# October 19, 2019 – Weekly Review

Gold and silver finished higher by the slimmest of margins this week, with gold ending $3 higher and silver by 2 cents. As a result of goldâ??s slight outperformance, the silver/gold price ratio widened by a fraction to 85 to 1, around where it has been for ages, it seems.

Stepping back, gold and silver have basically treaded water for nearly three months (in the case of gold), seemingly stuck in a trading range of roughly $50 in gold and $2 in silver, after running up nearly $300 in gold and $5 in silver. There can be little doubt that the big price run up was the direct result of massive managed money buying in COMEX gold and silver futures (accompanied by obligatory massive commercial selling) and that the broad trading range that has followed has been due to a partial reversal of the managed money buying. The key question, of course, is whether the commercials will succeed in engineering continued managed money selling.

What is so notable about the recent choppy price action in gold and silver is that it comes against a backdrop of outside factors that a reasonable person would think would drive metal prices sharply higher. Those factors would include recent pronounced weakness in the US dollar, massive and mysterious Fed money pumping and geopolitical and domestic political developments so unusual as to almost defy rational analysis. That there has been no reaction in gold and silver prices only solidifies the argument that COMEX futures positioning dictates price. I keep hearing how the COMEX will soon be cast aside as a pricing influence (as I wish would be the case), but the cold hard reality says otherwise.

Iâ??ve gotten a number of responses to Wednesdayâ??s article asking for alternative explanations for the unusual physical movement of silver in the COMEX-approved warehouses and will report on them soon. Many thanks for all who took the time to provide feedback. Certainly, there was no diminution this week in the unprecedented physical silver movement.

The turnover or physical movement of metal either brought into or removed from the COMEX silver warehouses remained elevated at 9.4 million oz this week, as total inventories rose ever so slightly by 0.2 million oz to 314.3 million oz. A total weekly movement of 9.4 million oz (490 million oz annualized) that resulted in a net change of only 0.2 million oz in total inventories is a fitting example of what has transpired over the past 8.5 years â?? a situation so unprecedented and specific to silver that one would think little else would be discussed among those who claim to have an interest in silver.

Likewise, there was no diminution in JPMorganâ??s aggressive accumulation of physical silver as another 3 million oz were added to JPMâ??s COMEX silver warehouse this week, increasing the holdings there to just shy of 159 million oz. As I have mentioned previously, in addition to the 159 million oz in its own warehouse, I am more convinced than ever that JPMorgan also owns and controls another 100 million oz in other COMEX warehouses, meaning JPM holds 260 million oz of the total 314 million oz in COMEX inventories, or more than 82% of total inventories. No, I canâ??t prove that, but the Justice Department, the CFTC or the CME Group could prove or disprove that in a heartbeat â?? to say nothing of JPMorgan. Obviously, the cat must have their tongues for some reason.

The deliveries in the October COMEX gold contract remain extremely large and could end up as the largest delivery month of the year; an event most unusual for a month that has been, until this month, on the wane as a traditional gold delivery month on the COMEX. With 11,843 contracts (1.18 million oz) issued in total so far this month, the October deliveries are only 500 contracts or so from being the largest COMEX gold delivery month this year.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Citibank was a big issuer this week and those issuances were more or less expected since Citi was a big stopper earlier in the month and has always re-delivered whatever gold contracts it stopped earlier in the month. In this regard, Citi is very similar to Goldman Sachs in that both banks have developed a pattern of first stopping large numbers of deliveries, only to re-issue those contracts fairly quickly. This month, Citi has about 200 contracts left to redeliver and Goldman 150 or so. All activity has been in eachâ??s house accounts. One canâ??t help but conclude that both Citi and Goldman are acting as proxies for some other entity (Iâ??ll let you guess who).

One thing that is surprising to me is that with the very large gold deliveries this month, there still is no unusual physical movement in the COMEX gold warehouses, which makes the silver movements all the more unusual. Plus, there have been big deposits in the big gold ETF, GLD, which just yesterday added 200,000 oz on price action and trading volume not at all suggestive of big buying. My sense is that someone big (JPMorgan) is aggressively acquiring physical gold and silver, but because gold is relatively more available than is silver, itâ??s not necessary to draw from the COMEX gold inventories, while it is necessary to draw from the COMEX silver inventories.

Turning to yesterdayâ??s Commitments of Traders (COT) report, we did get the expected managed money selling and commercial buying on the lower gold and silver prices over the reporting week, but the quantities were somewhat larger than expected and that is, of course, good news. On Wednesday, I indicated that I was somewhat surprised that there hadnâ??t been more managed money selling since prices have spent a decent amount of time below the key 50 day moving averages for both gold and silver. I guess this weekâ??s larger than expected managed money selling somewhat neutralizes my surprise as to why there hadnâ??t been more.

