October 12, 2019 – Weekly Review

Gold and silver prices ended lower for the week, with gold finishing lower by $20 (1.3%) and silver ending down 5 cents (0.3%). Goldâ??s relative underperformance resulted in the silver/gold price ratio tightening in by nearly a full point to just under 85 to 1. Silver is still obscenely underpriced relative to gold and while that undervaluation is generally taken for granted due to how long the undervaluation has persisted, there are real world consequences to the price distortion.

Back on June 12, I wrote how silverâ??s historic undervaluation relative to gold had resulted in a noticeable shift in preferences in India. I used data through the end of 2018 to show that silver buying in India had surged versus gold, based upon silverâ??s low relative price and suggested that would continue as long as the silver/gold price ratio remained high.

New data, through September of this year, indicate silver imports into India are running 15% over last yearâ??s near-record level. And while gold imports are not down versus last yearâ??s relatively low levels on a year-to-date basis, gold imports have faded quite notably over the last few months, while silver imports have continued to surge. Last year, India imported 224 million oz of silver, more than 25% of total world mining production. My point back in June and today is that prices do have consequences and while the COMEX commercial crooks, led by JPMorgan, have continued to cap the price of silver, they donâ??t seem to be fooling the actual buyers in India (as much as they continue to fool those in the West).

https://www.bloomberg.com/news/articles/2019-10-11/silver-glitters-in-india-as-record-prices-dull-gold-s-luster

This weekâ??s price weakness was a direct result of the big commercial shorts in COMEX gold and silver working overtime to keep prices from rising, both to discourage new buying and encourage selling on the part of the managed money traders and for the week, their efforts were successful. Essentially, there are just 8 big COMEX shorts (including JPMorgan) that are aligned against the rest of the world in working against higher gold and silver prices and these big shorts are operating under the full view and apparent approval of the regulators at the Justice Department and the CFTC to those regulators great shame.

At yesterdayâ??s late close, Iâ??d peg the 7 big shorts to have reduced their total open and unrealized loss in gold and silver down to $3.2 billion, roughly a $500 million reduction for the week. I am also including some short term profits the big shorts have achieved in the recent choppy price environment.

There were no surprises in this weekâ??s Commitments of Traders (COT) report, as the managed money traders bought and the commercials sold moderately on what were price gains in gold and silver through the Tuesday cutoff. Iâ??ll go through the details in a moment, but there were no big surprises under the hood either.

Almost without fail, in every weekly review for the past 8.5 years, I go over that weekâ??s physical movement or turnover in the COMEX-approved silver warehouses. I do so for the reason that I have found this physical movement to be quite extraordinary and important, ever since it commenced in April 2011. For reasons I donâ??t quite understand, very few, if any other observers have commented on this highly unusual physical movement. I do plan on writing a separate article dealing exclusively with the COMEX physical silver movement, but will confine myself today to the past weekâ??s turnover.

This week, the turnover or physical movement of metal either brought into or removed from the COMEX silver warehouses surged to 12.3 million oz, the highest weekly movement in a year and among the highest weekly totals on record. On an annualized basis, this weekâ??s movement comes to 640 million oz, or more than 77% of total world annual mine production. Interestingly, total COMEX warehouse stocks declined by a mere 1 million oz to 314.1 million oz.

Regular readers know that I find the total levels of the COMEX silver inventories to be much less important than the inventory turnover rate and this week is a prime example of that. A few months back, I commented about a then-recent slowdown in COMEX physical silver warehouse turnover as perhaps signaling an end to the frantic turnover over the past 8.5 years, but I was very quick to add that there was no possible way of predicting future turnover that I knew of. All I or anyone can do is observe and analyze when it comes to the weekly movement. But the movement has been so persistent and so unique to silver over the past 8.5 years that the real wonder is why no one seems to be reporting on it.

Also interesting this week was a sudden sharp increase in the silver holdings in the JPMorgan COMEX warehouse after months of no deposits or withdrawals at all. A total of 2.6 million oz were added to the JPMorgan warehouse this week (with deposits every single day) which increased the amount of silver there to just under 156 million oz (I had misstated slightly JPMâ??s holdings last week). I donâ??t understand how anyone could miss, at this point, the epic accumulation of physical silver and gold by JPMorgan, based solely on the public data on deliveries (in its house account) and movements in its own COMEX warehouses.

