

## June 23, 2018 – Weekly Review

Gold and silver prices fell for a second week, with gold ending \$12 (0.9%) lower and with silver down by 15 cents (also 0.9%). Due to the flat relative performance, the silver/gold price ratio remained unchanged at just under 77.5 to 1. I should note that this was the lowest weekly gold close for 2018 and that silver is still mired in a very tight trading range for the past five months, despite some very large COMEX positioning changes during that time.

The positioning changes in COMEX futures contracts dictated price changes this week, as always, and my predictions for the amount of managed money selling in silver proved to be embarrassingly over, while proving to be under in gold (which is always welcome). However, I quickly shook off my disappointment at the small amount of managed money selling in silver as I examined the new COT report in detail. I'll get into all the particulars in a moment, but suffice it to say that there was a cornucopia of highly revealing data under the hood this week, all extremely encouraging.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came to 4.3 million oz this week, about the average for the past seven years, as total inventories rose again, this week by 1.5 million oz to 272.8 million oz. This is another new 25 year high and closer to the all-time high in COMEX silver inventories of around 285 million oz, set in the early 1990s.

Another 1.2 million oz were brought into the JPMorgan COMEX silver warehouse, increasing those holdings to another new record high of 143.2 million oz. Two unmistakable conclusions can be made that total COMEX silver inventories would be nowhere near record levels were it not for inflows into the JPM warehouse (from zero in 2011) and that JPMorgan has a real hankering for physical silver.

The other big physical silver news this week was the extremely counterintuitive deposits of 6 million ounces into the big silver ETF, SLV, following last week's counterintuitive withdrawals of 5 million oz. What makes both counterintuitive is that both occurred under price change that would have called for the opposite. Last week's withdrawals came amid price strength (until last Friday's thumper of a down day), while this week's deposits came amid price weakness. It should be the opposite, given typical investor behavior.

I know I get to be myopic in these matters, but I'd eat my hat if all this counterintuitive activity wasn't the handiwork of JPMorgan; withdrawals due to it avoiding share ownership reporting requirements and deposits intended to reduce its SLV short position. I could never have imagined 33 years ago when I first began to study silver intently that one day the metal would revolve around JPMorgan, but whoop, there it is.

I haven't been reporting much on the now close to ending COMEX June gold deliveries as they have remained featureless since JPMorgan delivered just over 4000 contracts from its house account early in the month. HSBC has taken 3250 gold deliveries in its own name. The next big delivery month event will be the July silver deliveries which start next week. As always, the key feature will be what JPMorgan does or doesn't do in its own house account and as far as I know, there's no way of making legitimate predictions; it's all just observe and analyze.

Let me jump to the changes in the new Commitments of Traders (COT) report as the changes

appeared to be quite meaningful. Youâ??ll remember that this weekâ??s report included the sharp price smash of Friday, June 15, and the continued price weakness into the Tuesday cutoff. Therefore, it was axiomatic that we would see managed money net selling, as this is always why prices decline sharply; with the only question being how much. I had guessed around 35,000 contracts or so in silver and 30,000 in gold and was way over the reported 13,000 contracts in silver and way under the nearly 45,000 contracts the managed money traders sold in gold. I suppose I would have hung it up had the managed money traders been net buyers.

In COMEX gold futures, the commercials reduced their net short position by 26,500 contracts to 114,100 contracts. The reason the commercial buying was close to 20,000 contracts less than what the managed money traders sold was due to buying by other large non-commercial traders, as has been occurring more frequently as reported regularly here. In fact, the gross and net long position of the other large trader category hit all-time record highs this week. Getting back to the commercials, while this is the lowest (most bullish) total commercial net short position in a year, the real bullish story in gold is in the details concerning the commercial categories.

As you know, I have been making a very big deal out of a developing double cross of the other commercials in gold by JPMorgan because such a double cross could indicate an explosive price move higher. My double cross premise is based upon very recent and pronounced short covering by the 4 largest shorts, all commercials, versus selling by the other commercials I call the raptors (the smaller commercials away from the 8 largest commercials). Normally, all the commercials move in lockstep; all buying or selling in unison against the counterparty managed money traders. But recently, the big 4 (read JPMorgan) has been breaking ranks with the raptors, causing me to sit up and take notice.

