A sharp Friday price rally was all that prevented gold and silver from closing the week lower for an unprecedented eleventh consecutive week, a truly extraordinary streak. As it turned out, the Friday rally pushed gold higher by $21 (1.8%), but only took silver to unchanged for the week. As a result of gold's relative outperformance, the silver/gold price ratio widened out by nearly 1.5 points to 82 to 1.

This is at the top edge of the ratio's trading range extending back the past few years and partially reflects (by half a point) the fact that I'm pricing gold on the December COMEX contract and September for silver until next week. I certainly wouldn't read too much into gold's relative outperformance at this stage as it's not particularly surprising that gold may have taken off first, considering both metals (along with others) looked locked and loaded to the upside. Should gold continue to power to the upside, as I expect, it shouldn't be terribly long until silver gets cranked up. While I am more bullish on gold than anytime I can recall, near term outperformance by gold might just provide the last good opportunity for a switch into silver.

The eleven unprecedented consecutive weeks down in gold and silver through Thursday's close, once again, prompts the question of what caused such unusual price performance. I guarantee that you will drive yourself batty if you look at anything but futures contract positioning on the COMEX as being the sole cause of the unprecedented price declines. Specifically, since the June 12 COT report, the managed money traders have sold nearly 70,000 net silver contracts (350 million ounces), of which 50,000 contracts were new short sales and 150,000 new short gold contracts (15 million oz.). Please stop right there.

In little more than two and a half months, technical fund traders in the managed money category of the disaggregated COT report sold the equivalent of 350 million oz of silver and 15 million oz of gold, as documented by a U.S. federal agency, the CFTC. Yes, these were paper contracts, not actual metal, but in case you haven't noticed, we live in a world where price is dictated by paper transactions. Still, 350 million ounces of silver is more than exists in either of the two largest verified stockpiles in the world; the holdings in SLV or total inventories in the COMEX warehouses. What do you think the price reaction would have been if all the inventories in SLV or the COMEX warehouses were sold in two and a half months?

You don't even have to accept my view that the technical funds which sold the equivalent of 350 million oz of silver and 15 million oz of gold were hoodwinked and snookered into selling such obscene quantities by other traders led by JPMorgan. But you would have to acknowledge that government statistics certify that these quantities were sold by a very narrow group of traders in the exact same time span that silver dropped by $3 an ounce and gold by nearly $150 an ounce. Otherwise, you will go mad if you try to concoct an alternative explanation for the unprecedented string of weekly price declines.

Of course, other thoughts should also strike you, like what the heck are the regulators doing that they allow this type of concentrated trading to occur while they give speeches, staple pieces of paper and collect taxpayer funded paychecks while they contemplate post government employment opportunities? However, the most important other thought that should strike you is what the obscenely-large quantities of gold and silver contracts sold short will mean when the technical funds start to buy back and cover their massive short positions. Hoodwinking aside, the upward price impact on price could and should be profound, as I hope I've been conveying.

The turnover or physical movement of metal either brought into or removed from the

COMEX-approved silver warehouses amounted to just under 4.1 million oz this week, about the weekly average over the past 7.5 years that this unprecedented physical movement has existed. I must have lost count a bit recently, as total COMEX silver inventories now amount to 291.9 million oz, up 4.3 million oz for the week and another new all-time high. No change in the JPMorgan inventories of 145.4 million oz. As far as why silver is coming in, it could be due to demand in the upcoming September deliveries which start next week.

There was very little change in the short positions of SLV and GLD in the new short report for positions as of August 15. You'll recall that the previous report featured very sharp reductions in the short positions for SLV and GLD and the good news is that the short positions, particularly in SLV at around 2% of total shares outstanding, are completely in conformance with an imminent price blastoff.

