September 22, 2018 – Weekly Review

Despite what looked like a typical COMEX across the board precious metals spoofing rig job lower yesterday morning, the price of gold and silver (and other metals) finished higher for the week. The gains were limited, as gold ended $4 (0.3%) higher, while silver ended up by 21 cents (1.5%). The remarkable feature, of course, was that this was silverâ??s first weekly gain in 15 weeks. Never in history had silver declined so many weeks in a row.

As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by a point from 20+year extremes to 84 to 1. Over the past 15 weeks, the ratio had widened by about 8 full points, so this weekâ??s one point tightening doesnâ??t much alter the fact that silver is still as cheap as dirt compared to gold and just about everything else. We all get hung up on certain numbers at times, but if you step back a bit and look at it from a slightly different angle, silver is less than 1.2% of the price of gold; which someone newly introduced to precious metals would quickly round off to 1% or gold being roughly 100 times the price of silver.

As I hope I have conveyed, I think gold is poised to move significantly higher for many reasons, particularly the current COMEX futures market structure, so I am as far removed from a bearish take on gold as Iâ??ve ever been. But it strikes me as especially insane that silver would be within spitting distance of being only 1% of the price of gold. For that reason, I remain convinced that when the price of gold does adjust by hundreds of dollars to the upside, the upward adjustment in silver will shock many by its amount and speed.

Speaking of gold, todayâ??s cover story in Barronâ??s features a very bullish take on the metal, entitled, â??Gold is Cheap. Inflation is Coming. You Do the Math.â?• Itâ??s a well-written article, covering many important issues, but, notably, leaves out any mention of what I would contend is the most bullish feature of all â?? COMEX positioning. Seeing how futures positioning has come to dominate metals commentary on the Internet (and rightly so), it does stand out like a sore thumb that there was no mention of it in the article. Generally, Barronâ??s articles are subscription protected, but I picked this up from a link from the Wall Street Journal (to which I have a subscription), so it might work for you.

https://www.barrons.com/articles/gold-is-cheap-inflation-is-coming-you-do-the-math-1537582480?mod=wsjhp&mod=article_inline?mod=hp_featst_pos1

Certainly, yesterdayâ??s abrupt selloff in gold and silver was directly related to the market structure on the COMEX in that gold sold off precisely as it was about to upwardly penetrate its key 50 day moving average, something that has not occurred for five months. While itâ??s impossible to know the precise details behind the sudden selloff, we do know that the managed money technical funds seem to live and die by moving average penetrations and someone was clearly not interested in goldâ??s 50 day moving average being penetrated yesterday and setting off technical fund buying.

We also know that goldâ??s 50 day moving average will eventually be penetrated to the upside, just like the 50 day moving averages were recently penetrated in copper and platinum, setting off technical fund buying and higher prices. We may not know exactly when goldâ??s and silverâ??s key moving averages will be penetrated to the upside â?? just that it is a mathematical certainty to occur. We also donâ??t know what will happen exactly when the moving averages are penetrated as to whether JPMorgan will add new short positions, particularly in silver, but nothing will be more important to price. More on this later.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this week to nearly 7.5 million oz, nearly 400 million oz on an annualized basis. If one thing has remained true over the past seven and a half years it is that there has been an unprecedented large physical movement in COMEX silver inventories and not in any other commodity. Just because hardly anyone mentions it does that make it less unprecedented or noteworthy.

Total COMEX silver inventories fell 0.9 million oz to 291.6 million oz and a big factor in the total decline was a further reduction of 1.8 million oz in the JPMorgan COMEX warehouse, now at 142.4 million oz. Combined with last weekâ??s reduction in the JPM warehouse, 3 million oz have been removed. Thereâ??s not enough data available to form specific conclusions, other than to say the withdrawals are in contrast to the typical one-way movement of silver into the JPM warehouse. The withdrawals are also in contrast to JPMorgan stopping 10.6 million oz (2121 contracts) so far in the September COMEX future deliveries in its own name, an action in the past which resulted in silver being moved into its warehouse. I guess time will tell this time around.

