

March 23, 2019 – Weekly Review

Gold prices rose for a third week, while silver appeared to tag along this week, almost reluctantly. Gold ended \$11 (0.8%) higher, while silver finished 12 cents (also 0.8%) higher. As a result of the near-identical percentage gains, the silver/gold price ratio remained unchanged at 85.1 to 1, but truth be told, gold has been acting better than silver; certainly including in yesterday's trading.

Since I generally start off each weekly review with a reference to how the silver/gold ratio performed, I received a question from a subscriber this week that surprised me, although it shouldn't have. The reader knew I believed silver to be grossly undervalued relative to gold, but was unsure of where I thought the ratio would end up when the manipulation ended and silver wasn't artificially depressed. It was a darned good question that reflected an oversight on my part, mostly the result of me trying to avoid specific price projections like the plague (mainly because it implies a specific vision of the future beyond human capabilities).

My answer was that I could easily see a silver/gold price ratio in the 20 to 30 to 1 range and in a silver price blow off in which the industrial silver users truly panicked and attempted to stockpile physical inventories in order to maintain their production lines, then a ratio as low as 5 or 10 to 1. Putting actual numbers on each metal, should gold rise to \$2500 per ounce and the silver industrial users rush to secure physical silver inventories, I could see a price of silver at \$250 to \$500 an ounce. I don't think such prices would last indefinitely or for long, but see no reason why they couldn't be hit in a temporary price blow off. While I'm mindful of the words of my former desk partner at Merrill Lynch about prices going as high or low as there are numbers, I don't see gold in the tens of thousands of dollars or silver costing more than gold. Call me a stick in the mud.

The simple point is that I do see silver climbing in value by many times whatever gold climbs and from everything I read, it seems there is now a near-universal agreement that silver will markedly outperform gold in percentage terms, even by the staunchest gold bulls. It seems to me that the best investment is the one that is expected to perform the best on a percentage basis and that's the reason I favor silver over gold. If there was no such thing as silver, I'd favor gold. And if one had unlimited buying power, then the best thing to do would be to buy billions of dollars of each metal – just like JPMorgan.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off this week, as 2.6 million oz were moved, the lowest amount in months. Total COMEX silver inventories increased by another million oz to 302.4 million oz, another new all-time record high. I remember writing sometime back (more than year ago) that it wouldn't surprise me to see COMEX silver inventories continue to climb and I still feel that way. In fact, COMEX silver inventories are now only 7 million ounces less than the holdings in SLV (the largest visible silver stockpile), the closest in years.

There was no change in the silver holdings this week in the JPMorgan COMEX warehouse, which still total 147.8 million oz. Since JPMorgan stopped nearly half of the 5380 contracts (26.9 million oz) delivered this month in the March COMEX silver deliveries (2.8 million oz for itself and 10.4 million oz for clients), it would not be surprising to see more metal move into the JPM COMEX warehouse shortly. On the other hand, it's been quite a few months since there have been substantial inflows

into the JPM warehouse despite similarly large combined stoppings of deliveries in the December delivery month.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

This prompts a new thought that I may have mentioned briefly in the recent past. Just from the relatively stagnant holdings in the JPMorgan COMEX warehouse, in the face of its continued strong taking of physical deliveries, I'm starting to think that maybe JPMorgan has reached the effective physical capacity limits in its COMEX silver warehouse, necessitating the storage of silver in other COMEX warehouses. After all, every warehouse has physical capacity limits and not only are the holdings in the JPM warehouse nearly three times as much as are the holdings in the next leading warehouse, I don't believe any COMEX warehouse ever held as much silver as has been reported in the JPM warehouse.

I had mentioned that I thought that JPMorgan held, in addition to the near 150 million oz in its own COMEX warehouse, some 30 to 50 million additional oz in other COMEX warehouses. The continued flow of data suggests that I may be too conservative and JPMorgan's true holdings of total COMEX silver warehouse inventories may be well in excess of 200 million oz. Short of the Justice Department asking who owns the silver in the COMEX warehouses, I'm not sure how to ascertain the answer. JPMorgan certainly knows, but the cat seems to have its tongue (on many silver-related issues).