This reporting week, since it was such a big down week pricewise, I had expected all three commercial categories to be once again unified as buyers against the expected managed money selling. While that did turn out to be the case, I was once again gobsmailed by how many short contracts the big 4 bought back (18,200) and how few new longs (5500) the raptors bought. The big 5 thru 8 bought back 2800 shorts to round things out. I was expecting much greater raptor buying and much less big 4 short covering than was reported and an inconclusive week as far as my double cross premise was concerned. Instead, the double cross premise was confirmed in spades.

Iâ??ve long held that if a market is manipulated in price, as I allege gold and silver to be, then there must be a prime manipulator, a Mr. Big. JPMorgan is the prime manipulator as far as Iâ??m concerned and because they make up such an outsized role on the short side of COMEX gold and silver, changes in the big 4 short category are, essentially, changes by JPMorgan. Simply put, over the past month (since the May 22 COT report), the number of short contracts bought back by the big 4 (JPM) has been massive at close to 40,000 contracts. But what makes this simply astounding is that, over this same time, the raptors have sold more than 35,000 contracts.

Because never has anything like this ever occurred, it is only natural to look closer and ask why. While there was big managed money selling in gold this week (which Iâ??ll discuss in a moment), compared to the COT report of May 22, the managed money traders hadnâ??t changed their position all that much over the past month. That means that over the past month, the big positioning change in gold has been commercial versus commercial change. In fact, when one compares the two commercial

categories of the disaggregated COT reports of May 22 compared to the new report of June 19, what jumps out is the stark change between the producer/merchant category and the swap dealer category. The producer/merchant category (where JPMorgan is included) bought nearly 60,000 net gold contracts, while the swap dealers sold nearly as many over the past month.

I know this is deep in the weeds kind of detail and most would never notice it in a million years. Yet, considering everything, I find it most compelling and I feel I would be doing you an extreme disservice by not trying to explain it. There's even a silver angle this week that I'm highly encouraged about; but let me finish up on the gold COT report first.

The managed money traders in gold sold 44,976 net contracts, comprised of the sale and liquidation of 10,016 long contracts and the new short sale of 34,960 contracts. I remarked on Wednesday that I would be watching the amount of new managed money short sales since there was a much greater capacity for that to increase, as opposed to long liquidation and it played out as expected (and hoped for). Managed money shorting is bullish on its face as this is certain buying at some point; guaranteed buying on higher prices.

Other things that worked out as expected was massive managed money selling in copper, as well as managed money selling in platinum and palladium. By a small margin, the managed money net long position in gold is now the lowest (most bullish) in more than two years, just as gold was embarking on a \$300 price trip north. Considering what JPMorgan has been up to over the past month, I will be surprised if the gold trip north this time around is less than that.

In COMEX silver futures, the commercials reduced their total net short position by a disappointingly low 8,800 contracts to 58,500 contracts, only a fraction of what I was expecting. In fact, of all the futures-traded metals (gold, copper, platinum and palladium), silver may be ranked last in terms of bullishness on a conventional market structure basis. Then again, silver is a very special commodity in so many ways and a closer look at the report made me lose any disappointment I had at first glance.

By commercial category, the big 4 bought back 6400 shorts, the raptors added 7600 new longs (now up to 50,700 net long) and the big 5 thru 8 went the other way in adding 5200 new shorts, although that looked to be managed money selling. One new standout is that the big 5 thru 8 short position is the highest in years, at nearly 42,000 contracts, meaning each trader in the big 5 thru 8 category now holds short an average of more than 10,000 contracts each or 50 million oz per trader. That, combined with the reduction in the big 4 category, introduces the possibility of the double cross premise in silver and not just in gold.

As expected, JPMorgan rang the cash register this week in buying back short positions at profits, thus maintaining its perfect and perfectly crooked trading record of the past ten year years. I'd peg JPM's short covering this reporting week to be 7000 contracts which reduces its net short position to 33,000 contracts. While still large (and bearish) by historical conventional standards, by other measures it doesn't look quite as bearish. In fact, for the first time, I got the distinct impression that silver had joined in with gold in the double cross department. Please allow me to explain.

