# November 16, 2019 – Weekly Review

On the heels of the largest weekly decline in years, prices for gold and silver ended this week remarkably stable and slightly higher. Gold ended $8 (0.5%) higher, while silver tacked on 20 cents (1.2%), resulting in the silver/gold price ratio tightening in a bit to 86.6 to 1. Still, the undervaluation of silver relative to gold (and everything else) remains mind-boggling â?? to any mind left unscrambled by the years of near-impossible to explain justification for why silver is so cheap.

â??Near-impossibleâ?• is not the same, of course, as impossible to explain and the only possible explanation for why silver is so cheap is the price discovery process of COMEX futures contract positioning. Specifically, the consistent concentrated short selling by a handful of large so-called â??commercialâ?• traders over the past 35 years, led by JPMorgan over the past decade, is the sole explanation for why silver is so darn cheap. However, solid signs have emerged that the stranglehold that the large paper shorts have held on silver (and gold) may soon be broken.

How soon is the key imponderable and, therefore, the question that is on most minds. The answer resides in the only available source data for COMEX positioning changes, the Commitments of Traders (COT) report, and is very much subject to subjective interpretation. Yesterdayâ??s report was a blockbuster, although in ways both expected and unexpected by me. As always, Iâ??ll try to dissect the report as objectively as possible and lay out what the data portend for price.

Since the COMEX positioning is really all that matters to explain both past and future price action, Iâ??m going to address the new report forthwith and skip over the typical weekly format (COMEX silver warehouse movements, ETF flows, etc.), which are not particularly consequential this week. OK, there were just over 5.4 million oz physically moved this week in the COMEX silver warehouses and total inventories rose 0.4 million oz to 315.6 million oz. No change in the JPM COMEX silver warehouse â?? still stuck at 161.1 million oz. With the approach of the big December COMEX delivery period in less than a fortnight, it wouldnâ??t be surprising to see some significant deposits/adjustments ahead for silver and gold.

One thing I would mention, though, is the fairly large reduction in the short position in SLV, the big silver ETF, over the past month. While the data was available early in the week, I chose not to mention it in Wednesdayâ??s article, as it didnâ??t appear particularly consequential. I try to avoid disseminating data for the sake of solely disseminating data because I think it tends to confuse many. However, after reviewing the new COT report, I was more struck by the full monthâ??s decline of more than 50% in the short position of SLV (from near 21 million shares/ounces to just over 10 million shares).

To be sure, 10 million ounces is the equivalent of only 2000 COMEX silver futures contracts, but Iâ??ve always thought that JPMorgan was the single largest short seller in SLV. Still believing that, my impression is that JPM did the bulk of the short covering in SLV over the past month and this coincides perfectly with my take that the key feature of the new COT report is that JPMorgan went peddle to the metal in covering short COMEX silver (and gold) contracts.

My first reaction to yesterdayâ??s COT report was disappointment at how little overall managed money selling and commercial buying occurred. While I avoided any specific contract predictions, I was

expecting two or three times more such positioning than was reported in gold and perhaps twice as much as was reported in silver. After all, gold and silver prices fell sharply during the reporting week to multi-month lows on very high trading volume and featured the pronounced salami-slicing (persistent new lows) that typifies managed money technical fund selling. And the selloff occurred at a time of an extremely bearish market structure in gold and a not quite as extreme, but still bearish structure in silver â?? meaning that the managed money traders were expected by me to have sold much more aggressively than was reported.

Trying to remain objective, the lack of much more managed money selling and commercial buying could very well mean that such selling and buying is yet to occur and that translates into much lower gold and silver prices ahead. Certainly, if we do see substantial further managed money selling and commercial buying ahead that can only occur on lower prices. Therefore, I would expect this COT report to be widely interpreted as being very bearish by the vast majority of commentators because relatively little managed money selling and commercial buying transpired. And in what has developed into being the conventional COT analysis of today, I canâ??t say I disagree with that, namely, when the managed money traders are overloaded on the long side, lower prices should be expected.

Ironically, the conventional COT analysis of today was not the conventional analysis when I first started studying the COT report decades ago. Back then, the conventional (most popular) analysis was that the large speculative traders should be imitated, not faded or bet against. It was thought that the large speculators must have done their homework and should be followed and that their commercials counterparties were strictly hedging and didnâ??t care which way prices went, so they should be ignored. But I observed, time and again, that once the large speculators had loaded the boat (either long or short), prices would eventually go against them, so it made more sense to bet against the big speculators when they loaded the boat.

Based upon many years of practical observation, what was once the conventional analysis of betting with the large speculators has morphed into the now-conventional analysis of betting against them. That doesnâ??t make the new conventional analysis faulty (since I learned it by trial and error), but it does make it widely followed â?? always a cause for concern for this self-admitted contrary opinion proponent.

