

A sharp rally that began late Friday morning, pushed gold and silver prices from what would have been losses for the week to fresh closing highs. Gold closed the week higher by \$13 (0.9%) and new six year highs, while silver ended 30 cents (1.8%) higher and at fresh year and a half highs. The relative outperformance by silver brought the silver/gold price ratio down to 88.3 to 1, still a mind-numbing undervaluation for silver.

What fresh new weekly closing highs mean is that anyone who bought or held gold over the past six years has a profit and anyone who bought or held silver over the past year and half also is ahead. Conversely, it means anyone who sold, or sold short positions is in a loss situation for those time periods. Moreover, the majority of the price gains came in the last three months, with gold climbing more than \$260 and silver by \$3 since the end of May.

More meaningful, at least to me, is how Friday's price turnaround affected the financial scoreboard for the 7 big shorts in COMEX gold and silver. At last week's close these traders were underwater to the tune of a combined \$4 billion, the most ever. Through the week and into Friday morning, the big shorts were enjoying some small measure of relief, as a gold and silver price decline resulted in a \$300 to \$400 million reduction in the \$4 billion open loss. But the rally on Friday took away any temporary relief to the big shorts and left them with another \$400 million added to their combined open loss, which as of yesterday's close amounts to \$4.4 billion. That's more than a \$625 million open loss on average to each of the 7 traders.

I continue to maintain that this is the key issue as far as future price movement and it is still undecided how this colossal financial mismatch will be resolved. Will the big gold and silver shorts (with or without assistance from JPMorgan) tough it out,

namely, continue to add shorts until they can rig prices lower and induce massive managed money selling – or will they, for the very first time, turn tail and rush to cover existing short positions (causing prices to soar)? This is the only question that really matters and I promise I would give you the answer if I could. The answer will come, to be sure, in future price action and data from the Commitments of Traders (COT) reports, and until it does, all we can do is wait out what is a most dramatic time in gold and silver.

I don't see any signs that the big shorts have begun to cover and buy back short positions as yet, even though the financial cost has never been higher. Certainly, there was no buying back of short positions as of Tuesday, according to the just-released COT report yesterday. Nor was there any sign of short covering in the preliminary open interest data covering yesterday's trading; where total COMEX silver open interest increased by just over 4100 contracts and total gold open interest by a whopping 31,000 contracts. These are preliminary figures, subject to revision, but not at all suggestive of short covering.

This, quite frankly, is likely a “do or die” circumstance for the big COMEX shorts. Even though it is well-known that when you find yourself in a financial hole, the first order of business is to stop digging the hole deeper, the choices available to the big COMEX gold and silver shorts are extremely limited. If they rush to cover their already massive short positions in the hopes of containing losses, they will only drive prices sharply higher still, perhaps to the point of institutional failure. If they make a stand and sell as many new shorts as possible to blunt the rally and bring about a sharp drop in the price, they may succeed (as they always have in the past), but increase their risk of failure exponentially.

It is at times like this why there exists a federal commodities regulator to head off potential market catastrophes – either a melt up in price or a manipulative price smash. This is why we have the Commodity Futures Trading Commission, namely, to head off such market events. While this is a complex market problem, at the root cause of the current predicament is the concentrated short position of the 7 to 10 largest shorts in COMEX gold and silver futures. If such large short positions weren't held by the 8 largest traders (I'm including JPMorgan here), of nearly 28 million oz in gold and 480 million oz in silver, there would be no problem.

But how in the heck can nearly half a billion silver ounces held short by just 8 traders (all banks, with not a mining company among them) possibly be legitimate? Who in their right mind would short such an obscene amount of silver on any legitimate economic basis? After all, silver is priced at historically low absolute and relative price levels. Since when does it make economic sense to speculatively short the snot out of the cheapest item around? It goes without saying that the concentrated short position is precisely why silver is so cheap.

I don't envy them, but it's time for the CFTC to finally put an end to the manipulative short selling by the big COMEX short sellers. With a highly respected new chairman, the time is right to deal with a problem that just won't go away. The concentrated short-selling scam on the COMEX has existed for decades and everyone has grown accustomed to its existence, but that hardly makes it legitimate. The CFTC will either be proactive or reactive to a problem that won't simply go away quietly.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained relatively subdued this week (compared to the weekly average over the past 8 years), as 3.1 million oz were

moved. Total COMEX silver inventories increased by 0.5 million oz to 313.1 million oz, another new all-time high. Of course, the physical inflows to the world's silver ETFs continue to outpace the increases in COMEX inventories by a factor of ten or more. No change in the JPMorgan COMEX warehouse for the eighth straight week, still stick at 153.8 million oz. I'm still of a mind that the slowdown in the physical silver turnover over the past two months is meaningful and bullish.

