Weekly Review

Despite a COMEX-generated selloff yesterday (is there any other kind?), gold managed to finish the week higher by $6 (0.5%), while silver fell by 15 cents (1%). As a result of silver's underperformance, the silver/gold price ratio widened out by more than a full point to 81.3 to 1. Silver is grotesquely undervalued relative to gold (and everything else) and that makes it the best long term buy – precisely because its undervaluation is a result of artificial price setting on the COMEX.

More observers than ever are recognizing the artificiality of silver's price and how COMEX positioning is the root cause. Still yet to be widely recognized is that when the artificial silver pricing is no longer in force, the new price level will be shocking both in how high it will be and in how quickly it will occur. I'm sure that when we make the transition from artificial (COMEX positioning) to real (actual metal forces) it may appear to many that the new silver price is artificial. That's because we've become accustomed to low prices for so long, but what people think won't matter much in the overall scheme of things once silver is in physical shortage.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses slowed this week to 1.55 million oz, the lowest turnover in many a moon. Total COMEX silver warehouse inventories fell 1.4 million oz to 154.4 million oz. Just a short while ago, COMEX silver turnover was running 6 times the movement this week. What does this mean? Unfortunately, there are more questions than answers about a circumstance so unique and unprecedented that one must deal in speculation.

I can't know if the COMEX silver turnover will reaccelerate quickly or if it trails off from here, but I do know that it has existed in a vacuum for five years, in that no other commodity had such turnover. When it began to dawn on me that JPMorgan was accumulating silver, it occurred to me that the bank was using the extraordinarily large COMEX turnover to skim metal for its own accumulation. This is highly speculative, but I can't help but think that if JPMorgan has reached the practical physical limits of its silver acquisition, that may be reflected in a pronounced cooling off in the COMEX turnover. The turnover started five years ago and that was when (later on) I dated JPM's accumulation to have started. Maybe, just maybe, a cessation of the turnover might indicate JPM is full up.

If there wasn't much movement in silver in the COMEX warehouses this week,

that wasn't the case in the big silver ETF, SLV, as 3.7 million oz were deposited into the trust this week. Interestingly, there was no obvious reason for the hefty deposits, as prices were fairly flat and trading volumes in SLV were average. The only plausible explanation was that metal was brought in to extinguish and cover short positions in the shares. This is a recurring theme of mine that I claim results in less upside price pressure than if short sellers just bought back SLV shares instead. If this is why metal came into SLV this week, as I believe, then I have no question that JPMorgan was behind it. Unfortunately, the next short report for positions held as of March 31 may or may not reflect this, because there are too many variables.

Back to COMEX happenings. After, effectively, stopping or taking nearly all the silver deliveries for the March futures contract (1076), as JPMorgan has done over the past year (all in its own proprietary trading account), the bank did something strange on Thursday it issued or delivered 119 contracts on the first delivery day of the non-traditional April COMEX futures contract. JPMorgan had delivered 16 contracts in the January silver contract, but the amount was so small that I don't think I mentioned it back then. But I feel I should mention Thursday's deliveries.

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

Just as I felt was the case back in January, JPMorgan's silver deliveries on Thursday were intended to smooth out and temporarily tamp down physical tightness that might impact price. Let's face it □ JPM was taking deliveries up until the last day of the March contract and wasn't redelivering a portion of those contracts with any trading profit motivation since prices didn't allow for that. April's silver deliveries by JPM seemed to me to cover up any signs of a developing shortage (that's why the bank delivered on the first day to show ready availability). I think there are many indicators pointing to a final resolution in silver fairly soon and this is one of them. But perhaps more than anything else, JPM issuing some small silver deliveries so quickly after waiting for them through the month of March, points to this bank being the kingpin in silver.

I am reminded of a line from two great movies, The Shawshank Redemption and Cool Hand Luke □ □It's your world, Boss,□ in which the prisoner fully recognizes his position. JPMorgan is certainly the boss of the silver market and it's important to know that at all times, what's good for JPM is all that matters in silver. It's also important to know that sharply higher silver prices will be to JPMorgan's advantage in the relative near future. It's absolutely crazy (and illegal) for a single bank to dominate a single market, like JPMorgan dominates silver, but that is water under the bridge at this point. The boss of the silver

world stands to make an obscene profit when silver explodes and that's all that matters.

For the first time this year, the US Mint failed to sell out its weekly one million allocation of Silver Eagles, falling 42,500 coins short. Of course, the Mint sold more than 95% of the Silver Eagles it had for sale for this week, but Silver Eagle sellouts had become so common, that the lack of a sellout was notable. This despite Silver Eagle sales relative to Gold Eagles remaining close to the strongest in history.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The real story about Silver Eagles this year and for the past five years is not just the phenomenal level of sales, but that the sales have been achieved without broad retail buying. That this remains widely unacknowledged is bizarre. There's no question the Mint has sold more than 200 million Silver Eagles over the past five years and there should be little question as well that the sales haven't been driven by plain vanilla retail buying. That's because you can't hide public behavior by definition and if the public were buying Silver Eagles in broad numbers it would be obvious to all. And if the public has been largely missing-

in-action in buying Silver Eagles over the past five years, then sure as shooting, someone else has been buying them, namely, Boss Morgan.

In fact, it was suggested to me this week by someone in the retail coin business for more than 40 years that I may be underestimating the share of Silver Eagles bought by JPMorgan over the past five years. Where I have been estimating JPM has picked up 50% or 100 million of all Silver Eagles sold, I was told the percentage may be much higher, over 70%. I have become convinced that JPMorgan now has a standing open order with the US Mint to take all the Silver Eagles it can produce after retail demand has been met. This week, JPMorgan held back in buying the last 42,500 coins remaining to make it look not to have been another sellout.

