

September 2, 2017 – Weekly Review

Gold and silver prices surged higher, with gold finishing at new highs not seen in nearly a year, up \$33 (2.5%) for the week, with silver up 75 cents (4.4%), but only at multi-month highs. The silver/gold price ratio tightened in by more than a full point, to under 75 to 1, reflecting silver's relative outperformance this week; but in reality, silver has appeared to lag gold for some time.

As you know, silver tends to strongly outperform gold on notable price rallies and the \$120 (10%) price rally in gold since early July certainly qualifies as notable. While it is true that silver's \$2.30 (14.8%) gain over that time was much larger in percentage terms, it hasn't felt that silver has outperformed gold. A \$100+ rally in gold should result in more than a \$2 silver rally. That silver has outperformed gold on a percentage basis over the past two months is a testament to how cheap silver had been (and is). Silver was and is so cheap on every absolute and relative basis imaginable that even when it underperforms it still over performs on rallies that would normally be considered anemic.

If there is a single reason for gold acting stronger than silver, then it must be the same reason I contend each week is the primary price driver – COMEX futures market positioning. Not only are COMEX futures contract positioning changes almost solely responsible for the rally in gold and silver prices over the past two months, these positioning changes also explain why gold's rally has appeared stronger than silver's. Simply put, the managed money technical funds have been more aggressive in buying gold futures contracts than they have in silver to this point. For sure, how they behave in the future will explain future prices.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses continued subdued until a last day 2.4 million oz movement pushed the weekly total to 4 million oz. Interestingly, despite the pickup in weekly movement, total COMEX silver inventories remained unchanged at 216.5 million oz. As you know, I have been fascinated by the extremely large weekly turnover of physical silver in the COMEX warehouses for more than 6.5 years, ever since this highly unusual inventory pattern burst onto the scene; precisely at the exact same time I can trace the beginning of JPMorgan's epic accumulation of physical silver.

The unprecedented rapid turnover of COMEX physical silver and the start of JPM's physical silver acquisition can't be coincidental, particularly since the bank opened its COMEX silver warehouse at precisely the same time. Also not coincidental is that JPM added another 0.6 million oz to its COMEX warehouse holdings, increasing the amount of silver there to 115.8 million oz, another new record.

The increase in JPMorgan's total COMEX silver warehouse holdings comes even as the bank has ceased stopping (taking) deliveries on COMEX futures in its own name since the end of March. The first three days of deliveries against the traditionally large September futures contract have featured total deliveries of 2918 contracts, but none involving the JPM proprietary trading account. You'll recall that it was the consistent case of JPM being the biggest stopper of silver for a couple of years until March, after which the bank suddenly stopped being the prime stopper of silver. I will note that a customer(s) of JPM has stopped nearly 900 deliveries so far in September, making it the second largest stopper for the month, but nothing in the JPM house account.

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

I still feel JPMorgan is acquiring as much physical silver as it can (without disturbing the price), but has ceased doing so in the two most transparent former means it used — by COMEX futures deliveries in its own name and through the purchase of US Silver Eagles and Canadian Silver Maple Leafs. Although only a small number of observers (apart from subscribers) are even aware of JPMorgan's epic accumulation of more than 600 million oz (now closer to 650 million oz) of physical silver, it appeared more were becoming aware of JPM becoming the largest stopper of COMEX silver futures contracts and the unusually large amount of coins being bought in what was a tepid retail demand environment of the past six years.

In other words, more were becoming aware that JPMorgan was buying physical silver due to its aggressive purchase of Eagles and Maple Leafs (which it melted into 1000 oz bars) and its stopping of COMEX futures deliveries; so it ceased doing so. Let's face it, JPMorgan is much better off by the fewer who are aware it has accumulated more silver than any private entity in world history. Therefore, it makes sense the bank would back off from acquisition methods that risked exposing its physical silver accumulation.

Instead, JPMorgan concentrated on methods of physical silver acquisition less obvious, such as skimming from the still unusually large weekly physical silver turnover in the COMEX warehouses and through conversions of shares to metal in the big silver ETF, SLV. Through these two means, JPM continues to acquire silver, with hardly an observer aware — just the way the bank would prefer and despite what must be considered some strange doings in SLV.

The strange doings in SLV revolve around the continued and highly counterintuitive circumstance of consistent apparent liquidations of metal holdings in the trust on a fairly notable price rally. In less than two months, silver has rallied about 15% in price, yet instead of new metal being deposited into the trust reflecting the near-certain new investment buying, the metal holdings in SLV dropped by more than 17 million oz. This is a strange enough occurrence so as to demand an explanation. While I detected a similar circumstance in GLD, the big gold ETF, a short while back, more recently the pattern turned the way it should be in that ETF, including yesterday's nearly 500,000 gold oz deposit in GLD.

