

## September 13, 2017 – Same Old Story?

Analysis must, above all, be objective and consistent if it is to hold merit. That means, to me, trying to gauge things by how they really are (and not as we want them to be) and to do so by measures previously determined to be reliable. New developments can certainly arise at any time to alter one's opinion, but there shouldn't be a brand new theory for a general investment case every other day, as that's not consistent or objective.

To be sure, the long term investment case for silver is spectacular in every possible absolute and relative measure. Not only is silver perhaps the best investment opportunity of all, it seems to me that relative to just about every other asset class, it is better positioned today than it was when I first started analyzing silver more than 30 years ago. Admittedly, that might be a function of everything else going up as much as or more than silver (particularly over the past six years); but even for that there is an explanation – COMEX futures positioning.

So strong is the influence of futures positioning on prices that it is now discussed and written about by more commentators than ever before. Five or ten years ago (and certainly before that), the Commitments of Traders (COT) Report wasn't covered to the extent it is now and the only rational explanation for that is because more see a pattern of positioning reliably in sync with price movements. Certainly, I am and have been a hard core futures positioning adherent, based upon my own particular experiences and background.

Upfront, discussions of long term investment cases and futures positioning considerations are not necessarily mutually exclusive, but they often are. In other words, there are times when the short term futures positioning in silver is extremely bullish and, therefore, completely aligned with the always ultra-bullish long term considerations. To me, those are the best of times, in terms of inner stress. Other times, the futures positioning is far from extremely bullish and the more bearish it becomes in silver creates greater personal stress because it is at odds with the long term bull case.

I wouldn't classify the current futures positioning market structure in COMEX silver as being extremely bearish, but as a result of the two-month and \$2.50+ price rally, the market structure is far from extremely bullish. And it's not just a deterioration in the silver market structure adding to my stress, a number of other markets, including gold, currently have internal market structures far from bullish and are much closer to bearish and even extremely so. I'll try to touch on them.

To be sure, these market structure issues should not be a big concern to long term investors because, by definition, such investors should never be overly concerned about short term price possibilities. Further, given how cheap silver is by just about any measure and the pattern of the past few years, there is little reason to expect a particularly deep selloff in silver should we get one. Still, if an analyst is to remain objective and consistent, as well as a self-professed adherent to COT market positioning, he must strive to see things as they are.

Since the COT report of July 18 to last week's report, the managed money traders have bought

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70,000 net contracts of COMEX silver futures, the equivalent of 350 million oz, a truly enormous sum. This is the reason silver prices rose \$2.50 over this time. The commercials have sold 55,000 net contracts and other traders have sold an additional 15,000 contracts to the managed money traders (these things have to balance out). By commercial category, the raptors sold off 37,000 long contracts and, most disappointingly, JPMorgan added just over 20,000 new short contracts in COMEX silver. It's not possible that I failed to adequately explain that JPMorgan adding to silver short positions was the key to whether we exploded in price or not.

Although, we are still some distance away from the extremely bearish readings of April 18 and, before that, back to last summer, the purchase of 70,000 managed money contracts does leave room for significant selling on lower prices, should the commercials decide to rig a selloff. That we are so far above the key moving averages, adds potential drama to the possibility of a price rig lower. Were the current market structure in silver out of place with the market structures in gold and other commodities, that would perhaps lessen the chance of the commercials succeeding in rigging a silver selloff, but alas, that is not the case. The market structure in COMEX gold is already bearish, with less relative room to reach extremely bearish than silver's current structure.

Since July 18, the managed money traders have purchased nearly 210,000 net contracts of COMEX gold, the equivalent of 21 million oz. Just as way of comparison, the total holdings of gold in GLD, the largest investment stockpile of gold in the world, are 27 million oz, having increased by 1.5 million oz over the same time that the managed money traders bought 21 million oz of paper COMEX gold in less than two months. My point is that the buying by the managed money traders in COMEX gold futures since July 18 is what drove gold prices higher by nearly \$150, the same price formula as in silver.

The very pronounced buying of COMEX silver and gold futures contracts by the managed money traders means not only that is why prices rose, but also explains why prices may fall — live by the sword, die by the sword and all that. In the case of silver, COMEX positioning, when it is negative, is always the only possible negative factor. But it's not just a case of concern about the market positioning in COMEX gold and silver; the market structure is also the most negative it has ever been in COMEX copper futures, since the managed money traders held their largest gross and net long position in history, as of the latest COT report.

Additionally, the managed money traders have recently bought back much of the very large short position they had in NYMEX platinum futures that I mentioned at the price lows in July (as I recall), and it's obvious that the subsequent \$100 rally in platinum prices was caused by this managed money short covering. I don't feel there is any real short term connection between any of these markets in a fundamental sense, but I do sense a strong collective effort of the commercials to snooker the managed money technical funds any and every which way they can.

