Gold seemed to “catch up” with silver this week to the downside, as it fell $17 (1.3%) to its lowest weekly close since December, while silver remained unchanged (but also at price lows since December). As a result of silver’s relative “outperformance,” the silver/gold price ratio tightened in by more than a full point to under 85.5 to 1 (but still at nose-bleed undervaluation levels for silver).

I try not to be overly influenced by short term price action, but there are not many occasions I can recall where gold dropped as much as it did this week, with silver failing to follow along and accentuate gold’s weakness. Particularly, after silver did make new price lows, but recovered from those lows. As far as an explanation for this week’s change in relative performance between the two metals, look no further than what has been the sole price driver – COMEX futures positioning.

In simple terms, the market structure was more bullish in silver than it was in gold going into this reporting week. That is, the managed money traders had been more aggressive in selling silver than they were in gold until the reporting week ended Tuesday as indicated in yesterday’s Commitments of Traders (COT) report. After yesterday’s report, it appears to me that the market structures of both metals are now super-bullish. That doesn’t mean we can’t see further price weakness in the very short term, because that is always possible. But it does mean that further price weakness, caused by continued managed money shorting just guarantees that the certain coming rally will be that much stronger.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to more than 5.8 million oz this week, an annualized rate of more than 300 million oz and above the 250 million oz annual turnover over the past 8 years. This despite the work week being only 4 days, due to the Good Friday holiday. Total COMEX silver inventories nudged up by 1 million oz to 305.7 million oz, another new all-time record high. Another 1.1 million oz came into the JPMorgan COMEX warehouse, lifting the amount of silver held in that warehouse back to 150 million oz.

With the April COMEX gold deliveries winding down, the key feature has been the return of Citibank to the issue side, redelivering most (1940 contracts) of the 2340 contracts it stopped initially earlier in the delivery month. Thus, April seems to be a replay of Citi's unusual activity in the February delivery month when it burst upon the scene (for the first time ever) and stopped 2474 gold contracts early in that delivery months, only to re-deliver 2424 contracts late in that month. What's this all about?

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

Best I can tell (and I am speculating), Citibank seems to be functioning as JPMorgan's b*tch, taking delivery of gold in its own house account early over the past two COMEX delivery months as a proxy for JPMorgan and redelivering its stopped gold later in the month to JPMorgan. In February, JPMorgan did stop (take) 3000 gold contracts in its own house trading account, but it has stopped none so far this month in its own name.

JPMorgan, being the largest dealer and factor in gold and silver, both stops and issues large numbers of gold contracts for customers and I'm convinced uses its customers to achieve its own goals whenever it wishes. I don't think JPM would hesitate in using customer accounts to achieve its own purposes and even if the CFTC could spot it, would likely do nothing to stop it (as per Bart Chilton's recent interview). I continue to maintain that JPMorgan has been on an accumulation binge for physical silver and gold these past 8 years and it using Citibank (throwing them a few shekels) is right up JPM's alley.

Turning to yesterday's COT report, my expectations for silver were pretty much spot on, while I missed (yippee!) by a bunch in gold. You'll recall that both silver and gold prices were down sharply over the reporting week, with silver down sharply on Thursday, April 11 and setting new lows the following Monday, before firming up, but still down as much as 40 cents during the reporting week and solidly below all key moving averages. Gold price performance was even worse, not only down sharply a week ago Thursday, but making new lows on Monday and Tuesday and down more than $30 over the reporting week. Gold's 200 day moving average was not penetrated, but its 100 day moving average was penetrated for the first time since November.

I had expected a 10,000 contract positioning change in silver (hopefully more) and split the net commercial buying (14,100 contracts) and managed money selling (8400 net contracts), the prediction equivalent of a horseshoe toss ringer. In gold, I expected a position change of 25,000 contracts and was under by double that amount on both a commercial buying (54,400 contracts) and a managed money net selling basis (52,400 contracts). Almost needless to say, I was tickled pink about being off so much.