The only explanation for the consistent withdrawals of silver from the SLV on increasing prices is someone is deliberately converting shares to metal to avoid large shareholder reporting requirements. And the most obvious candidate to be doing this is JPMorgan, based upon the other various means by which the bank has been acquiring physical silver. If share to metal conversions are occurring in SLV, as appear to be the case, it would be almost impossible for it not to be JPMorgan, seeing as the bank is particularly qualified to do so as the trust's custodian (keeper of the physical metal) and a leading Authorized Participant (market maker).

Sales of Silver Eagles picked up sharply over the final reporting days of August, increasing from around 400,000 for the month last Friday to just over a million this week. While the last few days sales were notable, the month's total was still among the lowest for the year and reports from the retail front suggest no big pickup in demand.

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

The changes in this week's Commitments of Traders (COT) Report were largely expected for a reporting week which featured new price highs in gold and silver. I was slightly under in terms of the commercial selling in silver, but within range in terms of silver managed money buying and just over in terms of both in gold. Were my predictions analogous to tossing horse shoes, it would have been a very respectable showing, although that's not the purpose. The purpose, of course, is to understand and anticipate changes in the most important driver of price.

In COMEX gold futures, the commercials increased their total net short position by 28,100 contracts to 248,000 contracts (I had guessed an increase of 35,000 contracts or so). Not coincidentally, this is the highest (most bearish) commercial short position in the same nearly one year period as is the price of gold. No, commercial selling doesn't cause new price highs; managed money buying causes prices to move higher. It's just that commercial selling is always in response to managed money buying and that means each is the reciprocal of the other.

By commercial category in gold, the big 4 added 11,300 new short contracts and the raptors (the smaller commercials away from the big 8) sold off 20,300 long contracts, reducing their net long position to 14,400 contracts. Curiously, the 5 thru 8 big shorts in gold went the other way and bought back 3500 short contracts. Not only was this out of kilter with what would normally be coordinated commercial behavior during big positioning weeks, it may have importance for another reason I'll discuss in a moment.

On the buy side in gold, the managed money technical funds nearly matched the total net commercial selling, as these traders bought just over 27,000 net contracts, including adding new longs of 25,348 contracts and the further buyback of 1699 short contracts, to just under 14,000 short contracts remaining. I keep saying this short position can't get much lower and it keeps going lower. The long position of the managed money traders is now just over 235,000 contracts and at its highest point in a year.

In COMEX silver futures, the commercials increased their net short position by 10,500 contracts to 65,600 contracts (slightly exceeding the 5000 to 10,000 contract range I predicted). This is the largest (most bearish) commercial short position since mid-June, but still about 50,000 contracts shy of the largest and most bearish commercial short position of this past April 18. Whereas gold's price and commercial net short position are the highest in about a year, silver's price and total commercial net short position are still way shy of previous price and positioning extremes. Depending how you look at it, this could be good or bad news ahead.

By commercial category in silver, the big 4 added 2600 new shorts, the big 5 thru 8 traders added 1000 new shorts and the raptors sold off 6900 long contracts, reducing their net long position to 22,500 contracts. I'd peg JPMorgan's net short position to be around 32,000 to 33,000 contracts and it's safe to conclude no regulator suggested or ordered the bank to stop adding to its manipulative short position. Next week's Bank Participation Report should help clarify JPM's manipulative short position further.

On the buy side of COMEX silver futures, the managed money technical funds bought 8,182 net contracts, including adding new longs of 1785 contracts and the buyback of an additional 6,397 short

contracts. Managed money longs now total 70,525 contracts, about 14,000 contracts or so above the 56,000 contracts of core non-technical funds longs hit two months back and managed money shorts are now down to just over 18,000 contracts, leaving only 10,000 contracts or so of further short covering.

Over the past seven reporting weeks (from July 18), the commercials have sold nearly 175,000 net gold contracts, as the managed money traders have bought more than 190,000 net gold contracts. The net buying of the managed money traders is the equivalent of more than 19 million ounces of gold and since this towers over the verifiable purchase of gold in any other form or venue, it is mandatory that this buying be considered the main driver behind the \$120 increase in the price of gold.

Yes, I know that COMEX positioning is paper derivatives buying and not physical metal buying, but in terms of price influence, this paper positioning is what sets the price, like it or not. I don't like it nor do I think it's right, but that's my whole point, namely, COMEX positioning sets the price.

Over the same seven reporting weeks in silver, the commercials have sold nearly 44,000 net silver contracts and the managed money traders have purchased just under 60,000 net silver contracts. The net buying of the managed money traders is the equivalent of 300 million oz of silver, truly an enormous amount of silver to be purchased in such a short period of time. Yes, I know this was paper derivatives purchasing and not the purchase of physical silver, but the CFTC, a federal agency, is the source of the data and they have no reason to artificially inflate the managed money buying.

The world mines about 75 million oz of silver each month, 150 million oz over two months. Yet over less than two months, managed money traders have bought double the amount of silver mined throughout the world in that same time. The wonder is, not that silver rose a bit over \$2 in that time, but how was it possible that it only rose by \$2? How the heck can a small group of traders buy more than twice what the world produces and the price only goes up marginally?

