September 16, 2017 – Weekly Review

On the heels of five straight weeks of gains and new high-water marks, prices for gold and silver fell this week; with gold ending down by $26 (1.9%) and silver by 38 cents (2.1%). As a result of the fairly even relative price performance, the silver/gold price ratio continued to stick around the same 75 to 1 level it has been at for weeks. The only possible explanation for the lockstep price performance of these two commodities has to do with how the price of each is set and not due to actual conditions in the commodities themselves. In other words, COMEX futures market positioning sets the price of both gold and silver (and other commodities).

I received an email this week from a long term subscriber, asking what Iâ??m sure is on many minds, namely, why do I focus so intently on COMEX paper positioning when so much is happening in the world that would seem to influence gold and silver prices. Let me admit upfront that the reader is absolutely correct that more seems to be happening in the world that should influence price and there are more articles connecting the flow of news events to changes in gold and silver prices than I can recall over the past three or four decades. Why donâ??t I get with the program and write more about these things?

Maybe Iâ??m getting too old and cantankerous, but the way I see it is that news events and changes in actual supply/demand fundamentals matter less and less as time goes by and the only thing impacting price is the paper trading game on the COMEX. Please donâ??t misunderstand me, Iâ??m not saying the actual fundamentals wonâ??t greatly impact gold and silver prices someday, and perhaps soon, just that in the church of the here and now, COMEX futures positioning is the be-all and end-all for price movement. When that changes at some point, as it must, weâ??ll be in a completely different price world for gold and, particularly, for silver. Itâ??s not right (or legal) that prices are determined on the COMEX, but thatâ??s a different issue than the reality that they are.

The best news is that when the paper positioning control ends on the COMEX, it will be obvious to all and, in effect, will be the only possible explanation for what will be the dramatic price move higher. And thatâ??s true no matter how the paper game gets resolved â?? with the commercials successfully maneuvering the managed money traders to be extremely short, yet again, and then stepping aside from new shorting, or with the commercials being overrun for the very first time (full pants down). To be sure, when either event occurs, there will be some outside news associated with the price explosion, but thatâ??s just because some simple explanation will be demanded. Those that canâ??t (or wonâ??t) see that silver has been manipulated all along will never admit that its termination was the cause of any price explosion. Thatâ??s just the way it is.

Iâ??ll get into this weekâ??s usual key development, COMEX positioning, momentarily, after covering some lesser developments. The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled this week to 2.3 million oz, as total inventories rose by 1.5 million oz to 218.2 million oz, another fresh multi-decade high. No change in the JPMorgan warehouse total of 115.8 million oz for the second week.

The cooling off of physical silver warehouse movement is somewhat at odds with the continued heavy pace of deliveries against the September COMEX silver futures contract. More are taking notice of the heavy deliveries, particularly the fact that new futures contracts have been added since the start of the delivery process than in any prior delivery month in memory. As expected a week or so ago, the number of silver deliveries so far this month is greater than any previous month in years. Also expected was that the customer(s) of JPMorgan would end up taking more than the 1500 contract supposed limit for deliveries, as it (they) has stopped 1733 contracts month to date, more than any other net stopper. The house, or proprietary trading arm of JPMorgan has remained MIA for silver deliveries this month, no change from March.

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

Iâ??m sure the attention being placed on the large number of COMEX silver deliveries in September has to do with fact that deliveries involve physical metal and if anything can overwhelm the paper positioning control, it would be something in the physical realm. But so far, the large deliveries have exerted little apparent influence on price. Iâ??ve confessed to being unsure of what may be behind the large deliveries in silver, but Iâ??m starting to lean towards an explanation involving an interest rate arbitrage.

Thereâ??s no sense in getting overly complicated (since Iâ??m not sure if this is the reason anyway), but the spread differentials between the various months in COMEX silver futures are extremely wide relative to current low interest rates and there is a beat-current-interest-rates opportunity in a cash and carry spread transaction presently available. Without getting into unnecessarily complicated details, if this is the explanation for the large number of September deliveries (aside from those stopped by JPMâ??s customer), then the deliveries donâ??t have much to do with pronounced physical tightness (as much as this pains me to say). Anyone interested in a more detailed explanation, please contact me, but please be warned that this is as clear as the fog at this point and there are more important things to consider.

There were no big changes in the holdings of GLD and SLV very recently and, undoubtedly, the flows of physical gold into or out from GLD will be determined by price direction set on the COMEX. Should gold prices move to new highs, it would be reasonable to expect that new gold will be deposited into GLD. With SLV, price direction doesnâ??t seem to matter much with deposits or withdrawals, just what JPMorgan is up to, so all one can do is observe. Sales of Silver Eagles from the US Mint are so low, so as to be almost unbelievable. After an uptick in sales of Silver Eagles in the last few days of the prior month (which still finished as among the lower sales months of the year), sales this month are practically non-existent and at the lowest pace in memory.

https://www.usmint.gov/bullion-sales

The changes in this weekâ??s Commitments of Traders (COT) Report were generally in line with expectations of modest further managed money buying and commercial selling, but there was greater deterioration than I expected in silver. Based upon price action since the Tuesday cutoff, for the first time in many weeks, I detect no big further deterioration through yesterdayâ??s close. The implication being that this is merely a pause in the recent run of higher prices followed by a resumption of further managed money buying on higher prices; or a turn to lower prices and eventual managed money selling.

In COMEX gold futures, the commercials increased their total net short position by 10,300 contracts, to

272,100 contracts (my guess of 15,000 contracts was exceeded on the managed money side). This is the largest (most bearish) reading since last September 27, but still nearly 70,000 contracts below the all-time negative reading of July 2016.

