Weekly Review

The late Wednesday into Thursday price smash sent gold lower for the sixth week in a row, this time by $26 (2.2%). After two prior weeks of gains, silver fell more sharply, ending the week 75 cents (4.4%) lower. As a result of silver's underperformance, the silver/gold price ratio widened out by nearly 1.5 points to just under 70.5 to 1, the same amount it had tightened in by the previous week. Yes, the silver/gold price ratio remains in the same fairly tight trading range of the past couple of years and yes, the weekly changes have little to do with any actual physical switch from one metal to another and everything to do with paper contract positioning on the COMEX.

As always, COMEX paper contract positioning was responsible for the mid-week selling frenzy, accompanied by the convenient cover story excuse of Federal Reserve interest rate action. Gold is down by $170 (13%) over the past six weeks, while silver is down by $2.30 (12.5%) over that time, both significant moves for just a month and a half. A few observations. One, it still strikes me odd that silver hasn't exceeded gold's percentage drop, as it usually does on notable price declines.

But I also note different pricing patterns in the two metals. Although both arrived at the same overall percentage drop, they did so in a different manner; gold mostly in a persistent daily and weekly series of new lows, that epitomizes the term “salami slicing”, while silver reached its downside destination as a result of three big down days, two in November and the other this past Thursday. I think these patterns may be instructive.

Based upon the continuing data from the COT reports, gold's price decline looks in complete conformity with what would be expected, namely, the decline was caused by continued and uninterrupted managed money selling and commercial buying. You know the drill – the commercials rig prices lower on the COMEX (by means of spoofing and other underhanded computer tricks) and the Pavlovian managed money traders then rush to sell out long positions and add to shorts. This can be seen by comparing the data from the COT report of Nov 8 thru yesterday's report; as the managed money traders sold a net 105,000 COMEX gold contracts (10.5 million oz) on the $170 price decline. Paper contracts or otherwise, no one sold as much gold over this time, making the managed money traders the most obvious cause for the decline.

In silver, the managed money traders sold less than 10,000 net contracts since Nov 8 with no new short selling at all and the commercials, as a group, bought even less only around a thousand contracts. I'll get into the details in a moment, but let me give you my conclusion about the very different price patterns and market structure changes in gold and silver. In gold, it is working as it always has lower prices and managed money selling is creating a typical price bottom process and the main reason to be bullish on gold. In silver, the process is very different, primarily due to the lack of managed money shorting to this point. Should that pattern continue, as I expect, I believe this makes silver's set up even more bullish, despite the historically large commercial short position.

Not for a minute did I expect the price smash on Thursday and please don't take this as me suggesting otherwise. In fact, on Wednesday I commented how silver prices were snugging the key moving averages to the upside and I was more prepared for an upside bust out. But I always speak out of both sides of my mouth, in a sense, in that I always acknowledge that because silver (and gold) is manipulated in price, the manipulators (mostly JPMorgan) can rig prices lower at any time, even in the face of the most overwhelming bullish evidence possible.

Any such sudden price rigs are always (repeat always) intended to give JPMorgan and the other commercials the opportunity to buy and there can be no doubt that Thursday's selloff was used by the commercials as a self-created opportunity to buy. While the price smash is painful and temporarily damaging to existing investors, it makes the market structure more bullish (he said through the pain of diminished account balances).

The turnover or physical movement of metal brought into and removed from the COMEX-approved silver warehouses slowed this week to 3.3 million oz. Total inventories rose by a hefty 2.6 million oz to 182.1 million oz, yet another year and a half high. The standout feature to me was that JPMorgan added another nearly 1.2 million oz to its COMEX warehouse, lifting the amount of silver in this warehouse to 82 million oz, a new record. No doubt this metal is coming in as a result of the hefty deliveries JPM has taken this month. I would also mention that there has been a notable pickup in the physical movement of gold in the COMEX gold warehouses over the past month or so and I would attribute the increase in physical gold turnover to the same wholesale tightness evident in silver for nearly six years.

http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notices.html

With the COMEX December delivery period past the half way mark and with less than a thousand contracts remaining open in gold and only a few hundred in silver, a customer(s) of JPMorgan was the largest single gold stopper (taker) this month with 2449 contracts and with the JPM house account taking another 829 contracts. In silver, not only did JPMorgan take the full 1500 contracts (7.5 million oz) allowed as expected, it took a few more than that 1506 to be precise.

