

October 14, 2017 – Weekly Review

Gold and silver prices rose fairly sharply for the week, with gold up \$27 (2.1%) and with silver higher by 55 cents (3.3%). It was the first price gain for gold following four straight weeks of price declines and the second week for advancing silver prices. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by another full point to 75 to 1, but remains stuck in a trading range extending back three years. This passage of time in no way detracts from silver's extreme undervaluation to gold by numerous measurements and that undervaluation remains the result of artificial and arbitrary paper contract positioning on the COMEX.

Try as I might, I just can't uncover any consistent explanation for gold and silver price movement away from COMEX positioning, almost exclusively limited to the positioning involving the managed money traders and the commercials (banks). Sure, there is always some cover story, such as currency movement or official announcements, but until now, the go-to explanation is the inevitable telltale footprint of managed money buying or selling on the COMEX. Having said that (for the umpteenth time), the commercials, who I contend lead the managed money technical funds in and out of positions by rigging prices, don't always do so in exactly the same manner.

A case in point is the recent positioning in COMEX gold and silver. Over the past two years, it had become a pattern that extremely bullish or bearish market structures were established and reversed almost completely within fairly short periods of time and relatively subdued price changes. That is, the commercials induced the managed money traders to plow onto the long side in record numbers of contracts on rising prices, only to lower the price boom and get those managed money to completely reverse positions on lower prices until the technical funds exhausted their selling capacity.

It hasn't played out that way on this price go-around, at least to this point. After both gold and silver established record bullish market structure readings in July, followed by near-record bearish extremes in September (in terms of managed money positions), the move back to bullish extremes has been interrupted (or delayed) by price rallies back above the key moving averages. This raises the question of whether the commercials are still in complete control of the managed money traders, the answer to which will determine prices. I'll dig into this after a quick review of other weekly happenings and this week's COT report.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled off a bit to 3 million oz this past week, as total COMEX silver inventories rose 0.7 million oz to 219.7 million oz. That's only 0.1 million oz less than the 20+ year highs established two weeks ago. Spider webs are starting to appear again in the JPMorgan COMEX silver warehouse, following last week's 5000 oz deposit, as holdings there remain at 115.8 million oz, towering over the holdings in all other COMEX silver warehouses.

I don't see anything of interest to report in any of the things typically covered, such as ETF deposits/outflows or Silver and Gold Eagle sales (which still stink) or COMEX deliveries, aside from some silver deliveries made by a customer of JPMorgan. Instead, I'll just jump to the new Commitments of Traders (COT) Report released yesterday, which I refrained from handicapping, due

to the split price pattern of the reporting week ended Tuesday.

As you'll recall, the reporting week featured new price lows in gold and silver through last Friday morning, undoubtedly involving fresh managed money selling; followed by a sharp rally starting later that morning which involved managed money buying (and which has continued through yesterday). Usually, prices get sliced, up or down, consistently during any reporting week and this serves as the basis for making contract predictions, which in turn make such contract predictions fairly reliable. But the just-reported week was definitely split — managed money selling thru last Friday morning, followed by managed money buying from Friday morning — making the net result difficult to guess.

As it turned out, the split price nature of the reporting week resulted in the smallest combined net change in gold and silver in three months, but I remain convinced it was a tale of two reporting weeks in one. I also have little doubt that since the Tuesday cutoff, the managed money traders have ramped up their buying, as both gold and silver prices have moved above their key moving averages.

In COMEX gold futures, the commercials reduced their total net short position by a scant 1400 contracts, to 223,000 contracts. Since the total numbers didn't feature that much change, the changes by commercial category couldn't have been large. The big 4 added 300 new shorts and the raptors (the smaller commercials) sold off 2600 longs, leaving the big 5 thru 8 as buying back 1500 short contracts.

On the sell side of gold, the managed money traders sold much more than the commercials bought overall, as these traders sold 8114 net contracts, including the sale and liquidation of 11,201 long contracts and the buyback of 3093 short contracts. Net buying by the other large traders and also the non-reporting traders explained why the managed money traders exceeded the change in the commercial headline number, thus further confirming the competition for a share of the other side of whatever the managed money traders are doing.

In COMEX silver futures, the commercials increased their total net short position by a scant 1900 contracts to 70,600 contracts. By commercial category, as was the case in gold, the big 4 added new shorts (600 contracts) and the raptors sold off long positions (to the tune of 1500 contracts), leaving the big 5 thru 8 traders as buying back shorts (200 contracts). As a result of the big 4 selling, JPMorgan's concentrated short position to be 33,500 contracts (167.5 million oz).

