November 9, 2019 – Weekly Review

The sharp selloff on Tuesday continued through weekâ??s end, resulting in gold and silver suffering one of the steepest weekly losses in some time and sending prices to lows not seen since August. When the dust settled, gold ended the week $56 (3.7%) lower, while silver got clocked for $1.35 (7.5%). As a result of silverâ??s pronounced underperformance, the silver/gold price ratio blew out by nearly three and a half full points to 87.2 to 1. No surprise that this is also the cheapest silver has been relative to gold in more than three months.

If you were looking for the news that drove gold and silver prices sharply lower, then good luck, because no such news exists â?? aside, of course, from COMEX futures market positioning. Thatâ??s not some pat excuse, because the market structure existing for months dictated one of two outcomes â?? either an overrun of the heavily short commercials or the rug being pulled out from the managed money technical funds longs (there was no way we were going to remain unchanged at prevailing price levels for long). Something had to give.

However, even knowing it was a 50-50 proposition (at best) all along, doesnâ??t take the sting out of seeing the collusive commercials dupe the brain dead technical funds yet again. But now that the managed money traders have sold heavily to the downside (since the Tuesday cutoff), it remains to be seen if we are staring at a full-fledged wipe out of the technical funds in which prices continue to move sharply lower until every technical fund that can be duped into selling sells or something else. The â??something elseâ?• is a double cross of the other commercials by JPMorgan, strong hints of which were given in yesterdayâ??s new COT report.

Upfront, no one knows how it will play out (sharply lower from here or not so much), but Iâ??m more convinced than ever that the big commercial shorts will not sell short heavily again wherever and whenever we turn upward in price. This weekâ??s price smash allowed the 7 big shorts to recoup a massive $1.8 billion of their week-ago $3.9 billion open and unrealized loss, but covering and closing out from here (not evident in the new COT report), will still take some doing, including booking actual losses for the first time ever. After going through the scare of a lifetime, as gold and silver prices hit the highs of September, I donâ??t see the 7 big shorts as being anxious to do that ever again. Of course, weâ??ll only know that for sure on the next price trip up.

Since Iâ??m on the road, Iâ??ll confine my comments to the positioning changes in yesterdayâ??s COT report, as there was a load of unusual information. However, I will mention that only 2.2 million oz physically turned over this week in the COMEX-approved silver warehouses. Total inventories rose by 0.3 million oz to 315.2 million oz and there was no change in JPMorganâ??s silver warehouse, which remained unchanged at 161.1 million oz.

About three hours after I posted Wednesdayâ??s article, in which I lambasted the CFTC for among many things, including not correcting or even acknowledging the errors in the prior weekâ??s COT report, I did receive a response from an agency official, basically thanking me for contacting the Commission and admitting that the report in question was in error as I indicated and would be corrected. I canâ??t know if I would have received a response at this time had I not written so harshly of the matter, but in any event an objective reading of this weekâ??s report shows clearly that the prior weekâ??s report was in error, as the non-reporting short traders in gold and silver couldnâ??t have

done what the first report indicated.

The bottom line is that the COT numbers look correct to me now, which necessitates viewing this weekâ??s report as a blend with last weekâ??s report. Let me be clear here, the fact that there were serious reporting errors in the prior weekâ??s report is not that big of a deal; itâ??s just that the Commission should have been more forthcoming in addressing the issue. The reporting error is chickenfeed compared to the negligence and malfeasance of the agency for not addressing the positioning manipulation on the COMEX for the past three decades. For that regulatory failure, the CFTC should be tarred and feathered and run out of town on a rail (and take their good for nothing counterparts at the Justice Department with them).

Going into yesterdayâ??s report, I did not offer any firm predictions, but did explain the reason was due to three things â?? the early reporting week price surge which featured heavy managed money buying which was followed by late reporting week selling by those same traders, the extreme increase in total gold open interest which could have been related to spread trading and the possible correction of the errors in the previous report. As it turned out, all three things were on full display.

In COMEX gold futures, the commercials increased their total net short position by 15,900 contracts to 317,100 contracts. But the proper way to view yesterdayâ??s report is on a two-week basis, since it corrects the prior weekâ??s increase of only 5,900 contracts. Youâ??ll remember that in the prior weekâ??s report, there was an unusually large increase in the concentrated short position of the 4 largest traders of more than 23,000 contracts, even though the total commercial net short position only rose by the aforementioned 5,900 contracts. This week, the total increase in net commercial shorting was nearly 16,000 contracts, even though the concentrated short position of the 4 largest shorts actually fell by more than 2000 contracts.

Additionally, the more than 46,000 contract increase in total open interest in COMEX gold futures which resulted in widespread thoughts of massive managed money buying and commercial shorting, was actually the result of more than a 38,000 contract increase in spread positions or 82% of the total increase in open interest. Moreover, nearly 33,000 contracts of the spreads were put on by the managed money traders.

