Weekly Review

A sharp Friday selloff, ostensibly due to the monthly employment report, sent gold and silver prices lower for the week. Gold fell $15 (1.1%), while silver ended 65 cents (3.2%) down on the week. Owing to silver's relative underperformance, the silver/gold price ratio widened out by a full point to just under 68 to 1, still closer to multi-year levels indicating stronger relative silver prices, but also at levels over the past six weeks favoring gold. I'm still an agnostic at what the price ratio does short term, but a devout believer that over the long term silver will outperform gold.

No doubt the monthly employment report was used as a cover for yesterday's decline, but I hope everyone realizes gold and silver fell due to positioning changes on the COMEX brought about by computer-generated price rigging aimed at inducing managed money technical fund selling (and commercial buying). There was also little doubt that a certain amount of such positioning did occur, given the high trading volumes and the downward penetration of a few short term moving averages in silver (the 20 day and less moving averages). However, given the extreme readings in the technical fund long and commercial short positions on the COMEX in gold and silver, there is little chance we have achieved meaningful market structure improvement yet.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses snapped back from last week's (2.5 million oz) slump, as nearly 7 million silver oz were physically moved. Total COMEX silver inventories fell 1.8 million oz to 152.3 million oz. Of particular interest this week was that the JPMorgan warehouse accounted for nearly 1.7 million oz of the total turnover and about 0.75 million oz of the total inventory decline.

It occurs to me, in thinking about what I will be writing today, that almost every element of what I'll cover (those things I find most important) will feature JPMorgan in some way. I hope you know that is because JPMorgan seems to turn up in just about everything important in silver and gold and not because I have some sort of hidden agenda concerning the bank. Since bursting on the scene as a result of taking over Bear Stearns in March 2008, it's been impossible for me not to notice JPM's footprint. And since I send the bank's CEO, Jamie Dimon, everything I write about JPM, I figure if the bank had any problem with me writing about it, I would have heard by now.

JPMorgan hasn't been involved in the current August COMEX silver delivery process, a non-traditional delivery month, but still features prominently in the

August gold delivery process. Starting with the April gold contract, JPMorgan, either in its own house account or on behalf of clients, has been the largest stopper of COMEX gold deliveries. August is no exception, as through yesterday, a client(s) of JPMorgan is the largest stopper (acceptor) of gold deliveries, at 2969 contracts, plus the bank has stopped 447 contracts in its own name.

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

Based upon the allocation in today's posted deliveries, JPMorgan's client(s) appear in position to take more than 60% of the roughly 2300 contracts still open in the August contract, plus perhaps more since new contracts were added in August yesterday. Despite that new buying in the August gold contract (which most plausibly can be interpreted as tightening physical supplies), there has also been continued liquidation in the non-traditional September gold contract (which suggests a "letting up" on tightness). You want to be careful about reading too much into the daily statistics, but neither do you want to miss any bigger picture developments.

The big picture perspective over the past few months is that JPMorgan and its client(s) have been extraordinarily large takers of physical gold via deliveries against COMEX futures contracts. You'll remember, of course, that JPMorgan had taken large deliveries of silver in every traditional delivery month on the COMEX, since March 2015. Thus, it appears to me that JPMorgan may be replicating in gold what it did in silver, namely, buying great quantities of physical metal, despite holding the dominant paper short position in each metal on the COMEX. And by simultaneously being the biggest COMEX paper short and the biggest physical COMEX stopper, JPMorgan puts itself in the spotlight as likely trying to thread the needle □ picking up as much physical gold and silver as it can without affecting prices, while looking to buy back as many short positions at some point as possible. Such are the burdens of being the dominant player in all aspects.

A subscriber asked the money question this week □ how much physical gold had JPM acquired versus what its COMEX gold short position was. As you know, I answer this question in silver often □ JPM has 500 million oz of physical silver versus a short position now at close to 175 million oz (35,000 contracts). Gold is harder to answer because physical gold flows are more hidden than in silver, but I would guess that JPMorgan and its clients (perhaps one and the same) have acquired a few million oz of gold, say, three million oz or more.

Since it was perhaps easier to quantify what JPMorgan held short in gold futures on the COMEX than its physical holdings and since this was the gist of what the subscriber was asking, I opined that JPMorgan was net short around 75,000 COMEX gold contracts or 7.5 million oz. These are certainly back of the cocktail napkin calculations, not to be relied upon for precise accuracy. But it helps clarify the question of JPM's exposure.

