

November 3, 2018 – Weekly Review

Gold and silver prices were little changed at week's end, with gold finishing \$2 (0.2%) lower, while silver ended 5 cents (0.3%) higher. As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in by a fraction to just under 83.7 to 1, still reflecting the deep undervaluation of silver that seems to have existed for far longer than anyone (me) would have ever imagined.

Of course, this week's flat price ending belied a notable bout of price volatility earlier in the week. From Monday through Wednesday's close, gold was down by \$20 and silver by 45 cents, with silver setting new one-month price lows and re-penetrating to the downside its 50 day moving average, with gold coming only a few dollars from penetrating its 50 day moving average as well. It's a good thing I didn't write a report on Wednesday because by the close that day, it looked like prices were bound to head lower and I'm sure my tone would have reflected that (although I'm sure I would have opined that prices weren't likely to enter an extended period of decline given the overall market structure).

Instead, prices surged upward on Thursday, with both gold and silver erasing the losses of the three previous days and with silver back above its 50 day moving average. Volume was heavy on both the decline and surge higher and the one thing we know for sure was that the managed money technical funds were selling on the decline and buying on the rally. What we don't know, of course, from Wednesday on, was what JPMorgan was up to. I'm pretty sure the bank was buying on Wednesday's decline in both gold and silver, but am unsure if it sold short into the rally that began on Thursday and continued, at least in silver, for much of Friday. In this regard, next week's Bank Participation report will, hopefully, shed some light on JPMorgan's position.

The lessons from this week's bout of price volatility is that price movement is dictated by managed money buying or selling in reaction to moving average penetrations and that such penetrations are impossible to predict with short term precision. For someone interested in long term investment (which is the only practical approach for the vast majority), short term moving average penetrations are an unfortunate fact of market life and a necessary cross to bear. Positioning changes as indicated in Commitments of Traders (COT) reports will always explain what took place, but are not particularly reliable in short term predictions. Then again, I'm aware of nothing that is a reliable short term predictor of price and away from COT positioning I'm aware of nothing that comes close in terms of explanation. Later, I'll discuss some longer term thoughts on COT positioning in light of the mid-term elections next Tuesday. Don't worry â?? no politics involved.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses continues to astound, as another 13.2 million ounces of cold hard metal in 1000 oz bar form were shuffled in and out of trucks and warehouses this week. Since a full truckload (container) of silver is 600,000 oz, this means at least 22 truckloads were involved in moving this metal around this week; but since there are always shipments of less than 600,000 oz, the truckload count is higher. And I suppose you thought traffic in and around NYC was rotten due to taxis and Uber drivers and not the truckloads of silver being carted around.

Despite the mind-blowing physical movement in and out, total COMEX silver warehouse inventories

rose by only 0.3 million oz to 290.6 million oz, continuing the same stark pattern I've outlined for more than 7.5 years, namely, a whole lot of movement and relative little change in total inventories. Yes, it's true that total COMEX silver inventories have nearly tripled over the past 7.5 years, but we're talking about an increase of less than 200 million oz over a time when total turnover has been nearly ten times as large, somewhere between 1.5 and 2 billion oz. And JPMorgan, alone, has accounted for nearly all of the total increase in COMEX silver inventories.

This week, a further 1.9 million oz was brought into the JPMorgan COMEX warehouse, bringing to 10.9 million oz the amount of silver brought in over the past five weeks. This is just slightly above the 10.6 million oz JPMorgan took delivery of in its own name in the September COMEX futures deliveries and may also represent deliveries stopped by clients. Thus, like clockwork, JPMorgan has brought in the entire amount of metal it stopped in September and this pushed the total amount of silver in its own warehouse to 151 million oz, another new record. As clear and unmistakable as is the pattern of JPMorgan taking delivery on futures contracts and then moving the metal into its own COMEX warehouse, this is only one of the two important factors in these inventories, with the most significant factor being the unprecedented and incredible movement or turnover.

