June 8, 2019 – Weekly Review

Gold added decisively to the prior weekâ??s sharp gains, surging by $34 (2.6%), to its highest weekly close in more than a year. Silver, which has been lagging noticeably joined in, adding 46 cents (3.2%) and managing to close at five week highs. The slight relative outperformance of silver this week tightened the silver/gold price ratio by half a point to 89.5 to 1, down ever so slightly from last weekâ??s 25 year extreme in the ratio. Since I plan to report on the silver/gold ratio on Wednesday, Iâ??ll jump to other matters today.

Over the last seven trading days, gold has climbed by nearly $60, one of its sharpest gains ever and itâ??s more than reasonable to ask why. The answer (at least to me) is more than obvious â?? futures contract positioning on the COMEX. The highly mechanical and robot-like managed money technical funds rushed to buy more than 80,000 net contracts over the past two reporting weeks (70,000 contracts this week alone), as the remaining two key moving averages in gold were penetrated to the upside.

80,000 COMEX contracts are the equivalent of 8 million gold ounces, about one full monthâ??s world mine production, truly an enormous sum. If any tight-knit group of traders bought or sold such quantities of any commodityâ??s world production in little more than 7 days, the effect on price would be apparent, even though these are â??paperâ?• contracts. If the tight-knit group of traders were clearly identified as paper speculators, with no genuine interest in the commodity, aside from placing short term bets on price and those bets set the price of what real world producers and investors would receive or pay, a reasonable person might question how prices get set.

Unfortunately, there seems to be a dearth of reasonable people when it comes to the upside-down process of paper speculators setting the price of important world commodities, like gold, silver, copper, crude oil, cotton and grains. Crazier still is that there are laws in the US and a specific federal regulator, the CFTC, designed to insure that excessive speculation doesnâ??t impact the price of commodities in interstate commerce. Impact? Heck, such excessive speculation clearly sets the price and the CFTC is so busy trying to look relevant that it dare not even acknowledge the question of whether the managed money traders have grown so large as a trading force that they set the price.

I donâ??t want to spend time today going over every commodity, but suffice it to say that I would love to address this directly with the CFTC, but thereâ??s not much purpose in a one-sided debate. But let me give just one example â?? the most important US grain, corn. As previously reported, in the COT report of April 23, the managed money traders held an all-time record short position of 530,000 contracts (2.65 billion bushels) as price fell to $3.50, close to multi-year lows. In the current COT report, the managed money traders have now bought back 380,000 of those short contracts and gone long another 70,000 contracts, for a total purchase of 450,000 net corn contracts (2.25 billion bushels) in a matter of weeks, causing corn prices to rally to multi-year highs of $4.20. Keep in mind that 2.25 billion bushels is 15% of US annual production and that the US is the worldâ??s largest producer with nearly 50% of total world corn production.

I always sensed that the CFTC cared little for precious metals investors, but it always seemed to put on a big show of concern for the American farmer. But the sad truth is that the same price manipulation that has existed for decades in silver and gold is now firmly entrenched in corn and crude oil and just about every commodity and the CFTC wonâ??t say squat. So how much concern could the agency have for farmers if it looks the other way as managed money speculators set the price of corn? Â Iâ??ll give the agency credit for seemingly reporting accurately the data that proves the manipulation, itâ??s just that these dunderheads wonâ??t acknowledge that its own data prove the manipulation. No one could make this up if it werenâ??t true.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses snapped back from last weekâ??s low movement (of less than 1.5 million oz) to 6 million oz this week (300 million oz annualized). Total COMEX silver inventories fell by a hefty 2.9 million oz to 303 million oz.Â No change in the JPMorgan COMEX silver warehouse, still stuck at 150.6 million oz.

The COMEX June gold deliveries remain abysmally low, as only 539 total contracts have been issued after a full week, with only 1200 or so June contracts still open, in marked contrast to previous traditional delivery months. JPMorgan remains a very light stopper in both its client and house accounts and I sense it has backed off from demanding more gold so as not to appear responsible for exacerbating what I sense is a tight physical condition in gold, although that is speculation on my part.

Also speculation is my sense that the GLD, the big gold ETF, may be owed more metal, as a result of recent net investor buying than has been deposited into the trust. There was a big deposit of more than 500,000 oz on Monday, largely as a result of the big jump in price and increase in trading volume a week ago Friday, but nothing since, aside from a couple of small metal withdrawals. The way things work, prices are set by COMEX positioning and when gold (and silver) prices are set high enough, new ETF buying by momentum traders sets off the requirement for new metal being deposited into the GLD (and SLV) to match the new shares created by net investor buying.

