April 7, 2018 – Weekly Review

After a choppy price week, gold added $10 (0.8%) by weekâ??s end, while silver could muster no better than finishing unchanged. As a result of goldâ??s outperformance, the silver/gold price ratio widened out to 81.7 to 1, largely at the same extreme level it has traded at for more than two months.

I suppose the longer the price ratio remains at current levels, the more it seems normal and justified; but that is at odds with a plethora of hard facts pointing to silver being so drastically undervalued to gold that it represents the opportunity of a lifetime in switching gold positions to silver. I know of no single hard fact that suggests that silver is overvalued to gold in any way.

Both gold and silver prices have been largely contained over the past two to three months, but I sense that is about to change and most likely in a dramatic fashion, particularly in silver. My prime reason for feeling this way is the continued extreme market structure in COMEX silver, as evidenced in the latest Commitments of Traders (COT) and Bank Participation Reports issued yesterday. Let me run through other weekly developments before getting into the new reports.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses amounted to just under 4 million oz this week. Once again, the movement was mostly of the â??inâ?• variety, as total inventories increased by 2.9 million oz to 263.4 million oz, yet another multi-decade high. Also once again, the silver coming into the Â JPMorgan COMEX warehouse accounted for a big chunk of the total weekly increase, as 1.8 million oz were deposited, increasing the amount of silver in the JPM warehouse to a record 141.5 million oz.

More attention than ever has been focused on JPMorganâ??s role in the silver market, both in terms of its growing physical holdings, as well as the bankâ??s activities in paper COMEX dealings. There is no question about the absolute explosion in commentary about COT positioning in silver, with or without mention of JPMorgan. All this is as it should be as little matters in silver aside from COMEX positioning and JPMorgan, as I hope I have intoned on these pages nearly forever. It is nothing but good that more are picking up on the importance of these issues, and the more that do so will help bring about the end of JPMorganâ??s manipulative control of silver. If there is one primary goal to my remaining years, it is to see silver free from manipulative control on the COMEX.

That said, if there is an ugly side to the growing attention on the COMEX and JPMorgan involving silver matters, it is the issue of plagiarism, which, unfortunately, seems to be on the rise. I know this is a highly personal issue, but one doesnâ??t need to be the personal victim of a crime or transgression to appreciate when something is wrong. I donâ??t need to be mugged or raped to know that both are wrong. Plagiarism is the unauthorized taking of anotherâ??s work or ideas without proper citation and the portrayal of what was stolen as coming from the new author.

In simple terms, plagiarism is stealing and then lying about it. If I could pick out the two traits any parent would move heaven and earth not to see their children develop, it would have to be stealing and lying. For some reason I have never understood, plagiarism has become common in silver circles when it is still not tolerated anywhere else. Maybe Iâ??m just overly-sensitive to the issue, but the absolute worst thing about plagiarism is that it is so easily avoided â?? all it takes is a simple acknowledgement that the idea originated from someone else. While Iâ??m absolutely delighted and encouraged that so many are coming to understand JPMorganâ??s role in silver, it bothers me that too often plagiarism is involved. Here is the straw that set off this outburst â??

https://www.caseyresearch.com/why-this-too-big-to-fail-bank-is-stockpiling-silver/

In other COMEX-related matters, the April gold delivery period continues to feature a small number of deliveries to date (657), very low by past standards. The number of contracts remaining open in April is not particularly large (just under 1500 contracts), but seems large based upon the even smaller number of contracts delivered to date. JPMorgan has been the second largest stopper (taker) of gold deliveries in its house account with 239 contracts, behind HSBC which has stopped 279 contracts in its own name. Since HSBC has been the largest gold delivery issuer in recent months, its taking of deliveries seems out of place. While there is little to do except wait and observe the rest of the delivery month, the somewhat strange aspects to the April gold delivery to this point suggest tightness in physical gold, as opposed to the metal being in absolute abundance.

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

Jumping a bit ahead, there was one aspect to yesterdayâ??s Bank Participation Report that Iâ??d like to mention. Over the past month, I have commented on how Goldman Sachs showed up as the big stopper of silver contracts in the COMEX March deliveries, speculating that JPMorgan had to abandon its own delivery intentions to make room for Goldman so as not to drive silver prices higher. I hope I was quite clear in not knowing whether Goldman Sachs got the scent of what was really going on in silver and began to accumulate the metal in earnest or whether it would turn around and redeliver the silver at some point. All I could do was monitor future developments, which mostly involved waiting to see what happened in the big May COMEX silver contract, which is still a few weeks away. You know, hurry up and wait.

