

Before getting into the subject of today's title, allow me to update a couple of topics previously discussed. Last Wednesday, I offered a review of world silver inventories in which I concluded that there were roughly one billion oz in fully documented inventories of metal in industry standard 1000 oz bars and perhaps another 500 million to one billion additional oz in unverified holdings; making a grand total of 1.5 to 2 billion oz for world silver inventories in, essentially, the only form that matters.

I went on to claim that JPMorgan owned a total of 600 million oz of that silver, including just over 100 million oz in its COMEX warehouse and 500 million in unverified holdings. In essence, I was claiming that JPMorgan held either all of the world's unverified silver inventories or that there might be another 500 million oz out there that JPM didn't own. I know this is a pretty outrageous claim, but I study this stuff closely and it is my firm conclusion that JPMorgan holds between 30% to 40% of all the 1000 oz bars in the world. Most outrageous of all, of course, is that JPMorgan bought all this silver over the past six years as it depressed the price by virtue of it also being the largest paper short seller on the COMEX.

When I wrote last week's article, I knew full well that the LBMA was about to publish, for the first time ever, the quantities of gold and silver bullion held in London. To be frank, one reason I wrote the inventory article was to preempt the LBMA, because I was sure they would overstate world silver inventories. In the interest of full disclosure, please know that in terms of transparency and reasonable verification of its published statistics, I hold the LBMA in the lowest possible regard -almost to the point of disregarded everything they claim. I had every expectation that the LBMA would report that many billions of silver ounces resided in their

affiliated vaults.

Therefore, it came as quite a bit of a shock to read that the LBMA reported that it held “only” one billion oz of silver, since it was much less than I would have expected it to report. I’m not going to get into the amount of gold (240 million oz) that the LBMA claims to have in its vaults, for the simple reason that no one argues that there isn’t roughly 5.6 billion oz of gold in all forms throughout the world and the amount said to be in the LBMA is less than 5% of the total gold in the world (even though it’s the second largest gold holding in the world, behind the US Government’s holdings). A key point I tried to make last Wednesday was that individual gold stockpiles were less critical because there was no dispute about how much total gold existed. There could be (and is) endless discussion about who really owns the world’s gold, but not that it exists in reasonably-known quantities.

http://www.lbma.org.uk/_blog/lbma_media_centre/post/demystifying-londons-gold-and-silver-vault-holdings/

It’s much different in silver than it is in gold because there is great question about how much silver exists in the world. That’s because we know that silver is a vital industrial commodity consumed in an incredibly wide variety of applications and because of that consumption, world silver inventories have been massively depleted – by 90% over the past 50 to 75 years. Therefore I was relieved that the LBMA published silver numbers that in no way disagreed with my take last week that there might be 500 million to one billion oz of silver in 1000 oz bar form in London in previously unverified holdings.

I would have let the matter slide and not even have brought it up today had I not received an email this morning from a subscriber who is a money manager in

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Switzerland. He included a private report from UBS to clients (that I cannot provide to you), but upon further investigation, I noticed that there was a separate link to a similar UBS report contained in the official LBMA link provided above. Here is that separate link -

<http://www.lbma.org.uk/assets/blog/DemystifyingLondonvault holdings.pdf>

The bottom line is this - according to UBS, included in the one billion oz of silver the LBMA claims to be in London are the ETF holdings in London in SLV and SIVR, amounting to more than 400 million oz. Since I already included these holdings in the verified category of silver holdings, this amount must be subtracted from the LBMA's count; meaning that ex-ETF holdings, there are only 600 million oz of newly reported silver in London, much closer to the lowest number of my 500 million to one billion oz estimate.

So, instead of the LBMA reporting billions of ounces of silver in previously unverified holdings, it is reporting only 600 million oz when all is said and done. You could have knocked me over with a feather on this news. And you can bet that JPMorgan owns nearly all of this newly reported silver. As you know, I no longer seek out new bullish surprises in silver, fearing my brain will explode if I add just one more. But despite my fears, the small amount of silver just reported by the LBMA, even without the mandatory reduction of ETF holdings, is really messing with my mind because it's so bullish.

The other matter previously discussed involves the old issue of futures market positioning setting prices, not just in gold and silver, but other commodities as well. Just this week, for example, the price of copper rose to new two-year highs. I have written about the price of copper being depressed due to aggressive selling by the

managed money technical funds on the COMEX, both late last year and as recently as May. Recent COT reports have indicated that the managed money technical funds have flipped completely to the long side and now hold their largest COMEX (gross) long position in history.

Simply put, copper prices only rose to new highs because of technical fund buying. Given the quantities of contracts bought by the technical funds (on the COMEX and LME) there can't be any doubt as to what has propelled copper prices higher. My point is if a major market like copper (or gold), with annual world mine production worth some \$150 billion, can have its price set by paper dealings on the COMEX, how hard would it be to set prices for a much smaller market like silver which is one-tenth the size of total copper production?

