

August 26, 2017 – Weekly Review

Gold and silver prices rose for the week, with gold up by \$6 (0.5%) and silver by 10 cents (0.6%), with the silver/gold price ratio holding at the same 76 to 1 reading it has closed at for the past few weeks. This week's trading featured a rather volatile episode Friday morning, in which prices rose and fell sharply, only to come back for the rest of the day. My only explanation for the sudden spate of price gyrations was a variety of COMEX computer trading systems, either malfunctioning or working exactly as intended. This is just more evidence that the bots and computer nerds have come to control pricing in every way possible.

While there were only slight gains for the week, it should be noted that gold managed to finish at weekly highs not seen since last Election Day (November 8). By contrast, silver still seems to be struggling more to the upside. More recently, over the past three weeks, gold and silver have remained relatively unchanged in price, but still with the very visible chart pattern of gold trading well above its 200 day moving average, as silver just hasn't been able (allowed) to decisively penetrate its 200 day moving average. As you know, the 200 day moving average is of great importance to the managed money technical funds which are at the center of the artificial price discovery process on the COMEX.

The key developments of the week continued to be futures contract positioning changes in COMEX gold and silver, with this week's Commitments of Traders (COT) Report coming in very close to expectations. First, there are a few other things to report before I get into the COT report.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses cooled further to 1.5 million oz this week, but I only recorded data for four days this week (due to me simply forgetting to check one day), so I may be understating the movement. Total inventories rose by 0.9 million oz to 216.5 million oz, another fresh 20+ year high. There was no movement in the JPMorgan warehouse this week, with total silver inventories there holding at 115.2 million oz.

I still don't see anything new or of a standout nature in this month's COMEX gold and silver deliveries and the only question on my mind is what role, if any, JPMorgan will play in the Sep COMEX silver deliveries, which start mid-week.

The new short report on securities, as of Aug 15, indicated fairly sizable increases in the short positions of both SLV, the big silver ETF, and in GLD, its gold counterpart. The short position in SLV increased by nearly 2.4 million shares to just under 14.2 million shares (ounces). The increase in short position on GLD amounted to more than 3.1 million shares, pushing the total short position to nearly 15.9 million shares (1.5 million oz).

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

Increases in the short positions in these ETFs isn't particularly unusual when prices rise and there is a corresponding increase in the total commercial net short position in COMEX gold and silver futures, as it is most likely that the banks who short on the COMEX, also lead the shorting in the ETFs. I haven't forgotten my previous suggestion that much of the existing short position in SLV was held "against the

box” which, in effect, tends to overstate the size of the true short position; but that is a separate issue not necessarily related to the just reported increase.

Also, please keep in mind that the increases in the ETF short positions and their total short positions, still pale in comparison to the size of the COMEX commercial net short positions in gold and silver. The net short position of the 8 largest gold traders in COMEX gold futures is more than 16 times larger than the total short position in GLD, while the total net short position of the 8 largest COMEX silver traders is more than 30 times larger than the total short position in SLV (and I’m suggesting the short position in SLV may be overstated due the “short against the box” premise). My point is that the commercial net short position in COMEX futures is the central feature of the price manipulation.

Sales of Silver and Gold Eagles from the US Mint continue strikingly weak. With only four reporting days left in the month, sales of Silver Eagles are running close to 50% lower than the monthly total of the year’s previously weakest month (April), which in turn was the weakest month in years. For years, it was my contention that JPMorgan bought 50% (or more) of the Silver Eagles and Canadian Silver Maple Leafs during the record sales of the past six or so years (before retreating from the market around the turn of the year), and that actual retail sales were much weaker than the reported sales indicated. Now, it appears to me, retail sales have only slumped further.

<https://www.usmint.gov/bullion-sales>

I’m not going to dig into it today (perhaps this Wednesday) but the pronounced further collapse in retail demand for Silver and Gold Eagles seems quite understandable in the context of collective human investment behavior. Investors, large and small, retail and institutional, buy as prices rise and sell (or don’t buy) as prices fall – I think it’s that simple. Here we have seen six years of the most extreme monetary stimulus (money and credit creation) in US and world history and every manner of investment asset, from stocks and bonds, real estate, art, collectables and now crypto currencies, have surged to new record highs amid widespread collective investment buying; yet the two assets universally considered to be the prime beneficiaries of overt monetary stimulus – gold and silver, have been comatose in price and devoid of investor interest.

Every asset that could be bought, has been bought in a wave of collective investor buying that the world has never seen. All, except two – gold and silver. What could possibly explain this? Come on – you gotta be kidding me. It’s as plain as day – prevent the price from rising and investors won’t buy en masse. Investors haven’t rushed into gold and silver, as they have in practically everything else because the price of gold and silver has been prevented from rising by COMEX positioning. This also explains how JPMorgan has been able to accumulate more than 600 million oz of physical silver – it had no competition from other investors. Again, I’ll not do so today, but this is also the formula for a coming price explosion, as and when inevitable and unavoidable adjustments take place.