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

The changes in the just-reported Commitments of Traders (COT) report were almost exclusively within the range of the expected comments issued on Wednesday. Gold and silver prices hit new lows during the reporting week ended Tuesday, particularly on the plunge on Wednesday and Thursday a week ago. Price action strongly suggested additional managed money selling and commercial buying. At the same time, given the massive cumulative managed money (technical fund) selling and commercial buying since June 12, I had reservations about how much more the technical funds could sell and refrained from specific contract predictions. Therefore, I can't call the results surprising. Additionally, I had some other expectations that seemed to be fulfilled, regarding the concentrated longs in silver and the activities of JPMorgan.

In COMEX gold futures, the commercials reduced their total net short position by 5700 contracts to 1700 contracts. Even though the weekly change wasn't particularly dramatic, this is the lowest (most bullish) reading in modern times and as such, speaks for itself. How much more blood can the commercials squeeze from the stone? Not much, it would appear and that coincides with Friday's rally.

As I have been mentioning recently, my commercial category breakdowns are mostly now invalid, thanks to the extreme increase in managed money short selling, although the smaller commercials (the raptors) long position is still valid, and now actually understated. The raptors, by the way, increased their net long position this week by 7500 contracts to 156,000 contracts, the most ever. Again, these smaller commercials are even more net long than that, thanks to managed money short selling. JPMorgan still looks to be completely gone from the short side of gold and may even be long, but I don't want to get carried away.

The managed money traders did sell 6704 net gold contracts this reporting week, but that included new longs of 2340 contracts and new short sales of 9044 contracts. As I have been repeating for weeks, the remaining managed money long position, now at 107,143 contracts looks battle-hardened and resilient to liquidation on lower prices. I can't see how there might be a technical fund on the long side of the managed money category in gold.

I also can't see how there are anything but technical funds on the short side of the managed money category, which is now at 197,171 contracts, up nearly 150,000 contracts since June 12. Should gold move higher, as I expect, that's 150,000 contracts of near guaranteed buying, in addition to perhaps another 150,000 contracts of buying should these mechanical nitwits try to get long. The big question, of course, is whether the commercials, particularly JPMorgan, accommodate the potential 300,000 contracts of technical fund buying and at what price?

In COMEX silver futures, the commercials reduced their total net short position by 5000 contracts to 7400 contracts. This is among the lowest (most bullish) readings in history. As was the case in gold, the biggest shorts are no longer exclusively commercials since the managed money (technical fund) traders have grown so large on the short side. The silver raptors added 1600 new longs and now hold a record 77,300 contracts net long, clearly very bullish.

On Wednesday, I speculated that JPMorgan may be down to being only 10,000 net contracts short in silver. Based upon a drop of nearly 3900 contracts in the big 4 concentrated short position as well as an even bigger drop in the net short position in the producer/merchant category of the disaggregated COT report, I believe JPM hit my expectations. I'll come back to this in a moment.

On the sell side of silver, the managed money traders nearly matched the commercial (JPMorgan buying), in selling 5426 net contracts, including long liquidation of 3327 contracts and new short sales of 2099 contracts. Nearly 2000 contracts of the long liquidation came from the concentrated longs in the managed money category. On Wednesday I said I would be paying close attention to what the concentrated longs might do and it appears they got shaken out of just over 2000 contracts on the Wed/Thurs price plunge of a week ago.

As of Tuesday, the concentrated longs in the managed money long category held 55,921 contracts or 23,000 contracts of the 30,000 contracts they established since the beginning of April. These traders were down more than $300 million from their average purchase price, so it's not particularly surprising they got shaken out of some positions and perhaps more surprising they didn't get shaken out of even more.

In fact, trying to forensically dissect what went into the vicious price plunge of Wednesday a week ago, I am left with the impression that it was mostly a JPMorgan arranged affair expressly designed to shake as many of the new concentrated longs in the managed money category as possible. I say this for a number of reasons. For one, the technical fund shorts didn't need to be lured into shorting more by a big price plunge; a few more thin salami slices of new price lows would have served as a better inducement than a large plunge. A price plunge would be expected to generate long liquidation instead of new short selling. And that's what happened; more selling came from the managed money longs than in new shorting, very much at odds from what has been happening to date. Also, it appears obvious that JPMorgan was the big buyer, so it's fair to label them as the instigators of the price plunge.