The changes in this week's Commitments of Traders (COT) Report were surprising and made me glad I didn't offer much in the way of predictions, other than I thought there might be some lower total commercial net short position in both gold and silver. As wishy-washy and nebulous as I tried to make my predictions, I still managed to be off by a country mile for the better in silver and for the worse in gold.

As a reminder, during the reporting week in question, both gold and silver suffered sharp declines on the first day (Wednesday) of the holiday-shortened week, with gold falling by $30 and silver by 70 cents. Gold came back much stronger than silver, ending the reporting week (Tuesday) down by only $5, while silver finished the reporting week lower by 40 cents. In light of that price action, the results in yesterday's COT report don't seem quite as surprising as I first felt them to be. It's somewhat perverse, but true – the crummier the price action, the better the market structure becomes.

In COMEX gold futures, the total commercial net short position actually increased by 8000 contracts, to 208,000 contracts, the largest (most bearish) headline number in gold since late 2012 (when gold was $1600+). On the $200+ gold rally since December 29, the commercials have sold 193,000 net contracts (19.3 million oz) into technical fund buying. A bigger portion of the commercial selling was the liquidation of long contracts (at very large profits), but a large number of new commercial shorts (nearly 90,000 contracts) were also added.

By commercial category, the raptors (the smaller commercials) and the big 5 thru 8 sold; the raptors adding 4300 new shorts and the big 5 thru 8 adding 6300 new short contracts. The big 4 actually bought back 2600 short contracts.

I would normally find big 4 short covering to be constructive, but even with this week's short covering, the level of big 4 shorts (131,646) is still extremely high and therefore, extremely bearish.

As is most usually the case, the managed money traders bought all the gold contracts that the commercials sold and, this week, then some. The managed money technical funds bought more than 9300 net contracts, including adding 9678 new long contracts. Both the managed money net and gross long positions are now the highest in years and, thereby, constitute the essence of the bearish potential in gold. With less than 30,000 remaining managed money short contracts open, there is not much short covering potential in the fuel tank. And with more than 184,000 contracts long, it's hard to see where additional COMEX buying would come from and plenty to imagine being sold at lower prices.

In COMEX silver futures, the commercials reduced their total net short position by a hefty 9100 contracts, to 68,100 contracts. While still historically large and bearish, the big reduction in the headline number was both surprising and welcome. And while it was largely a raptor affair in that these smaller commercials added 6000 new long contracts, I was happy to see the big 4 reduced its net short position by nearly 2500 contracts.

Accordingly, I would adjust JPMorgan's short position back down to 21,000 contracts and I am hopeful it's a lot less than that given yesterday's high volume silver price decline which penetrated important moving averages (not so in gold), including the 50 day moving average on a closing basis for the first time in months and even an intraday penetration of the 200 day moving average. No one can predict what will happen on Monday and Tuesday, but whatever transpires, it should be reflected in the Bank Participation report to be issued this coming Friday.

According to the way it usually works, if the commercials buy big, the sellers are most typically the managed money traders and that was the case in silver this week. (It was also the case in gold this week, just reversed). If you understand this, then you understand the COTs. Managed money technical funds sold more than 10,000 net silver contracts (50 million oz), including the long liquidation of nearly 4000 contracts and the very surprising addition of more than 6285 new short contracts.

If there was one key feature to this week's silver report it was the increase in short selling by the technical funds. Silver did penetrate its 20 and 30 day

moving averages on the selloff during the reporting week, but not the more important 50 day moving average (until yesterday). I'm not privy to the technical funds' playbook, but I had assumed they wouldn't venture back on the short side until the 50 day moving average gave way. That they didn't wait for that penetration is constructive and pleasantly surprising.

I don't think we're out of the woods yet as far as the sell cycle being complete in silver, but between the COT report just released and yesterday's certain heavy technical fund selling; by the all-important contract count, we may be as much as a third or more of the way through the number of contracts likely to be sold by the technical funds. Since gold didn't penetrate its 50 day moving average and because its 200 day moving average is still miles ($80) below yesterday's closing price, it's probably closer to the truth to say that the liquidation cycle hasn't effectively begun.

As always when speaking of what may develop in terms of price and the COMEX market structure, I must speak in terms of probabilities, guided by historical precedent and my inherent conviction that the commercials are more likely to snooker the technical funds than the other way around. Therefore, based on the probabilities, I would expect as many as another 30,000 contracts of silver to be sold by the technical funds (including what may have been sold

yesterday) before we are structured to move up (and I still hold that the move up is likely to be the big one). It will take a series of new price lows for that technical fund selling to be effected, but the process appears to have begun.

In gold, because it doesn't appear that the technical fund selling has begun in earnest, there is the potential of 100,000 to 150,000 contracts to be sold before one can state the market structure becomes bullish. Of course, these are the parameters as I see them and are based on COT considerations only. In terms of price, much trickier and less important than contract count in analysis, I could envision another dollar or more in silver, and $100 or more in gold.

The biggest wild card, particularly in silver, is the intentions of Boss Morgan, as this is truly their world. Among the many possibilities is included the chance for a double cross of historical proportions. Should JPMorgan buy back COMEX short positions at an accelerated rate and to the point where it felt it had covered enough (considering its massive physical long position), the probability of a complete technical fund selling climax would go out the window and anyone short silver at that point, commercial or technical fund, could be in a world of hurt. There is no doubt that silver will never look back in price once JPMorgan so decides, the only doubt is exactly when that will be. From the looks of many indications, it appears fairly soon.

Ted Butler

April 2, 2016

Silver – $15.05 (50 day moving average – $15.15)

Gold – $1222 (50 day moving average – $1209)