The changes in this week's COT report were as close as humanely possible to expectations on Wednesday, even though I labeled my predictions as not being high conviction. I expected managed money buying/commercial selling in gold to be around 20,000 contracts and around 5,000 to 10,000 in silver and split all the way around. Now, before you think I'm just patting myself on the back, that's only a minor vanity on my part. I know there is no way to tangibly benefit from week to week COT predictions because the whole market structure approach eschews short term timing. Even if you could predict positioning changes to the nearest single contract, that wouldn't aid you one bit in predicting short term prices (which I claim is impossible in any event). So why bother predicting COT changes?

The only reason I do it is to prove to myself (and by extension to you) that I'm looking at things correctly. If I'm going to contend that the sole price driver is COMEX positioning, the least I should be able to do is anticipate positioning changes, because those changes have already occurred, but have just not yet been reported. Predicting something that has already occurred is not really predicting; it's more analyzing than predicting. Predicting something that has yet to occur, like future short term price changes, is not analyzing, it's prophesizing. If someone could truly do that, he or she would have little incentive to share that talent with anyone else.

In COMEX gold futures, the commercials increased their total net short position by 23,300 contracts to 220,000 contracts. This is the largest (most bearish) commercial net short position since last Nov 8 (Election Day). There is no mystery about what has driven gold prices higher by \$90 since July (managed money buying/commercial selling) or what that positioning has meant to resultant market structure.

By commercial category, all three categories were net sellers, with the four largest commercial shorts adding 2600 new shorts, the 5 thru 8 largest shorts adding a very hefty 13,000 new short contracts and the raptors (the smaller remaining commercials) selling off 7,700 longs, reducing their net long position to 34,700 contracts. The big 4 and big 5 thru 8 short position is now larger than since late Sep/early Oct.

On the buy side of gold, the managed money traders bought 17,523 net contracts, consisting of 14,284 new longs and the further buyback of 3,239 additional short contracts. I continue to be amazed at the extent of short covering by the managed money traders, with the remaining short position now down to 15,638 contracts, extremely low on any historical basis. But I remain mathematically certain that this number can't go below zero and considering how low it is, the one sure thing I can say is that there is very little price-lifting buying power left in gold from this category. It's always possible for significant numbers of new longs to be put on by managed money traders and that is precisely what will be needed for gold prices to move higher from here; but, in terms of big additional short covering by managed money shorts, forget about it.

In clinical COT terms, it has been the managed money buying of 170,000 net contracts, the equivalent of 17 million oz, that has driven gold \$90 higher since mid-July. This is the largest amount of gold or gold-equivalent that has been purchased over this time and, therefore, stands out as the prime if not sole price driver. If the commercials allow the managed money traders to buy many more gold contracts, gold prices will move higher. If, instead, the commercials press for lower prices and managed money selling, gold prices will move lower. There's always an outside chance that the commercials may lose control, but that has never occurred.

In COMEX silver futures, the commercials increased their total net short position by 7000 contracts to 55,000 contracts. This is the largest commercial short position since late June, but is still less than half of the record commercial net short position of April 18. In addition to the visible difference in gold and silver prices, this is the other big difference between gold and silver of late. The commercials haven't seemed concerned about allowing the managed money traders to buy aggressively in gold futures, but seem very reluctant to allow aggressive managed money buying in silver or at least very reluctant to date.

By commercial category in silver, the big 4 added around 900 new shorts and the big 5 thru 8 added 700 new short contracts; leaving the raptors to do the heavy lifting by selling 5400 longs and reducing the raptor net long position to 29,400 contracts. I'd still peg JPMorgan to be short around 30,000 contracts and note that it will still be a full two weeks until the next Bank Participation Report will allow me to further calibrate JPM's position (hopefully).

On the buy side of silver, it was a managed money affair, as these traders bought 7287 net contracts, consisting of only 716 new long contracts and the short covering of 6,571 contracts. It is encouraging that the managed money long position of 68,740 contracts is only 13,000 contracts or so above the recent low-water mark of around 56,000 contracts, as until shown otherwise, the increase most likely represents the maximum number of managed money long contracts to be liquidated on a price takedown. Of course, perhaps there will be much greater new managed money short selling on an orchestrated price takedown, but sometimes the technical funds go heavily short and sometimes they don't. If the funds do go short heavy again in silver, they will undoubtedly lose in the end, but that hasn't stopped them before.

