Gold and silver parted ways in price direction this week, with gold finishing unchanged, while silver fell a steep 60 cents (3.2%) for the week. As a result of silver's pronounced underperformance, the silver/gold price ratio widened out by nearly two and a half points to 72 to 1.

As is typically the case, any big changes in the price ratio comes as a result of a big change in the price of silver, either up or down, and not as a result of active spread trading, physical or paper, between the two metals. I raise this point to squash any notion that there was concerted switching between the two metals this week (or any week). What moved silver prices lower this week was the same thing that always moves silver prices – positioning changes in COMEX silver futures amid overt commercial price rigging.

While I shy away from predicting short term price movements or reading too much into them, I can't help but think that this week's price performance in gold and silver was fully explained by the respective market structures of each. Silver's market structure has been extremely bearish, while gold's structure was more neutral than anything else, so this week's price performance can't be called surprising.

That said, I'm still on the fence about whether this turns into a much deeper flush out, given the potential for much more technical fund selling in silver and possibly in gold. No one should be shocked should we get additional managed money technical fund selling on lower prices since the decades have etched this price pattern into market history. It is the repetition of price declines whenever the commercials (the banks) hold excessive short paper positions on the COMEX that points to manipulation, among other things

The strong correlation between price and commercial/managed money positioning can’t be denied on an historical basis and could very well lead to a continued selloff in silver. At the same time, however, there are more factors threatening to break the stranglehold of the commercials on the COMEX than ever before. More in a moment.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses spiked upward this week to nearly 11.5 million oz, close to the most moved in a single week. Please take a moment to consider that on an annualized basis, that comes to 600 million oz, or 70% of total world mine production (it is also, coincidently, the amount of physical silver JPMorgan holds). On any level, this week’s movement was enormous; which is why I’ve written about it every week for the six years since it burst onto the scene.

Total COMEX silver inventories rose by a hefty 4.8 million oz to 194.6 million oz, another twenty year high. Most of this week’s physical silver movement and increase in total inventories can be directly traced to you know who – JPMorgan, as the bank added another 4.2 million oz into its own COMEX warehouse, pushing its holdings to more than 103 million oz.

http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notices.html

As an aside, the JPMorgan COMEX silver warehouse started with zero oz six years ago, when total COMEX silver inventories were around 100 million oz. So one could say that over the past six years JPMorgan, alone, has accounted for the doubling of total COMEX silver warehouse holdings. Today, the amount held in the JPM warehouse is more than four times the amount of silver in the next largest COMEX warehouse. To my knowledge, never in the history of the COMEX, has any one warehouse held such a large percentage of total exchange holdings, as JPMorgan holds today.

From just these few facts, would it not be reasonable to conclude that JPMorgan has been amassing epic quantities of physical silver over the past six years? The 103 million oz in the JPM COMEX warehouse, alone, is as much metal as the Hunt Bros. bought into 1980 and Warren Buffett bought in 1997, yet (away from these pages) you will read not much about it. That’s remarkable, particularly considering that JPMorgan has been the largest silver short seller on the COMEX while acquiring, mostly through futures deliveries, the actual metal. The data in CFTC reports and in exchange statistics are the most transparent of all, providing the hard evidence that JPMorgan’s COMEX silver holdings, alone, are on a par with the Hunts and Buffett, yet it is a secret just being discovered.

As you know, I believe that the COMEX warehouse data I just reviewed are only the tip of the iceberg and that JPMorgan holds an additional 500 million oz away from the COMEX. I began talking about JPMorgan’s silver accumulation years ago, through the purchase of Silver Eagles and Maple Leafs, skimming off from the frantic physical turnover in the COMEX silver warehouses and by share to metal conversions in the big silver ETF, SLV. This was before it became obvious that JPMorgan was cornering COMEX silver.

And now that I think about, JPMorgan’s manner and timeline of physical silver accumulation makes sense from the point of view of not tipping your hand too early. JPMorgan acquired the vast amount of its physical silver holdings on the sly – buying Silver Eagles and converting shares of SLV into metal that needn’t be reported. Only after it put nearly a half billion silver ounces under its control and completely out of sight, did JPMorgan accelerate and make obvious its grab for COMEX physical silver.

Man, these guys are good – crooked as hell to be sure, but master market manipulators on a level rarely seen.

Finishing up in COMEX physical metal dealings (as opposed to futures positioning), it may change over the last few days of delivery this month, but to this point, the standout feature for the April delivery period is the very low number of deliveries in gold and, by comparison, the large number of deliveries in silver. After all, April is a traditionally active delivery month for COMEX gold, but not for silver. Therefore, it is surprising – meaning that I don't think it ever happened before – that there were more deliveries (906) in silver than in gold (728) for April so far. And it's not that April silver deliveries were high, because they weren't; but because there was so little activity in April gold deliveries. I suppose you can read anything into the paucity of gold deliveries, but for me the standout feature was the lack of participation by the gold and silver kingpin, JPMorgan, which took the month off in its house account dealings.

