October 6, 2018 – Weekly Review

It was a mixed price week for precious metals, as gold ended $10 (0.8%) higher, while silver ended 2 cents (0.1%) lower. As a result of goldâ??s relative outperformance, the silver/gold price ratio widened out to just over 82 to 1, after tightening in from 85 to 1 over the prior two weeks and the cheapest silver had been to gold in more than 20 years. Make no mistake, silver is still dirt cheap relative to gold (and everything else).

After declining sharply ($150 in gold and $3 in silver) from spring/early summer to late summer, gold and silver prices, almost imperceptibly, have now traded sideways for nearly two months. I still donâ??t place much importance on short term price movement as an indicator for future price movement, but itâ??s hard not the notice that the strong thrust to the downside seems to have abated. That doesnâ??t mean the technical funds canâ??t be snookered into selling more on engineered price rigs to the downside, but considering how much they sold on the big recent decline, time and road seem to be running out for big new technical fund selling.

Certainly, the whole concept of futures market positioning driving prices (of which I am a card-carrying zealot and perhaps originator) seems to have been confirmed in spades over not only the big price drop, but also in the more recent flattening-out of prices. If we had declined so sharply without pronounced technical fund selling and then flattened out with major positioning changes, I would have had some serious explaining to do. As it stands, futures contract positioning, more than ever, has been shown to be the sole force in gold and silver price movement yet again.

The price game has become so obvious that the questions surrounding why the technical funds allow themselves to be played like cheap fiddles have become louder than ever. Many potential answers have been advanced, including that they are part of a government conspiracy or are being paid under the table to be the patsies of the commercials and JPMorgan. But for my part, it has to do with how large these funds have become and how rigid they are to their technical ways, despite very subpar investment performance of late. But donâ??t take my word, read instead the words of one of the leading technical fund pioneers and practitioners, Cliff Asness, head of the $225 billion quantitative hedge fund AQR. COMEX gold and silver trading are a small part of AQRâ??s activities, but the poor recent investment performance of this mega-force among technical funds seems to be in keeping with what I have related on these pages. Judge for yourself.

https://www.bloomberg.com/news/features/2018-10-04/quant-investor-cliff-asness-hasn-t-smashed-his-screen-this-year-yet

The turnover or physical movement of metal either removed from or brought into the COMEX-approved silver warehouses surged to the highest level in months this week as more than 8.3 million oz were moved. Annualized, thatâ??s more than 430 million oz or more than half annual world mine production and no such similar movement (or anything close to it) occurs in any commodity. Yet, barely a mention is made of the unprecedented physical silver movement except on these pages. And, yes, it all erupted and continues to this day when JPMorgan opened its COMEX warehouse in April 2011 and began accumulating physical silver by the hundreds of truckloads.

Total COMEX silver inventories fell for a fourth straight week, this week by 1.5 million oz to 288.2

million oz, but this week JPMorgan didnâ??t account for the decline (as it did for prior three weeks running) and instead brought in more than 1.4 million oz into its own warehouse, increasing the amount of silver there to 140.9 million oz. I had been expecting JPMorgan to move in the 10.6 million oz it took delivery of in the September COMEX futures deliveries, so maybe this weekâ??s deposits signals the start of that process. Iâ??m still scratching my head about the 6 million oz JPM shipped out over the previous three weeks, but one thing that I am not confused about at all is that JPMorgan is at the core of everything that matters in silver (and gold), from paper to physical.

The same pattern of highly unusual physical deposits and withdrawals continues in the big silver ETF, SLV, of which JPMorgan is the custodian andÂ grand poohbah, as millions of ounces continue to be counterintuitively deposited and just as quickly withdrawn. I continue to believe that physical silver is being brought in to satisfy share buying by JPM and then just as quickly those purchased shares are being converted to metal to eliminate the need for JPMorgan to report share ownership. Itâ??s gotten to the point where I canâ??t even imagine an alternative explanation. When it comes to silver, all roads lead to JPMorgan.

The positioning changes in the new Commitments of Traders (COT) report were mostly expected as there was net managed money buying in both gold and silver in reaction to the upward penetration of the 50 day moving averages in each on the Tuesday cutoff (although neither closed above the average that day or since). The rally in silver was sharper, as at the highs on the cutoff day it was up around 45 cents for the reporting week, while gold was only up by around $6 at the highs, so it was befitting that there was more managed money buying in silver.

Despite the managed money buying in gold, heavier selling by the other large (non-managed money) traders enabled the commercials to increase their highly unusual net long position by 1800 contracts to 8900 contracts. This is yet another modern history headline number record that according to (my definition of) the basic market structure premise makes it the most bullish in history.

