and a whole host of important world commodities were set by the interplay between the managed money traders and those taking opposing positions, mostly paper speculators called commercials. This isn't complicated when the managed money traders buy, prices move higher and when they are persuaded to sell, prices fall.

While not complicated, this setting of price by paper traders on the COMEX and other exchanges is illegal under US commodity law, which holds that changes in real commodity supply and demand should determine prices, not excessive speculation. That there exists a separate and dedicated federal agency supposed to enforce commodity law, the Commodity Futures Trading Commission (CFTC), that is allowing excessive paper speculation to determine prices is nothing short of outrageous. Please allow me to rant a bit before turning to what I feel will be detailed analysis of some rather important developments this week.

I always feel a mixture of anger, disgust, frustration and helplessness on days like yesterday, even though such days are somewhat expected or at least feared likely to occur. Watching the commercials clean the clocks of the managed money traders over and over is as debilitating for me as I know it is to many, if not most of you. But yesterday's deliberate price smash helped focus the issue in a special way. By special I don't mean good.

It occurs to me that the price rigging on the COMEX has become so obvious and blatant to everyone except the most strident manipulation deniers that the failure of the CFTC to address the issue has resulted in a near universal loss of faith in this important regulatory institution. This is similar to the growing loss of faith by many in important US institutions, like the press, the FBI and the Justice Department due to our growing political discord. Similar, but with an important distinction.

Whereas the loss of faith in the press and the FBI can be traced to our growing political divide, politics has nothing to do with the loss of faith in the CFTC. Instead, investors and market participants of every political persuasion have given up on the federal commodities regulator ever doing the right thing from repeated practical observation and experience. Even when the case for silver manipulation is made in

the most serious and respectful manner and by great numbers of interested participants, the CFTC turns a blind eye.

Specifically, I am referring to James McDonald, head of Enforcement for the agency who has continued to ignore requests for explanations for how it is possible for JPMorgan to never have suffered a loss in shorting COMEX silver futures since acquiring Bear Stearns ten years ago and certainly since McDonald took office over a year ago. Or how it could be legitimate that this crooked bank could be allowed to be the biggest paper short seller on the COMEX while accumulating the largest physical hoard of silver in history.

Everyone at the CFTC should be ashamed of themselves for failing to act on what is now an undeniable silver and gold price manipulation for the simple reason that they have presided over the loss of confidence in the agency as a legitimate regulator. I don't think there could be a greater failure. End of rant.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses exploded this week to 9.1 million oz, or double the already very high weekly average over the past seven years. Annualized, this week's movement comes to more than 450 million oz, more than half of world annual mine production, a truly enormous amount. Total COMEX silver warehouse inventories rose by one million oz to 271.3 million oz, a new 25 year high and less than 15 million oz below the all-time historic peak (not that this is an important price consideration).

What is important, at least to me, is the extraordinary large and persistent movement of physical metal since April 2011. Not only persistent, the physical silver movement is unprecedented in that it hasn't occurred in any other commodity, just silver. And since the data are widely available on a daily basis, it is nothing short of a wonder why no one seems to talk about the data and question their meaning. To me, of course, I think it represents persistent high demand for silver and a principle means by which JPMorgan has acquired a big chunk of the physical metal aside from its already large visible COMEX holdings, which this week took center stage.

This week featured deposits of metal into the JPMorgan COMEX silver warehouse on every day of the week, some 3 million oz in total, pushing the total to 142 million oz, about equal to the record high of early April. There were some near full truckloads, but just as many deposits less than full truckloads, reinforcing my opinion of JPM taking in metal in dribs and drabs, due to the ready availability of truckload quantities. I sort of lost count, but this week's deposits into the JPMorgan warehouse come close to completing the amount the bank took delivery of in the May delivery period, but one thing is clear - JPMorgan is still accumulating physical silver. It is still shorting the snot out of the paper market as of the latest COT report, but being mega short paper and scooping up cheap physical is not new for these crooks.

In a related matter having to do with physical silver, some 5 million oz were redeemed from the big silver ETF, SLV, this week which was highly counterintuitive in that prices were strong until yesterday. Even the withdrawal yesterday of 1.7 million oz looked counterintuitive since it usually takes a day or so for there to be a redemption based on heavy selling. The most plausible explanation for this week's big withdrawals of physical metal from the SLV was JPMorgan buying shares and immediately converting those shares into metal to avoid SEC share ownership reporting requirements.

Between these share to metal conversions in SLV and the skimming of metal from the unprecedented

high weekly turnover of metal in the COMEX silver warehouses, both of which started in early 2011, JPMorgan has acquired at least 400 million oz of their 700 million oz hoard (the other 300 million oz came from the 150 million oz it got from buying Silver Eagles and Canadian Maple Leafs and the 142 million oz it holds in its COMEX warehouse from deliveries on futures contracts).