Speaking of the September silver deliveries, JPMorgan seems to have backed off in stopping deliveries in its own name this week and may not hit the 2200 contracts I estimated last week, although one or more of the bankâ??s clients has increased silver delivery stoppings this week, along with customer(s) of ADM. The developing drama about the large number of new contracts opened in the September contract this week seems to feature one big issuer, Goldman Sachs, issuing all and a bit more of the 1064 contracts it stopped earlier in the month in its own name these past few days. All told, Goldman has now issued 1238 silver contracts from its house account and seems likely to issue more.

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

What Goldman is up to is anyoneâ??s guess, but it defies logic from a pure profit and loss standpoint, since it seems to take and make delivery of silver at roughly the same prices and has been doing so all year. With JPMorgan, itâ??s been clearer â?? it shorts to eventually buy back at lower prices with big profits and keeps taking physical delivery on the cheap â?? a pretty straightforward scam. With Goldman, who knows? I did read an article recently in the Wall Street Journal that stated that the outgoing CEO of Goldman Sachs, Lloyd Blankfein started there as a gold trader (which I knew) and that its past President and former Trump economic czar, Gary Cohen, started at Goldman as a silver trader (which I did not know). About the only thing I feel confident about is that regardless of how illogical or pointless its stopping and reissuing of silver deliveries might be on the surface, Goldman has made sure it has been adequately compensated for whatever it has been up to.

The changes in this weekâ??s Commitments of Traders (COT) Report werenâ??t particularly significant in that they didnâ??t alter the overall structure, but were somewhat surprising at first glance. There were a couple of meaningful data bits under the hood. By the way, the report was screwed up as far as concentration data in the legacy report, but the concentration data in the disaggregated report seemed fine. Since I have suspended commercial category changes given the unprecedented commercial net long positions in gold and silver, about the only concentration that matters at this time is the concentrated long position of the four largest traders in silver.

In COMEX gold futures, the commercials added 1700 net long contracts to last weekâ??s flat headline reading and now stand 1700 contracts net long for only the second time in modern gold history (two weeks ago they were 6500 contracts net long). Since Iâ??ve suspended commercial category changes, because the managed money traders have become the key players on the short side of gold (and silver), let me jump to them

Surprising to me (but pleasantly so), the managed money traders sold 7244 net gold contracts, comprised of the sale and liquidation of 2689 long contracts and the new short sale of 4555 contracts. I say surprising because while gold prices ended the reporting week on the flat side, they were mostly higher during the week, even touching the 50 day moving average before retreating. In fact, had I been somehow privy to this weekâ??s report before publication, I would have bet there would have been no selloff on Friday, but a rally instead. But I think all that proves is that the COT report is not suitable for predicting short term price movements.

I keep saying that the managed money long position, now down to 97,904 contracts, is low historically and doesnâ??t leave much room for further liquidation, since it is real close to the ten year low-water mark and as much as 200,000 contracts below its high water mark in the summer of 2016. The new short position of the managed money technical funds, at 180,367 contracts, is still very close to the all-time peak of just over 197,000 contracts on Aug 21.

And seeing how the managed money technical funds added new shorts during a week of flat to up price movement, I have to conclude they were featured sellers yesterday, increasing their gold short positions. While it always feels rotten when prices suddenly selloff, if it involves new technical fund shorting, as is usually the case, it makes the market structure more bullish. No pain, no gain and all that jazz.

In COMEX silver futures, it was about the opposite to gold in many ways, as the commercials were net sellers to the tune of 3500 contracts, reducing their highly unusual net long position to 8800 contracts. Based upon not much net change in the Producer/Merchant category of the disaggregated COT report, Iâ??d peg JPMorganâ??s even more highly unusual net long position as unchanged at 3000 contracts.

Also unlike the case in gold, the managed money traders bought less than the commercials bought, as these traders bought just 1324 net contracts, comprised of the sale and liquidation of 738 long contracts and the buyback and covering of 2062 short contracts. I always hate to see rocket fuel buying being burnt up without more kick up in price, but the 99,047 remaining managed money technical fund shorts are only 5000 contracts less than the all-time extreme of two weeks ago and still 25,000 contracts more than the previous record of April. By any measure, the silver (and gold) rocket fuel tanks are mostly full, with just a bit more room for topping off.

