

For an unprecedented (I believe) ninth straight week, the price of silver and gold finished lower, with gold ending \$4 (0.3%) lower and silver off by 13 cents ((0.8%). As a result of silver's relative weakness, the silver/gold price ratio widened out to 79.6 to 1 (but much of the change reflects the switch to the December gold contract). Weekly changes notwithstanding, the price ratio has remained remarkably stable over the past few years and continues to reflect an almost unbelievable undervaluation of silver compared to gold. That doesn't mean gold is not poised to move sharply higher, because I believe it is – it just means silver is locked and loaded for a much bigger upside move.

I understand that this may sound like a broken record, but “unprecedented” means something that hasn't occurred before. And generally, such a first time occurrence requires some type of special explanation. So when gold and silver prices decline in a manner never witnessed before (falling for nine consecutive weeks), it is not unreasonable to seek out the most plausible explanation for the unprecedented decline. If one of the potential explanations also involves a separate unprecedented occurrence, a reasonable person would conclude a connection between the unprecedented occurrences.

Let me cut to the chase – over the exact same time silver and gold (and other metals) prices have declined in a manner without precedent, there has also occurred an unprecedented change in futures market positioning. Specifically, prices have declined in a manner never witnessed at precisely the same time that a very narrow group of COMEX traders, managed money technical funds, have sold short more contracts than in history.

Even trying to dismiss that my strongest holding is that such positioning is what sets prices, the stark truth is that we are left with two unprecedented occurrences – the unusual pattern of price and the documented behavior of the technical funds. If one can't see the connection between massive and unprecedented short selling and the unprecedented pattern of declining prices, all is not lost – a promising career awaits as a federal regulator or as a purveyor of alternative explanations, i.e., changes in the Chinese yuan. I'll dig into the latest Commitments of Traders (COT and Bank Participation reports, which continue to astound and confirm key premises in a moment, but let me first run through a couple of other noteworthy developments.

The turnover or weekly physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled off after last week's sharp jump. This week a bit over 2.4 million silver ounces were moved as total inventories set another all-time record of 287.2 million oz, up 1.1 million oz. There was a deposit of 265,000 oz in the JPMorgan COMEX warehouse, bring the level of silver inventories there to 144.9 million oz, another new record.

Here's an interesting factoid – in early 2015, three and a half years ago, there were about 180 million total oz in the COMEX warehouses, with about 50 million oz in the JPM warehouse. Today, there are a bit over 100 million more total oz in the COMEX warehouses and close to that same amount more in the JPM warehouse. My point is that to look at the increase in total COMEX inventories and not to recognize the total increase represents little more than a confirmation of JPMorgan's accumulation of physical silver would be to miss something very basic.

While predicting future COMEX silver inventories is impossible, analyzing the record over the past seven and a half years is doable. The weekly physical turnover over

that time is unprecedented in that it has not occurred in any other commodity. I still hold that JPMorgan has both created and then used the turnover for the purpose of skimming off and secretly stashing an amount of silver that totals at least 200 million oz (apart from what is in their COMEX warehouse).

Just a short while back, I mentioned that I probably wouldn't continue to dig into the short positions in the big silver ETF, SLV, or its gold counterpart, GLD, because the changes had become less meaningful. I have to make an exception for the new report released this week, which indicated a sharp decrease in the short position in SLV and a decent decrease in GLD. As of July 31, the short position in SLV was just under 6.8 million shares (ounces), down a hefty 4 million shares/oz. The short position in GLD was down just over 1.9 million shares to 9.2 million shares (0.9 million oz).

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

The new SLV short position is the lowest I can recall, at just under 2% of total shares outstanding. In contrast, I remember the peak in SLV shorting, 6 or 7 years ago, as close to 12% of total shares outstanding. While I don't think the big drop in the short position was the result of plain-vanilla short covering in the open market, there's no way of determining if the recent two-week decline in the short position was the result of deposits of metal in that period or merely the booking of previous deposits held open as a result of "short against the box" type transactions. The exact details aren't that important, but I can't help but feel that the sharp short position reduction is but another duck having been put in a row for a price blastoff. Yes, I know, such ducks seem to be rather prevalent lately.