In other words, the â??Death Starâ?• principle (first coined by Carl Loeb) to describe the impact of higher prices in silver creating an almost unlimited physical silver demand in SLV by those not even aware that they were creating physical demand, also applies in GLD. Given how much gold exists in the world relative to silver, particularly in dollar terms, the Death Star premise is much more applicable in silver, but thatâ??s not to say that buying in GLD canâ??t have a big impact on physical gold demand, especially if the wholesale physical gold market is tight to begin with (as I currently sense is the case).

Turning to yesterdayâ??s Commitments of Traders (COT) report, my published expectations, including my highly â??iffyâ?• take on silver were, unfortunately, right on the money. Truth be told, I would have much preferred the numbers I quoted as being way in excess of the actual results. But despite the amount of managed money buying and commercial selling coming too close with expectations, there was one hoped for surprise in silver.

In a reporting week that featured five days of successive highs (salami slices), heavy trading volume and decisive penetrations of the last remaining key moving averages in gold (the 50 and 100 day maâ??s) and overall gains of $50 or so, my expectations were for managed money buying/commercial selling of 50,000 to 60,000 contracts or more. Yesterdayâ??s data indicated the commercials sold 62,600 gold contracts, while the managed money traders bought just under 70,000 contracts.

In silver, we also had five days of successive highs, heavy volume and a weekly gain of as much as 50 cents. The only thing missing was decisive moving average penetrations, making me very unsure of what the managed money reaction would be, since I never witnessed them covering short positions without moving average penetrations. Talking out of both sides of my mouth, I did suggest managed money buying/commercial selling of 10,000 net contracts or more, but hopefully not more than 20,000 contracts. The actual data revealed commercial selling of 13,400 contracts and managed money buying of just under 18,500 contracts.

In COMEX gold futures, the commercials increased their net short position by 62,600 contracts to 172,600 contracts. This is the largest (most bearish) commercial net short position in gold since April 2018, when gold was at a price around where it is today and about to begin a downward trek that would take it down more than $150 to below $1200 by late summer. Undoubtedly, since Tuesday, the commercial net short position is even higher, pressing on the 200,000 contract mark. A few observations.

It shouldnâ??t be lost on anyone that it canâ??t be a coincidence that the commercial net short position is as high today as it was back in April 2018 and that gold prices are as high today as they were back then. No, Iâ??m not suggesting that commercial shorting causes prices to rise, as that would be absurd. Instead, managed money buying causes prices to rise and commercial shorting causes prices to top out. What caused gold to rally from under $1200 last summer/fall to $1350 today was managed money buying of more than 200,000 contracts (20 million oz).

Will the commercial selling cause gold prices to top out now? Perhaps, but there are some other considerations or differences between conditions back in April 2018 and today. For one thing, physical conditions in gold appear much tighter today than back then and the physical gold buyers seem much more aggressive than the physical sellers.

Another factor is that while JPMorgan appears to have sold aggressively into the recent rally on the COMEX and likely now holds at least a 20,000 contract short position â?? back in April 2018 it was short 100,000 gold contracts and just beginning to execute the commercial double cross I wrote about back then where it got to be even as far as a short position shortly thereafter. Even though JPM is now moderately net short in COMEX gold, it has picked up substantial additional quantities of physical gold since April 2018.

Iâ??d consider the current near 200,000 commercial net short position in gold (extrapolating since Tuesday) as more neutral than outright bearish, as the next 100,000 contracts of managed money buying or selling will determine prices. Neutral means prices can go either way, but itâ??s important to recognize that JPMorgan, despite very recent selling of COMEX futures, is still very much better positioned for higher, rather than lower prices. That said, if gold does move sharply lower in price, it will be due to COMEX positioning and nothing else.

On the buy side of gold the managed money traders bought 69,908 net contracts, consisting of 40,349 new long contracts and the buyback and covering of 29,559 short contracts. The resultant net long position of 96,182 contracts (159,663 longs versus 63,481 shorts), leaves a lot of room for buying or selling.

In COMEX silver futures, the commercials increased their total net short position by 13,400 contracts, converting what was a rare net long position in the prior week back to a net short position of 12,300 contracts. Unlike the case in gold, where the COMEX market structure is very much in the neutral state, the market structure in silver is still decisively bullish and extremely so, even allowing for expected further deterioration since the Tuesday cutoff.