Once again, I note with interest that both in gold and silver, there was no short covering in the other large reporting trader category, as the short positions in both gold and silver increased slightly (by 500 or so contracts). One thing I haven't mentioned in a while is how things stand on the financial scoreboard. Now that the commercial short position has grown to somewhat extreme levels in gold, I'd peg the 8 big shorts in to be in the hole by \$30 or \$40 on the 254,725 net contracts they held in the latest COT report, the equivalent of as much as \$1 billion. Since the silver short position hasn't grown by leaps and bounds and the price hasn't moved as much, the commercials don't seem to out much there. This is a far cry from the roughly \$4 billion the commercials were out at the price peaks of last summer. It will get interesting from here, of course, on any sharp increase in price, as a \$100 rise in the price of gold will mean \$2.5 billion in additional mark to market open losses in gold and a \$400 million open loss for every dollar up in silver.

As has occurred on many past occasions, there may be many factors pointing to higher prices in both gold and silver; but there is only one factor pointing to potential lower prices – the COMEX market structure. That structure is bearish in gold in many ways, although it's always possible it can get even more bearish on higher short term prices. Silver's market structure is nowhere near as negative as gold's, but that is no assurance silver won't be taken down if the commercials pull the plug on gold. Unfortunately, that's one of the limitations of the market structure premise, it tends to be very reliable when at extreme readings, but less so when extreme readings are not in place, as is currently the case in silver.

There was a new podcast published by the CFTC yesterday, this one an interview of James McDonald, director of the Enforcement Division. Since I have written extensively about (and to) McDonald from his

first day on the job, April 10, naturally I was quite interested in what he had to say. As always, you can either listen to the interview or read the transcript. Unfortunately, I was a bit underwhelmed by it, but perhaps you should listen to or read the interview yourself before reading my opinion of it.

<http://www.cftc.gov/Media/Podcast/index.htm>

My disappointment was mostly a reflection of my expectations and perspective; both of which are based upon the increasingly obvious silver (and gold) price manipulation. This is the only context in which I consider the CFTC or Director McDonald; issues away from the silver manipulation are of less interest to me. Make no mistake, silver is manipulated and that should be priority number one for the agency and McDonald. It's not particularly encouraging that neither appear to be the least bit interested that silver is manipulated, despite them hearing from the public more about this than any other issue. Further, it's impossible to not conclude that the CFTC is avoiding even addressing the silver manipulation in any way; even though the substance of the matter couldn't be more significant.

I understand fully that the interests and perspective of the CFTC concerning silver are different from mine and yours. And I understand that the agency and McDonald wished to convey the message that was presented. After all, it's their podcast and that makes it their prerogative. I suppose it's somewhat interesting to learn the details of McDonald's professional experience and I can even understand the merits behind what I interpreted as the main message of the podcast – encouraging companies to come forward and self-report any violations they uncover on their own to the agency. But I guess that wasn't what I wanted to hear.

What I wanted to hear was that the good guys at the Enforcement Division were also the tough guys of which the bad guys should be very afraid. I wanted to hear McDonald say he was going to crack down immediately on any market violations with a clear priority on the most serious market crime of all – manipulation. I wanted to hear him say that he welcomed and would act on any credible evidence from outside sources even if those source weren't limited to violations self-reported by companies. I wanted to hear him say that after charging the silver crooks with manipulation, he was going to personally take them out back and beat them with a stick. Look, I admire the effort to get companies to turn themselves in if they encounter violations by their employees; but what about the violations not self-reported – surely the agency doesn't intend to sit around waiting for all the bad guys to turn themselves in?

Regardless of what I wanted, I heard no tough talk in this interview. I have heard McDonald talk tough in the press releases of enforcement actions taken over the past few months, all of which I have provided on these pages; but for whatever reason, that tough talk was not evident in this interview, at least to my ears. Maybe McDonald is acting on the almost incontrovertible evidence I have provided to him in the case against JPMorgan and maybe he's just lulling the bank into a state of complacency by pretending he's not looking their way. Or maybe I just placed too much hope in expecting him to do the job for which I thought he was hired. (Then again, looking the other way is the reason most of you assumed he was hired). In any event, should the criminal masterminds at JPMorgan bother to listen to this interview, I doubt very much they would be quaking in their boots. Or be persuaded to self-report that they have been manipulating silver for years.

Despite the ever-present possibility that the commercials could decide to take silver prices down, for the sole bearish factor of COMEX positioning, prices are so low already, both on an absolute and relative basis, that the thought of stepping aside, even very temporarily, from long term positions and risk missing the coming big move higher is simply not palatable when considering where prices will

eventually be.

Ted Butler

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Silver – \$17.05 (200 day ma – \$17.06, 50 day ma – \$16.51)

Gold – \$1297 (200 day ma – \$1233, 50 day ma – \$1257)

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