

Gold and silver prices fell for a second week, but the decline was much more severe in silver, which closed at its lowest level in four months. For the week, gold ended \$8 (0.6%) lower, while silver got hit for 55 cents (3.2%). As a result of silver's steep underperformance, the silver/gold price ratio widened out by more than two full points to near 78 to 1. The price ratio is still within the tight trading range of the past few years, but now is at the upper band of the range. In layman's terms, silver is about as cheap as it's been relative to gold over this time and to a value investor, this makes silver a better relative buy.

Silver's relative weakness is no accident and there is also no question that the cause lies in COMEX futures contract positioning, both for the reporting week ended Tuesday and in prospective changes over the past three trading days. While it's no surprise that the just-reported Commitments of Traders (COT) Report fully explains silver's absolute and relative price weakness of late, the other big story this week is some very surprising data for the big COMEX December futures deliveries in gold and silver. The combination of positioning changes and deliveries appear profound to me, as I'll discuss momentarily.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained active this week as more than 5.4 million oz were so moved. Once again, it was mostly of the "in" variety as total COMEX silver stocks rose by 4 million oz to 237.1 million oz, yet another new multi-decade high. There was no movement in the JPMorgan COMEX silver warehouse, which holds 116.4 million oz.

With the start of the COMEX December deliveries this week, it has become clear that

much of the recent increase in COMEX silver inventories seems directly related to those deliveries, as I previously speculated. That's not a bearish sign, as it means silver was brought in because it was needed to satisfy delivery demand. In addition to the growth in inventories, there have been recent large conversions of eligible metal to registered metal of more than 10 million oz, most notably by HSBC; which in turn has become the largest issuer of silver this month. Combined with a customer(s) and its own house account, HSBC has issued 3215 contracts of silver over the first three delivery days out of a total of 4605 silver contracts delivered, or 70% of the total. In terms of ounces, HSBC has delivered just over 16 million oz of the 23 million total silver ounces delivered so far.

HSBC is also the largest issuer of COMEX gold contracts this month, having issued 1500 contracts from its house account out of a total of 3012 gold deliveries so far. As was the case in silver, HSBC switched 150,000 oz of gold (1500 contracts) from eligible to registered to effect the delivery. There are still more than 7000 contracts of December gold open, a rather large amount at this point.

However, the real delivery story in COMEX silver and gold this month is on the stopper or taker side, where JPMorgan, like the prodigal son, has returned. I haven't paid much attention to COMEX silver or gold deliveries ever since JPMorgan ended its relentless accumulation of COMEX silver deliveries back in March. You'll recall that up until the March delivery, JPMorgan had been the largest (and almost sole) stopper of COMEX silver contracts in every traditional delivery month for two or three year in its own house account or name. After the March delivery period, in which JPM took 2689 contracts of silver (nearly twice the supposed 1500 contract limit), the bank went AWOL - until this week.

So far this month, JPMorgan has stopped 1955 silver contracts (9.78 million oz) or 42% of the 4605 total contracts issued in its house account. Almost just as surprising, Goldman Sachs has stopped, also in its own name or house account, 1683 silver contracts (8.4 million oz). The thing that stands out about Goldman Sachs is that this is the first time it has taken delivery of silver in its own house account in years. And for the record, the amount of silver contracts stopped by JPMorgan and Goldman Sachs so far this month are each over the supposed limit of 1500 contracts. Together, JPM and GS have taken 3638 contracts (18 million oz) of the 4605 (23 million oz) total silver deliveries issued this month, or 79% of total silver deliveries.

The same situation exists in COMEX gold deliveries, where JPMorgan has taken 1420 contracts and Goldman Sachs has taken 1113 contracts, or a combined 2533 contracts of the 3012 total gold contracts delivered so far, or a combined 81.6% of all gold deliveries. In ounces, JPM and GS together have taken 253,000 oz of the 300,000 oz issued so far. Again, a particular issue in gold is the very large number of open contracts remaining. And the way the COMEX's delivery allocation system works means that JPMorgan and Goldman Sachs are likely to continue taking 80% of the remaining gold contracts delivered.