Also, there exists a somewhat unusual commercial/speculative market structure in the US dollar index futures contract and other foreign currency futures that would seem to favor a rising dollar and weaker foreign currencies relative to the dollar. There is no disaggregated COT report for the dollar index and foreign currency futures, so I can't certify it is the same commercial versus the managed money technical funds matchup as in other commodities; but I'm as close to certain as possible that the large speculators in currency futures are the same managed money traders as in gold and silver and other commodities. No, I'm not suggesting that I'm some sort of currency expert now, just that I hate to bet against the commercials in any managed money matchup and should the commercials

prevail and be benefitted by a rise in the dollar that usually works against the metals.

For what it's worth, not every market is positioned to decline on a market structure basis. In fact, the managed money net and gross short positions in sugar, coffee and cocoa are at or close to historically large extremes, which in terms of market structure makes each extremely bullish in COT market terms. As with any market structure judged extremely bullish or bearish, this COT analysis is not particularly time-sensitive, nor does it rule out lower price lows in the interim, just like an extremely bearish market structure doesn't rule out temporarily higher price highs.

Therefore, for a variety of reasons, but all closely connected to futures market structure concerns, I'm gritting my teeth a bit about another engineered price take down in silver and gold. Of course, there are many more reasons why silver should move higher away from COMEX positioning considerations and only one negative concern, but that darn negative reason always seems to win out at some point. For me not to raise the issue wouldn't be professional.

Accordingly, I've taken a few chips off the table, unlike the more recent similar occasions in April and early June, where I decided to ride it out regardless and just buy call options on any selloffs that (did, in fact) developed. I'm still planning to buy options as and when prices selloff, just more the next time around, as well as adding back the chips removed. If, as and when silver prices do selloff again, please get prepared to hear my big one premise again, something that quite admittedly has yet to occur.

Trying to quantify any potential short term selloff in silver, the good news is that primarily because this latest silver rally was so relatively subdued and capped, it does not necessarily require a large price decline to make the structure bullish again. As is always the case, should we turn bullish in market structure that will require substantial managed money selling and what will generate that selling is downward penetration of the key moving averages, including the 50 and 200 day moving averages.

Should the commercials (and JPMorgan) succeed in once again in fully flushing out the managed money traders and getting them to commit on the short side, it would require a move below the lowest key moving average. In silver that would mean about a full dollar move lower and maybe another dollar or so for good measure. That's about \$2 from here. In gold, the lowest key moving average is about \$100 lower than current prices, so there may actually be relatively more downside in gold than in silver. The key, of course, to any successful commercial price rig job is not the price, per se, but in getting the managed money traders to sell as large a quantity of contracts as possible. That's the whole concept behind "slicing the salami".

Of course, there's no assurance that the crooked commercials will succeed yet again; but neither is there any evidence of their abject failure to do so in the past. There's no question that this artificial price game is long of tooth and that works to seeing it ended at some point; but in the here and now, the crooked game still seems intact. Long term investors should hardly fret about a dollar or two down in silver, as that's just not enough to remove the much greater risk of missing the big one up (which is not dependent on COMEX positioning). In my case, I still have a surplus of call options left as a result of recent purchases.

In other developments since Saturday's review, the new short report for securities featured a slight decline in the short position of SLV, the big silver ETF, and a larger reduction in GLD, the big gold ETF. The short position in SLV fell by a bit over 600,000 shares to just under 13.6 million shares (ounces),

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while the short position in GLD fell a more substantial 2.4 million shares to just under 13.5 million shares (1.3 million gold ounces). There are too many unknowns to form a strong conclusion, so I won't try. Call the results not particularly meaningful, at least to me.

<http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%E2%84%A2>

As far as expectations for the COT report on Friday, as of yesterday's cutoff, I would expect a continued deterioration, or an increase in managed money buying and commercial selling, but not to the full extent that we've witnessed on average over the past two months. For numbers, I'd say around 5000 net contracts in silver and maybe 15,000 net contracts in gold. After all, we did establish new price highs earlier in the reporting week. I realize we ended the reporting week lower than the previous reporting week by selling off Monday and yesterday, but nowhere near to the technically significant levels that would trip off big managed money selling.

Just as I was finishing this report, I happened to receive an email from a subscriber who told me that he had seen an interesting video interview that he thought was right in some ways, but wrong in other ways. Steve didn't include any reference or attachment of the video, but I knew exactly what he was referring to, having watched the interview of Jeffrey Christian on Kitco earlier in the day. I told Steve that Christian went out of his way to ignore the entire COMEX futures positioning angle for the simple reason that to accept that such positioning existed would directly lead to a conclusion of manipulation, something Christian is locked into denying. I did also suggest that this was the work of a weasel.

<http://www.kitco.com/news/video/show/Kitco-News/1703/2017-09-13/Gold-Manipulation-Talk-Is-Simply-Nonsense—CPMs-Jeff-Christian>

The main reason silver is so incredibly underpriced is precisely because it has been subject to the artificial price discovery process of paper COMEX dealings, as are other commodities. Trying to squeeze a few shekels out of a continuation of the manipulation may prove to be foolhardy on my part, but not as idiotic as denying the manipulation in the first place.

Ted Butler

September 13, 2017

Silver – \$17.80 (200 day ma – \$17.09, 50 day ma – \$16.78)

Gold – \$1326 (200 day ma – \$1239, 50 day ma – \$1276)

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