I'm looking ahead to next Friday's first notice of delivery for May silver, a traditional COMEX delivery month. As always, I'll be most interested in what JPMorgan does. There is absolutely no way to handicap what JPM will or won't do and I wouldn't begin to guess. I'm still in a bit of shock about how clear of an evidence trail the bank has left in its COMEX silver delivery and warehouse activities over the past few years; coming well after it began leaving clues of its epic physical silver accumulation.

There have been big movements of gold, mostly in and but also out of the big gold ETF, GLD, which have appeared to follow the price direction set by COMEX positioning, so nothing too unusual there. There have been mostly outflows of metal from the big silver ETF, SLV, that all add up to additional silver going to JPMorgan. For the past six months, JPMorgan has acquired around 30 million ounces from the SLV on share to metal conversions and more than 20 million oz from COMEX deliveries. That was why I recently upped my estimate of what JPM holds from 550 million oz to 600 million oz.

I'm going to skip over the continued putrid sales of Silver Eagles, putrid that is since JPMorgan ceased its accumulation of the coins. I guess 150 million coins (when combined with Maple Leafs) might be enough for anyone – even JPM. Again, I believe those coins have long been melted into good delivery bars. And just to be sure, retail buying or lack thereof, has little impact on silver prices in the short to intermediate term. Come to think of it, not much has much impact on prices away from COMEX positioning, including actual production, consumption or inventory change. That's the problem.

The changes in this week's Commitments of Traders (COT) Report were largely in the expected variety, even including what might have been somewhat of a surprise in silver. As you may recall, gold closed higher every day of the four day reporting week, ending the week $20 higher and with total open interest increasing by 16,000 contracts, strongly suggesting an increase in managed money buying and commercial selling. Silver's total open interest did increase by around 8000 contracts over the reporting week, but price action was not as strong as gold's, including a fairly sharp selloff on Tuesday's cutoff, hinting at somewhat different results.

In COMEX gold futures, the commercial increased their total net short position by 23,700 contracts to 211,100 contracts. This is the largest commercial net short position since the COT report as of November 8, Election Day in the US. Some would attribute the price decline that gold (and silver) experienced until late December to be related to the election results, but that was the easy excuse and cover story for the real reason prices fell – the commercials rigging lower prices to induce technical fund selling.

By commercial category, it was a coordinated Three Musketeers effort with all three categories selling. The big four added 15,500 new shorts, the big 5 thru 8 added 3100 additional shorts and the raptors (the smaller commercials) sold 5100 gold contracts, eliminating their small net long position and establishing a net short position of 2400 contracts.

I'd still consider the market structure in COMEX gold to be more neutral than bullish or bearish, but from the price lows of mid-March, gold has advanced by nearly $100 on commercial net selling of close to 90,000 contracts, leaving enough meat on the table for the commercials to rig prices lower should they decide to try.

On the buy side of gold, the managed money traders bought the lion's share of what the commercial sold, in adding 19,160 new longs, while also adding 935 contracts of new shorts. Net buying of around 100,000 gold contracts (10 million oz) over the past month by managed money traders is what has propelled gold prices higher. Should that buying increase, as it could, gold prices will climb higher. Should these managed money technical funds sell on lower prices, as they could, gold prices will fall. Simply put, little else matters.

In COMEX silver futures, the commercials increased their total net short position by 2400 contracts, to 116,800 contracts, another new historic high. Likewise, the concentrated short positions of the 4 and 8 largest shorts also set shameful new high water marks. By commercial category, all three categories sold, as was the case in gold. The big 4 sold 500 additional contracts short, the raptors added 1100 shorts to a net short position of 7400 contracts, while the big 5 thru 8 added 800 new shorts, pushing the concentrated short position of the 8 largest traders to 109, 432 contracts, or the equivalent of more than 547 million oz.

Eight traders are short on average more than 68 million silver oz each and not one of them is a legitimate hedger or producer. Sad as it is for me to say, this could only exist in the face of complete regulatory failure and cover up. 700 full time employees and an annual budget of $250 million devoted to rooting out market manipulation and the CFTC can't or won't analyze the very data it reports which proves manipulation. Heck, they won't or can't answer the simple questions I posed to them. I think they have to answer to congressmen or women, so please write or call your legislators.