The answer is because the commercials and some other traders were incredibly aggressive in selling into that managed money derivatives buying. The important point is that the managed money traders are pure speculators and their buying can't possibly be considered legitimate hedging in any way. And neither are the traders which sold to the managed money buyers hedging in any way; they're just booking the speculators' bets, not hedging. I'm sick and tired of the regulators looking the other way as COMEX derivatives trading grows so large as to defy any notion that this is legitimate.

So where are we in positioning at this point? With 190,000 net managed money contracts being bought in gold over the past two months, the market structure must be considered bearish. But that doesn't necessarily mean we go lower from here; we could and will move lower if the commercials can arrange for a sharp drop in price that will lead to managed money selling. However, it's perhaps just as likely that the managed money traders could add a significant number of new gold long contracts, up to and exceeding the 300,000 contracts they held long last summer. That means another 100,000 gold contracts on higher prices.

The total assets under management for the managed money traders has not shrunk much, as I commented on recently. Additionally, the new record large long positions these traders have established in COMEX copper suggests it is entirely possible for these same traders to be able to set new positioning records in gold, exceeding the record positioning levels of last summer. I don't like being wishy washy, in declaring we could go up or down, but that is a function of the market structure. I certainly

wasn't evasive two months back (and previously) when the market structure in gold and silver was extremely bullish, but that is no longer the case.

In silver, there's actually more room to the upside in terms of further managed money buying relative to gold with another 60,000 net contracts of potential managed money buying, should the commercials not fight it. But with 60,000 net contracts of managed money buying already on the scoreboard, it is possible we get a selloff instead. More doubletalk from me.

Last week, I re-initiated my money scoreboard tally of open losses and gains. Since the smaller commercials, which I refer to as the raptors are still net long as of the latest COT report, I chose the 8 largest commercial shorts as the group of traders against which the managed money traders were positioned. Last Friday, I pegged the open (unrealized) loss to the 8 largest shorts in gold and silver combined to be \$1 billion. Based upon the price move up in gold of \$33 and 75 cents in silver this week, the 8 largest shorts in gold (26.2 million oz) and silver (440 million oz) suffered an additional \$860 million loss in gold and a \$330 million loss in silver, for a combined additional loss of nearly \$1.2 billion and raising the total open loss to \$2.2 billion.

My figures are simplistic and don't breakout and separate JPMorgan or its massive physical silver long position. If you remove JPMorgan from the 8 largest short traders, total combined open losses become smaller but much more concentrated among the 7 remaining shorts, which don't have a large physical metal position to protect them (as does JPM). Since there is no way JPMorgan can possibly lose or not prosper mightily should silver explode in price, I tend to think more about the weaker links in the big short membership. The smaller of the big shorts, or anyone aside from JPMorgan, stand a much greater chance of getting into trouble should open short losses grow too large to handle.

That's why I found it odd that there was a reduction in the short position of the 5 thru 8 traders in gold in this week's report. Not only did it seem odd that these traders bought while the other two commercial categories (the big 4 and the raptors) sold big, it may have indicated one of the big 5 thru 8 bought back shorts because of duress over growing losses. It's way too soon to reach such conclusions, but I want to remain sensitive to the general market structure as well as the details.

If there is one very wild card potentially in play currently, that wild card is JPMorgan and its massive physical silver position. We all have learned (the hard way) that the commercials always succeed eventually whenever they get massively short against the managed money technical funds. At that point, it's always been just a matter of time before the commercials succeed in rigging prices lower and inducing managed money selling. Therefore, the possibility of eventual managed money selling can never be ruled out.

On the other hand, I am convinced this silver and gold manipulation will end at some point, with the precise point being unknowable in advance. It comes down to, do we blast off when the technical funds are minimally long (an extremely bullish market structure) or when they are heavily long (the full pants down)?

The wild card of JPMorgan's massive physical silver long position greatly complicates matters because the biggest silver short could just as easily allow silver to explode at any time. For sure, should JPM so desire, silver prices could explode and really hurt the remaining big shorts, perhaps to the point of bringing some to their knees and ripe for a takeover under duress. In the meantime, while it

might suffer losses on its paper COMEX short position, JPM would stand to make a net profit on silver almost beyond imagination. Please know that this is a high stakes game being played at a level well beyond what we can see or comprehend that is only made possible by virtue of JPMorgan's epic physical silver holdings. Mostly attributed to gold, I would counter that he who owns the (physical) silver, makes the rules.

While I am disappointed that, to this point, this is not how I envisioned the big move up in silver to develop, I am not sure that move is not still ahead. Accordingly, I am remaining all in to see how this develops, just as I have done since April, primarily because silver is still too darn cheap, despite recent gains.

On a housekeeping note, I have now switched over to December in silver for pricing purposes, as well as gold because that's now the lead COMEX trading month in both metals.

Ted Butler

September 2, 2017

Silver – \$17.80 (200 day ma – \$17.05, 50 day ma – \$16.61)

Gold – \$1330 (200 day ma – \$1235, 50 day ma – \$1265)

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