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

A quick word about COMEX deliveries. I'm a stickler for hard data and in particular, the kind of data in which hard conclusions can be made. However, while the data from the COMEX is mostly hard, it is often not conclusive in and of itself. (The current commentary about EFP's fits the non-conclusive profile). Because COMEX deliveries are only indicated by clearing firm name and not the ultimate customer who may be issuing or stopping deliveries, much COMEX delivery data falls into the

non-conclusive category. At times like that I tend to gloss over or ignore the delivery data, as has been the case for many months. But all that changes when a clearing member (like JPM or GS) issues or stops deliveries in its own name, or house account. Then we know for sure who took or made the delivery. That's the case here and it is why I'm drawing attention to it.

I suppose everyone has their own version of the ranking of those financial entities considered the most powerful, best connected politically and at the top of the food chain; in other words, the "baddest dudes" in the financial 'hood. My list starts with JPMorgan as the very baddest, with Goldman Sachs next. My guess is that most would agree, with perhaps some putting Goldman first. So when I see conclusive proof that the two baddest dudes in the 'hood are taking 80% of all COMEX silver and gold deliveries for the first time in nine months in the case of one and much longer than that in the case of the other, I sit up and take notice.

I also know that there is one basic reason for why anyone would buy and take delivery of anything, namely, that they think it will go up in value. No one buys and takes delivery (paying full cash value) for an asset expected to decline. That Goldman Sachs is now taking delivery of COMEX gold and silver, second only to JPMorgan, should send strong signals to anyone interested in these metals as an affirmation to do likewise. Despite this data being so hard and conclusive, the remarkable thing is how little has been written about it.

Remarkable is truly an understatement when I contemplate JPMorgan and silver. JPMorgan has held the largest paper short position in COMEX silver futures for the past ten years, maintaining its dominant role on the short side of COMEX silver futures even after it began to accumulate physical silver six and a half years ago. The

obvious conclusion is that the bank is taking advantage of the low prices its paper short position helped create to buy up physical silver at a bargain price. Until it started covering in this week's COT report, JPM held its largest paper short position in years, only to turn around and add another 10 million physical oz to its hoard this week. How the heck can the regulators allow such a travesty? The answer is easy when the baddest dude shows up.

The most remarkable feature of all is that taking delivery via a futures contract in your own name is the most visible and transparent means of acquiring physical silver, particularly when you've developed the pattern (as JPM has) of then moving the metal to your own COMEX silver warehouse. There is no means of accumulating physical silver more transparent than this. My big wonder is why JPMorgan has left such clear elephant tracks of silver accumulation for all to see, when it has at its disposal far more opaque methods of silver accumulation (Silver Eagles, skimming off the weekly COMEX warehouse turnover, share to metal conversions in SLV, etc.).

I know I just pointed out that so few look at the conclusive delivery data on the COMEX that it's possible that JPM knows no one will notice. Considering how few seem to notice or comment on the hard delivery data from the COMEX, I suppose that's why no one else has picked up on the more difficult to see other means of accumulation employed by JPM. I do sometimes think that JPM might have a sick sense of humor in seeing how far it can go in accumulating physical silver, by leaving deliberate clues that largely go unnoticed (except by some kook in Florida).

Regardless, the conclusive fact that both JPMorgan and Goldman Sachs are loading the boat with physical silver and gold somewhat out of the blue means a lot to me and, by extension, should to you as well.

There were some hefty deposits into the big precious metal ETFs yesterday, with SLV, the big silver ETF receiving just under 2.1 million oz and GLD, the big gold ETF, receiving 275,000 oz. Price action for the past few days was decidedly weak in silver and gold, so the big deposits are highly counterintuitive. Therefore, the most plausible explanation for the big deposits were for the purpose of reducing the short positions in each. On Wednesday, I commented on the very sharp increase in these short positions and this augments the most plausible explanation.

Sales of Silver and Gold Eagles are so low as to be embarrassing for the US Mint. You have to go back years to find lower sales numbers. While JPMorgan has returned to stopping huge quantities of physical silver in COMEX futures deliveries, I doubt very much that it will ever return to buying (and melting down) Silver Eagles and Maple Leafs. Let's face it, JPMorgan made off with 150 million oz of these coins under circumstances I wouldn't think it would care to broadcast. I doubt it would want to return to the scene of what was the cleanest silver heist in history.

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

This week's COT report was expected in direction (commercial shorts up in gold and down in silver), but the magnitude of the positioning changes exceeded any expectations on my part. You'll remember that the gold price hit slight new highs and remained above both its key (the 50 day and 200 day) moving averages for every day of the four day reporting week; while silver ended below both its key moving averages on a sharp selloff on the Tuesday cutoff. While I didn't make any contract number predictions, I was hoping to glean something from this week's report in analytical terms and I wasn't disappointed.

