

## May 12, 2018 – Weekly Review

Gold and silver prices rose a bit for the week, with gold finishing \$3 (0.2%) higher and silver up by 15 cents (0.9%). Silver's slight relative outperformance resulted in the silver/gold price ratio tightening by a half a point to 79 to 1; still stuck in a multi-year trading range bearing absolutely no relationship to what I perceive will be a much higher relative value in silver in time. Nothing new there.

Despite world news and financial conditions that would have greatly impacted precious metals prices in times past, the only influence I can detect that seems to matter is the same COMEX paper positioning influence I discuss endlessly. If there is any other price driver for these metals, I sure don't see it. It's as if gold and silver are in their own private price bubble, insulated from almost all other assets. I'll come back to this later.

I had great hopes for a dramatic surprise in yesterday's Commitments of Traders (COT) Report featuring pronounced short-covering by JPMorgan in silver as I described over the past week. Alas, my hopes were dashed as no such short covering appeared and, in fact, the silver market's main manipulator actually added to its short positions by two or three thousand contracts. Knowing that we learn much more from our mistakes than our successes, I'll deconstruct in detail why I was so off when I discuss the changes in this week's COT report.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled a bit this week, as just under 3.2 million oz were moved. I would point out that while this week's movement was down from recent weeks and under the average weekly movement of the past 7 years, it was still at a level unheard of in any other commodity. One would think this would be an invitation to analytical debate as to why the physical inventory turnover exists only in COMEX silver. As you know, no such debate exists.

Total COMEX silver inventories rose again to new 25 year highs, up 1.9 million oz to 268.5 million oz, following last week's sharp 5.1 million oz increase. I would point out that silver prices have been up, albeit slightly, over this time which would seem to confirm rising inventories have little bearing on price. It still looks to me that the recent increase in COMEX physical silver inventories are a result of metal being brought in to meet delivery demands from the COMEX May delivery period. For the third week running, there was no change in the holdings in the JPMorgan COMEX silver warehouse which stood at 139.1 million oz, although I would not be surprised to see some increase in JPM's warehouse over the coming weeks, as the bank has been stopping deliveries in May over the past week or so.

To summarize the May silver deliveries so far, the highlights have been first the disappointment that Goldman Sachs turned into the big issuer of 2230 contracts in its house account, after stopping (taking) roughly 2900 net contracts in December and March and negating any hopes that it was accumulating physical metal. I would note that a client of Goldman has stopped an even 1000 contracts (5 million oz) this month, but there is no way to discern the identity of the client(s), leaving open the possibility that the client could be JPMorgan.

After backing down in the March delivery period after taking 447 contracts in its own name and apparently not holding any May contracts going into first delivery day, JPMorgan began to buy new

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May contracts for delivery in its own name and has now stopped 846 contracts (4.2 million oz) plus even more than that for clients. If JPMorgan has ceased acquiring physical silver, its actions don't signify that.

Another standout for the May silver deliveries is the emergence of HSBC as the biggest stopper with 1390 contracts of the rather large 5909 total contracts delivered to date. More typically, HSBC has been on the issuer side, particularly in gold. My impression is that HSBC may have finally awoken to what JPMorgan has been up to this past 7 years in silver and gold and has decided not to leave JPM uncontested in its accumulation of physical metal. Then again, I thought the same thing of Goldman Sachs not that long ago.

[http://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

Yesterday, there were highly counterintuitive withdrawals of metal from the big silver ETF, SLV, and the big gold ETF, GLD, in the amounts of 2.8 million oz of silver and 170,000 oz of gold respectively. I say counterintuitive because silver and gold prices had been on the strong side for the past few days, implying net investor buying which would result in deposits into these hard metal trusts, not withdrawals. Last week, we had highly counterintuitive metal deposits into the SLV of more than 7 million oz on weaker silver prices. What's with these counterintuitive deposits and withdrawals?

The best I have ever been able to formulate is that the counterintuitive metal deposits are related to actions designed to reduce the short positions in SLV and GLD, as they avoid the alternative requirement of buying shares back on the open market which would drive prices higher. In the case of counterintuitive metal withdrawals, like in yesterday's withdrawals in SLV and GLD, the most plausible (and only) explanation I have ever been able to come up with is due to conversions of shares into metal for the purpose of avoiding share ownership requirements as mandated by the SEC. Converting shares into metal results in shares being extinguished and metal being withdrawn from the trust.

There are strict share ownership reporting requirements and no reporting requirements at all for actual metal; so by converting shares just recently purchased into metal quickly, a large buyer of shares can easily avoid reporting requirements while still owning the metal. No single entity is more qualified or stands to benefit more by this legal sleight of hand than JPMorgan, who I claim has been the massive acquirer of physical silver and gold for years and the share to metal conversion trick being the price source of metal accumulation.