There was a sharp reduction in the short position in GLD, the big gold ETF, and a more modest reduction in the short position in SLV, the big silver ETF, as of Sept 30. The short position on GLD declined by a whopping 41%, from 14.4 million shares to just under 8.5 million shares (850,000 oz). The short position in SLV declined about 10% from just over 23 million shares to just under 21 million shares (21 million oz).

https://quotes.wsj.com/etf/SLV

Although I didnâ??t make any predictions beforehand (due to the difficulty in handicapping the short report), I did expect reductions in the short positions in GLD and SLV, although I was expecting a bigger reduction in SLV and not as large a reduction in GLD as was reported. On Wednesday, I described how the drop in gold and silver prices into Sept 30, the end of the third quarter, was solely intended to reduce the open losses of the big shorts on the COMEX on an important financial reporting date, as well as generate as much selling by the managed money traders as possible. Both missions were accomplished.

Since those who short GLD and SLV are largely the same as the big shorts on the COMEX, itâ??s no great surprise that the commercial short positions on the COMEX and in the two big ETFs rise asprices rise and fall when prices fall (the old wash, rinse, repeat scam cycle). As such, new shorting and subsequent short covering on the COMEX and in shares of GLD and SLV are generally aligned. Thatâ??s just another way of saying that the same commercial crooks (led by JPMorgan) are running the same scam in the ETFs as they are running on the COMEX. But I donâ??t want to say that too loudly for fear of waking up the slumbering regulators.

Turning to yesterdayâ??s COT report, I couldnâ??t find anything in the report I would consider surprising. Since gold prices were higher by about $15 and silver by 40 cents over the reporting week (and temporarily re-penetrating the 50 day moving averages to the upside), it was reasonable to expect moderate managed money buying and commercial selling â?? which is what we got.

In COMEX gold futures, the commercials increased their total net short position by 7300 contracts to 310,900 contracts, following the prior weekâ??s big reduction. Although Iâ??m sure you are as tired of hearing it as I am of saying it, the market structure in COMEX gold remains extremely bearish on any conventional historical basis. For that reason alone, a pronounced price decline in which the managed money traders sell en masse simply cannot be ruled out.

The fact that such a selloff has always come from market structures not quite as bearish as is the current structure, no doubt explains the very widespread consensus of a pending gold selloff. That said, a managed money flush out to the downside still remains only one of two possible resolutions.

The managed money traders bought 9690 net gold contracts, consisting of new longs of 11,986 contracts and the new short sale of 2296 contracts. The resulting managed money net long position of 200,501 contracts (231,976 longs versus 31,475 shorts) is as bearish as the commercial net short position.

One thing I have noticed is that while the big commercial shorts have gone deeply into a financial hole, they have continued to fleece the managed money traders on a short term basis â?? getting the managed money traders to buy on price surges and sell on recent price plunges. The realized gains to the commercials donâ??t come close to offsetting the much larger open losses, but the pattern doesnâ??t suggest panic on the part of the big shorts. And I do try to incorporate the smaller realized gains the commercials are racking up in my running tally of the big 7â??s open loss.

In COMEX silver futures, the commercials increased their total net short position by 3100 contracts to 76,900 contracts, a level that has remained fairly intact since mid-July. I didnâ??t sense much change in JPMorganâ??s short position, which I continue to peg at 22,000 contracts, unchanged for the week.

On the managed money side, these traders bought 2003 net silver contracts, almost all of which was due to short covering (1883 contracts) as opposed to new buying (120 contracts). The resultant managed money net long position in silver of 46,206 (73,313 longs versus 27,107 shorts) is still bearish on a conventional historic basis, although nowhere as bearish as is goldâ??s market structure â?? the same as it has been for some time.

The lack of any substantial increase in managed money gross longs reinforces my premise that any big future managed money selling in silver must come from new shorting, rather than big long liquidation (as described this past week). In gold, itâ??s more two-sided, in that there is room for potential managed money long liquidation about equal to potential new short selling (roughly 100,000 contracts of each).