I admit that I am most interested in what Goldman Sachs has in mind for silver and may, therefore, be reading too much into it. But yesterdayâ??s Bank Participation Report indicated a somewhat unusual increase on the long side of the US bank category of more than 2000 contracts which caught my eye. Far from definitive at this point, it nevertheless supports the suggestion that some US bank (other than JPM) is in position to stop or take silver deliveries, certainly as opposed to issuing deliveries. Whether or not Goldman Sachs is involved is unknowable. As I said, time will tell and I will be guided by the facts as they develop, but I was kind of hoping for such a clue.

The changes in yesterdayâ??s COT report were in the expected category in that both gold and silver recorded significant improvements. In terms of my optimistic predictions, I came in over in silver and under in gold, although silver set several new records. Certainly there was no surprise that no matter what the report indicated, the net result would be that silverâ??s market structure would be extremely bullish and goldâ??s would be extremely neutral.

In COMEX gold futures, the commercials reduced their total net short position by 37,500 contracts to 188,900 contracts (versus my guess for a 25,000 contract reduction). Youâ??ll remember that there was a very large increase in commercial selling in the prior COT report of 59,000 net contracts. By commercial category this week, the big 4 bought back 12,200 short contracts and the raptors added 31,900 new longs to a net long position now amounting to 58,200 contracts. The big 5 thru 8 added 6600 new shorts, but that selling looked to be by managed money traders, all things considered.

On the sell side of gold thru Tuesday, the managed money traders nearly matched the commercial buying, as these trader sold 35,521 net gold contracts, consisting of the sale and liquidation of 27,490 long contracts and the new short sale of 8,031 contracts. The managed money traders are more than capable of buying or selling 100,000 net gold contracts at this point and whichever way the commercials push them will determine the next $100 or more rise or fall in the price of gold.

The standout feature this reporting week in gold, of course, was the downward penetration of goldâ??s 50 day moving average, which was what prompted the managed money selling. Of all the things in the world which a reasonable person would assume would impact the price of gold, only one thing seems to matter â?? penetrations of moving averages and the nitwits which are slaves to acting on them.

In COMEX silver futures, the commercials reduced their total net short position by 4700 contracts to 2600 contracts (I had expected as many as 10,000 contracts, but came closer in managed money terms). While we didnâ??t end up with a commercial net long position for the first time as I thought was possible, this was a record low commercial net short position. By commercial category (which really doesnâ??t apply since there is such a large managed money presence on the big 8 short side), the big 4 bought back 2000 short contracts and the raptors added 4900 new longs to what on Tuesday was a record raptor net long position of 75,600 contracts. The big 5 thru 8 added 2200 new shorts but none of those new shorts were placed by commercials, only managed money traders.

Based upon this weekâ??s COT and Bank Participation reports, I would peg JPMorganâ??s short position to be around 19,000 contracts, about as expected. This is the lowest COMEX net short position by JPM in quite some time (since last summer) and is unabashedly bullish on its face. Moreover, as a result of JPMorganâ??s continued accumulation of physical silver, the bank is more net long silver than ever, now easily over 600 million oz (700 million oz long in physicals and less than 100 million oz short in COMEX paper). Being more net long silver than ever means never has there been a better set up for JPMorgan to let her rip to the upside.

On the sell side of silver, it was all a managed money affair, as these traders sold 6074 net contracts, including the purchase of 1506 new longs and the new short sale of 7586 contracts. (Had the managed money longs liquidated as would be expected on a week of heavy selling, I would have come very close to my 10,000 contract prediction, in the same vein as had my mother been Queen Elizabeth, Iâ??d be bonny Prince Charles). The new managed money long position of just under 33,500 contracts is still very low and itâ??s hard for me to see the 32,000 contract low water mark of last week broken. In other words, there canâ??t be much, if any managed money long liquidation left.

The managed money short position, by contrast, wouldnâ??t seem capable of growing much, particularly after the likely increase it took through yesterdayâ??s trading. Tuesdayâ??s level of 73,832 contracts of managed money shorts is simply astounding and, nearly as much as JPMorganâ??s role, is whatâ??s at the center of the silver universe. The record managed money short position both fully explains why the current market structure in silver is so extremely bullish and why so many are commenting on the COT report.

In fact, the managed money short position in COMEX silver has grown so large as to almost defy logic. As a result, I find myself questioning how it came to be. What, at this particular time and price in silver, drove the managed money traders to hold such a large short position in silver? As an analyst, Iâ??ve tried to work out an explanation based upon the most plausible of reasons of why the managed money technical funds chose to be heavier on the short side of silver than ever in history.