While the managed money longs only liquidated 738 contracts as just mentioned, the big concentrated longs that I have written about these past few months dumped more than 2800 contracts, although as I mentioned last week, the concentrated longs include both managed money traders and swap dealers. Regardless of the actual mix, the 30,000 contracts of new concentrated longs put on from April to June have now been sold off by 21,000 contracts to 9000 contracts remaining.

Whoever these big longs were, they really took it in the teeth, losing hundreds of millions of dollars on what looked like a reasonable speculation â?? buying silver at around $16.50 or so. There is no question in my mind that JPMorgan played an integral role in the liquidation of these big concentrated longs and perhaps also an important role in the initial establishment of the long position. I say this because the liquidation of the concentrated silver longs, along with the record short selling by the managed money technical funds is precisely what enabled JPMorgan to completely eliminate its near-permanent COMEX silver short position of the past ten years and longer. Itâ??s just not reasonable to believe that something so beneficial to JPMorgan was complete happenstance.

I fully admit to focusing super-closely on JPMorgan when it comes to silver and gold, but that is strictly the result of the actual flow of data. I can assure you that thereâ??s no hidden agenda and no special burr under my saddle when it comes to JPMorgan. I harbor no personal feelings toward the bank or any of its employees. Itâ??s simply a matter of me being convinced that JPMorgan is the main crook running a crooked market game. And running it brilliantly, I must add.

I bring this up to review a theme I raised nearly a year ago, but that has largely gone by the boards through the passage of time. Actually, while I wrote about the matter, I disclosed it wasnâ??t my idea, but came from an associate. The matter was the speculation that JPMorgan had some type of a ten-year deal from the US Government protecting it from the liability of any actions it took in silver (and gold) for agreeing to take over Bear Stearns in March 2008. While it wasnâ??t my original idea, if I didnâ??t think the premise had merit, I never would have written about in the first place.

http://silverseek.com/commentary/ten-year-deal-17017

I raise this issue anew because subsequent events this year persuade me that the only thing wrong with the initial premise was that the deadline for the deal being up was that it may have been slightly miscalculated. Originally, the expiration date was thought to be the end of 2017 or perhaps the 10 year anniversary of the takeover by March 2018. But, considering the expiration date could have just as easily been the end of 2018 or three months from now, makes just as much sense, given the timeline by which things run when the government is involved. However, thatâ??s far from the only reason I raise the issue today.

One of the things that caused me to lose track of the ten year deal premise was that earlier this year, from April to mid-June, JPMorgan turned aggressive short seller in COMEX silver, adding 20,000 additional short contracts to a total short position that reached 40,000 contracts on June 12. If you recall, what was so unusual about JPMâ??s actions then was that it turned into the silver short seller of first resort instead of its customary role of adding short positions only after other commercials (the raptors) had sold aggressively into a silver rally. JPMorganâ??s more typical entrance as a silver short seller after the raptors had sold and prices had risen played a large part in it never taking a loss on added short sales over the past decade.

Since JPMorgan sold short so aggressively into the June top (at $17.25), all thoughts of the ten year deal coming to an end went, quite naturally, out the window. But at the same time, there were other highly unusual events occurring, not the least of which was JPMorganâ??s concurrent buyback of gold short positions. At the same time JPM was aggressively adding shorts in silver, it was buying back shorts in gold, something that, theretofore, had never occurred. I quickly came to judge and label JPMorganâ??s unusual gold short covering as a double cross of other commercials. Subsequent events convince me that still is the case.

I then concluded that the reason JPMorgan added so many new silver shorts into June 12 was in order to keep the price in check so as not to set off a major gold rally (since both metals seem to move in lockstep), since it had many more gold short contracts to buy back than it had silver shorts to buy back. With the fullness of time, my conclusion still seems to be on the money, since through today, JPMorgan has bought back at least 90,000 net contracts of gold and more than 40,000 net contracts of silver, completely eliminating its short positions in both markets. This is the very first time that JPMorgan has held no short position in silver and also the very first time it has held no short position in both gold and silver concurrently.