In many ways, my discovery and continued reporting on the incredible movement in COMEX silver inventories over the past 7.5 years is highly reminiscent of the reaction I received concerning my discovery of the COMEX silver manipulation in 1985 via the excessive and concentrated short selling by banks into speculative buying. Back then, just about everyone (certainly including the regulators) was incredulous at the thought that excessive paper trading was dictating and setting prices. Today, that has changed by 180 degrees, as it's the rare stubborn oddball who doesn't refer to the COT report and COMEX market structure as the leading price influence.

The problem is that it has taken more than 30 years for the analytical community to catch on to the price influence of futures contract positioning and I don't have another 30 years for the community to catch up regarding the incredible physical turnover in COMEX silver inventories; a movement that is highly unique and specific to silver of all commodities. To be sure, it shouldn't take another 30 years due the nature of the two discoveries.

Futures positioning rising to the level of price manipulation is a complicated subject, requiring a detailed understanding in how futures markets operate that is way above the level of knowledge (or interest) of average investors. And I'm certainly not impugning the intelligence of investors in general because I've recounted on these pages how I couldn't grasp the concept of short selling — how one could sell something he didn't own — for a full month as a Merrill Lynch new hire more than 45 years ago and only came to grasp the concept because it was a condition for continued employment. After all, necessity is a prime motivator. And reading a COT report for the first time is like reading a Chinese menu — in Chinese.

But this COMEX silver warehouse business is something else entirely in that it is so straightforward and simple. Massive amounts of physical silver suddenly started moving in and out of the COMEX silver warehouses in April 2011, the same time JPMorgan opened its warehouse and has continued being moved to this day. All told, as many as 2 billion ounces have been moved since then. Very recently, the physical silver movement has accelerated — over the past 7 weeks, roughly 70 million oz have been moved, an average of 10 million oz a week. That's the equivalent of 520 million oz annually, or 65% of the world's total mine production of 800 million oz. Even if one subtracts the

amount that has come into the JPMorgan warehouse (as well as the 6 million oz removed from that warehouse just prior to the big in movement), the turnover totals are staggeringly large.

We know for a fact that this silver has been moved, both over the past 7 years and 7 weeks, but we don't know why it has been moved. That's the precise prescription for analytical reasoning and explanation. I've offered my own explanation, namely, that the silver is being moved because of extraordinary demand. Further, since JPMorgan seems to turn up as the critical player in everything else related to silver since acquiring Bear Stearns in March 2008, I can't help but conclude that the unprecedented COMEX silver warehouse turnover is due to demand from JPMorgan.

Fully admitting that the facts of the physical COMEX silver movement are fully visible and documented, but that my explanation for why it is occurring can't be considered equally as fully factual, I've openly solicited alternative explanations, making public last week the article laying out the case.

<http://silverseek.com/commentary/mysterious-metal-movement-17457>

While there were some alternative explanations offered in the comments section (which I addressed in a respectful manner), I did receive a limited number of alternative explanations privately in a confidential and roundabout manner from those whose names you would know. Let me cut to the chase - I received no plausible alternative explanations for why so much physical silver is moving and has moved in and out of the COMEX warehouses. In fact, I haven't run across an alternative explanation that has even been remotely close to being responsive to the facts. It seems no one wants to touch this issue with a ten-foot pole.

Considering the indisputable facts of the existence of the movement and how unusual it is, particularly that it is highly unique to silver, it is near dumbfounding that no commentary has arisen around it. Even if the movement were to end tomorrow, some explanation for why it existed should be expected. After all, close to 2 billion oz has come in and out of the COMEX silver warehouses over the past 7.5 years and that's more than all the silver in the world (in 1000 oz bar form).

The changes in this week's COT report were in line with price action during the reporting week ended Tuesday, but the amount of managed money selling in gold was more than I would have expected, given the relatively shallow price decline. As it turned out, the managed money selling in gold was strictly the result of long liquidation, something I would not have expected.