The short positions in SLV and GLD for positions held as of April 30, indicated a slight reduction in the short position in SLV and an increase in the short position in GLD. The short position on SLV decreased by a slight 155,000 shares to 11.1 million shares (ounces), while the short position in GLD grew by 1.1 million shares to just over 12 million shares (1.2 million oz). The big counterintuitive deposit of metal into the SLV, referenced above, may be reflected in the next short report, due May 24.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

Turning to the changes in yesterday's COT report, the slightly higher price action in the reporting week (\$7 in gold and 30 cents in silver) suggested not much change on a purely analytical basis and while that largely occurred in gold, I had high hopes for some unexpected short covering by JPMorgan in silver, speculating the bank may have covered a significant number of (as many as 10,000)

contracts due the highly unusual trading volume and price action on the first day of the reporting week. If there's any solace in the expression "if you're going to miss, then miss by a lot", I suppose I should be somewhat comforted; seeing as not only did JPMorgan not buyback any shorts, it added 2 or 3 thousand instead. You'll forgive me if I don't find any solace in that.

In deconstructing why I was off by so much, my main premise was that I envisioned ready sellers of silver that day (Wednesday, May 2) in the form of the raptors (the smaller commercials which were heavily long), the other non-commercial reporting traders and even the managed money traders which have recently added short positions on rallies up to, but not exceeding the key moving averages. As it turned out, none of these traders sold to speak of - the raptors sold only 300 long contracts, the managed money traders added only 200 new shorts and the other non-commercial reporting traders were net buyers to the tune of nearly 2700 contracts. Due to that buying and new managed money longs of just over 4600 contracts, JPMorgan had no choice but to be a seller of additional shorts. I wouldn't have anticipated any of these changes (with the exception of the new managed money longs) and I'm still scratching my head in bewilderment.

In COMEX gold futures, the commercials increased their total net short position by a scant 3100 contracts to 135,000 contracts. This was the smallest weekly change in nearly 4 months and in synch with the small price change in the reporting week. This is also the lowest (most bullish) commercial net short position since the December gold price lows (\$1240), save for last week and once you adjust for the near record net long position of the other non-commercial reporting traders (which compete with the commercials against the managed money traders), the effective commercial short position is the lowest it has been since July (\$1200 gold).

By commercial category in gold, the big 4 added 1700 shorts, while the raptors joined in the selling by liquidating 5900 longs and reducing the raptors net long position to 85,100, still high (and bullish). The big 5 thru 8 bought back 4500 shorts, but that looked to be due to short covering by a managed money trader and not by commercials. As was the case with the small change in the headline number, these are not particularly large category changes and should not be obsessed over.

Likewise, the net change of the managed money traders in gold was not large, at 2322 net contracts bought, but that did include the rather large sale of 9,556 long contracts, as well as the net purchase of 11,878 short contracts. The net long position of the managed money traders, now just under 42,000 contracts is still the lowest (most bullish) it has been since July, save for the previous reporting week.

In COMEX silver futures, the commercials increased their net short position by 5100 contracts to 17,100 contracts. I hate to see any increase in the total commercial net short position ever, but there's no question this is still a very small (bullish) short position, rarely achieved over many years (with the exception of the past couple of months). Undoubtedly, the commercial short position is larger still as a result of trading after the cutoff, but it has a very long way to go before it could possibly be considered outright bearish (something I prefer never to see again).

By commercial category and as mentioned above, the four largest shorts were the biggest sellers, as they added 3500 new shorts, as did the big 5 thru 8 traders which added 1300 new short contracts. Also as mentioned, I was surprised that the raptors only sold 300 long contracts, reducing their net long position to 65,200 contracts, still quite large and bullish.

I would have thought the raptors would have been larger sellers on the rally on Wednesday, May 2 and

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over the course of the reporting week ended Tuesday, since they added a very large number of longs (12,100) in the previous reporting week and could have easily taken 30 cents or more profit (\$1500 per contract). I would also imagine that the raptors were much heavier sellers and profit takers on the additional 25 cent silver rally after the cutoff, but seeing how badly I missed on my prior speculation about JPMorgan buying back shorts, youâ??ll forgive me if I strike a less bold calculation at this point.

While Iâ??m still scratching my head about why the raptors hadnâ??t sold more in this report, the report is what it is and itâ??s easy to see why JPMorgan may have added as many as 3000 new short contracts (up to 24,000 contracts) â?? it had no choice. Still, this is outside the normal behavior for JPMorgan which usually doesnâ??t sell this early in a silver rally. Perhaps, if the raptors did sell more aggressively since the cutoff, JPMorgan may have bought back some of their added shorts into that raptor selling, but if so, it would signify the crooked bank may have booked losses for the first time ever. And maybe the raptors didnâ??t sell since Tuesday, in which case weâ??re talking about something very different than what has occurred in the past. How about we just wait for the data to flow as time allows?