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

You may remember that JPMorgan on a few occasions this year, took more than the 3000 maximum number of gold contracts (300,000 oz), both for itself and on behalf of a client(s) (see above link); so there is precedent for JPMorgan taking more physical material than is said to be allowed by exchange rules. It doesn't look like JPM will take many more silver deliveries this month, but as the data show it has been the largest COMEX silver delivery taker of all this year and for the previous year and a half before then. This is the most compelling proof behind JPMorgan's massive physical silver accumulation, yet few comment on it, which is perplexing.

As far as the crooks at JPMorgan getting away with taking more gold and silver than allowed by exchange regulations, I suppose it works like this – the regulators ask JPMorgan why it is taking more than allowed and JPM responds because it wants to. Then the regulators (the CFTC and the CME) say – that's a good enough reason for us, so please go ahead. I know many believe that JPMorgan is the US Government's bank, but I am being deadly serious that it's the other way around – the US Government is a branch of JPMorgan.

If I thought it would do any good to ask the regulators about the obvious spot month delivery violations by JPMorgan, I would ask. But I don't have the time or energy. The last time I got the CFTC to look at JPMorgan and silver in late 2008, they took five years to investigate and couldn't even come up with a decent sounding excuse for doing or finding nothing. Hopefully, you'll forgive me for not asking anything of the crooked regulators. (But in the holiday spirit, I'll certainly continue to send them these missives).

There have been continued significant outflows or redemptions of metal in the big gold ETF, GLD, in response to lower prices and apparent net investor liquidation. I continue to believe that much of the liquidated gold is being taken by JPMorgan. There was a withdrawal of 1.8 million oz of silver from the big silver ETF, SLV, earlier in the week, but that was followed by 1.3 million oz deposit yesterday. There are a number of possibilities explaining the deposit, including it being used to reduce the short position, but all the possibilities point towards JPMorgan being involved.

The changes in this week's Commitments of Traders (COT) Report were within general expectations, although I intentionally left out specific contract estimates. We did get the expected reduction in the gold commercial net short position and although the data wasn't available until yesterday afternoon, the changes in silver went a long way to explaining Thursday's price thumping.

In COMEX gold futures, the commercials reduced their total net short position by 5100 contracts to 149,900 contracts, once again, the lowest (most bullish) level since mid-February. When you step back and look at the price and COMEX market structure changes over the past year, the connection should be obvious. Gold is now up just $75 since yearend and down more than $240 from the summer price peaks. Over that time, the commercials have purchased nearly 200,000 net COMEX gold contracts (20 million oz) from the peak (half of that since Nov 8), which the managed money traders sold. Not only is this the reason why gold moved lower this year, it's the recurring reason for all past price moves of significance.

By commercial category, the big 4 bought back 2500 short contracts and the raptors (the smaller commercials apart from the big 8) added 4500 new longs, meaning that the big 5 thru 8 shorts added 1900 new shorts. The apparent break in commercial unison (read collusion) for a second week is explained by the entrance into the big 5 thru 8 gold short category by a managed money trader or two. The COMEX gold commercials are as collusive as they have always been. In more practical terms, the low commercial concentrated short position is bullish and, undoubtedly, even more bullish after Thursday's price smash.

On the sell side of gold (please remember that this was a salami slice lower price reporting week) the managed money traders sold almost three times what the commercials bought. The managed money traders sold 13,600 net contracts, including the liquidation of 4706 long contracts and the new short sale of 8,894 contracts. Since Nov 8, the managed money traders have added nearly 40,000 new gold shorts, while selling out 65,000 longs.

A few weeks back, I opined that the managed money traders were refraining from adding shorts in both silver and gold. That's still the case in silver, but no longer true in gold. In gold, the managed money traders are now short more than since February and only 25,000 contracts or so away from the record short positions achieved twice in 2015. And after Thursday's price thumping, it is very easy to conclude even more managed money shorts were added since Tuesday's cutoff. This is not bearish for gold prices, as a large supply of rocket buying fuel has been injected into future price buying. Say what you will, but managed money technical funds stand no chance of ever delivering physical metal against their outstanding short positions and, therefore, must buy back their gold shorts at some point. That's the what, but who knows the when?