It has now become obvious to me that JPMorgan has embarked on a concerted plan to buy back as many of its gold short positions from other commercials (raptors) as possible over the past month and not from managed money traders because the lower prices required to trigger managed money selling would have also attracted raptor buying competition for JPM. By allowing gold prices to trade up to, but

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not penetrating the key moving averages in gold, JPM was able to buy from the raptors without tripping off managed money buying.

At the same time, due to different market circumstances in silver, while JPMorgan was able to buy back important quantities of gold shorts without much of a gold rally, the silver market realities were such that JPM couldn't do the same in silver and, in fact, had to resort to selling short silver to keep the price capped while it pulled off its gold short covering. You'll recall that over the past month (not including the latest reporting week), JPMorgan was the biggest silver short seller, adding 20,000 new shorts, while it was buying back gold shorts. JPM had no choice - it had to cap the price of silver if it hoped to keep gold below its moving averages and buy back gold shorts from the raptors.

With this week's buyback of both gold and now silver shorts, it appears that JPMorgan is now close to completing its double cross of other commercials in both metals. It is possible for JPM to buy back more of its short positions in both metals at lower prices, but that would require managed money selling, which in turn, would bring out more raptor buying and buying competition for JPM. In gold, with the managed money net long position at two year lows and a giant increase in managed money short selling this past reporting week, there wouldn't appear to be much more managed money selling capacity left. In silver, the question is why didn't the managed money traders sell more this past reporting week?

The managed money traders sold 13,008 net silver contracts this week, including the sale and liquidation of 8665 long contracts and the new short sale of 4343 contracts. Why the managed money traders didn't sell more, particularly of the short variety, beats me; but they didn't. Perhaps it is because these jokers finally realized they have never made a profit when they have sold short silver in a price hole. After all, for JPMorgan never to have taken a loss when trading silver means that someone else had to have always taken losses and that someone would be the managed money traders, by and large.

I can't tell you what the consistent silver losers in the managed money category are thinking, but it is reasonable to imagine that at some point, they may question why they always lose in silver and move to amend their losing ways. Especially if they are getting beat in any number of other markets presently, as is my understanding. Therefore, it is not inconceivable many of these traders have decided not to hold or add to excessive short positions at the current depressed price of silver.

If that is the case and the managed money traders won't be selling aggressively on lower prices, then neither JPMorgan nor other commercials will be capable of buying the contracts not sold by the managed money traders. There has to be a seller for every buyer of a derivatives contract and if the managed money traders don't sell, the commercials, including JPMorgan, can't buy. I can't know if that's the case at this point, but it could be. The good news is that we should know fairly soon.

I am increasingly convinced that JPMorgan's double cross in gold is nearly complete and if the managed money traders refrain from selling aggressively in silver from here on out, the double cross in silver will be as complete as it can get. JPMorgan didn't need to buy back the 40,000 to 60,000 contracts of COMEX gold shorts (4 to 6 million oz) I believe it has bought back over the past month, since I believe it holds 20 million oz of physical gold. But the short buyback put JPMorgan in a much greater potential profit position and gold at a much greater chance of big move higher. Same with silver, since JPM holds more than 700 million oz and is now short 165 million oz of paper shorts and

maybe less due to buybacks since the Tuesday cutoff.

Yes, JPM is short more paper silver ounces than it was six weeks ago, but it was able to buyback paper gold shorts totaling 4 to 6 million oz over that same time and its overall combined gold and silver position looks better than it was a month or so ago. If the managed money traders sell many more silver contracts on lower prices, then JPMorgan may still be able to buyback more of its silver shorts, but thatâ??s a big â??ifâ??. Time will tell, of course, but the double cross cake for much higher gold and silver prices looks baked to me.

Ted Butler

June 23, 2018

Silver – \$16.45Â Â Â Â Â Â (200 day ma – \$16.75, 50 day ma – \$16.60)

Gold – \$1271Â Â Â Â Â Â Â Â Â Â (200 day ma – \$1308, 50 day ma – \$1308)

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