In COMEX gold futures, the commercials reduced their total net short position by 22,700 contracts to 288,300 contracts. This is the lowest (least bearish) commercial short position in eleven weeks (since July 30), but still must be considered extremely bearish on a conventional historical basis. Importantly, the concentrated short positions of the largest 4 and 8 traders are also the lowest since July 30.

Iâ??d peg JPMorganâ??s gold short position to be down to 40,000 contracts (4 million oz) against a physical long position of 25 million oz. Any thought that JPMorgan could possibly get hurt in a price run up must be banished from your thinking. The other big shorts may still be very much in harmâ??s way, just not JPM.

On the sell side of gold, the managed money traders sold 24,714 net contracts, consisting of the sale and liquidation of 17,989 long contracts and the new sale of 6725 short contracts. The resultant net managed money long position of 175,787 contracts (213,987 longs versus 38,200 shorts) is still bearish, but also less bearish than it has been since July 30.

In COMEX silver futures, the commercials reduced their total net short position by 6400 contracts to 70,500 contracts. This is the lowest (least bearish) commercial short position in two months (since Aug 20). Not that I am implying or not implying a repeat of what occurred next, but back on Aug 20, silver prices were around $17 and over the next two weeks jumped by more than two and a half dollars.

Back on July 30, when goldâ??s net commercial short position was last comparable to this weekâ??s reading, gold prices were around $1440 and would run to $1560 by early September, five weeks later. My only purpose in pointing this out is to show that COT positioning is not particularly useful in determining short term price movements.

Iâ??d peg JPMorganâ??s silver short position to be down to 20,000 contracts and perhaps a bit lower through the reporting week. Iâ??ve been stuck on 850 million oz as being JPMâ??s physical silver holdings, but since it shows no sign of abating its accumulation for what has been some time, JPMorganâ??s physical silver holdings have to be 900 million oz by now. On a net basis, JPM is now long 800 million oz (once you deduct the 100 million oz it is short on the COMEX).

The managed money traders sold 5574 net silver contracts, comprised of the sale and liquidation of 3686 long contracts and the new sale of 1888 short contracts. The resultant managed money net long position of 40,632 contracts (69,627 longs versus 28,995 shorts) is very much on the bearish side, based upon historical readings, but less bearish than it has been in two months. The key to whether the managed money traders sell anywhere near what theyâ??ve sold in the past is whether they add as many short positions as previously. This week was not indicative, one way or another, that they would.

Admittedly, I tend to look at the data perhaps too closely, but over the past four reporting weeks, the concentrated net long position of the 4 largest traders has increased by more than 5300 contracts to 50,198 contracts, to the highest level in two months. Iâ??m not sure whether the big buyer is in the swap dealer or managed money category, but since silver prices have generally moved lower, itâ??s easy to conclude that the buyer is not chasing prices higher. After all, the concentrated buying has occurred on no increase in the swap dealer gross long position and a decrease in the managed money gross long position. The new big buyer is definitely swimming against the general tide.

Itâ??s way too soon to speculate whether we may be seeing the beginning of a repeat of the highly unusual buying of 20,000+ contracts (100 million oz) by a silver whale earlier this year (and subsequent conversion into physical via the silver ETFs), but I will continue to monitor this situation closely. If there is a rerun of what turned out to be a masterful purchase of 100 to 125 million oz of physical silver, such a development could turn the price setting process on its head. Yes, the earlier purchase didnâ??t set the price completely free, but it did coincide with the most pronounced silver rally in years. No telling what another big purchase would do to the price of silver.

I also continue to obsess about the possibility of a double cross by JPMorgan of the other big commercial shorts. Not only will JPM make a bloody fortune on higher prices, it is the only commercial in position to do so. And with the recent spurt of news and macroeconomic factors that favor sharply higher precious metals prices in the face of prices definitely not moving higher, thereâ??s no shortage of compelling reasons for why gold and silver prices wouldnâ??t jump sharply (aside from futures positioning concerns).

I guess what Iâ??m saying is that as a hard core commodity guy, I tend to look at actual supply/demand factors and market mechanics to project prices. But in the current environment, Iâ??d be lying if I said I donâ??t feel comfort in holding silver for all the reasons why most people seem to be attracted to precious metals in the first place, namely, centering on safe haven considerations. If this is not a time to consider safe haven alternatives, then I donâ??t know what time that would be.

In a housekeeping announcement, the norâ??easter that blew through Maine early Thursday morning has left me without power since then and Iâ??m sending this from a hotel in downtown Portland. Iâ??m told power will be established shortly, but pardon any delays in responding to emails. Also, if you have trouble logging on (you may get a message saying the site has technical difficulties), a second log on attempt should do the trick. If that fails, send an email and weâ??ll send the article. Our web people are looking into it.

Ted Butler

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Silver – $17.57Â Â Â Â Â Â Â Â  (200 day ma – $15.96, 50 day ma – $17.78)

Gold – $1493Â Â  Â Â Â Â Â Â Â (200 day ma – $1377, 50 day ma – $1515)

**Date Created**
2019/10/19