In COMEX silver futures, the commercials added a pretty hefty 5400 contracts to a net short position now totaling 81,100 contracts, a level that must be considered very bearish on an historical basis. In fact, I saw a public comment that I must have lost my mind in calling the current market structure extremely bullish, in light of the very large headline number. The commentator is not a subscriber and, therefore, must be unaware of my reasons for being bullish in the face of an apparently bearish market structure.

A bit of added bearishness is that the big 4 added 1800 new shorts, while the raptors sold out 3600 longs, leaving a raptor net long position of 6100 contracts. Mathematically, the big 5 thru 8 were unchanged. I'd peg JPMorgan's concentrated net short position to have increased by a thousand contracts to 20,000 contracts, mostly due to its continued taking of large silver deliveries (which automatically increases its net short position), even if it hasn't overtly added to its short paper position on a proactive basis.

On the buy side of silver (please remember that silver rose in price during the reporting week, in sharp contrast to gold), the managed money traders bought a hefty 5360 contracts, nearly matching the net commercial selling on an exact contract basis, including the purchase of 3470 new longs and the further short covering of 1890 contracts. It's no big deal that managed money shorts were bought back and covered this week, because that's completely normal and expected on silver price increases.

The big deal is that since Nov 8 and with silver down more than $2, the managed money short position is now lower by 2000 contracts than it was then; while I just wrote that the managed money short position in gold is higher by 40,000 contracts on a near identical price percentage drop. I wouldn't be terribly surprised or disappointed if the managed money short position in silver increased somewhat on the Thursday smack down and we'll have to wait until next Friday's COT report to know for sure. But there is no doubt that through the report just released, what jumps off the page the most is the refusal of the managed money shorts to add to positions where they have always added in the past.

In a nutshell, this refusal to add to shorts by the managed money silver traders is what has me interpreting the historically bearish headline number as bullish. It's different in gold, as it appears the managed money traders are operating as they have in the past and, as a result, we're building up to (if not already there) a plain vanilla market structure bottom. In silver, my premise is that if the managed money traders don't add to short positions, there can't be much overall selling left and little reason for prices to move lower (aside from blatant price rigs like on Thursday).

The increase in commercial selling and managed money buying in silver in yesterday's report fully explains the price carnage on Thursday. Having sold into the price strength of the reporting week, the need to induce managed money selling became more critical and urgent for the commercials and the only way to create that selling was to rig prices sharply lower and have it blamed on something else (the Fed is always good for a cover story).

I can assure you that Thursday's price smash had nothing to do with any negative developments in the actual world of precious metals, such as active physical metal selling (apart from the selling in GLD). Ironically, reports from the retail dealer front indicated a strong jump in investor purchases on the lower prices and not a hint of net investor selling. As is most usually the case, if not always, this price drop was strictly a COMEX paper affair. To see it otherwise is to see it incorrectly.

At the very least, there has been a big improvement in market structure as a result of Thursday's price smash. In gold, the improvement has continued into its sixth consecutive week; in silver, we have reversed this week's deterioration at a minimum and should the managed money traders continue to refrain from adding shorts, it's hard for me to see from where the selling pressure will come. Therefore, while somewhat bloodied but still unbowed, I continue to see the next big move as upward, with only the timing remaining uncertain.

And because the trading volume was extremely heavy on Thursday's price drop, it is reasonable to assume this accelerated whatever managed money and other speculative selling remained to be sold. There is always a finite number of speculative COMEX contracts to be sold and commercial contracts to be bought, even if that finite number is only knowable after the price bottom is reached. Knowable beforehand is that more of those finite contracts are bought and sold on higher trading volume than on lower volume. Thus, the higher trading volume shortens the time required to put in a final market structure price bottom.

Given the proximity of the recent lows, prices can always be rigged lower still in the short term as these are manipulated markets at their core. Gold and silver prices made a series of new highs this summer even as the market structures were extremely bearish. Eventually, prices succumbed to the bearish market structures and moved significantly lower in time. Likewise, the new recent price lows against what I would consider bullish market structures now must be viewed in proper perspective most likely to be resolved with significant eventual upward price movement. It's painful to be sure, but lower prices only strengthen bullish market structures.

Ted Butler

December 17, 2016

Silver – $16.15 (200 day ma – $17.76, 50 day ma – $17.32)

Gold – $1135 (200 day ma – $1276, 50 day ma – $1228)