In COMEX gold futures, the commercials bought 54,400 contracts, reducing their net short position to 78,400 contracts. This is the lowest (most bullish) net short position since Dec 11 and just before the price of gold upwardly penetrated its 200 day moving average on its way to $1350 in February. Most significantly, the concentrated short position of the 4 largest traders (the key to any manipulation), this week at 89,438 contracts, is not only 30,000 contracts lower than it was on Dec 11; this key short position is the lowest it has been since Feb 2, 2016, as gold was just embarking on what would be a $300+ gold rally.

Accordingly, I believe JPMorgan is net long 10,000 to 15,000 gold contracts, the equivalent of 1 to 1.5 million oz of gold, in addition to its 20 million oz physical gold stockpile. Therefore, two things were borne out in this week's COT report. One, on every big price decline, the commercials are always big buyers. For some reason, many (such as Zero Hedge) can't seem to comprehend that simple fact, as commercial selling is always implied when the market gets bombed. The commercials are always behind the price spikes down, but only in inducing managed money selling, which the commercials then buy. Two, JPMorgan is always a buyer on big down moves and that's always an encouraging sign since these crooks control the gold and silver market.

On the sell side of gold, the managed money traders sold 52,424 net contracts, comprised of the sale and liquidation of 21,721 long contracts and the new sale of 30,703 short contracts. This resulted in a managed money net short position of 15,387 contracts (96,196 longs versus 111,583 shorts). While not as extreme as the managed money net short position of this past fall, prior to then it was rare to find the managed money traders net short in gold at all. For instance, we're not that far from the managed money net short position of late 2015/early 2016, when gold rallied by more than $300.

As for what made the managed money traders go so heavily short this past fall, who knows – these traders can be "squirrely" at times. I'm still trying to figure out why they didn't go as heavily short two weeks back when I predicted them selling 60,000 net contracts and they “only” sold a bit over 33,000 contracts. Maybe it was because this week the 100 day moving average was penetrated or some such thing (I don’t possess the managed money traders play book). I will confess to perhaps being a bit timid in my expectations this week due to that wide miss of two weeks ago, but hey, I’m only human and who wants to be embarrassed (again)?

While I can’t say that the managed money technical funds won’t sell even more gold contracts if we do go lower and take out the 200 day moving average, I can say that if these knuckleheads do sell more at lower prices, they will only end up losing even more when prices inevitably turn higher. These nitwits have never made money collectively when adding to short positions in a price hole, such as we now are in. You would think they would have learned that by now, but apparently not (based upon this week’s report).

One other thing I’d like to comment on before turning to silver. Aside from being somewhat timid following my wide miss in gold two weeks ago, I was also influenced in this week’s guess by the relatively small change in gold total open interest over the reporting week, in which total open interest dropped by only 7000 contracts. I certainly knew that the managed money traders were selling out long positions and adding new short positions and how that buy and sell would result in no change in total open interest (otherwise I wouldn’t have predicted 25,000 contracts net change to start with). That’s strictly a mechanical function in terms of not changing total open interest, but it does highlight something I’ve seen basically misrepresented for years.

What I’m talking about is how too many have referenced total open interest as being bullish or bearish depending on whether the total open interest is high or low. By itself, the level of total open interest is practically meaningless in terms of depicting market structure. I suppose if there was no such thing as a COT report in which detailed long and short positions were broken down by trader groupings, we might have to rely on levels and changes in total open interest. But that would be a far cry from the detailed reports which we are very fortunate to have.

A case in point is this week's gold report. Had we only been privy to the 7000 contract change in total open interest, no one would have been able to predict or even know about the 52,000 to 54,000 net change in positioning that occurred. Without a COT report, no one (except the insiders) would have known there was a net change of 7.5 times the gross change in total open interest. Two points. One, next time anyone says total open interest is bullish or bearish on its own, know they are full of bologna. Two, recognize that we are quite fortunate to have access to the market data contained in the COT reports.