Notwithstanding the barrage of world and financial news confronting us daily, the main driver to price in gold and silver still seems to be futures positioning on the COMEX, so let me turn to the latest Commitments of Traders (COT) report, for positions held as of Tuesday, March 19. Based upon fairly subdued price action over the course of the reporting week (silver a bit lower, gold a bit higher), I wasn't expecting significant changes and none were reported. I was on the lookout for surprises under the hood, particularly concerning JPMorgan, and wasn't disappointed. First a review which will be on the micro side, to be followed by a more macro perspective for where we stand in positioning terms.

In COMEX gold futures, the commercials increased their total net short position by 7200 contracts to 115,700 contracts. This effectively neutralizes the prior week's slight improvement, which is interesting because over the past two reporting weeks, gold prices rose more than \$20 and upwardly penetrated the one key moving average (the 50 day) that had previously been penetrated to the downside.

I did get momentarily excited by the fairly sharp reduction (5100 contracts) in the concentrated short position of the 4 largest gold shorts to the lowest level since early December, until I examined the data more closely. As it turned out, the only mathematical explanation for the reduction in the big 4 concentrated short position was the short covering by a large managed money trader which had, in hindsight, made it into the ranks of the 4 biggest shorts. This is super-micro stuff that if you care to dig into, please email me.

The managed money traders did buy more gold contracts than the commercials sold, largely on the back of that unusual short covering by a large managed money trader, with total managed money buying of 13,068 contracts, consisting of new longs of 616 contracts and short covering of 12,452 contracts. The net long position of the managed money traders stood at 30,475 contracts (123,909 longs versus 93,434 shorts), still a very low (bullish) net long historical position.

In COMEX silver futures, the commercials reduced their total net short position by 2600 contracts to 43,700 contracts. This is the lowest (most bullish) commercial net short position since Dec 24 and brings to 34,600 contracts the net reduction in the commercial short position over the past three reporting weeks, on a silver price decline that had been as much as 85 cents, but was down 50 cents on Tuesday's cutoff date. Of course, both of silver's two key moving averages (the 50 day and 200 day) had been penetrated to the downside and you know that means managed money selling.

I approached this (and every) silver COT report with an eye towards what JPMorgan may have done and was not disappointed that it reduced its silver short position by at least 2000 contracts to 8000 contracts. Over the past three reporting weeks, JPMorgan has reduced its silver short position from 28,000 to (less than) 8000 contracts, accounting for nearly 60% of the total commercial short covering (can you say double cross?). I admit to micro-analyzing JPMorgan, but if I didn't, who would? This week, however, I have to take you down a micro-rabbit hole to show my findings.

This week, in stark contrast to what occurred in gold, the short position of the 4 biggest silver shorts actually increased by nearly 2300 contracts; so where the heck do I get off stating that JPMorgan decreased its short position by that amount? After all, I usually attribute changes in the big 4 short position to JPM, so I have some â??splaining to do. As it turns out, in the disaggregated COT report does all the explaining necessary, since it shows that the commercials were net buyers of 2600 contracts, all in the Producer/Merchant category (the Swap Dealers were flat). Thus, it was mathematically impossible for any commercial, especially JPM, to have accounted for the increase in the big 4 short position.

Upon closer (really micro) examination, the increase in the big 4 short position could only come from a managed money trader â?? not because there was a big increase in managed money shorting (there wasn't), but because the number of traders on the short side in this category declined by 6 traders to 30 traders from the prior week. That so many traders abandoned the short side of the managed money traders, while the total short position didn't decline could only mean that a managed money trader increased its short position sufficiently enough to kick it into the big 4 category from the big 5 thru 8 category. Don't sweat it if all this stuff leaves you confused â?? the bottom line is that JPMorgan bought back at least 2000 additional shorts.

To finish up on the silver COT report, the managed money traders, overall, did very little, as they were net buyers of 229 contracts, consisting of 814 new longs and 585 new shorts. The net long position of the managed money traders on the cutoff date was 9716 contracts (52,075 longs versus 42,359 shorts). As was the case in gold, this is a very low and bullish managed money net long position on a historical basis. As for how there was both commercial and managed money net buying, the answer lies in the 4000 contracts of net silver selling by the other (non-managed money) large traders.

