March 15, 2017 – The Premise, Continued

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Interpreting any situation correctly generally involves connecting as many verifiable facts as possible by the most plausible explanations. It helps greatly when none of the facts clash with other facts. That's mostly how I try to gauge silver and gold. Since I have been long convinced the primary price driver is positioning on the COMEX, I am naturally most interested in the facts from a COMEX origin. Which is fortunate because the most important facts available come from COMEX data, either from the CFTC or the exchange itself.

The latest COT report indicated that my premise about a possible change in behavior by some managed money traders in COMEX silver was still alive. The report this Friday will shed important new light, as will subsequent reports. The premise revolves around a possible dramatic change in the trading behavior of a number of traders in the managed money category of the COT report.

For decades, the traders in question relied strictly on price movement to trigger their buy and sell transactions, basically, buying as prices rose and selling when prices fell. Not only did this activity accentuate price moves, the traders in question grew so large in collective terms over time that their actions came to determine and explain most big price moves up or down. These technically and mechanically focused managed money traders became their own worst enemies, as prices generally topped out when they exhausted their collective buying and bottomed out when their selling was exhausted. Of course, the conniving and collusive counterparty banks, led by JPMorgan, took full advantage of the herd-like managed money behavior every step of the way.

Late last year, after the largest managed money collective fleecing on record in COMEX gold and silver, something very unusual occurred – for the first time in years, an expected buildup of managed money short positions in COMEX silver futures didn't take place. I had been focusing on this expected buildup beforehand, explaining that were silver prices to decline sharply, then it would be this managed money shorting that would drive prices lower. The expected selling (estimated at around 25,000 contracts) never occurred and, accordingly, prices didn't decline into dramatic new lows. I speculated at the time and subsequently that the managed money traders must have collectively chose to override the usual mechanical signals to sell, sensing it would be a bad deal to sell silver short at such low prices. Regardless of how and why the managed money traders in question came to this collective decision, it was obvious that they had. It was also obvious, at least to me, that this was a big deal.

After gold and silver prices bottomed out near the end of December, another unusual phenomenon occurred. On the subsequent price rally early in the New Year, there was an usually large buildup in managed money long positions in COMEX silver, but nowhere near such a proportionately large buildup of long positions in COMEX gold futures. For the first time ever, the net managed money long position in COMEX silver was scraping historical large readings, while gold readings were much closer to historical lows. On an historical basis, whenever managed money traders were extremely long, that equated to a very bearish market structure, since it was generally only a matter of time before such positions would be sold on lower prices.

The high in silver prices this year occurred at the very end of February at around $18.50, precisely as managed money net long positions also hit their extremes since last summer's record readings. From the end of December, the net managed money long position had grown by more than 40,000 contracts (200 million oz) as silver prices rose by nearly $3. (Net managed money longs are gross longs minus gross shorts). Silver has now fallen more than $1.50 over the past two weeks, penetrating all the important moving averages on the way down, a price event that has always resulted in massive managed money selling in the past.

However, so far the jury is out as to whether the managed money longs are liquidating in their typical sell manner. Last week's COT report indicated only 1500 net contracts were liquidated, as of March 7 and with silver at $17.50. This week's report will feature, I would guess, larger managed money selling, but the key question will be how much? Even a 5000 to 10,000 contract reduction in the net managed money long position this week will still leave that position higher by close to 30,000 contracts than the levels of Dec 20. Should this week's report come in close to that, then for the second time in a few months, the question will again be why the managed money traders didn't sell as they had in the past? First, last fall when they didn't add 25,000 new shorts and now why they didn't sell all the new long contracts they added in the New Year?

Of course, this is still very much an open question and an either/or circumstance. If the newly added managed money long positions are still going to be sold directly ahead, then silver prices should be expected to move lower under that selling pressure. But if these newly added longs will not be sold on lower price prompts set by the commercials, there should be no such selling pressure. (This is not to dismiss the constant commercial attempts to rig prices lower to generate managed money selling Â?that's just a crooked COMEX fact of life). So it still comes down to will they or won't they in terms of managed money selling.

But so taken aback am I still by the first recent instance of the managed money traders not adding to silver short positions that I can't help but think that the very recent lack of selling of newly added long positions could be a game changer for the price of silver. After all, if the managed money traders don't sell aggressively directly ahead, then there is little to drive prices lower. Sure, the crooked COMEX commercials will stage and rig new price stabs to the downside, but if the former stooges (the managed money technical funds) refuse to follow the lower price prompts, then prices shouldn't stay low for long. Anyway, that's my premise.

Should the bulk of the newly added managed money silver long positions not get sold on lower prices, then the dynamics of the game will necessarily change as without the technical funds to toss around like ragdolls, there is no game for the commercials. Plus, the 30,000 contracts of new longs shouldn't be viewed in isolation but as an addition to the core non-technical fund managed money long position of 60,000 contracts that I have been writing about for years. And to that 90,000 contract potential tightly held managed money long position, one must add at least another 20,000 long contracts held by the other reportable and non-reporting traders that have never gotten sold on lower prices in the past. Simply stated, there may now be a true Â?coreÂ? long holding in COMEX silver of 110,000 contracts or more, a paper long position of more than 550 million ounces of silver. (Not to be confused with the 550 to 600 million oz of real silver held by JPMorgan).