In COMEX gold futures, the commercials increased their total net short position by 21,500 contracts to 246,500 contracts. This is the largest (most bearish) commercial short position in two and a half months (10 weeks). While this was a larger increase than I was expecting, the most surprising aspect in this week's gold report was the sharp departure from the typical pattern seen in commercial categories. Normally, all three commercial categories act off the same script, all buying or all selling, particularly in big overall weekly changes - like this week. However, this week the big 4 went counter to typical behavior and wandered far off the commercial reservation.

The big 4 in gold actually bought back 3200 short contracts, while the big 5 thru 8 added 6700 new shorts and the raptors (the smaller commercials apart from the big 8) sold off 18,000 long contracts, reducing their net long position to 18,500. I don't recall many (or any) similar departures from the typical Three Musketeers routine. Having identified the concentrated short position of the big 4 to be the key component of COMEX price control, I'm very sensitive to signs the big 4 may be up to something. While the total number of short contracts bought back by the big 4 (and I would guess JPMorgan specifically) wasn't especially large, it seemed so given the large overall commercial selling. In a nutshell, for the week the increase in the total commercial short position was bearish, but the out of step move by the big 4 was bullish.

On the buy side of COMEX gold, it was all the managed money traders and then some, as these traders bought more than 25,000 net contracts, including new longs of 21,226 contracts the short covering of 4159 contracts. I keep saying that the managed money traders can't buyback many

more shorts and one day I suppose I will be right. As of Tuesday, there were slightly less than 10,000 remaining managed money shorts, the lowest level in many years. Of course, the real question is how many new shorts the managed money traders might be persuaded to sell on commercial price rigs to the downside (which happens to be the key feature in silver as well, only more so).

Managed money gold longs stood at more than 208,000 contracts as of Tuesday, leaving equidistant room for 70,000 contracts or so to be added on higher prices or sold on lower prices (to reach recent positioning extremes). No doubt there has been significant managed money selling and commercial buying since the Tuesday cutoff, so there has been strong moderation to this week's bearish readings thru yesterday's close.

In COMEX silver futures, the commercials reduced their total net short position by 7400 contracts to 73,100 contracts. This is the lowest (most bullish) commercial headline number in six weeks and is a juxtaposition of the circumstance in gold. Since the price performance of silver has been so much crummier than that of gold, it is no surprise that the market structure in silver has improved while the structure in gold has gotten more bearish. Positioning changes account for price movement. Period.

As was the case in gold, there was a standout commercial category change in silver. The big 4 were standout buyers in buying back 4000 short contracts. The raptors also bought big, in adding 3700 new longs to a net long position now totaling 26,000 contracts. The big 5 thru 8 added 300 new shorts to round out the commercial category equation. I would now peg JPMorgan's

massive short position to be 36,000 contracts, down from last week's 40,000 contracts. Next Friday's Bank Participation Report will hopefully help pinpoint JPM's position as of this coming Tuesday's cutoff.

While not as visible as was the case in gold, the short covering in silver by JPMorgan was noteworthy because the big shorts are not usually so quick to cover this soon into a down move. Usually the raptors beat them to the punch early on. Because of that, this move looks different. It is also easy for me to imagine JPMorgan remaining just as aggressive in continuing to buy back shorts on the price decline since the cutoff and into yesterday. If JPMorgan has continued to buy aggressively over the past three trading days, that would improve the market structure measurably.

On the sell side of silver during the reporting week, it was an exclusive managed money affair as these traders sold more than 8000 net contracts, including the sale and liquidation of 7362 long contracts and the new short sale of 676 contracts. While not as low as in gold, the managed money short position in silver is low at 13,238 contracts, leaving not much short covering buying power and loads of room for potential new short selling. While I'm fairly certain that new managed money shorts were added since the cutoff, I'm less sure of the amount. This is still the wildcard in silver.

With managed money longs now at 69,785 contracts, there is suddenly not that much room for liquidation to the downside before we hit the core non-technical fund long position, which appears to be 56,000 contracts or more. As of Tuesday, it would take the liquidation of less than 14,000 additional contracts to hit the core position - minus, of course, what was sold over the

past three trading days. My point is that we may largely be there already. If that's the case and the managed money traders aren't going to add massive numbers of new short positions (as they have on past, but not all occasions), then additional commercial buying becomes impossible and eliminates the sole reason for why silver prices would go lower.