What is most remarkable is that gold prices hit their lows back in mid-August, more than seven weeks ago and, in fact, are higher than they were then and are now only dimes away from penetrating the 50 day moving average, whereas prices were $60 below the moving average back then and the commercials are more long now than ever. Even if we have to endure yet-another commercial price rig to the downside, how the heck did the crooked commercials hoodwink the technical funds so efficiently?

While the managed money traders are not quite as heavily net and gross short as they were on August 21, the reductions have been minimal. This week, the managed money traders bought 4074 net gold contracts, comprised of new longs of 2158 contracts and the short covering of 1916 contracts. As I have been intoning for many weeks, the long position of the managed money traders, now at 100,671 contracts, is still historically low and not easily given to much liquidation from here.

The managed money (technical fund) short position in gold, despite this weekâ??s slight reduction is now at 180,274 contracts and still sky-high and unavoidably subject to great short covering ahead. Trading action since the Tuesday cutoff strongly suggests no short covering of consequence, seeing as the neither the Tuesday price highs nor the 50 day moving average was penetrated on a closing basis. There does appear to be a full load of rocket buying fuel in the gold tank, whether there is any topping off yet to come.

In COMEX silver futures, the commercials sold 6400 net contracts, eliminating completely the unprecedented net long position they held for the past five reporting weeks, and returning them to a net short position of 1000 contracts. I suppose all good things must come to an end and I admit to feelings of disappointment when first glimpsing the report, despite my prior expectations. Then again, if you told me any time prior to mid-August that the commercial net short position in silver would be down to only 1000 contracts, I would have kissed you (if you were a woman, although Iâ??d be careful not to offend).

Although there has been net commercial selling in silver and relatively more managed money buying than has occurred in gold, it still is nothing less than remarkable how little commercial selling and managed money buying there has been considering silver price performance compared to the key 50 day moving average. Silverâ??s price lows came well after goldâ??s price lows, not occurring until mid-September and for weeks running, silver prices were as much as one full dollar below the 50 day moving average. Yesterdayâ??s close puts us right at the 50 day moving average in both silver and gold and I am struck by how relatively little the market structure has changed in each given where we stand in terms of the 50 day moving averages.

The key question in silver, of course, is what JPMorgan was up to, as it, alone, controls the destiny of silver and gold prices. Best I can tell, JPMorgan was a fairly light seller on the price rally over the past month or so. Iâ??m basing this on changes in the COT reports of the past month, as well as yesterdayâ??s Bank Participation report. Back in the Weekly Review of September 6, I estimated that JPMorgan had gone long for the first time ever, and held a net long position in COMEX silver futures of 2000 contracts. The Bank Participation report for October indicates that the US banks increased their net short position by 2000 contracts for the month, so Iâ??d consider JPMorgan to now be flat COMEX futures.

While itâ??s true that the net short position of the Producer/Merchant category of the disaggregated silver COT report has increased by 9000 contracts since September 4, it is also true that the number of traders on the short side has increased by 4 (to 16) from then and I am persuaded that this might be a case of JPMorgan, once again, double crossing other commercial traders, something it seems highly skilled at. To this point, there was much larger net silver selling by the non-US banks (6000 contracts versus the 2000 contracts sold by US banks) in the new Bank Participation report and JPM is definitely a US bank. In any event, Iâ??m trying to accurately depict JPMâ??s position, not sugarcoat it, so if, as and when the evidence points to it adding aggressively to short positions Iâ??ll report it; spitting and cursing these stone cold market crooks along the way, but reporting it nonetheless.

The managed money traders bought 6613 net silver contracts, nearly matching the commercial selling to the contract, comprised of the sale and liquidation of 1998 long contracts and the buyback and covering of 8611 short contracts. Of course, I was disappointed to see so much rocket buying fuel burnt up, despite my expectations of same. At the same time, this was just another confirmation that futures contract positioning changes is what drives prices. Iâ??d be stammering and stuttering trying to explain silverâ??s 75 cent rally (at the highs) over the past two reporting weeks in the absence of managed money buying â?? not a pretty sight.

The managed money long position in silver is now down to 50,674 contracts, the lowest since May and reflects a further 500 contract liquidation in the concentrated long position Iâ??ve referenced so much over the past few months, suggesting that liquidation is near completion if not already completed, on both on a total and concentrated basis.