Because of this unprecedented position that JPMorgan has arranged by every dirty trading trick in the book, plus a few new ones, it finds itself better positioned for a price blastoff than ever before. Now I would ask you â?? if there were a ten year deal between the US Government and JPMorgan, by which the USG agreed to overlook the increasingly obvious manipulation of price by JPM for that time and no longer â?? what would you imagine JPMorganâ??s short position would look like before the time was up? Would you not picture JPMorgan pulling out all the stops to get out of every short position it possibly could before the deal was up? Is that not what JPMorgan appears to have done over these past few months?

Of course, itâ??s always possible, considering how ruthless and greedy JPMorgan appears to be, for it to try to rig even more selling from the managed money and other traders, but itâ??s quite safe to say we are only talking about incremental amounts, if any, as the bulk of JPMâ??s short covering is largely complete. And if JPMorgan does add aggressively to silver and gold shorts in the future, then I will finally stick a fork in the ten year premise, because it will be done as far as Iâ??m concerned. But at this point, it looks more alive than ever.

I have always promised to myself primarily, but also publicly, that I would do anything I reasonably could to end the silver manipulation. No, I canâ??t sue JPMorgan or the CME Group or the CFTC, as Iâ??ve often been urged; but I will do whatever I am capable of doing. Thanks to a timely suggestion from a fellow subscriber, I got to put my promise into practice (thanks Bill). In the Winston Churchill Department of never give up, never give up, never give up – Billâ??s suggestion was to raise the issue of JPMorganâ??s illegal behavior with its outside auditors. As a result, I did write to the Price Waterhouse partner in charge to go on the record about JPMorganâ??s criminal market behavior. Of course, itâ??s now up to PWC and Iâ??m not holding my breath â?? but let any subsequent events show that the auditors mishandled the allegation and PWC will be in a world of hurt.

The funny thing is that I had written to outside auditors before, the very same Price Waterhouse as it turns out, about a different client around 20 years ago, but for some reason hadnâ??t thought about doing so with JPMorgan. Back then, I had written to everyone concerning Barrick Gold and their cockeyed and manipulative practice of forward selling leased gold. The leasing/forward selling of precious metals, primarily gold, was the most idiotic and dangerous practice concocted by Wall Street to that time (only the mindless and excessive technical fund short selling of today is more idiotic and manipulative) and Barrick was the leading practitioner. Barrick and its auditors ignored all warnings and subsequently the forward selling blew up in their face and cost it many billions of dollars and ruined its reputation to a large extent. The end of forward selling by Barrick and others was instrumental in goldâ??s long bull market to 2011.

No such dire outcome awaits JPMorgan when the manipulation ends this time around, as the bank is in position to reap rewards previously unimaginable. But just like the lift that gold prices experienced when leasing/forward selling came to an end in the early-2000â??s, gold and particularly silver prices will get a massive jolt higher when the COMEX positioning scam ends.

In the money scoreboard tally of how the technical funds are faring with their newly added short sales since June 12, the priceÂ decline in gold since Wednesdayâ??s tally adds around $65 million to the technical fundsâ?? open and unrealized profit, which I would peg at $715 million on yesterdayâ??s close. For those tracking this measurement, Iâ??m now using 13.2 million oz in gold (132,000 contracts) and 280 million oz (56,000 contracts) in silver. I will continue to track the results objectively, but $715 million doesnâ??t seem like much of a cushion for having added 132,000 new gold and 56,000 new silver short contracts since June 12. Especially if thereâ??s any substance to JPMorganâ??s ten-year deal coming due.

Ted Butler

September 22, 2018

Silver – $14.31Â Â Â Â Â Â (200 day ma – $16.15, 50 day ma – $14.91)

Gold – $1203Â Â Â Â Â Â Â Â (200 day ma – $1286, 50 day ma – $1212)

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