In regard to the nearly ended COMEX August gold deliveries, for the third time this year, Citibank, the largest stopper this month, turned around and redelivered the entire 1853 gold contracts it stopped earlier in the month (all in its house account). And as was the case in February of this year, JPMorgan was the big stopper in its house account when Citi redelivered that month. This month, JPMorgan has stopped 1000 gold contracts. I mentioned earlier that Citibank had developed the pattern of first stopping large numbers of gold contracts this year, only to turn around and redeliver all it had stopped towards months end. Not that anyone needs to hear about new instances of underhanded dealings on the COMEX, but the most plausible explanation for Citi's unusual behavior is that it is acting as a front man or surrogate when first stopping gold deliveries before redelivering later in the month.

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

I'm glad I took a pass on expectations for this week's COT report, since I was unsure of what to expect and there turned out to be moderate increases in managed money buying and commercial selling, as well as a few key features under the hood.

In COMEX gold futures, the commercials increased their total net short position by 12,500 contracts to 336,300 contracts. According to my notes, this is the second largest commercial short position in history (the largest being 340,200 contracts on

July 5, 2016) and is obviously very bearish on a historical conventional basis. The sharp increase in preliminary total open interest for yesterday would suggest a new record now exists.

It needs to be pointed out that all of the many millions and perhaps billions of those owning gold and gold-related investments throughout the world (principally in India and Asia) stand to benefit from gold prices advancing. The principle beneficiaries for gold prices declining would appear to be the 8 largest commercial shorts on the COMEX (holding 28 million oz short), plus another 40 or so smaller commercials which make up the rest of the 33.6 million total oz held short on the COMEX by the commercials. I would submit that this is a mismatch that bears no economic legitimacy. Why should the financial fortune of many millions of gold owners be dictated, even if only in the short term, by a few dozen speculative derivatives traders on the COMEX? That's the problem with concentration – the very few hold sway over the many.

The managed money traders bought about half as many gold contracts as the commercials sold, in buying 6235 net contracts, comprised of 4065 new longs plus the buyback and covering of 2170 short contracts. The resultant managed money net long position of 229,846 contracts (249,696 longs versus 19,850 shorts) is clearly bearish on a historical basis and it remains to be seen if the big commercials can trick them into selling by rigging gold prices lower (the same eternal question as always).

In COMEX silver futures, the commercials increased their total net short position by 5600 contracts to 70,900 contracts, still more neutral than bearish. In the good news department, I didn't detect aggressive selling by JPMorgan, perhaps adding only

1000 contracts or so. I'm going to leave my peg on JPM's short position at 15,000 contracts.

The managed money traders bought nearly twice as much as the commercial sold, as these traders bought 9936 net contracts, comprised of the sale and liquidation of 246 long contracts and the buyback and covering of 10,182 short contracts. I recall that the managed money traders added nearly 10,000 new silver shorts two reporting weeks ago, which was puzzling since no key moving averages were penetrated to the downside. So it's not particularly surprising to see those added short sales bought back. The resultant managed money net long position of 43,896 contracts (78,183 longs versus 34,287 shorts) now sits somewhere between neutral and bearish on a historical basis. But tell me whether the big shorts stand and fight or run for the hills and I would be able to tell you what prices will do.

The concentrated long position of the 4 largest traders in COMEX silver futures was reduced by a further near 3900 contracts to 48,331 contracts, completely eliminating the big buildup by the Silver Whale, as I discussed on Wednesday. In fact, this is the lowest concentrated long position in silver since April. As you know, I don't believe this big long position was sold and liquidated, but rather converted into 100 million oz of physical silver via the big deposits into the silver ETFs over the past couple of months. The Whale is gone, long live the Whale. I do discuss this matter and others in this audio interview with James Anderson, recorded on Thursday.

<https://www.youtube.com/watch?v=2XcuxaCOqwI&feature=youtu.be>

Also, I devoted one aspect of Wednesday's submission to subscribers in a short public article.

<http://silverseek.com/commentary/job-training-17733>

Once again, the issue that matters the most at this point for silver and gold is the disposition of the concentrated short position of the 7 largest traders on the COMEX, excluding JPMorgan. Will these traders stand and successfully fight against the tide of buying on the COMEX and throughout the world by shorting whatever new amounts of paper contracts are required to cap and kill this rally? Or will the growing open and unrealized losses come to force them to abandon for the very first time a manipulative ploy that has always worked in the past? And will the new chairman of the CFTC declare that enough is enough when it comes to confronting what has been the longest running and most blatant market manipulation of our time?

Admittedly, I have only questions and not answers, but these are the only questions that matter. We will get the answers in due course and until then, I'll continue to play it as if the big shorts won't succeed this time around, while fully acknowledging that they might. I can't do any better than that.

Ted Butler

August 24, 2019

Silver - \$17.40 (200 day ma - \$15.31, 50 day ma -\$16.05)

Gold - \$1537 (200 day ma - \$1324, 50 day ma - \$1440)