If the bulk of the 550 million oz core silver paper COMEX long position is held by traders not inclined to sell on lower prices, then under what circumstances will the position be sold? The obvious answer is on higher prices. Therefore, it becomes a waiting game to see when those higher prices will occur. It also focusses attention on who is on the opposite side of what is increasingly looking like a core paper long position in excess of 550 million oz. After all, in derivatives, there must be a short for every long. The direct answer to who is short is the 8 largest shorts on the COMEX which hold more than 100,000 net contracts short or more than 500 million oz.

I have long pointed out the concentrated nature of the COMEX short position in silver and here's another way of looking at it. Just about the entire 550 million oz core long position on the COMEX, held by managed money and other large traders, along with many smaller traders is held short by just 8 traders, not one of which is a mining company or even representing mining companies (otherwise we would see the evidence of such hedging in mining company reports). Eight short traders, in essence, aligned against a world of long traders.

But one of those 8 large short traders, the criminal enterprise also known as JPMorgan, has taken measures to offset and then some its own leading COMEX paper short position in silver by amassing a physical silver hoard larger than the world has ever seen. It took six years for JPMorgan to acquire its near 600 million oz physical silver stockpile, but that matters little at this point. What matters most is that JPM did amass the actual silver making it off any potential short hook that would occur as and when silver prices moved sharply higher. Holding a 600 million ounce physical position provides more than ample protection against a 150 million oz paper short position. However, the same cannot be said about the remaining 7 large COMEX silver shorts. These remaining short paper traders have no protection against rising silver prices, making them the most vulnerable to higher prices.

We know, from CFTC Bank Participation Report data, that foreign banks are featured short sellers in COMEX silver. So is JPM, but JPM holds plenty of physical silver. The same COMEX data that show that JPMorgan has been the near sole stopper (taker) of physical silver deliveries this month and for nearly the past three years also show that the other COMEX commercials have taken virtually no net silver in delivery for years. In essence, JPMorgan has been the sole stopper of physical silver in COMEX deliveries and this taking of delivery, alone, has protected the bank from catastrophic losses should silver prices explode; to say nothing of all the Silver Eagles and Canadian Maple Leafs and metal conversions from SLV arranged by JPM over the years.

But none of the other commercials on the COMEX appear to have acquired physical silver in any way and, therefore, would appear to have no protection against rising silver prices. This is a very big potential problem for the 7 large shorts (and all other, perhaps, more innocent shorts). Based upon the near complete absence of evidence of physical silver accumulation by anyone other than JPMorgan, I am inclined to believe the 7 large COMEX commercial shorts, mostly foreign banks, don't have a clue as to the potential danger they face. Oh, they probably know that they have been engaged in a crooked game of skinning the technical funds, but I don't think they know just how big of a hole they have dug for themselves.

The history of epic financial miscalculations is replete with examples of complacency, particularly concerning banks and derivatives trading gone amuck. Take the Bank of Nova Scotia, for example, thought to be a very large COMEX silver short. I'm convinced senior management of Scotiabank doesn't have a clue as to what a potential financial disaster a handful of its traders has put that bank in. Besides, the whole idea that banks would be the largest speculators in leveraged silver derivatives trading is absurd to begin with. Let me keep this simple – if great numbers of managed money silver long positions are not liquidated and soon on lower prices, I believe we will soon find out just how vulnerable the 7 big commercial shorts will be on higher prices.

I am also certain that these 7 big COMEX silver shorts will not go down without a fight and that means continued attempts to rig prices lower in the attempt to trip off managed money selling. But if those manipulative attempts fail because the managed money traders have decided to hold and not fold, that will soon be visible in sharply rising silver prices. I hope readers understand that the reason I focus so intently on these COMEX positioning matters is because there is no question that this is the most important factor for price. How the most unusual recent developments in COMEX managed money silver positioning get resolved will determine price. Period.

For sure, we have moved full circle away from a potential regulatory resolution 8 years ago to virtually no chance of such a resolution today. Gone are the heady days of imposing legitimate position limits and investigating the highly unique concentrated short position in COMEX silver. We're down to two standing commissioners at the CFTC (out of 5) and the most anti-position limit commissioner was just nominated as Chairman.

http://www.reuters.com/article/us-usa-cftc-idUSKBN16M1W3

Interestingly, the other remaining commissioner gave public comments this week indicating that she still recommended position limits. Mere talk should always be taken as cheap, but in this case even more so. The agency knows what it should be doing, but just can't admit openly that it has been captured by the big (bank) traders. Don't hold your breath for regulatory reform Â? I'm certainly not.

http://www.cftc.gov/PressRoom/SpeechesTestimony/opabowen-14

As far as what I'm expecting in this Friday's COT Report, I would imagine another reporting week of managed money selling and commercial buying in COMEX gold and silver, based upon the price declines during the reporting week which took the price of each metal below their respective 50 day moving averages. But it's important to remember that gold's market structure was very bullish to begin with and the expected improvement in Friday's report will likely only put icing on the bullish gold cake.

The only real question that matters is how many managed money contracts were sold in silver. Any number less than 5000 to 10,000 contracts of managed money selling would be strong evidence that my crazy premise is still alive. Should it become apparent that the managed money traders are playing a different collective tune than what's been played for decades, then it should quickly become obvious in price, particularly as word of this starts to circulate.

Ted Butler

March 15, 2017

Silver – $17.25 (200 day ma – $18.03, 50 day ma – $17.39)

Gold – $1217 (200 day ma – $1263, 50 day ma – $1214)

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