The managed money short position in silver, now at 86,744 contracts, is down close to 18,000 contracts on a gross basis from the peaks a few weeks ago, but is still more than 12,000 contracts above the-then record of April. I do take some consolation that the net short position of the managed money traders is only 13,000 contracts less than the record mark on September 4. As is the case in gold, there is still plenty of buying potential in the rocket fuel tank in silver, whether the commercials succeed in more topping off or not.

A quick word about technical fund short covering in silver from a different perspective. Not only is it true that the technical funds buy as prices are moving higher and sell as prices are moving lower, they also, most assuredly, buy at high price prints and sell at low price prints. In other words, there is no question that when prices are setting new lows, the technical funds are the sellers and when prices are setting new highs, the technical funds are buying at the highest prices printed or recorded. Let me give you a practical example of what Iâ??m talking about.

A little over two weeks ago, silver prices briefly penetrated the $14 mark to the downside, before rallying into the close. On this Tuesdayâ??s cutoff, silver prices rallied to nearly $15, before selling off into the close. You can safely bet your very last dollar that the technical funds were the (short) sellers of silver below $14 and the buyers of silver at close to $15, losing a full dollar in the process. What this means is that the technical funds are so immersed in the sell low, buy high orthodoxy of their system that they suffer even worse results than I claim in my running money scoreboard. Silver has changed little over the past month or so and here is a documented case of the technical funds losing a full dollar on thousands of contracts in a flat price environment. Just saying.

Putting everything into perspective and recognizing full-well that silver and gold are manipulated in price and can, therefore, be subject to deliberate and unjustified selloffs at any time; the big picture points to much higher prices ahead. Actually, it is more objective to measure the potential advance in terms of buying power first and then progressing to what it may mean in terms of price.

Since their respective recent price tops ($1350 for gold in April and $17.25 for silver in June), the managed money traders have sold well over 200,000 net contracts in COMEX gold futures and 90,000 net contracts in silver. This is the equivalent of 20 million gold oz (worth approximately $25 billion) and 450 million oz of silver (worth approximately $7 billion) and in both cases near 50% of total open interest in each; truly astounding amounts. Even more astounding, I should also point out that one market participant, JPMorgan, bought, all by itself about half of what the managed money traders sold.

Based upon the data in the most recent COT and Bank Participation reports, the managed money traders have bought less than 5% of the contracts they sold in gold and less than 15% of what they sold in silver. A very simple way of considering what kind of price rally might unfold if the managed money traders bought all the contracts they previously sold would be a return to the previous price highs, namely, $1350 in gold and $17.25 in silver. But, as you know, things rarely evolve in a simple manner and the odds of an exact retracement of the previous price drops seems remote considering all the factors at work.

I suppose one could argue that the exact same amount of managed money buying that would exactly offset the prior amounts of managed money selling could result in a price move up even less than extent of the prior price drops, but that would only occur if there was documented even more aggressive commercial selling, particularly by JPMorgan. While that may occur, there is no firm evidence to date and weâ??ll all be watching this closely.

My point is that if the commercials, particularly JPMorgan donâ??t sell in the same manner in which they bought on the price drop, then, most assuredly, the price rally when the managed money traders buy will be more pronounced to the upside than it was to the downside. I know this is a recurring theme of mine, but what Iâ??m attempting to point out is the price multiplier effect of the process. If the managed money traders attempt to buy back merely what they sold over the past few months – a very reasonable assumption â?? and JPMorgan doesnâ??t sell aggressively, the price reaction could be many times the amount by which prices fell.

And please bear in mind that Iâ??m only talking about the managed money traders buying what they have sold over the past few months. Should these traders try to buy as many contrcats as they have bought at previous peaks, then weâ??re talking another 150,000 contracts in gold and 60,000 contracts in silver above what they held a few months ago.

As far as the money scoreboard for newly added managed money short positions, please remember that Iâ??m very likely understating the technical fund open profits in line with what I discussed above about these funds selling at the extreme low price prints and buying at new high price prints. The combination of the $10 increase in gold prices and 2 cent decline in silver prices has caused the total open and unrealized profit of the managed money shorts to decline by $125 million from last Friday to $580 million. My new coordinates are 132,000 contracts in gold and 43,000 contracts in silver. The newly added technical fund shorts are held at an open $25 profit margin in gold and 62 cent margin in silver â?? razor thin in my subjective opinion.

Ted Butler

October 6, 2018

Silver – $14.68Â Â Â Â Â Â (200 day ma – $16.08, 50 day ma – $14.70)

Gold – $1206Â Â Â Â Â Â Â Â Â Â (200 day ma – $1283, 50 day ma – $1206)

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