The only question is if the concentrated longs are in line for more liquidation on lower prices. While possible, the price bounce back on Friday takes some pressure off them. More than that, the overall prospects for heavy new short selling from the managed money technical funds appear low and I think it's unlikely that JPM will continue to press the down side to uncover more concentrated long liquidation. I almost forgot to mention that for the first time in COMEX silver history, the concentrated long position of the 4 largest traders was slightly larger than the concentrated short position.

The managed money short position in silver, as was the case in gold, hit new all-time highs, as technical fund shorts hit 90,927 contracts, the equivalent of nearly 455 million ounces. Only 50 traders hold this entire short position or over 9 million oz each on average. Most people, certainly including me, would have trouble sleeping if they were short 100 ounces of silver and the thought that 50 traders hold a silver short position of more than 9 million oz each is so other worldly that it defies rational explanation. Oh, and by the way – not one of these looney tunes is legitimately hedging or owns any silver as an offset. These funds are as naked as a jaybird. Keep up the great regulatory oversight, CFTC and CME.

Of course, at this point, I more happy that the CFTC is the regulatory doofus of all time for what it means to silver and gold prices ahead. The massive and completely speculative record short positions of the technical funds in gold, silver and other metals guarantee equally massive buying and much higher prices ahead. It's just that I can't get that Neil Young song out of my head when I think of the CFTC. (Pearl Jam did a great cover as well). Apologies to anyone offended by the lyrics, but it sure does fit the CFTC "comatose, but walking still"

https://www.youtube.com/watch?v=BvRmBUEwtZg

Lest anyone thinks I obsess about JPMorgan and the role it plays in silver and gold, let me assure you that there's nothing personal about it; it's strictly business and based upon the evidence. I don't have a JPM voodoo doll I stick pins in at night and I'm hoping the sentiment from it towards me is mutual. Still, there has been so much evidence over the years that I have my doubts about JPM not being a culture of corruption. I'm referring to the many billions of dollars in fines and settlements the bank has forked over to settle various infractions. Just today, the NY Times reports on a cautionary tale involving particularly egregious bad behavior regarding a broker churning the crap out of an unsuspecting client's account. The brokerage in question – JPMorgan Securities. I don't go looking for this stuff, I was just reading the paper with my coffee this morning.

https://www.nytimes.com/2018/08/24/business/brokers-excessive-trading-retirement.html?action=click&module=Well&pgtype=Homepage&section=Business Day

Finally, here's an update on the money scoreboard for the newly short managed money technical funds. As a result of the new COT report, I would now calculate their gold short position to now be 150,000 contracts at an average price of $1233 and their silver short position to be 50,000 contracts at an average price of $15.55. This is just the short positions added by the technical funds since June 12. As of yesterday's close, the technical funds are ahead $315 million in gold (150,000 contracts x $21) and ahead $193 million in silver (50,000 contracts x 77 cents) or a combined unrealized and open profit of $508 million.

The tech funds short position is so large that the aggregate profit swings are quite wild. At its peak, a week and a half ago, it amounted to $950 million. On Friday alone, it was reduced by some $375 million as a result of gold's $20 and silver's 30 cent rally. While I expect the technical funds to lose their entire unrealized profit and end up taking realized losses when these short positions are eventually bought back, I will calculate and report as objectively as possible. It's what's on the money scoreboard that counts.

On Wednesday, I mentioned how close gold was to an upward penetration of its 20 day moving average, which might lead to a continued rally up to the more key 50 and 200 day moving averages. On Thursday's selloff, my mention seemed to go by the boards. But with yesterday's sharp rally, gold did penetrate to the upside its 20 day moving average (now down to $1209.50) for the first time in months. I'd be lying if I said this doesn't look like the long awaited breakout.

Ted Butler

August 25, 2018

Silver – $14.78 (200 day ma – $16.39, 50 day ma – $15.61)

Gold – $1212 (200 day ma – $1293, 50 day ma – $1233)