Perhaps JPM and its affiliates own much more than 3 million gold oz and perhaps it will be able to whittle down its 7.5 million ounce short exposure on the COMEX (on technical fund selling), so please accept these calculations in the broad strokes they are offered, namely, as an attempt to gauge the dominant player's overall net exposure in gold and silver. What JPMorgan does will surely be what it sees as in its own best interest and all we can do is try to measure what's best for JPMorgan. At least, that's how I see it.

Up until yesterday's selloff, gold prices were strong and metal has been deposited into the big gold ETF, GLD, bringing total gold held by the trust back to the highest levels of the past three years or so. I wouldn't be surprised if metal began to flow out of the trust based on yesterday's high volume selloff, particularly if that selloff continues.

It's hard to believe how quickly Silver Eagle sales from the US Mint have cooled off, after coming off five years of record large sales. Actually, it's only hard to believe the drop in sales of Silver Eagles if you ignore the JPMorgan connection; otherwise, it's quite simple to understand. As I have been reporting for years, JPMorgan was the big buyer of Silver Eagles (and Canadian Maple Leafs), while retail demand stunk. Now that JPMorgan has stepped aside from buying Silver Eagles the past couple of months, total sales have collapsed, as would be expected in the absence of retail demand. The only open question is if JPMorgan will look to scoop up any coins produced but not sold by the Mints before the decisive turn up in silver prices occur. I can see both outcomes occurring – one last big purchase by JPM or it refraining to do so to make it less obvious just how crooked this bank is.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

At first, the changes in the new Commitments of Traders (COT) Report looked as expected – an increase in the headline number of the total commercial net short positions in both COMEX silver and gold on higher price action through the Tuesday cutoff. But in silver and to a lesser extent in gold, managed money changes were outside expectations.

The important point, however, is the market structures in COMEX gold and silver are so extreme that weekly changes are less important in comparison. With a total commercial net short position, concentrated beyond all legitimate explanation, of more than 545 million oz in silver and 32 million oz in gold, weekly changes in positioning are not the prime concern.

In COMEX gold futures, the commercial increased their total net short position by 15,000 contracts to 324,000 contracts. This was a fairly modest increase after three weeks of reductions in the headline number, but again, the weekly changes pale in comparison with the absolute level of commercial short contracts in gold (and silver). Prior to the past six weeks, this week's level of COMEX commercial gold shorts is the highest ever.

By commercial category, the 4 biggest commercial shorts increased their concentrated short position by nearly 12,500 contracts to a new record (207,267 contracts). The raptors (the smaller commercials apart from the big 8) added 4000 new shorts, meaning that the big 5 thru 8 once again bought back shorts, this time to the tune of 1500 contracts. This week's COT report confirms that last week's big surprise of a big 5 thru 8 short trader biting the dust was no fluke. (I was concerned that a big increase in the 5 thru 8 category this week might indicate last week's report was in error and no such biting of the dust occurred).

It's no joke and no big surprise that the concentrated short position of the 4 biggest COMEX gold shorts grew to a record, even as the total commercial net short position remained below recent peaks. What this means is that the gold (and silver) short position has become even more concentrated and that makes the position even more manipulative. And since it has been a few paragraphs since I last mentioned it by name, I believe the biggest commercial short in COMEX gold to be JPMorgan.

Based upon the new COT and Bank Participation Reports, I'd peg JPMorgan's short position in COMEX gold futures to be 75,000 contracts (7.5 million oz), as I indicated earlier. You'd have to be drooling and in a drug-induced stupor not to question the propriety of the COMEX's biggest paper gold short seller also being the biggest physical stopper and perhaps that's the explanation for the CFTC's lack of action □ they are all on bad drugs.

Long time readers may remember that JPMorgan held a short market corner in COMEX gold of 75,000 contracts at the beginning of 2013, just as gold prices embarked on a downward price journey of around $500 and was able to flip that short market corner into a long market corner of near 85,000 long contracts into the summer of that year. I remember believing then that JPM's remarkable and unprecedented flip from being big net short to big net long in COMEX gold futures might send gold up sharply.

As it turned out, JPMorgan did sell its massive net long position at a profit (after buying back its short position at an even bigger profit), but settled for "only" a hundred or two hundred dollar profit and not the giant liftoff I imagined. Also in hindsight, I've come to believe that the reason JPMorgan didn't allow gold to surge further off the lows in the summer of 2013 was because it was more concerned with accumulating physical silver and a sharp rise in the price of gold would be in conflict with continued silver accumulation at depressed prices.