In COMEX gold futures, the commercials reduced their total net short position by 15,300 contracts, to 31,200 contracts, slightly more than they sold in the previous week. Whether the commercials can get back to a net long position would be dependent on whether the managed money traders can be induced into adding aggressively to short positions, since managed money long positions are now near all-time historic lows. Of course, there appeared to have been managed money shorting on Wednesday as total gold open interest rose by 16,500 contracts that day and the most plausible explanation for the increase would be new managed money shorting. There was also a fairly large increase of 2800 contracts in COMEX silver total open interest that day, also indicative of new managed money shorting. Curiously, total open interest appears to have changed little on the sharp rally on Thursday and also changed little in Friday's preliminary data.

For the reporting week through Tuesday, the managed money traders sold 17,405 net gold contracts, comprised of the sale and liquidation of 19,263 long contracts and the buyback of 1858 short contracts.

The real standout in this week's gold report was the large amount of managed money long liquidation which brought the long total down to 80,105 contracts. Not only is this lower than the recent low water mark on Oct 9 (when gold was priced at \$1192), this is the lowest managed money gross long position since the end of December 2015, just as gold was beginning to embark on a \$350 rally into that summer. Here we are, close to \$40 higher than gold was on Oct 9 and nearly \$200 higher than gold was in Dec 2015, and there are fewer or near the same amount of managed money longs.

This suggests a washout of some type in gold. And I can't help but think it may not be technical fund type liquidation, but more likely some type of non-technical fund long liquidation due to a portfolio adjustment. Regardless of the reason, it certainly is bullish to witness such long liquidation as long positions can only be sold once and once they are sold they are no longer a source of downward price pressure. It would appear that any further price decline in gold and potential commercial buying would be dependent on increased managed money short selling, since we are around 65,000 contracts away from the peak in managed money gold shorts back on Oct 9. Will the brain dead technical funds short gold into a price hole, thereby guaranteeing certain losses yet again? We can only watch and observe, but if anyone gives meaning to the phrase, stupid is as stupid does, it's got to be the technical funds when adding shorts.

In COMEX silver futures, the commercials reduced their total net short position by 3500 contracts to 9800 contracts. This is still a historically bullish reading (as is the case in gold). Best I can tell, JPMorgan didn't do much short covering, based upon changes in the Producer/Merchant category, but I did get the sense JPM was buying back shorts on Wednesday price drop. Unfortunately, I'm clueless as whether JPM re-shortened on Thursday's and Friday's rally. I have no doubt that the managed money traders were deliberately whipsawed this week by the commercials rigging prices first below and then above the 50 day moving average, but I'm not sure of JPMorgan's role in the commercial price rigging this week.

On the sell side of silver this reporting week, the managed money traders sold 4151 net contracts, comprised of the sale and liquidation on just 224 long contracts and the new short sale of 3927 contracts. Managed money longs, now at 50,387 contracts, continue to look washed out and not likely to be subjected to much greater liquidation, but that's what I said in gold, only to witness big long liquidation there.

Managed money silver shorts, now at 75,563 contracts still look large, despite being close to 30,000 contracts lower than at the recent peak. As was the case in gold, perhaps the commercials can hoodwink the managed money technical funds into add aggressively to short positions on lower prices, but there is little question that should new shorts be added, they will be bought back at an eventual loss. Also as was the case in gold, I believe new managed money shorts were added on Wednesday, but am less sure as to whether they were bought back on Thursday and Friday.

This coming Tuesday marks the day of mid-term elections in the US. Without a doubt this has to be the most divisive and contentious election of my lifetime. I'll not wade into a political discussion, other than to say if any US voters are still undecided on how to vote, they need to stop taking, start taking or change their medications. Certainly nothing should change anyone's mind at this stage. Instead, however, I would like to discuss something I haven't seen mentioned going into this election, namely, the current market structure in gold and silver today versus the market structure at the time of Election Day two years ago.

As a matter of review, the presidential election of 2016 did cause a great deal of price volatility and trend change in gold and silver, as well as other markets, like the stock market. Going into Election Day 2016, you may recall that gold and silver did initially surge that day and the stock market swooned until later when it became clear that Donald Trump would prevail over Hillary Clinton and there were dramatic reversals in those markets.