While I did expect that there would be additional managed money selling/commercial buying in the new COT report, given the continued dismal price action during the

reporting week, my expectations were balanced by the fact that managed money shorting was already at such extreme levels that it would be unrealistic to predict further big shorting. After all, I reasoned to myself that there had to be some limitations to such reckless short selling of valuable assets deep into a price hole, even by the traders I consider to be brain dead and lacking common sense.

The good news is that I was wrong and these technical funds added significant numbers of new silver and gold short contracts that did two things – make the market structures even more extremely bullish than it was and prove that these guys are dumber than a bag of rocks. In the case of silver, an increase in the number of managed money short traders (by 7) from the previous reporting week indicates these new traders graduated to reporting status (150 contracts) by increasing existing positions or by complete new entry onto the short side in the current reporting week. What do these managed money traders project will happen from this point? Even if prices move lower still, aren't they thinking of the end game to this transaction? Do they imagine that the commercials, which have been buying back short positions and adding long positions against the managed money selling, will turn around and re-short or liquidate longs on lower prices for the first time ever?

There was an important story in today's NY Times (main section, no less) about an unfolding financial disaster in China involving millions of citizens and hundreds of billions of dollars lost in fraudulent and pervasive on-line investment schemes finally gone bust after a decade in the making. It has gotten so bad that the government is moving forcefully to stifle investor protests lest it undermine social order. Most of the victims were ordinary citizens, largely uneducated to the financial risks of anything sounding too good to be true and failing to think things through. To my mind, the managed money short sellers are on a par with the victimized Chinese

investors.

In COMEX gold futures, the commercials reduced their total net short position by a hefty 22,300 contracts to 25,600 contracts. This is another new low (bullish) level extending back to late 2015/early 2016 when gold then powered hundreds of dollars higher on subsequent managed money buying and on which the commercials sold. I'll run through the big short categories, but they have become somewhat meaningless in that they no longer fully reflect purely commercial traders as they did 99% of the time before now. That's because the managed money traders are so big on the short side that they are among the biggest shorts.

The 4 biggest shorts actually added 500 new short contracts, while the big 5 thru 8 bought back 3200 shorts, leaving the raptors (still the smaller commercials) as adding 19,600 new longs to a net long position now amounting to 129,700 contracts. This is very close to being the largest raptor net long position in history, and when I adjust for the record managed money short position and presence in the big 8 on the short side, I can't help but conclude that this is, effectively, by far the largest real raptor long position in history. I've always maintained that the bigger the raptor long position the more bullish, so I'm saying by this measure, gold has never been more bullish.

The companion Bank Participation report confirmed, in spades, my recent premise of a double cross by JPMorgan of the other commercials in buying back a disproportionate number of short contracts over the past two or three months. I confess to being somewhat nervous as to what the report would indicate, but the results leave me with little doubt that JPMorgan bought back at least 90,000 gold

shorts since May and is no longer short gold (leaving its 20 million oz physical position as free as the wind for an upward journey).

On the sell side of gold, the managed money traders accounted for all of the commercial buying as these traders sold 23,588 contracts, including the sale and liquidation of 4731 long contracts and the new short sale of 18,857 contracts. There's not much to say about the remaining managed money long position of 105,849 contracts, aside from noting there wouldn't appear to be great further liquidation and downward price pressure ahead after nine consecutive weeks of price declines.

There is, of course, plenty to be said (aside from WTF?) about the managed money short position of 171,965 contracts. Over the past 9 reporting weeks, the managed money technical funds have added 123,000 new short contracts at what I would estimate was an average price of no higher than \$1240. On those added short sales, I would estimate they are \$20 ahead, meaning that they are currently in the black by around \$250 million in total, on an open and fully-unrealized basis. That may sound like a lot, but all the technical funds have to show from adding the largest number of gold short contracts in history at this point is a relatively stinking \$20 per ounce profit – a profit that could just as easily disappear and turn into a monumental (realized) loss as a leaf to fall from a tree in late autumn on a windy day.