The changes in this week's Commitments of Traders (COT) report tracked very closely to expectations, unfortunately so in the case of silver. And while there is much to glean from this week's report, yesterday's trading activity was quite significant and I'll treat that separately, after reviewing the positioning changes through the Tuesday cutoff for this week's report.

It does seem that the positioning changes on the COMEX are occurring at warp speed and can't possibly be considered accidental. You'll recall that great changes in this week's silver COT report were expected as a result of significant price action and managed money buying starting on Wednesday, June 6, the first day of the reporting week ended this past Tuesday, June 12. I commented at the time that it would be nearly a week and a half before the big changes would be reported and how that wasn't likely accidental.

As it turned out, the deliberate selloff yesterday occurred before the COT report was even published, so unless you knew what was likely to be reported, you were given no warning that the managed money traders bought heavily before the selloff. Sometimes, COT positioning changes develop over weeks and months before a reversal sets in, leaving everyone to question whether such positioning even matters anymore. Other times, like this week, the darn reversal comes before new reports are even published. Unfortunately, that's the essence of manipulated markets - prices move when and how the manipulators decide they will move.

There were two standout features in the COT report just published, the big increase in the amount of managed money buying in silver (which was fully expected) and the continued dramatic commercial category changes in gold, which were hoped for by me, but hardly expected. I am the first to admit that correct predictions, no matter how accurate, don't put penny one in anyone's pocket - they are not intended to. The sole purpose behind COT report predictions is to challenge and test myself to see if I really understand what drives prices - or more correctly, what drove prices before the new report is published. Yesterday's report indicated there was 36,000 contracts of managed money buying in silver compared to Wednesday's guess that there would be around 30,000 to 40,000 contracts.

In COMEX gold futures, the commercials increased their total net short position by a relatively scant 6200 contracts to 140,600 contracts (I took a pass on a prediction, but wasn't expecting much of a change). While technically this was the highest total commercial net short position in two months, it's much closer to the truth to remark on how little the position has changed over this time. I'm sure that there was probably some managed money buying and commercial selling on the gold rally on Thursday, but any such positioning was completely reversed and then some on yesterday's gold price smash.

There was even lighter managed money buying in gold, as these traders bought 4624 net contracts, including 4286 new longs and the buyback and covering of 338 short contracts. As of Tuesday, the managed money net long position in gold was quite low, at under 56,000 contracts, and therefore solidly bullish. After yesterday this position is undoubtedly lower still and even more bullish.

The changes in gold by commercial category continue to astound me. Over the past week, I have commented extensively on the highly unusual buying by the biggest commercial shorts (JPMorgan) while other commercials, particularly the smaller raptors (the commercials apart from the big 8) were aggressive sellers. I know this level of detailed analysis might be confusing, but I wouldn't focus on it if I didn't find it to be of the utmost importance, so I ask you to bear with me.

In fact, I went into yesterday's report half-expecting the CFTC to vastly revise previous weeks' reports and thereby dash to bits my premise of a developing commercial double cross. Instead, the new COT report reaffirmed the premise and expanded on it. This week through Tuesday, the four biggest commercial shorts bought back 14,100 short contracts, while the big 5 thru 8 shorts added 8200 new shorts and the raptors sold 12,100 long contracts, reducing their net long position to 63,100 contracts. Thus, the big 4 dramatically departed from the other commercials.

Over the past three reporting weeks (since May 22), the 4 biggest shorts have bought back 20,000 short contracts, while the raptors have sold more than 40,000 long contracts, a divergence of 60,000 contracts. Over the past two weeks, the divergence has been 50,000 contracts. Never before has there been such a divergence. Why do I think it is such a big deal?

Over the years, you've heard me reference more times than I can recall how the commercials always seem to get the same office memo coordinating their collusive behavior against the managed money traders. Often, I've used the analogy of the Three Musketeers in describing the typical commercial behavior of all for one, one for all in their collusive endeavors against the managed money traders (which was the case in silver this week). Most usually, all three commercial categories buy or sell in unison, with only the quantities of contracts differing. So when something comes along that indicates a radical departure from the highly coordinated commercial activity of the past, it's only natural to look closer.

In addition, I have also commented fairly frequently in the past how I expect some type of double cross in silver where JPMorgan breaks ranks against its fellow collusive commercials and positions itself the best way it can for a silver price explosion, seeing how its massive physical long position would guarantee big profits on such a big up move. I fully admit that I never discussed such a potential double cross in gold, but in my defense, I have opined that JPMorgan had accumulated a massive physical position in gold, with the estimated amount being 20 million oz. And while I am silver centric at heart, I have always felt that JPMorgan was most usually the biggest short seller in COMEX gold futures, with some notable exceptions (such as in mid-2013, when JPM held a massive net long position in COMEX gold of some 80,000 net contracts).

Therefore, while I have anticipated the potential for a double cross in silver of the other commercials by JPMorgan, all the necessary preconditions for such a double cross have been present in gold as well. The most important prerequisite was the ownership of a physical position in excess of any paper short position and JPMorgan owns massive physical positions in silver as well as gold. The secondary prerequisite was a dominant paper short position, the urgent and aggressive covering of which would be the final signal that the double cross was going down.