After trading well over \$1300 in gold and \$18 in silver early on Election Day and sharply lower (by 800 points) in the Dow Jones average, prices did an abrupt about face as actual results came in. Gold would go on to close lower by nearly \$200 into yearend 2016 and subsequently held those lows through the present, while silver went on to drop to \$15.5 by year end 2016 and has made lower lows through today. The stock market, as I'm sure you know, had risen by nearly 8000 points or more than 45% from Election Day 2016 to earlier this year.

Not for a minute am I suggesting that the moves in gold and silver after Election Day 2016 had anything to do with any actual political or government policy decisions made or, at least, I am aware of no such influence on price. Even the much-vaunted US Dollar Index, thought by many to dictate gold and silver prices hit a high of 102 as gold and silver hit year end lows in 2016 and the index moved mostly lower for the next two years as gold and silver basically did the same. So if it wasn't political and governmental policy changes that caused gold and silver to turn south on Election Day 2016, then what was it?

Put simply, the COMEX market structure was bearish for gold and silver going into Election Day 2016. The market structures weren't as bearish as they were earlier that summer as gold and silver prices were at \$1375 and \$21 respectively, but were bearish nonetheless. In terms of managed money net positions, on Election Day 2016, these traders were net long 150,000 gold contracts (down from a 250,000 contract net long position in the summer) and in silver were net long more than 55,000 contracts (down from a summer 2016 high of 95,000 net contracts).

Going into Election Day 2018, the managed money traders are now net short 55,000 gold contracts (as of Tuesday), or more than 205,000 contracts less net long than two years ago. In silver, the managed money traders are now net short 25,000 contracts or more than 80,000 contracts (400 million oz) less net long than they were two years ago. These are enormous quantities that reflect mirror-image opposite market structures than what existed two years ago.

In potential price terms, what does this radical juxtaposition mean? Quite simply, on Election Day 2016, there existed enormous potential selling pressure that was ultimately realized and, on the surface, set off by the election. Also in hindsight, there wasn't all that much buying potential available, say back to the summer extremes. Today, it's close to the opposite, namely, not much potential managed money selling pressure and much more potential buying pressure.

Does this mean that Election Day 2018 will result in a mirror-image opposite price reaction than witnessed in 2016? You know it would be irresponsible for me to predict that after continuously affirming the folly of trying to predict short term price movement. But I don't believe I am mischaracterizing the market structure set ups back in 2016 and today and I hope you know I am more than convinced that such set ups and subsequent positioning changes ultimately dictate prices. Even if Election Day 2018 turns out to be a variation of its counterpart of 2016 and is used as a pretense for smashing prices that will only delay the eventual upside resolution and intensify the current bullish set up even more. Still, I am somewhat surprised that the Election Day premise hasn't been mentioned to date. Not as surprised as the lack of discussion about the in-your-face physical COMEX silver movement, but surprised nevertheless.

In addition to a possible gold and silver market structure resolution as a result of Election Day or sometime else in the relative near future, I would note that many markets may be close to some type of resolution. Or at least, that's how it seems to me. Additionally, if there was a ten year deal struck between JPMorgan and the US Government in which JPM has been allowed to have its way in silver and gold unimpeded by the rule of law, then surely that deal has to be up by the end of December. At least, that's my drop dead and stick a fork in it date and if nothing has happened by then, I promise to give up the ghost and not mention it again.

Finally, it occurs to me that JPMorgan has acquired so much physical silver (800 million oz plus 200 to 300 million oz more in OTC derivatives), that I'm starting to question how much more capacity JPM has to add even more silver. It already owns more than half the world's physical silver and while it has the wherewithal to add more from a financial affordability sense, at some point it has to think about the orderly disposition of such a stockpile. Of course, these guys are in a very different league of their own.

As to the short term direction of prices, notwithstanding any Election Day effect, there's still room for downdrafts as the managed money technical funds continue to allow themselves to get snookered by the commercials in the short term; but the market structure indicates a much larger upside resolution, same as has been the case for a couple of months.

Ted Butler

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Silver – \$14.75 (200 day ma – \$15.84, 50 day ma – \$14.49)

Gold – \$1234 (200 day ma – \$1274, 50 day ma – \$1212)

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