As a long ago broker specializing in spreads, I remain clueless as to why so many gold spreads were established in the current reporting week, even though I pointed to this as likely in comments earlier. A spread involves a simultaneous long and short position (long one month/short a different month), which makes the risk and reward of the trade based not on whether gold goes up or down, but on the change in the difference between the months held short and long. The only problem is there is usually not much difference in the monthly spread differentials in gold in the past when such big spreads were put on and taken off. Therefore, there has never been much real risk or reward in doing these spreads, which makes me wonder what their economic justification may be.

As it turns out, the fact that the managed money traders seem to be trading spreads with other managed money traders makes me doubly suspicious as to the economic justification of all this spread creation and liquidation in gold. Iâ??ve mentioned this in the past, but this spread trading by the managed money traders stinks to high heaven. Iâ??m tempted to complain to the CFTC, but I fear I might draw it away from more important responsibilities, like getting the COT reports correct orcracking down on a manipulation that seems to defy its detection. I donâ??t know if these guys canwalk and chew gum at the same time.

Finishing up on gold, the managed money traders, which were net buyers of around 14,000 contracts in the prior week, were actually net sellers of 1300 contracts this week, which highlights the likelihood they sold every contract bought earlier in the reporting week at higher process. For sure, the managed money traders were big net sellers in gold since the cutoff, but that canâ??t surprise anyone.

One of the big questions for me is what JPMorgan did in gold over the past two weeks. Looking at the Bank Participation report, also released yesterday, my immediate conclusion was that JPM added 10,000 new gold shorts over the past two reporting weeks, bringing its short position to around 50,000 contracts. But when I look at the reduction in the producer/merchant category over the past two reporting weeks, Iâ??m left with the sense that JPM bought back a chunk of gold shorts, which might put its short position as under 40,000 contracts or even lower. This â??Spidey-senseâ?• about JPM is even more pronounced in silver.

In COMEX silver futures, the commercials increased their total net short position this week by 6,900 contracts to 75,000 contracts. But as you may recall, the prior weekâ??s report indicated a reduction of 4000 contracts which I thought should be an increase of 4000 contracts were the prior report correct. The net result is that the commercial total short position only increased by around 3000 contracts over the two weeks combined.

The real blockbuster change to me (and this was also true in gold) was that over the two weeks combined there was an actual reduction in the net short positions in the producer/merchant category and a dramatic increase in the swap dealer short category. Rarely have I seen this type of divergence among the commercials and my thoughts immediately turned to my double cross premise in which JPMorgan abandons the other big commercial shorts. In fact, this was supported by the Bank Participation report in silver (although not so much in gold).

Accordingly, I would calculate JPMorganâ??s silver short position to be no more that 16,000 contracts and possibly a lot less. And this was as of Tuesday. There can be no question that JPMorgan has likely significantly reduced its short position even more since then and I, for one, would not be shocked if JPMorgan had little to no silver short position as of yesterdayâ??s close. These crooks are really good/bad.

Another big clue in yesterdayâ??s report was that the managed money traders greatly increased their short position (by 7212 contracts) while adding only 765 new longs. In a reporting week where the commercials increased their net short position by 6900 contracts, the managed money traders also increased their short position by nearly that same amount. Reporting errors aside, thatâ??s man bites dog stuff.

I previously commented that a big key to whether the commercials could succeed in driving prices

lower in silver was whether they could trick the managed money traders into adding substantial new short positions. Based upon this weekâ??s report and what likely happened since the cutoff, these managed money shorts appear to be doing just that. Itâ??s dumber than dumb since these managed money shorts have never collectively closed out big short positions profitably and considering how cheap silver is in price, I doubt that dismal trading record will be broken. Admittedly, it hurts like heck to see silver prices decline, but knowing it is the result of brain dead managed money selling is some consolation for a brighter day ahead.

Finally, while there were only modest increases in the concentrated long positions of the 4 largest traders in silver and gold (350 contracts in silver and 1250 contracts in gold), there have been no signs contradicting the whale swims on.

As to whether we still face a more protracted price decline ahead no one knows (or at least I donâ??t know). What I do know is that this decline has occurred for the same reason for every past decline, namely, commercial engineering (manipulation) of the managed money traders, while the regulators continue to overlook the obvious. But we will turn higher at some point, sooner or later, and when we do turn, if the big commercial shorts refuse to put their heads back into the lionâ??s mouth, prices will surely soar. And JPMorgan will make many tens of billions of dollars and weâ??ll all live happily ever after. Not as happily as JPMorgan, of course, but this is their game, after all.

Ted Butler

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Silver – $16.75Â Â (200 day ma – $16.12, 50 day ma – $17.87)

Gold – $1460Â Â Â Â Â Â (200 day ma – $1393, 50 day ma – $1505)

Date Created
2019/11/09