The last prerequisite, if you want to call it that, was the ability to recognize that the necessary preconditions existed for a major double cross. While I never imagined that it may lead to this, I don't see how I could recognize a potential double cross might be at hand if I hadn't studied the COT

report in the manner I do, namely, with great emphasis on changes in the concentrated short position and my quirky categorizing of the big 4, big 5 thru 8 and the raptors. I can't guarantee you, of course, that a commercial double cross is about to go down; but I can guarantee you there would not be the slightest head's up without particular attention to the concentrated short position. While I fully admit I was expecting the double cross to unfold in silver, there is no reason it can't occur or occur first in gold.

In COMEX silver futures, the commercials increased their total net short position by a very hefty 29,800 contracts to 67,400 contracts. This is the largest (most bearish) commercial net short position since last November. Most bearish is a bit late, of course, in warning of yesterday's price smash, but anyone not expecting yesterday's report to be bearish just wasn't paying attention. Of course, knowing the report was going to feature massive increases in managed money buying and commercial selling didn't predict yesterday's selloff; it just explains it. I did not sell into yesterday's selloff, even though I didn't fall down in shock that it occurred. One of these days the COT report won't matter much, although it's clear that day has yet to arrive.

By commercial category in silver, it was a vastly different situation than in gold, in that the Three Musketeer routine was still very much the order of the day. The big 4 added 7900 new shorts, the big 5 thru 8 added 8300 shorts and the raptors sold off 13,600 longs, reducing their net long position to 43,100 contracts. I'd peg JPMorgan's net short position to be 40,000 contracts (200 million oz) up 8000 contracts for the week.

This is the largest silver short position held by JPMorgan in years and among its highest ever held. It is also prima facie evidence and proof that JPMorgan is the big manipulator and a stone-cold crook; although I better be careful out of fear that this supremely crooked bank might get wind of my allegations (like by reading my emails to them as well as my public articles). One thing is clear; had JPMorgan not sold short an additional 20,000 net contracts or 100 million oz over the past six weeks, the price of silver would have to have been higher than it was. If the CFTC wasn't intent on destroying any confidence remaining in the agency as a legitimate regulatory institution, it might try to explain otherwise, instead of cowering before the image of JPMorgan.

The managed money traders bought 36,125 net silver contracts, comprised of 20,103 new longs and the buyback and covering of 16,022 short contracts. The managed money net long position of more than 40,000 contracts (83,823 longs and 43,079 shorts) is now 80,000 contracts (400 million oz) higher than the 40,000 net short contracts these traders held in April. In other words, these managed money technical funds bought 400 million oz of paper silver in little more than two months and the buying of the equivalent of nearly 50% of the world annual production only resulted in a price move of barely over a dollar. How is that possible?

It was possible because the sellers to the managed money buyers, principally JPMorgan and other commercials, were even more aggressive in selling into the massive managed money buying. This is all crazy and illegal as hell and the CFTC should be beaten with a stick for allowing it to continue. No one should be allowed to trade this amount of paper silver under any condition and, yeah, it couldn't happen if the agency hadn't run like a scared rabbit away from legitimate position limits.

As to why JPMorgan appears to be initiating a double cross in gold and not silver, it may be because it can in gold but can't in silver, at least in terms of the way I long envisioned. Clearly, if there is a double cross developing in gold as I strongly suspect, none of the other commercials seem to be

aware of it. Certainly, unless one studies the concentration data closely, I can't imagine how it could be seen. JPMorgan is a much more dominant player in silver than it is in gold, given the very large size of the gold market compared to silver, that if it attempted an aggressive buyback in silver as appears to be underway in gold, it would quickly be felt. I do think that JPMorgan, should it pull off the gold double cross I think I see developing, will then allow silver to join in and laugh all the way to the bank on both, despite adding prodigious quantities of short paper silver contracts recently.

There is no doubt yesterday's sharp drop in price involved ultra-heavy managed money selling and commercial buying, thereby improving the market structures in both gold and silver. In fact, there is little doubt in my mind that yesterday featured perhaps the largest amount of managed money selling and commercial buying ever seen on a single day. There was some further deterioration (managed money buying) in silver on Wednesday and Thursday, as well as managed money buying in gold on Thursday, but any such deterioration was reversed in spades yesterday.

Silver went into yesterday's intentional buzz saw of a selloff in much worse of a structural position than did gold and may need some more work to the downside than gold. New price lows are always possible if there is more managed money selling to uncover, but that's always the case. I was afraid to sell at higher silver prices out of fear of missing the big one, so with prices now down amid notable managed money selling, I'll continue to spit and curse as and when the crooked commercials rig lower prices, but will consider selling even less.

Ted Butler

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Silver – \$16.60 (200 day ma – \$16.78, 50 day ma – \$16.61)

Gold – \$1283 (200 day ma – \$1309, 50 day ma – \$1315)

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