I could see the managed money traders massively increasing their bets on silver and in other markets if they had experienced a massive inflow of investor assets under management (AUM). But not only do I see no increase in managed money AUM, I also see no big increase in managed money bets in other markets away from COMEX silver. Overall managed money performance has been pretty rotten recently and would suggest no great investor inflow in general and that makes the big collective increase in the short position of silver alone all the more unusual.

Certainly, the managed money technical funds havenâ??t achieved any type of a profitable track record when going heavily net short silver in the past, so previous consistent success on the short side of silver couldnâ??t possibly account for the current large and unprecedented bet on the short side. It is precisely because silver prices have bottomed as managed money short positions hit previous large levels that so many are commenting about the current market structure. Given the fact that the managed money traders have never collectively profited after becoming heavily short silver, it just doesnâ??t seem reasonable to conclude that they had any legitimate reason to up their portfolio allocation towards the short side of silver.

By definition, the technical funds donâ??t consider actual supply/demand fundamentals and even if they did, itâ??s not possible to construct a bearish fundamental case on silver at this time. Everywhere I look as an analyst, I can find no legitimate explanation for why the managed money traders would plow onto the short side of silver like they have. Then what the heck has driven the managed money traders to be more heavily short in silver than ever before?

Having run out of legitimate explanations for why the managed money traders have gotten so heavily short silver at this time, it dawned on me that perhaps there is an illegitimate explanation. As I think you may know, Iâ??m not given to wild and deep conspiracy theories. For instance, I donâ??t believe, as many do, that it is the US government or other world governments or central banks behind the silver manipulation. I do believe the CFTC has allowed the silver manipulation to continue, just that they are not running it, which is controlled by JPMorgan. Besides, how could the CFTC cause the managed money technical funds to load up on the short side?

That same question about JPMorgan or other commercials falsely inducing the managed money traders to load up on the short side of silver would elicit no similar doubts from me. I may not be able to tell you exactly how they did it (after all, I canâ??t see behind closed doors), but I do know that the prime beneficiaries of the extraordinarily large managed money short position are the commercials which have tried to buy every single managed money short contract sold.

Over the past month and months, no single commercial trader has bought more managed money short contracts than JPMorgan, making this crooked bank the prime beneficiary of the record managed money selling. While I canâ??t pinpoint what JPMorgan did to get the managed money traders to sell such large and unprecedented amounts of COMEX silver contracts, there is no way that the bank just happened to be in the right place at the right time. Things just donâ??t work like that in the real world.

What illegitimate role JPMorgan may have played in tricking the managed money traders to sell and sell short so heavily in COMEX silver may never be known, but that is very different from the fact that the managed money traders did sell and JPMorgan and other commercials bought. Itâ??s whatâ??s on the scoreboard that counts. And whatâ??s on the scoreboard is not only the unprecedented large short position of the managed money traders, but the fact that the commercials rigged these traders into record short positions on such a shallow drop in price.

I donâ??t have the time to look it up now, but I do recall suggesting when silver was about a dollar higher than where it is now that we might face a dollar or so of downside risk. But I never imagined that as many managed money silver contracts would be sold as have been sold. Even more remarkable to me is the average price at which the managed money traders sold and the commercials bought, which I would peg around the $16.60 mark.

Unless one believes that the managed money traders (the perennial losers) are now leading the commercials around by the nose and about to beat them badly, it is hard to imagine a worse predicament for the managed money traders. I donâ??t know what prompted the managed money traders to sell as aggressively in silver as they have, but there can be little question that the commercials can hold these technical tradersâ?? feet to the fire should the commercials so choose.

Clearly, the managed money traders donâ??t comprehend in the slightest the collective risk they have put themselves in by having sold so aggressively in COMEX silver. Ironically, if the CFTC or CME were a fraction of the legitimate market regulators they should be, the managed money traders would never have been allowed to sell as heavily as theyâ??ve sold in silver from strictly the potential risk of market disorder. Not only is it clear that the managed money traders donâ??t understand the COT report, neither does the CFTC or CME.

All that remains is how this lopsided managed money short position gets resolved. Will the next rally be met with the same accommodative additional short selling by JPMorgan designed to cap the rally as always; or will the crooks at JPM stand aside from adding manipulative short sales and allow silver to explode? None of us can know what it will be in advance but we are free to position ourselves appropriately. And if â??appropriatelyâ?• doesnâ??t mean all in, then I donâ??t know what does.

Ted Butler

April 7, 2018

Silver – $16.35Â Â Â Â (200 day ma – $16.76, 50 day ma – $16.58)

Gold – $1336Â Â Â Â Â Â (200 day ma – $1295, 50 day ma – $1332)

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