On the buy side of gold futures, it was mostly the managed money traders, but not to the full extent of commercial selling, as these traders bought 7300 contracts on a net basis, but that included 9765 new long contracts. For all intents, the managed money net and gross long position in gold is still at nosebleed levels and this remains the chief risk to lower prices.

In COMEX silver futures, the commercials increased their total net short position by 2000 contracts to a new record of 109,100 contracts. By commercial categories, it was also a matter of 2000 contracts, as the big 4 added 2000 new shorts as did the big 5 thru 8, with the raptors sticking to the same quantity, but in a different direction in buying back 2000 short contracts. Along with the new record of total commercial shorts, new records were also set in concentrated shorting by the big 4 (72,526 contracts) and the big 8 (104,411 contracts).

The concurrent release of the monthly Bank Participation Report leads me to peg JPMorgan's concentrated silver short position up to 35,000 contracts (175 million oz) or close to half of all big 4 holdings. There were a couple of occasions since taking over Bear Stearns that JPMorgan held larger silver short positions of up to and exceeding 40,000 contracts, but that was last true in 2010 or earlier. I even remember former Commissioner Bart Chilton publicly remarking (at the 2010 public meeting on position limits, I believe) about a single entity holding a position of more than 40,000 net contracts in COMEX silver, after first rejecting my analysis. Of course, he didn't mention it was on the short side and held by JPMorgan. In any event, I never thought JPMorgan would come as close to those former silver shorting levels as it is now.

Things are different now, of course, but it's still JPMorgan at the center. Back then when the bank was even shorter than it is today, JPM held no physical long position, as the accumulation only began after JPM looked into the abyss in April 2011. Today, the 500 million physical oz I believe it holds is still much larger than the biggest paper short position the bank has held in a long time and the bottom line is that if silver prices were to explode in the here and now, JPM would laugh all the way to, no pun intended, the bank. And perhaps if the CFTC ever picks its head up from the drool pool on its desk, it might conclude that JPMorgan's silver short position is a hedge against its physical holdings and that there's nothing inherently wrong with excessive shorting in order to keep physical accumulation prices cheap. Keep the drugs coming.

The surprise in the silver COT report was on the buy side, as the managed money traders were net sellers of nearly 6000 contracts, including the liquidation of 2710 long contracts and the sale of 3281 new short contracts. The small non-reporting traders and the non-managed money reporting traders were the big buyers this week as way of explanation. While it was an aberration from customary behavior, the important issue is still that this week's changes by the managed money traders are insignificant against the total position.

The big question is whether yesterday's high volume selloff was a temporary blip that will be quickly reversed or if it is the start of a more protracted period of technical fund selling and commercial buying. It's not at all a case of me knowing but having to kill you if I tell, it's strictly a case of not knowing myself. Even though no one can be certain of what lies ahead price wise, I believe I have framed the issue correctly and set the parameters in the form of the ongoing financial scorecard.

The $15 decline in gold and 65 cent drop in silver this week, shaved off $700 million from the commercials' combined open loss, reducing last week's $3.2 billion open loss to $2.5 billion on yesterday's close. Measured from Tuesday's close in gold and silver prices equating to an open loss of $3.8 billion, the reduction in unrealized commercial losses is even sharper.

The only remaining question is if yesterday's price fall was a temporary blip that will be reversed to the upside or if will be turned into something more meaningful by the commercials to get out of the financial hole they are in. It's black or white — either the commercials succeed in tripping off significant technical fund selling and get out from sufficient numbers of their short contracts without lasting damage or if the commercials fail and are forced to buy back shorts at higher prices and great financial loss.

A $60+ additional drop in gold and a $1.50 drop in silver will bring the commercials back to even on their open short positions and then it will be a matter of how many short contracts can be bought back. No price decline or a sharp rise from here would be very bad news for the commercials.

As usual, JPMorgan looks to play the key role, just as it has for more than eight years. On one hand, JPMorgan having recently increased its COMEX silver and gold short positions materially would seem to benefit by arranging a sharp price decline in which to buy back as many short positions as possible. On the other hand, JPMorgan is more than covered to the upside in silver by virtue of its massive physical position and may be close to that in gold as well and may decide to double cross the other commercial shorts and let gold and silver prices rip to the upside. Not to be relied upon is my continued expectation of a selloff first, followed by the big move up. This is something that must be decided by each of us, based upon one's reading of the set up.

Ted Butler

August 6, 2016

Silver – $19.75 (50 day moving average – $18.63)

Gold – $1336 (50 day moving average – $1301)