On the buy side of silver, the managed money traders did add, as mentioned 4624 new longs to a long position amounting to 47,919 contracts, as well as adding new shorts to the tune of 221 contracts. The managed money long position isnâ??t particularly large when compared to levels of the past few years, when it was thought the core non-technical fund long position was first 60,000 contracts and then 46,000 contracts. But we did get down to 32,000 contracts a month or so ago, so Iâ??m not sure if the current level is high or not (Iâ??m still trying to understand why it went so low).

Thereâ??s no question that the managed money short position of 67,402 contracts as of Tuesday was still astronomically high and bullish, as is the managed money net short position of more than 19,000 contracts. I would imagine there has been managed money buying since Tuesday of both the new long and short covering varieties, but seeing as my crystal ball was so cloudy last week, Iâ??d prefer to await the next report.

The bottom line is that any managed money buying and commercial selling that has occurred since Tuesday does raise the possibility of a short term corrective selloff in silver and gold, but there is also no question that the bigger move will be higher, as and when the key moving averages are penetrated to the upside. Future COT reports, Iâ??m certain, will fully explain whatever price action unfolds in the short term, but as you know, are not particularly reliable for predicting short term price movements. Considering what I would call extremely bullish market structures in silver and gold, the chance of missing a substantial move to the upside is not worth taking for the fear of experiencing a short term price downdraft on near term market structure deterioration. But when JPMorgan is in the room, itâ??s always wise to keep one hand on your wallet and be prepared for just about anything.

It is said that is always darkest just before the dawn. The trouble is that the night in silver has lasted for seven long years now, completely destroying investor sentiment to a degree even I find remarkable. The signs of rock bottom investor sentiment in silver are everywhere â?? almost a complete absence of retail demand, super-depressed mining company values and resignation that the price will never move higher by those literally worn out by the long nightmare of depressed prices for years on end. Itâ??s hard to even remember the last truly decent silver rally.

Worse, just about every other asset class, from stocks to bonds to real estate to cryptocurrencies, has had its day in the sun while silver has been on price lockdown. Adding insult to injury, over the past

year other much more important commodities and markets, such as crude oil and short term interest rates have risen sharply, thereby affecting just about everyone who consumes energy or is impacted by short term interest rates; another way of saying everyone. Yet through it all, the price of silver, which impacts less people than just about anything else, has been conspicuous by its lack of price movement.

I fully understand and empathize with those who have given up or are down in the dumps about the dismal price performance of silver; as everyone has a limit as to how much financial and emotional suffering can be tolerated by any investment that just doesn't pan out. Particularly when just about every other financial asset has run rings around the performance of silver. Had any of us (certainly including me) known seven years ago that we were about to enter the night that never ends for the price of silver, every one of us would have sidestepped what has been a very trying period.

Unfortunately, that's not the way things work in the real world; where you must consider things as we think and know them to be and then pays your money and takes your chances. No do-overs or "backsies" allowed. The best we can hope to do is learn from our mistakes and not be falsely inflated by our successes. I can't speak of anyone else's journey through the dark silver night time of the past seven years, but I can certainly speak of my own journey.

My silver journey has been unique, starting around 1985, believe it or not while I was still in my late thirties. I'll not regurgitate the entire story of how my dear old friend and silver mentor, Israel Friedman, challenged me to explain how silver prices could be so depressed (around \$5) in the face of documented supply deficits and constantly depleted world inventories. It took me about a year, but it suddenly dawned on me one day that the depressed price was due to concentrated short selling by a few banks on the COMEX, the very same reason the price of silver has been depressed through the present.

Despite that discovery and in the face of continued supply deficits and depleting world silver inventories that would persist for another 20 years (until 2006), the price of silver languished over most of that time, as the COMEX paper-rigging scam maintained its death grip on the price. Sure, there were some sudden surges from time to time, like in 1987 when silver prices doubled in a month or two and in late 1997 when the price doubled in six months when Warren Buffett bought a good-sized chunk.

But for the vast majority of the time since I discovered the price was manipulated in 1985, there were agonizingly long stretches of years, as long and even longer than the past seven years, when the price of silver flat-lined (mostly around the \$5 mark). That changed upon the introduction of the big silver ETF, SLV in 2006 and its gobbling up enough physical metal to drive prices nearly ten-fold to near \$50 in early 2011, forcing the biggest short, JPMorgan, into recognizing it was on the wrong side of the market and providing the spark for its criminal and genius master stroke to acquire physical silver in massive quantities (gold too).

The point of this walk down memory lane is to show that long periods of time is typical of a manipulated market; an extended period of time of absolutely comatose price action, followed by spurts to the upside out of the blue. The difference this time is that the main price manipulator has used the long night of everyone else's discontent to set the stage for the inevitable liftoff that once ignited, will never return to the prices we seem struck at today. The only real trick is holding a position and not dying too soon.

Ted Butler

May 12, 2018

Silver – \$16.70 (200 day ma – \$16.81, 50 day ma -\$16.54)

Gold – \$1319 (200 day ma – \$1307, 50 day ma – \$1329)

**Date Created**

2018/05/12