I'm not saying gold (and silver) prices can't move lower still on a temporary basis, particularly if the technical fund nitwits add to short positions. That's been a consistent theme of mine. But what I am saying is that I will be absolutely flabbergasted if the technical funds exit this monumental excursion on the short side with any notable realized profits. That's the whole premise of COT market structure

analysis.

In COMEX silver futures, the commercials reduced their total net short position by 2000 contracts to 22,100 contracts. This was more in line with my expectations on not being able to squeeze much more blood from the silver stone (although the number on new managed money short sales did astound me). From a category change perspective (and with the same cautionary statements in gold), the big 4 added 300 new shorts, the big 5 thru 8 bought back 100 shorts and the raptors added 2200 new longs to a net long position now amounting to at least 71,400 contracts.

Based upon the Bank Participation report, I'm pegging JPMorgan to be at 20,000 net contracts short, unchanged for the past three reporting weeks. Since the last Bank Participation report, the US bank category is down 7000 net short contracts and I note with interest that I pegged JPM to be net short 27,000 contracts back on July 3. As I indicated earlier, I always get a bit nervous when the Bank Participation report gets released out of fear that I'll have to radically revise prior calculations. Most times that fear proves to be unfounded and that certainly was the case this month (he said quite relieved). I should mention that there is an outside chance that JPM has also double crossed other commercial traders in buying back more silver shorts than I credit to the bank (as in gold), but the setup is so darn good as it is, who cares?

The managed money traders sold just over 6000 net silver contracts, including the sale and liquidation of 743 long contracts and the amazing new sale of 5293 short contracts. I'm relieved to report that despite the sale of any managed money long contracts, the concentrated longs I've spoken about recently actually added around

850 new longs to a concentrated long position now amounting to 58,389 contracts. Thus, the second significant new discovery I feel I've uncovered recently (the first being JPMorgan's double cross in gold) appears to still be intact.

As a recap, 4 or less big longs in the managed money category (definitely not technical funds) added 30,000 new silver long positions from April 3 to June 12 and largely held those contracts thru July 3 (all COT dates). Then, they sold and liquidated 8300 of these long positions on July 10 and July 17. Over the past three reporting weeks ended Tuesday, these 4 or fewer big longs added back 3300 new longs, meaning that these few traders hold 28,000 net new longs from April. While I'm still concerned about potential liquidation, my concerns have definitely lessened over the past three reporting weeks and all I can do is monitor the position as time goes by.

If this concentrated long position is not liquidated significantly from this point, aside from removing the threat to lower prices from this source, it also means that the managed money long position, now amounting to 67,467 contracts, should be reduced by the 28,000 contracts belonging to the big concentrated longs. This means that the effective managed money long position is under 40,000 contracts, close to the lows of recent years and not visibly subject to pronounced liquidation (and pressure on price).

The big story, of course, as was the case in gold, is the record level of managed money shorts in silver, now up to a mind-numbing 81,445 contracts (double WTF?). Technical funds, operating under a premise far removed from anything that could possibly be considered reasonable (and along the lines of the largely uneducated Chinese investors duped by on-line investment frauds) have sold short more than 407

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million ounces of silver. Yes, maybe they sell short even more and achieve the high and distinct honor of depressing silver prices still lower - but then what? Do they expect JPMorgan to add back short positions or the raptors to dump long positions to accommodate the technical funds? I think I'd rather invest in a Chinese Ponzi scheme than go short silver, but that's just me.

Put the broken record back on the turntable, because all I can intone is that this is bound to end bad for the short technical funds and good for everyone else, unfortunately, including the crooks at JPMorgan. Fortunately, for those on the good side, including you and me and everyone invested in or that would be benefitted by higher metal prices, the rewards should be great. How much longer before we stop going down and start going up? I'd tell you if I knew (without even having to then kill you), but all I can say is soon, real soon. The key question remains what will JPMorgan do when prices do rise, add to shorts or not, but I don't think I have to tell you how I feel on that.

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Silver \$15.32 (200 day ma - \$16.50, 50 day ma - \$16.01)

Gold - \$1219 (200 day ma - \$1297, 50 day ma - \$1255)