More than ever, the question of will or won't the managed money traders add to short position in silver (also in gold) takes center stage. I wish I had the answer, but that is only knowable in hindsight. One thing that argues that they won't is that the managed money traders have never collectively made a profit when they have sold silver short down into a price hole (like now). The technical funds have to know this, the question is will they avoid doing so this time around. Another thing that argues the same possible reluctance is that the moving averages are as much as 70 cents away and represents a logical technical fund stop loss point for new short sales. That is large compared to potential gains at this point. The specific risk/reward ratio for a new short sale in silver doesn't look particularly compelling, but my way of thinking is different than how a technical fund thinks (if they think at all).

Where I have classified the results of this week's COT report to be bearish on gold, the week's results in silver have to be considered bullish. I'm not talking about overall market structures, just the change for the week just reported. Since Tuesday, both structures have gotten better in terms of bullishness. The difference in silver is that last week's report was bullish as well.

It is the change in the market structure in silver last week and through

yesterday, plus the extraordinary developments in the COMEX deliveries that has caused me to reevaluate my short term stance in silver. I had significantly lightened up back at the Sep price highs on COT considerations, although I maintained a sort of price insurance to the upside through the use of out of the money call options, which I mentioned I had recently increased.

As a result of this week's developments, I have replaced about half the chips I took off the table and added more out of the money calls. Should prices continue to fall, as surely they may, I will replace all the chips and add even more aggressively to call options. As per usual, anyone that speculates in short dated and out of the money call options is foolhardy and it is not my intention to suggest anyone do so. I offer it only as an indication of how I feel about the silver market.

One of my concerns is that there is relatively more potential selling pressure in gold, in terms of managed money selling (long liquidation and new short selling) that could drive gold prices lower, thereby helping to drag silver prices lower. I'm trying to be as objective and agnostic about short term prices as possible, being as best prepared for whatever comes. Based upon the wildcard of will or won't the managed money traders add to short positions, it looks like an either/or to me. I'd be lying if I told you I knew which way prices would go in the short term, but I know that the big move up is closer, either with a final flush out to the downside or straightaway with no flush out first.

I don't need to be reminded that every time I have speculated that the next

move up would (could) be the big one that move never materialized. We always got rallies, just not the big one. It may sound trite, but I have the strongest sense that we are in the final round up and this time is it - again, with or without a final shakeout to the downside. And it's not just the passage of time or speculation about the current market structure; when the two baddest dudes in the silver 'hood load the silver boat, I'm willing to bet that the boat is going to embark on an upward price journey before long.

A quick update on the running money scoreboard for the 8 big shorts in COMEX gold and silver combined. Last Friday, the running total came to a combined open loss of \$450 million (down \$300 million for the week). This week, as a result of the \$8 decline in gold (worth just over \$200 million) and the 55 cent drop in silver (worth \$275 million), the big 8 are now slightly positive. This about their best showing since being out \$2.7 billion at the Sep price highs. The trick now is for the big 8 to buy back as many short contracts as possible, which only managed money selling can supply.

Finally, the CFTC approved the futures contract on Bitcoin proposed by the CME Group and others. The official CFTC announcement was as chock full of vague warnings and evasive language as any I've ever seen in preemptively exempting the agency from any blame should the contract go bad in any way. No word was issued about the economic legitimacy of the contract in terms of what Congress intended the prime purpose of futures markets to be, namely, for bona fide hedging, but that doesn't appear to be on the agenda of the current crop of commissioners. If this Bitcoin mania ends the way history dictates, the agency will have missed a prime opportunity for protecting the public by not allowing such trading.

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<http://www.cftc.gov/PressRoom/PressReleases/pr7654-17#PrRoWMBL>

(With this past week's start of the December deliveries, the pricing for the front month has now shifted to Feb for gold and March for silver. As a result, the closing prices and moving averages may seem at odds with last week's prices, but the net change for the week is accurate).

Ted Butler

December 2, 2017

Silver - \$16.45 (200 day ma - \$17.13, 50 day ma - \$16.95)

Gold - \$1280 (200 day ma - \$1268, 50 day ma - \$1284)