September 20, 2017 – Digging Just a Little Deeper

I continue to be amazed at the growing amount of commentary devoted to COT market structure issues, although I fully understand why this is occurring – because the patterns are powerful when it comes to explaining price movements, both past and future. Itâ??s only natural that serious market observers would gravitate to what is, inarguably, the principle driving force behind price change â?? changes in futures market positioning. However, I continue to be even more amazed that the vast majority of those commenting on the changes in the COT report fail to take their observations just a tiny step further, namely, as prima facie evidence of market manipulation.

The hard part to understanding and anticipating the flow of futures contract positioning changes is the period of time necessary to first grasp just how repetitive is the pattern on price. Once it dawns on you that whenever the commercials get heavily short and the managed money traders get heavily long, the price is cruising for a bruising to the downside at some point. And vice versa â?? when it is the managed money traders heavily short and the commercials much less so, the prospects for a price advance is near certain, timing and duration always unknown, of course. Once you see that, you are mostly good to go from then on, in terms of grasping the concept of futures market positioning on price.

But while many have â??gottenâ?• the message of the COT report (as seen in the explosion of the amount of new commentary), I continue to be taken aback by the near-universal lack of taking the one additional step necessary to see things even clearer. Let me cut to the chase and use a specific example to describe what Iâ??m talking about, a recent article concerning the COT set up in COMEX silver, by someone no rookie to such market positioning analysis â?? Tom McClellan. It happens to be a well-written article by a real pro and I would encourage you to read it, although I will be disappointed if you donâ??t recognize it is completely in step with my recent comments on silver.

http://www.mcoscillator.com/learning_center/weekly_chart/silver_cot_commercials_betting_against_break

McClellan has been writing about the COT report on various commodities for decades and I canâ??t say he has ever come up with a markedly different overall conclusion than mine when reviewing the COT data. This is the way it should be for everyone who has come to grasp the power of futures market positioning on price. I know opinions are generally subjective, but in the case of gauging the very objective data in the COT report and the recurring positioning/price patterns, it is rare for any serious market structure analyst to strongly disagree, particularly at positioning extremes. So whatâ??s my gripe (and point)?

While McClellanâ??s article is titled â??Silver COT: The Commercials Betting Against Breakoutâ?•, I would submit â??bettingâ?• is not the right word. By definition, betting involves making a wager on something in which the outcome is unknown; sometimes you win, sometimes you lose. COT data clearly reveal that the commercials collectively, and JPMorgan specifically, have never lost when they have aggressively sold and sold short into any silver price rally in COMEX history. Thus, what they are doing is not betting, since they have never lost.

And let me define â??never lostâ?• as meaning that the commercials collectively and JPMorgan specifically have always bought back any short sales added on any silver price rally at lower prices

than sold short. The COMEX commercials and JPMorgan have never collectively bought back silver short positions at higher prices than originally sold short at, only at lower prices. Therefore, â??bettingâ?• is not what the commercials and JPMorgan are engaged in with COMEX silver (and gold).

Please know that I am not engaging in a game of semantics. There has been no betting involved when the commercials and JPMorgan add strongly to the short side in COMEX silver futures over the years because they have never lost. Iâ??m not saying that the commercials canâ??t possibly lose after they have added large short positions in COMEX silver, but the next time they lose will also be the first time they have ever lost. This is all contained in historical COT data and therein lies the proof of manipulation in silver; it is simply impossible to never have taken a loss on something so inherently dangerous as shorting an underpriced commodity repeatedly over the span of years and decades for that market to be considered free from artificial control.

Ironically, the reason that McClellan and virtually all other COT analysts (including me) are concerned about a selloff in silver, gold and other metals is because of the massive buildup in commercial net short positions. After all, this is the definition of a bearish market structure, as derived from past price outcomes almost too numerous to count. But if you can see that a big buildup in commercial shorts points to lower eventual prices because of the repetitive positioning pattern, is it too much of a leap to notice there have been no exceptions to the commercials always winning in the end? And once you notice that theyâ??ve never lost, is unreasonable to conclude that the game is fixed?

Thatâ??s why I have continued to be more amazed by the lack of most observers to conclude that the COMEX price game is fixed, than I am by the increasing number of observers who comment on positioning. I must be living in a parallel universe, since the connection between the commercials never taking a loss in the end when they have been big net short in silver and pricing fixing seems undeniable to me. In fact, I canâ??t imagine what could be clearer proof of silver price manipulation.

Saddest of all, of course, is that there exists a tax-payer supported federal agency, the CFTC, that exists for the prime purpose of protecting the futures markets from obvious price fixing. It is particularly ironic that the Commission is responsible for publishing the same data that proves beyond question that silver and other futures markets are fixed in price by collusive commercial trading behavior in which they never lose. Even the great silver price run up of early 2011 upholds the fact that the commercials didnâ??t lose in the end, as the commercials didnâ??t add to short positions (which allowed silver prices to surge) and waited until prices fell before covering older short positions.