In silver, the amount of potential new short selling by the managed money traders far outweighs the potential amount of long liquidation by a margin of at least 3 to 1 – not that such new short selling will occur. Itâ??s strictly a case of how dumb the technical funds must be to load up, yet again, on a position they have never collectively made a profit on. In fact, the reciprocal of the big commercials, particularly JPMorgan, never taking a loss has been the managed money traders never taking a profit, especially when heavily short.

There can be no question as to how the COMEX price-setting game has been played until now, namely, the commercials have always prevailed against the managed money traders. So successful have the commercials been over the years (decades actually), that itâ??s no wonder why there are so many â??expertsâ?• in COT analysis nowadays, when it was not that long ago there were very few. Thatâ??s not completely a knock because the COT market structure approach makes more sense than any other approach Iâ??ve run across. It makes sense that commentators would gravitate to the most reliable and common sense approach over time. In fact, itâ??s a lot easier to count the few commentators who ignore COT considerations these days than count those who feature them.

What is more of a knock is that with all the newfound attention to changes in the COT market structure that very few observers seem to rise above using the approach to make more than market calls on price direction. Very few seem to acknowledge that COMEX positioning changes, in and of themselves, are what set and determine prices. This is in direct conflict with how commodity prices are supposed to be set, namely, by changes in actual supply and demand. Itâ??s as if the analytical world has come to accept something – the reliability (up until now) of the power of COMEX positioning changes â?? without digging just a micron deeper and seeing that this is the epitome of manipulation and artificial price setting. I guess a man sees what he wants to see and little else.

Most depressing is not that the widespread recognition of an ongoing price manipulation (via paper positioning) is not yet universal, but that those who really should know pretend not to see. Here, of course, I am referring to the Justice Department and CFTC, which are supposedly involved in an active investigation into precious metals manipulation on the COMEX.

Apparently and at all costs, both agencies have put on the blinders and have focused on one tiny aspect of the manipulation, spoofing, while deliberately casting out anything more substantive â?? like the big commercials and particularly JPMorgan never taking a loss and JPMâ??s master criminal accomplishment of acquiring more physical silver and gold than any entity in history while keeping prices depressed by dominant and price-controlling paper short sales. Recent data indicate JPMorgan is not relenting a bit in what has to be the most obvious price manipulation ever. I sure hope the DOJ has a better handle on terrorist threats than it does in precious metals manipulation.

Since the Justice Department announced the first guilty plea by a precious metals trader from JPMorgan last November, we have had one complete cycle of successful commercial manipulation in COMEX gold and silver, led by JPM, and a new half-cycle, the outcome of which has yet to be determined. The first complete cycle occurred on the $150 rally in gold and two dollar rally in silver from November to late February as close to 150,000 gold contracts and 90,000 silver contracts were bought by the managed money traders and sold by the commercials. This was followed by the reversing of these positions on the price decline of nearly $100 in gold and $1.75 in silver into May.

Since May, gold has rallied as much as $300 and silver by $5 as 250,000 net contracts of gold and 100,000 net contracts of silver were bought by the managed money traders and sold by the commercials into the recent price peaks. Thatâ??s the half cycle. Now it remains to be seen if we get the completion of the second cycle on a managed money flush out. Time will tell, of course, but time has already shown that the DOJ and CFTC are intentionally looking away from that which really matters in the setting of gold and silver prices. For this, both agencies should be beat with a stick and then tarred and feathered. In the case of the CFTC, this happens to be its most important mission â?? preventing manipulation. The only thing the agency is preventing is an open and honest discussion of the issue.

Like a broken record, it remains to be seen how this price half cycle gets resolved. It seems to me it must be with either a managed money flush out to the downside or a commercial failure of some type. In practical terms that means either one more selloff before a blastoff or no selloff before a blastoff or some very similar outcome.

Ted Butler

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Silver – $17.55Â Â Â Â (200 day ma – $15.91, 50 day ma – $17.69)

Gold – $1490Â Â Â Â Â Â (200 day ma – $1372, 50 day ma – $1514)

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