By the way, I'd peg JPMorgan's short position to be 34,000 contracts or the equivalent of 170 million oz, unchanged from last week. In addition to the 600 million physical ounces that the bank holds, I think these master market operators are capable of having laid off much of the risk on their 34,000 COMEX silver short contracts with offsetting OTC derivatives positions, although I can't prove that. Certainly, if anyone is capable of market maneuvers designed to obfuscate and confuse, I'd be hard-pressed to come up with a better candidate than JPMorgan. I'm still amazed about how much the bank has revealed about its silver activities.

The only surprise in this week's silver report was that there was no net buying by the managed money traders, as these traders sold nearly 4000 long contracts, while buying back just over 1700 short contracts. On Wednesday, I suggested there could be somewhat of a surprise in silver when it came to managed money buying and commercial selling. There wasn't much of a surprise in commercial selling, but the liquidation of 4000 long managed money contracts would seem to qualify as a bit of a surprise, in the face of an increase in commercial selling.

I'm sensitive to what the managed money traders are up to in silver for all the reasons I have been writing about recently, concerning certain premises I hold to be true. Unique to silver of all other markets, including gold, there seem to be two distinct types of traders within the managed money category of the disaggregated COT report. One type is the conventional technical fund managed money trader which strictly and almost religiously abides by mechanical price signals, particularly the penetration of certain moving averages.

The other type of managed money trader that has emerged (solely in COMEX silver futures) over the past three years is the buy and hold type trader. COT data show that the core, non-technical fund type of managed money traders in COMEX silver have built up a core long position of close to 80,000 contracts at the depths of the March selloff from a position of 20,000 contracts three years ago. If my estimates are accurate (as I believe them to be) and the 35,000 managed money contracts added on the recent rally represented pure technical fund buying, then there might be another 30,000 contracts or so of potential technical fund long liquidation on lower prices (after this week's 4000 contract liquidation). Should that selling occur, silver prices will go lower and should even more managed money selling be engineered by the commercials, silver prices will go lower still.

But one potential fly in the ointment of how it usually turns out on the commercially-rigged COMEX is the amount of additional selling by technical funds in silver on the very weak price action since the Tuesday cutoff, which was accompanied by high trading volume. Silver's price weakness since the cutoff was fairly pronounced, particularly when compared to gold. The price weakness involved (was caused by) technical fund selling. The obvious and unknown question is how much technical fund selling occurred in silver since Tuesday? I think a lot, but even if I'm correct, the real question is how much more might there be?

Additionally, there may be another new twist that I cannot prove at this point. The big question in silver is how many technical fund contracts might be sold on lower prices and, to a lesser extent, that's the question in gold as well. But it may not be just you and I and other market observers who define this as the key market question at this point. After all, nothing could be more important to price at this point than whether very substantial numbers of technical fund contracts are about to be sold in COMEX silver. Certainly the potential for this selling exists, but along with that, other possibilities come to mind.

If there is a complete flush out of 30,000 long technical fund managed money contracts, plus some addition to managed money short selling, that presents an unusual buying opportunity for other traders, most conspicuously the commercials which will buy aggressively into any technical fund selling. This is the essence of the COMEX silver price manipulation. But nowhere is it written that only the commercials can buy when the technical funds sell. I would submit that the core non-technical fund managed money traders could buy just as easily as the commercials. Something has prompted these traders to beef up long positions in COMEX silver over the past few years, as well as eschewing the short side last fall and since.

If these core non-technical fund managed money traders have been smart enough to build up a massive silver long position at dirt cheap prices (way under $20), then it wouldn’t seem impossible for them to recognize the potential of aggressive selling by the technically oriented traders in their own managed money category. In that case it’s not inconceivable for the core traders to plan to add to long positions if the technical funds sell. In fact, that may be happening now. After all, if you are a big trader, as these traders surely are, then you know you can only buy big when someone is willing to sell big. Most of us don’t have to think that way, but large traders do.

Therefore, the game within the game that may be transpiring or about to transpire may involve big buyers anxious to encourage technical fund selling in order to buy. The twist this time may be that in addition to the usual commercial bank sharks itching to buy into technical fund selling to buy back short positions, there may be additional buying competition from the core non-technical fund managed money traders. The good news, should this turn out to be the case, is that any price declines, while they still may be sharp, will likely be temporary given the potential buying competition.

Despite what the news may suggest, what will determine the price of silver will be the resolution of the potential technical fund selling and commercial buying, with the added possibility of non-technical fund managed money buying. I’m still gritting my teeth over the prospects of a sharper silver selloff to come, but still frightened to hold less than a full exposure given all the others factors present.

Ted Butler

April 22, 2017

Silver – $17.90 (200 day ma – $18.09, 50 day ma – $17.90)

Gold – $1288 (200 day ma – $1259, 50 day ma – $1246)