I canâ??t imagine an explanation for the commercials never taking a collective loss in COMEX silver that could in any way be considered legitimate. Or at least, I have yet to see or hear of such an innocent explanation. Never losing is not a function of free markets, only markets that are fixed and rigged.

On to developments since Saturdayâ??s review. There was a fairly significant price decline on Monday in gold and silver, one which penetrated to the downside the 20 day moving average in gold and the 20 day and 30 day moving averages in silver (and all shorter-denominated maâ??s in each). In general, there are an almost infinite number of moving averages that the managed money technical funds react to and the more important ones, strictly based upon observation after the fact, are the 50 and 200 day moving averages, followed by the 20 and 100 day moving averages, in that order. But please knowthat different technical fund systems respond to the 5, 10, 13, 30, and 40 day moving averages andother combinations.

On Mondayâ??s selloff, the key 50 day moving average in silver ($17.12) was reached, but not (yet) penetrated. If, as and when the moving averages get penetrated to the downside in gold and silver, that should bring the activation of managed money selling on a continuous basis, should the rigged game play out as usual this time around. Thatâ??s not to suggest the timing of heavy managed money selling or that there canâ??t be sharp counter trend price rallies along the way. Sometimes, large commercial short positions get resolved in a few short weeks (as was the case into the silver price bottoms of early May and July), while at other times (like the summer of 2016) it can take several months.

Thatâ??s what makes COT positioning not particularly reliable on a precise timing basis, although the positioning pattern is quite reliable on a price directional basis. After all, the commercials, nor JPMorgan, have ever taken a collective loss on added short positions. But even knowing (until now) that they have never lost wouldnâ??t tell you the timing sequence in advance. The most reasonable COT analysis is based upon the probabilities of the commercials succeeding in buying back added short positions, but by numbers of contracts, not by the timing of the buyback.

But we do know, thanks to managed money technical fund behavior, that these traders sell aggressively when the key moving averages are penetrated to the downside and that more than compensates for the failure of not knowing the exact timing in advance. Of course, I am understating greatly the merits of the COT-brand of analysis, as investment analysis based strictly upon timing is what everyone wants but few, if any, ever achieve. And if anyone truly knew the short term in precise timing terms, there would be little benefit in sharing that information with anyone else (just trade for yourself).

Based upon the recent price action, it would appear that the buildup in commercial short positions and managed money long positions in COMEX gold and silver has come to a conclusion and that we may have entered a period of commercial buying and managed money selling, although it canâ??t be certain at this point if this is just a temporary pause, before a resumption of the rally in which new managed money longs and commercial shorts are added. In recent articles Iâ??ve suggested that the commercials were ready to take prices lower, so let me stick on the greater probabilities that a selloff is in store.

Over the past five months, the positioning changes in COMEX gold and silver have swung to extremes in fairly short order, weeks in some cases, a couple of months in other cases. This last rally we have witnessed in gold ($150) and silver ($2.50+) each took 8 reporting weeks, starting on July 18. Over that time, the managed money traders bought 225,000 net gold contracts (22.5 million oz) and 83,000 net silver contracts (415 million oz), as all the moving averages were decisively penetrated to the upside and then some. This was what caused gold and silver prices to rally over the past two months. Period.

Should the managed money traders have now commenced to sell as the same moving averages are penetrated to the downside, we must await that resolution. As and when the managed money selling comes to an end, we will undoubtedly be in a market structure that will be considered extremely bullish. But that can only occur near the end of the managed money selling. Unfortunately, it appears we have only just begun the process. Previous price targets suggested by me envision a near wipe out of the gains over the past two months before the dust is completely settled, but weâ??ll observe what occurs together in each new COT report.

As for this weekâ??s COT report, I would think the chances are good that we will see our first improvement in two months, or managed money selling and commercial buying; but not in very significant numbers of contracts, at least in proportion to the previous buildup. For off-the-cuff estimates, Iâ??d venture 10,000 or so contracts in silver and maybe 20,000 or so contracts in gold. In the meantime, Iâ??ll still be wondering how it is possible for so many to see the recurring COT pattern in positioning and price, yet not to see that JPMorgan and the commercials have always won and never lost means that the silver market is rigged.

(I see that I had spoken too soon above in saying that silver had not yet penetrated its 200 day moving average, as it has done so as I was sending this report).

Ted Butler

September 20, 2017

Silver – $17.10Â Â Â Â (200 day ma – $17.12, 50 day ma – $16.95)

Gold – $1303Â Â Â Â Â Â (200 day ma – $1242, 50 day ma – $1286)

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