In COMEX silver futures, the commercials reduced their total net short position by 14,100 contracts to 23,700 contracts. This was the lowest (most bullish) commercial net short position since Dec 4. The all-important big 4 short category was reduced by 5500 contracts this week and as expected (and hoped for) the net short position of 2500 contracts held by JPMorgan was converted to a net long position of at least 2000 contracts. Regardless of what happens in the very short term, JPMorgan not being short silver is as rare as hen's teeth and I shouldn't have to lecture you on how it means certain higher prices in time. So I won't.

The managed money traders sold 8396 net silver contracts, comprised of new longs of 427 contracts and the new short sale of 8823 contracts. I think I mentioned over the past week or two that it looked like the managed money longs were near fullyliquidated, given silver's relatively more rotten price performance to date, so I'm not surprised by the lack of long liquidation this reporting week and encouraged by the new short selling.

The resultant managed money net short position of 10,928 contracts (49,990 longs versus 60,918 shorts), like was the case in gold, is not as large as this position has been at times over the past year, but any managed money net short position in silver is rare and always bullish prior to 2018. I have no doubt that the current net short position will likewise be bullish beyond any potential further increase in the very near term. Truth be told, I don't expect any further positioning improvement amid lower prices, but knowing how the market is manipulated, I would never categorically rule out such a possibility.

As far as I'm concerned, we've seen the price bottoms in silver and gold for all intents and any retraction I will be forced to make on that statement won't be for long, if at all. Of more concern, of course, is the nature of the coming rally. Will we finally get the breathtaking but long expected jolt to the upside or will the rally be of the highly disappointing variety of the past several years, particularly in silver? While I can't answer that question definitively (no one can), I can tell you in advance what either outcome is based upon. In a word – JPMorgan.

As always, whether we truly bust out to the upside or grind higher grudgingly, only to roll over into yet another failed rally is up to JPMorgan, lord and master of all things silver and gold. Specifically, will JPMorgan add to COMEX short positions or not? If it does add short positions, we will likely fizzle out after some rally higher, same as ever. If JPMorgan doesn't add to shorts, then we're talking about something else entirely. Arguing for the outcome that JPMorgan will add short COMEX positions is the fact it has always done so on every silver and gold rally for the past 11 years (and likely before that). Arguing that JPM won't add shorts on the next rally is the absolutely incredible amount of money it will make if it doesn't add shorts (by virtue of its epic physical holdings). This is about as black or white as it gets.

There's no practical use in arguing which it will be, since it will be one or the other in a relatively short period of time. Rather than to try to convince anyone on will they or won't they (add to shorts), this is a time to make one's choice as each of us sees fit. For me, it's an all-in exposure including kamikaze call options that haven't worked, it seems, since I was a lot younger than I am now. However, the asymmetrical aspect of the bet appeals to me intellectually, even as the actual financial results have been abysmal. Also, I've had the distinct misfortune of actually realizing, at least temporarily, the rush of hitting on such ill-advised long shots starting exactly 32 years ago this month and on subsequent rare occasions since, so I'm hopelessly addicted.

But reckless options aside (which I mention strictly as a measure of my current market take), the market structure set up currently in place, along with the absolutely remarkable achievement of JPMorgan in acquiring, essentially, half of all the silver in the world and even more gold than that in dollar terms, is an invitation to buy and hold as much silver as one can reasonably afford (on a no margin basis). Maybe I'll be repeating these words in the future, after JPMorgan adds to shorts and then succeeds in driving prices lower into yet another bullish set up, as I have done on near countless times before. Then again, maybe this will be the last such great set up, at least at anywhere near current prices.

Happy Easter and Passover to all.

Ted Butler

April 20, 2019

Silver – $14.95 (200 day ma – $15.04, 50 day ma – $15.37)

Gold – $1277 (200 day ma – $1253, 50 day ma – $1306)