Jumping to the managed money traders, these traders bought 18,471 net silver contracts, comprised of 7,310 new longs and the buyback and short covering of 11,161 short contracts. It was almost assured that the extremely large managed money short position would lead to losses when covered, so the buyback (at losses) canâ??t be considered a surprise. The remaining net short position in silver of 19,536 contracts (57,223 longs versus 76,759 shorts) may now be closer to even as result of continued managed money buying since Tuesday, but itâ??s also important to put things in proper perspective.

Thus, silver joined with gold in having penetrated its 50 and 200 day moving averages yesterday, which gold achieved a week ago. The difference is that gold has penetrated and cleared all its important moving averages, while silver still has its 100 day moving average ($15.20) yet to be penetrated. And while silverâ??s market structure has started to deteriorate, itâ??s fair to say there is much more potential managed money buying ahead than there is potential selling.

The reason silver has lagged gold so much in price of late is because the managed money buying was more aggressive in gold than in silver. The flip side of this is that the COMEX market structure in gold has become more advanced (in a negative sense) than silverâ??s because more managed money buying has already taken place in gold. Whereas goldâ??s market structure is now in a neutral state, silverâ??s structure is still quite bullish. At some point (and no one knows the short term road map) the catch up managed money buying will occur in silver and with that buying, the price as well.

The whole concept of the market structure premise is that futures positioning sets the price. However, that is not the conventional view. Instead, the popular and conventional view is that things other than futures market positioning set the price. For instance, goldâ??s recent relative strength compared to silver has led to any number of explanations, from silver no longer being a store of value, or that its industrial demand is dwindling or that silver is in oversupply. But let the managed money buying in silver catch up and with it the price and you will read stories about how silver is a great store of value or that its industrial demand is increasing or that it is in near shortage. Thatâ??s just the way of the world.

Getting back to commercial activity in silver, when I first viewed the new COT report, I concluded that JPMorgan had sold pretty aggressively in the reporting week. After all, there was fairly substantial selling in both commercial categories in the disaggregated COT report, the producer/merchant and swap dealers categories. But yesterday also featured the release of the monthly Bank Participation Report, which is based upon the same data as contained in the COT report. Whereas there is some question in my mind as to whether JPMorgan is included just in the producer/merchant category or also in the swap dealers category of the COT report, there is no question that JPM is in the US bank versus non-US bank category of the BPR.

Last month, I was forced to reduce my estimate of what I concluded JPMorgan was net long in silver, as a result of the data in the BPR of May 7. This month, the opposite occurred. When I first reviewed the COT report of June 4, it looked like JPMorgan had sold pretty aggressively and had completely eliminated its net long position in silver of 6000 contracts of the prior reporting week. But the Bank Participation Report of that same date leaves no doubt that as of Tuesday, JPMorgan is still long close to that amount. In fact, the net short position of the US banks on June 4 is lower than it was in May and the lowest in years and the gross short position is roughly unchanged for the month. Back as of May 7, I estimated that JPM was net long 5000 silver contracts. I suppose itâ??s possible that JPM did sell aggressively in the just reported week, but from a much larger long position than I had previously calculated, but Iâ??m not sure that could be proven and even if it was, what difference it might make.

I must say that the highlight of this reporting week, aside from not embarrassing myself with wide-of-the-mark predictions, was the lack of selling by JPMorgan in silver as indicated in the Bank Participation Report. I donâ??t want to make too big of a deal about what may turn out to be a one week aberration to be followed by aggressive selling by JPMorgan on future silver price gains (I doubt JPM would sell on lower prices, since it never has before).

On the other hand, I believe I have spared no effort in trying to convey the idea that JPMorgan holds the key to the future price of silver and if it doesnâ??t sell aggressively into the next silver rally, the price will fly. Therefore, I canâ??t help but sit up and take notice when data are published suggesting that the key factor may be unfolding. The only thing preventing silver from exploding is sufficient enough selling from JPMorgan. Iâ??m sure this crooked bank has plenty of potential tricks up its sleeve to obscure what it may or may not be doing, but any meaningful rally will reveal whether it is selling sufficiently enough. In the meantime, while I always fear price declines ahead, not to the point of holding less than a maximum long exposure.

Ted Butler

June 8, 2019

Silver – $15.02Â Â Â Â (200 day ma – $14.92, 50 day ma – $14.83)

Gold – $1345Â Â Â Â Â Â (200 day ma – $1265, 50 day ma – $1293)

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