We are now approaching the four-month mark in how long the CFTC's Enforcement Division Director, James McDonald, has been in his position. You'll remember that I (and many of you) wrote to him back in April on both the occasion of his appointment and the largest and most concentrated commercial short position ever in COMEX silver futures.

<http://silverseek.com/commentary/another-opportunity-16489>

It has been a very interesting four months, to say the least. Apart from the contents of my letter of April 10, McDonald seems to have hit the road running, bringing at least four major enforcement cases involving price manipulation and spoofing with all but one of those cases involving COMEX silver and gold. If there were any such cases brought by the CFTC before McDonald's arrival, I can't remember them. On this basis alone, McDonald's actions and words to date represent a potential sea change in CFTC market regulation.

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There is much reason to be encouraged by McDonald to date, but the jury is still out concerning the most critical issue of all, namely, will he bring about the end of the COMEX silver manipulation? Of course, I've made it a lot more specific than that - will he allow JPMorgan to add to its COMEX silver short position on the next silver rally? That's the test that lies ahead.

The way I see things. When I first wrote to McDonald, within a week, both the total commercial net short position, as well as the concentrated short position of the 4 largest shorts (led by JPMorgan) hit historical extremes. I warned McDonald that whenever these short positions were extremely large, a price selloff always unfolded. I also pointed out that JPMorgan had never taken a loss, only profits, whenever it added silver short positions for the past nine years, an impossibly perfect trading record. Within a month, into early May, we got the selloff in spades which featured an unprecedented 17 day consecutive decline and in which JPMorgan bought back a significant number of its short positions, all at a profit.

While this occurred during McDonald's first month on the job, I can't see how it would be fair to have expected him to intervene on such short notice (despite my description of the situation being crystal clear and somewhat prophetic). But, at the very least, it should have struck him that things turned out the way they did to that point. Where I would judge McDonald a little harsher is that on the ensuing price rally into early June, JPMorgan again added aggressively to its COMEX silver short position, causing silver prices to top out and then decline into early July; as JPM bought back all of its added shorts (at profits). Fool me once, shame on you; fool me twice (or more) and shame on McDonald.

Perhaps I'm being too hard on McDonald, but he can't let JPMorgan add to its

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COMEX silver short positions again. If he does, then I will mentally wash my hands of him and consider the past four months as merely a mirage in the desert of dashed regulatory hopes. After all, how many killings should a lawman allow the serial killer (aka JPMorgan) to commit before an arrest? And maybe I'll end up writing McDonald off, only to see him do the right thing eventually; but I (and you) have been at this too long to endure repeated delays. Besides, no real lawman needs to be reminded that justice delayed is justice denied. The COMEX silver manipulation is a crime in progress and, therefore, needs to be terminated first and prosecuted later.

Privately, I am told by someone (not at the CFTC) who knows him well that McDonald is as straight as they come and that it is inconceivable that he won't do the right thing. I have no reason for any doubts on this, particularly considering McDonald's background and actions to date; but I am also keenly aware of how big a deal this is and of the power and treachery of the super-crook and stone-cold manipulator that is JPMorgan. McDonald's exemplary record to date points one way, but JPM's record points quite a different way. Call it a tossup that, fortunately, should be decided in the near future.

As far as market action through yesterday's cutoff for Friday's COT and Bank Participation Reports, it's difficult to imagine how there won't be substantial additional managed money buying and commercial selling in gold and possibly in silver as well. In addition to a \$26 gain that established two-month price highs, there was definitely "salami slicing" to the upside in gold, as just about every trading day in the reporting week saw new price highs for the move and every day featured closes above both the key moving averages (the 50 day and 200 day ma).

The trading volume wasn't particularly robust in gold, once rollover volume was

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netted out, perhaps suggesting the technical funds didn't go hog wild on the buy side, but that may be wishful thinking. Maybe we'll get a surprise, but the safe bet is for a deterioration along the lines of last week's report in gold, at least in terms of commercial selling (say around 30,000 contracts).

Silver is trickier to handicap for this week's report. We did finish higher for the reporting week by 30 cents, but trading volumes were even more tepid than in gold and there were only a few non-decisive salami slices to the upside compared to gold. Plus, we only penetrated one moving average in silver (the 50 day) and then not in particularly aggressive fashion. On a loss per contract basis, the technical funds which loaded up on the short side in the recent price hole have every reason to buy back and I suspect they did; but hopefully the commercials weren't particularly aggressive on the sell side - same as last week.

Despite expectations of further deterioration in Friday's report, I still find it remarkable how extremely bullish is the market structure in silver. I suppose the deterioration over the past two reporting weeks (ended yesterday), might allow for price setbacks, but the greater weight of the evidence points to higher prices ahead. Having not sold at the highs in mid-April (\$18.50) or in early June (\$17.70), I have no intention of maintaining anything less than a full silver exposure.

Ted Butler

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Silver - \$16.65 (200 day ma - \$17.15, 50 day ma - \$16.66)

Gold - \$1275 (200 day ma - \$1232, 50 day ma - \$1253)