One point I would raise (that I donâ??t think Iâ??ve raised previously) is that none of the many present day commentators on the COT report, including myself, are actual significant participants in the COMEX positioning under scrutiny. The positioning changes closely analyzed involve a relative handful of large market participants which never acknowledge or comment on what they are doing. In other words, the ants are observing the elephants with the idea of not getting stepped on or profiting from expected elephant direction â?? trying to read the elephantsâ?? thoughts and what they will do next.

So while I fully admit that the current conventional COT analysis might be correct in assuming lower prices and much more managed money selling and commercial buying ahead, I do see the strong possibility of something different playing out. Further, if we do see a further flush out to the downside ahead, both for prices and managed money selling, I still believe it will be the last such flush out.

As for what could make this time different, my main answer is JPMorgan. Whereas there was much less managed money selling and commercial buying than I expected in this weekâ??s COT report, my expectations for what I expected (hoped) JPMorgan would buy were fully met and even exceeded.

In COMEX gold futures, the commercials reduced their total net short position by only 15,700 contracts to 301,500 contracts. This weekâ??s reduction was actually less than the prior reporting weekâ??s increase (although the prior report was a catch up from the reporting error in the Oct 29 report). While a 300,000+ total commercial net short position after nearly six weeks of trading predominantly below the key 50 day moving average and the setting of fresh multi-month price lows looks ominous in terms of potential managed money selling ahead, there were some highly unusual developments.

For one, JPMorgan appeared to be a massive buyer. The disaggregated COT report indicated that there was very large buying in the Producer/Merchant category (where JPM resides) and absolutely no net buying at all in the other commercial category â?? the Swap Dealer category. For someone expecting (hoping) for signs that JPMorgan might be intensifying its efforts to double cross the other large commercial shorts, this was manna from heaven.

In terms of what JPMorgan bought relative to what the other commercials bought, this development blew me away and more than compensated for any initial disappointment at the lack of more overall commercial buying. The Swap Dealer category actually indicated close to 2000 contracts of net gold selling. Accordingly, Iâ??d peg JPMorganâ??s gold short position to be close to 25,000 contracts, down from 50,000 contracts as recently as last week. If my estimate is correct, JPMorgan holds about 2.5 million oz of a COMEX paper short position against a 25 million oz physical gold long position, perhaps the greenest light JPM has ever had to let gold prices rip to the upside.

As to why the other commercials didnâ??t buy more (any) net gold contracts, I believe the answer lies in a number of factors (besides JPM using its special manipulative trading skills to hog the buying). For one, the managed money traders didnâ??t sell that much and what they did sell, JPM cornered on the buy side. Additionally, any buying back by the 7 big commercial shorts would have resulted in them booking actual substantial realized losses for the first time ever, as mentioned on Wednesday. Perhaps they were reluctant to book such losses or perhaps they were unable to do so, due the paucity of managed money selling.

This just sharpens the major remaining resolution to come, namely, will the 7 big shorts pull their chestnuts from the fire or will they be consumed by that fire? As a result of JPMorganâ??s aggressive buyback of gold short contracts, the net short position of the 7 biggest shorts actually expanded to close to 250,000 gold contracts (25 million oz). Additionally, there was a similar expansion of the 7 big shorts silver position, also as a result of JPMorganâ??s aggressive short covering in silver. Iâ??d still peg the open and unrealized combined loss of the 7 big gold and silver short traders as close to $2.3 billion (same as Wednesday), but the stakes appear to have risen quite a bit.

On the managed money side of things in gold, these traders sold 21,806 net contracts, consisting of the sale and liquidation of 23,735 long contracts and the buyback and covering of 1929 short contracts. I thought there would have been more long contracts sold and a lot more short contracts added and not any short contracts bought back. The resultant net managed money long position of 175,441 contracts (209,432 longs versus 33,991 shorts) must still be considered extremely bearish on a conventional COT analysis basis, but the question is if the conventional analysis is the way to look at it. Time will tell.

As far as why the managed money traders didnâ??t sell more long contracts and any new short contracts that question is also pounding in my head. After all, we did drop by more than $100 from the

gold price highs of early September, decisively penetrating along the way the key 50 and 100 day moving averages (and all shorter term moving averages), which has always ushered in much more substantial managed money selling than has occurred to this point. Why are these traders behaving differently this time and will they still sell up ahead? Iâ??m an analyst, not Mr. Mysto who sees all and tells all, and besides, Iâ??m asking the questions. Will they (sell) or wonâ??t they? If they do sell, we go lower. If they donâ??t, the seven big shorts look to be in real trouble. Is it possible that maybe, just maybe, these managed money traders or enough of them have wised up to the constant commercial snookering and have instead set a trap for their persistent tormentors? More questions with the answers yet to come

One final observation on the gold COT report. The other large reporting trader speculative category, aptly titled, Other Reportables, did buy a significant number of net gold contracts this week, some 9044, although most of this weekâ??s buying was of the short covering variety (6711) as compared to establishing new longs (2333 contracts). Despite this weekâ??s larger short covering, the gross and net long positions of the Other Reportables just happened to set new all-time records of 113,757 contracts gross and 91,625 contracts net.