By commercial category, the big 4 added 4600 new shorts and the big 5 thru 8 traders added a hefty 7300 contracts of new shorts, leaving the raptors to go the other was slightly in adding 1600 new long contracts to a net long position now amounting to 10,700 contracts. The concentrated short position of the big 4 and big 8 in gold is also at one-year extremes, never good news unless the eight big crooks are about to meet their Maker (not something Iâ??m predicting, just hoping for).

The buy side of gold featured the managed money tradersâ?? net buying of 16,329 contracts (much closer to my 15,000 contract guess), including new longs of 18,924 contracts and the new short sale of 2595 contracts (owing to the short position having reached unrealistically low levels). The long position of the managed money traders is exceptionally high (bearish) on both a gross and net basis.

In COMEX silver futures, the commercials increased their total net short position by 8,000 contracts to 84,700 contracts (I had estimated an increase of 5,000 contracts and missed by a much wider margin in terms of managed money buying). The is the largest commercial short position since May 2, as the commercials have seemed more intent in capping silver prices than they have in gold, or at least thatâ??s my take.

By commercial category in silver, the big 4 added 2200 new short contracts, while the big 5 thru 8 traders added 3900 new shorts, and the raptors sold off 1900 longs, reducing their net long position to 14,300 contracts. The concentrated net short position of the 8 largest commercial crooks is now 99,000 contracts, just a shade under half a billion ounces of silver. Not one of these short contracts represent a legitimate hedge, as not one contract is held by a mining company (according to public accounting disclosure requirements).

Sure, JPMorgan can claim its COMEX short sales are hedged against its much larger physical long positions; which makes sense until you consider that JPM was always the big silver short seller, even before it began to accumulate physical silver in 2011. Besides, if past is prologue, then JPMorgan will buy back its recently added short positions at a profit, thereby demolishing the pretense of what this cooked bank is doing is legitimate hedging as opposed to brazen market manipulation and control.

Since the price bottom in early July, JPMorgan has added more than 23,000 new short contracts in COMEX silver futures. Yes, the raptors have sold, collectively, even more in liquidating close to 40,000 long contracts, but the price of silver would have climbed much higher than the $2.50 it did rise, had JPMorgan not added so aggressively to silver shorts. This is and has been the key to the silver manipulation ever since JPMorgan became the big manipulator with its acquisition of Bear Stearns in 2008.

While we may still be 30,000 contracts away from the all-time extremely bearish COT reading of April 18 in terms of the total commercial net short position, my sense is that the commercials, and most particularly JPMorgan, arenâ??t interested in selling that many more short contracts. I base this on the fact that JPMorgan has apparently added another 2000 short contracts to a net short position now amounting to 38,000 net contracts, the equivalent of 190 million oz. You can count on one hand (with some fingers remaining) the number of times JPMorgan has been this heavily short on the COMEX. As galling as it might be, I fear the nitwits and perhaps criminal accomplices at the CFTC might actually accept JPMâ??s lame excuse that the bank is hedging.

On the buy side of COMEX silver futures, the managed money traders bought a total of 13,888 net contracts (way over my 5000 contract guess), including the new purchase of 8,649 long contracts and the somewhat surprising buyback of 5,239 short contracts, leaving less than only 6000 managed money contracts remaining. I wish it were otherwise, but this time around, the commercials have appeared to have played the managed money traders like the market masters that the commercials are.

We may be at an important juncture in the gold and silver, based upon the apparent mastery of the commercials to this point. This may be reflected in the money scoreboard running tally that Iâ??ve recently retaken up. The drop in price this week has reduced open losses to the 8 largest traders in COMEX silver and gold combined by $900 million, reducing the total open loss to $1.8 billion from last weekâ??s $2.7 billion level. A $50 drop in gold and one dollar drop in silver (or some combination like that) would bring the commercials to a breakeven and in position to close out added shorts at a profit on even lower prices.

The question is what is likely to occur price wise and if the past is any guide, the probabilities would seem to favor the crooked commercials. Thatâ??s not guaranteed, of course, but must be considered the higher probability bet. I would love to be wrong on this and if the commercials do instead get overrun, it will validate the manipulation premise to even the staunchest deniers.

One other point. Last week, I mentioned how silver, gold, platinum and copper looked overextended to the upside in COT market structure terms. What I didnâ??t mention was that all these markets had been trading well-above their key 50 and 200 day moving averages, leaving them ripe for serious managed money technical fund selling should prices penetrate the moving averages to the downside. That this downside penetration would mean great news for the commercials persuades me this would be the most likely outcome. After all, if markets are manipulated, then there has to be a rhyme and reason for the manipulation and the most plausible reason to me is the money angle.

My 3 year old grandson is visiting this week and, no thanks to me, he is consumed by an overriding interest in dinosaurs (and Thomas the train and Paw Patrol). He even knows the difference between the meat-eaters, the T. Rexes and the velociraptors and the herbivores on which they feed. Theo doesnâ??t know anything about the T. Rexes in the form of JPMorgan and the raptors on the COMEX, but the connection is clear to his grandfather and hopefully you. Either the COMEX meat eaters will prevail yet again and eat the managed money herbivores (as prices decline) or the herbivores will prevail for the very first time (as prices explode). The COMEX game is more complicated than that for a three year old, as to be expected, but there is no excuse for the federal regulators to be as unaware.

Ted Butler

September 16, 2017

Silver – $17.65Â Â Â Â (200 day ma – $17.11, 50 day ma -$16.88)

Gold – $1325Â Â Â Â Â Â Â Â (200 day ma – $1241, 50 day ma – $1282)

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