On the buy side of silver, the managed money traders bought only 827 contracts net, including new longs of 2002 contracts and new short sales of 1175 contracts. With managed money longs now amounting to 70,384 contracts and managed money shorts of 14,110 contracts, any truly big selling would have to come from new shorting and that won't occur until new price lows are seen. Since the Tuesday cutoff, the managed money long position is undoubtedly larger and the managed money short position lower, seeing as the price moved from under both key moving averages (the 50 and 200 day ma's) to over both by yesterday.

At least through yesterday, it would appear certain that the commercials were selling on the gold and silver price rally, for the simple observation that if the commercials (particularly the big 8 shorts) were buying instead, the price rally wouldn't have been anywhere near as contained as occurred. That's because if the commercials were buying, there wouldn't appear to have been any selling from other quarters. The managed money traders buy on higher prices, especially as key moving averages are penetrated to the upside, so they wouldn't have been sellers since Tuesday.

Therefore, had the big commercials shorts decided to buy (for the very first time) on higher gold and silver prices, prices would have exploded due to a selling void from other traders. The relative orderly price advance through yesterday wouldn't have been near as orderly without commercial selling.

That's not to say that someday the big commercials might refrain from selling as the technical funds buy on higher prices, but it is also true that prices will have exploded and the COMEX price manipulation will have ended at that point. In fact, I believe that if the key COMEX silver and gold short, JPMorgan, were to refrain from adding shorts and possibly even buy on higher prices, the manipulation would end and prices would soar. The other big shorts could continue to sell and keep prices in check for a while, but without the backing from JPMorgan on the sell side, it's hard for me to see how the manipulation would last for very long.

This week's price rally added more than \$940 million to the combined unrealized open losses of the 8 largest commercial shorts in COMEX gold and silver futures, bringing total open losses to just over one billion dollars. This is down from the \$2.7 billion these 8 traders were in the hole for five weeks ago, but is still a sizable sum for just 8 traders. Before getting into what this may mean, let me run through the simple calculations for those who may wish to plot this on their own. Simply take the concentrated net short position held by the 8 largest traders in COMEX gold and silver futures and multiply that by the price change for the week (or day). In gold this week, the 25.2 million oz that the 8 big traders are net short, multiplied by the \$27 price move up yields a loss of \$680 million, while the 475 million oz net short position of the big 8 in silver, multiplied by the 55 cent price rise amounts to an additional open loss of \$260 million. The worst the 8 big shorts were ever in the hole was for around \$4 billion in the summer of 2016.

The question for what constitutes the maximum loss that these traders can absorb before some start to fold remains unknown at this time and, I think, is related to what JPMorgan's intentions may be. A more pertinent question is why the big commercials would allow their open losses to grow as large as they did this week, particularly when, as of a week ago Friday morning, the 8 big shorts were sitting with open profits of several hundred million dollars, fully \$3 billion ahead of where they were a month prior?

One answer is that this is what the big shorts do, namely, allow their open losses to grow sharply on a temporary basis so that they can add more shorts and lower the boom even more on the managed money traders who bought on a price run up. Somewhat complicating things this time is the observation that despite a blatant downward penetration, particularly in silver, through last Friday morning, relatively few managed money contracts were sold to that point, denying the 8 big shorts the opportunity to buy back many shorts. This raises the possibility that there weren't many managed money contracts to be sold. It is a market fact that without big managed money selling, there can be no big commercial buying.

So what's it going to be - a continuation of the same wash, rinse, repeat cycle in which the commercials keep selling on higher prices only to buy back at eventual lower and profitable prices, or a break in the normal pattern in which the big commercials stop selling and begin to buy to the upside for the very first time? Anyone who claims to know that which is unknowable shouldn't be relied upon. On the other hand, it is kind of black or white in that one or the other must occur. Either the big commercials will prevail in the end yet again and succeed in eventually rigging prices lower and inducing substantial managed money selling or they won't for the first time ever and prices will

explode as the big commercials rush to cover on higher prices.

The probabilities would seem to indicate that which has always occurred will likely occur again and sooner or later, the commercials will succeed in maneuvering the managed money traders to sell on lower prices. Still, this crooked and artificial price game can't continue forever and someday the commercials will cease capping prices with unlimited shorting. Should the big commercials fail to contain prices, particularly in silver, that will soon be obvious to all by virtue of exploding prices.

While no one can accurately predict when this may occur, it is a certainty that any abrupt change in the usual COMEX positioning pattern will be responsible for the price explosion. Therefore, no matter what happens, there will be a COMEX positioning explanation behind it. For my part, while I have not yet replaced the chips I took off the table close to recent price highs, I have added additional call options for protection against a commercial failure.

Ted Butler

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Silver – \$17.40 (200 day ma – \$17.15, 50 day ma – \$17.16)

Gold – \$1304 (200 day ma – \$1254, 50 day ma – \$1301)

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