I donâ??t usually comment on the Other Reportables which are large speculative traders (as opposed to hedgers), holding 200 gold contracts or more each. Perhaps the simplest way to describe them is that they trade for their own benefit and risk, as opposed to the traders in the managed money category which trade on behalf of outside investors. If anything, the Other Reportables tend to trade against the Managed Money traders, but that is not a hard and fast trait. Still, the record net and gross long position of the Other Reportables in gold (not a circumstance currently in silver) is notable at this juncture, given the other unusual features currently in place. I canâ??t help but wonder, do these large traders have a true sense of things and are putting their money where their convictions are?

In COMEX silver futures, the commercials reduced their total net short position by 13,100 contracts to 61,900 contracts. While I had expected even more of a reduction, this is still the lowest commercial net short position in silver in four months (July 16), when silver hit $15.50 on its way to $19.50 in September. Â As was the case in gold, there was notable buying in the Producer/Merchant category which I would attribute to JPMorgan; although unlike the case in gold, in silver there was also large short covering in the Swap Dealer commercial category.

Accordingly, I would peg JPMorganâ??s silver short position to be closer to 5000 contracts than 10,000 contracts, partly as a result of changes this reporting week and partly as a result of further calculations in the prior weekâ??s report. You have to go back to June to find similarly low short positions for JPMorgan. Since that time, JPM has increased its physical silver long position to 900 million oz, making its true net long position (physicals minus COMEX paper shorts) as 850 to 875 million oz. In effect, JPMorgan has never been more net long silver (and gold) than it is currently.

On the managed money side in silver, these traders sold 9561 net contracts, comprised of the sale and liquidation of 6020 longs and the new short sale of 3541 contracts. While I expected a lot more new short selling, it is now possible that a managed money trader may have entered into the ranks of the 8 largest shorts, also as a result of the reduction in the number of managed money short traders this week. The resultant managed money net long position of 31,577 contracts (72,660 longs versus 41,083 shorts) must still be considered bearish, but not as bearish as goldâ??s managed money position. Then again, I have real questions if goldâ??s position is all that bearish based upon what I

discussed above and that goes double in silver.

While we did get some new managed money shorting in silver (as opposed to none in gold), the same question applies in silver as in gold, namely, whatâ??s it going to take to get more managed money selling? As was the case in gold, the 100 day moving average was decisively penetrated during this reporting week in silver, along with every popular moving average of shorter time duration. Normally, by this time and in these circumstances, the managed money traders would be selling and have sold with reckless abandon. But that is clearly not the case. Itâ??s as if they are behaving by different rules, although I suppose itâ??s possible (by conventional COT analysis) that big selling still might occur.

But what the heck are the 7 big shorts going to do if the managed money traders donâ??t accommodate the big shorts by puking up significant amounts of long liquidation and by adding even more significant numbers of new shorts? There does exist, after all, the possibility that the managed money traders might not sell aggressively enough to allow the big shorts to exit what must be considered dangerous positions. Then what happens?

The last specific detail I was looking for in this weekâ??s COT report was what the big concentrated longs would do, particularly in silver. As it turned out, not much â?? which I think still keeps this other premise of mine alive. The 4 big longs in silver did reduce their concentrated net long position by less than 1300 contracts to 53,087 contracts, but given the much larger gross long liquidation (6020 contracts) in the managed money category, itâ??s more reasonable to conclude the liquidation was not by the single biggest long. Ditto in gold, where the 4 big longs reduced their net long position by 4300 contracts to 128,232 contracts; while the gross long position of the managed money traders was reduced by nearly 24,000 contracts. In fact, itâ??s more reasonable to conclude the concentrated long position of the single largest trader likely increased, but Iâ??ll hold off on that conclusion for now.

In summary, if we get a resolution along the lines of the now-popular conventional COT analysis (of which Iâ??ve always been a strong proponent, if not originator), there is a lot more managed money selling and lower prices ahead. After that cleanout, should it occur, we will be cleared for the final blastoff (according to me). But if my JPMorgan/double cross premise, which is contemplated and followed by remarkably few, comes to pass, then watch out for the upside much sooner. The data in this weekâ??s COT report exceeded even my own optimistic expectations for the JPM/double cross premise, while the conventional COT analysis was hardly reassuring. Again, time will tell, but in the meantime, I see no reasonable alternative to playing it as if we will explode in price.

Ted Butler

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Silver – $16.95Â Â  (200 day ma – $16.14, 50 day ma – $17.48)

Gold – $1468Â Â Â Â Â Â  (200 day ma – $1396, 50 day ma – $1498)

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