Having perhaps overdone the positioning changes this week on a micro basis, please allow me to try to put where we stand in macro terms. There is little doubt in my mind that, away from COMEX

positioning, we are configured by everyday world events to be set for a massive upward revaluation in gold and silver prices. Those world events include, but are no way limited to non-stop physical buying (by Russia, China, other central banks and JPMorgan in gold and by JPMorgan in silver) and the now-obvious mission of the world's central banks, including the Federal Reserve to pump up monetary reserves without end. The only thing that has prevented gold and silver prices from exploding has been paper positioning on the COMEX. I sense that is about to change.

In fact, that was the intent of Wednesday's article, "Show Time", although a more appropriate title might have been "Go Time". Looking at the current COMEX market structures in both gold and silver, I am struck by how much room there is for potential additional managed money buying on higher prices. Yes, I'm aware that there have already been around 100,000 contracts of net buying in gold and 50,000 contracts of net silver buying by the managed money traders since the price bottom in November through Tuesday's cutoff. And yes, I'm fully aware that it is always possible for the commercials to rig prices lower on a temporary basis in order to induce even greater managed money selling than has already occurred since the price tops in February and how that would delay the eventual thrust higher in price.

But I am also more keenly aware that at this stage of the gold price advance, the extent of managed money buying is much less than it was at the last times gold flirted with prices close to \$1350. Both in the summer of 2016 and in 2017, there existed a managed money net long position of 250,000 contracts or more (plus a 200,000 net long position in early 2018), as opposed to the current net long position of 30,000 contracts. This suggests the potential of more than 200,000 contracts of potential managed money net buying. Importantly, back in 2016, 2017 and early last year, JPMorgan held a significant portion of the commercial net short position in gold, where it holds no notable short position currently.

In silver, both in the summer of 2016 and again in 2017, the managed money net long position hit 100,000 contracts, versus the current net long position of less than 10,000 contracts, suggesting the potential of 90,000 contracts (450 million oz) of managed money buying. Back then and subsequently, JPMorgan made up a significant percentage of the commercial net short position, holding 40,000 contracts net short both back then and even more recently, when the total commercial net short position was much less than the 100,000 contract level. Currently, JPMorgan holds only 8000 silver contracts short and there have only been a few other times when its short position has been as low as it is now. And it goes without saying that JPMorgan's physical silver position has never been larger, now exceeding 800 million oz (in addition to 20 million+ oz of physical gold).

Please understand that when I talk about potential managed money buying, it is just that "potential" buying. But I mean that in a different sense than you may imagine. Not so much that it may not be achieved in the sense that the managed money traders may choose not to buy on the higher prices that have occurred in the past, but that they may not choose to buy because gold and silver prices move much higher and quicker than they have previously. The "full pants down" premise that infers a commercial failure to the upside, also infers an inability of new longs (managed money traders) to jump aboard a fast moving price freight train. The problem in a runaway market to the upside is the inability to meaningfully position on either the long or short side.

This is also where the JPMorgan double cross premise kicks in. If JPMorgan doesn't add significantly to its silver or gold short position as and when prices move higher, after a fairly short time

any other commercial selling into managed money buying will be quickly exposed as being vulnerable and exposed to unlimited liability. In that event, the only sellers to that point will turn into buyers, leaving virtually no one as a featured seller. That day has always been coming, and as a result of the passage of time and JPMorgan's moves into physicals and the covering of its paper shorts, may be at hand.

Superimposed on this potential COMEX positioning set up, is the simple fact that it's hard to come up with a good answer to who in their right mind, given the world realities surrounding us, would chose to be an active short seller in gold and silver, as opposed to being an active buyer? Even the world's central banks, currently acting as one in the creation of new money, also seem largely in unison in the accumulation of physical gold. As for silver, there isn't near as much to go around and besides, JPMorgan has exclusive digs on what physical silver exists. The only thing missing in this equation is sharply higher prices and the sole explanation for that is paper short selling on the COMEX. For the reasons expounded on above, the control of paper selling seems to be coming to an end.

After a decent corrective selloff from the February price highs, more in terms of positioning than price, particularly concerning JPMorgan's positioning in silver, the stage appears to be set for a significant price thrust higher. If JPMorgan refrains from significantly adding to short positions, the thrust higher should be of memorable proportions.

Ted Butler

Silver – \$15.42 (200 day ma – \$15.18, 50 day ma – \$15.58)

Gold – \$1313 (200 day ma – \$1252, 50 day ma – \$1307)

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