Gold and silver prices rose this week, virtually alone in sea of sinking asset prices; although the gains were trimmed at week's end. Gold was much stronger than silver, up $16 (1.3%), notching a fresh five month high, while silver ended up only 6 cents (0.4%). As a result of gold's outperformance, the silver/gold price ratio widened out by nearly a full point to just under 85.7 to 1. For those interested in relative value (something that should include everyone), silver is the bargain of a lifetime (still).

It was good to see precious metals hold up in a week where the attention was squarely focused on suddenly declining stock market values and assorted disturbing political developments, since there have been times in the past where metals prices have sunk along with financial assets. Invariably, at those previous times someone would always be quick to associate metals selling as occurring to raise cash to meet stock market margin calls. It was always a ridiculous premise, particularly in the case of silver, since all the silver in the world, if sold, would barely matter in propping up stocks.

Over the past few weeks, trillions of dollars of stock market wealth have evaporated and all the silver in the world is worth only $30 billion. While it's certainly possible we could see selloffs in silver ahead, since it is the most manipulated market in the world thanks to the COMEX and JPMorgan, the notion that silver should get sold along with stocks is absurd on its face. If anything, common sense would indicate that gold and especially silver could get a serious bid in the face of continued stock market declines. That's not the main reason I favor silver as the go-to investment asset of choice, of course, but I would imagine those holding silver have not been unduly stressed by current world financial developments.

It can't be denied that stock values have grown tremendously over the past few years and that growth has fueled a record rate of participation by those fortunate enough to be able to invest. The increased participation in the market that has offered the best returns (along with real estate) has further driven stock values. I believe the resultant "wealth effect" has greatly influenced the economy, just as it has in times past. The concern, of course, is that the self-reinforcing pattern of wealth being created in stocks boosting consumer spending and the economy at large could be reversed. Particularly alarming, is that everything seems to depend on sentiment and if anything can changed suddenly, it is sentiment.

I would remind you that investor sentiment has been particularly rotten towards gold and silver for just about the same time it has been positive toward stocks, so it's not unreasonable to suggest that a negative change in sentiment towards stocks could coincide with a positive change towards metals. Since there's no question that silver prices are greatly impacted by investment flows, any change in sentiment that suggests a turn in investment flows becomes significant. As I've indicated in the past, there are others much more qualified than me to speak about prospects for the stock market and one, in particular, I referenced about a month or so ago on these pages.

https://www.hussmanfunds.com/comment/mc181128/

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged anew this week to the highest level in six weeks, as 8.7 million oz were moved (450 million oz annualized). For a change, there was a large decline in total inventories of 4.3 million oz, reducing total COMEX inventories to 293.6 million oz. Most of decline in total COMEX inventories was due to a 3.6 million oz reduction in the holdings in the JPMorgan COMEX warehouse, now at 147 million oz.

In addition to the sharp declines in both total COMEX and JPM warehouse silver inventories, there were unusually large category changes in registered vs. eligible holdings. It's impossible to know all the details based upon the information provided, but it seems certain to me that anything big or unusual in silver traces back to JPMorgan. My best guess from this and previous activity in the COMEX silver warehouses is that JPMorgan is shifting some of its COMEX holdings to undisclosed and unreported warehouses and that JPMorgan also holds a good amount of silver held in other COMEX warehouses. Silver is a market owned and operated by JPM, Inc.

The changes in this week's Commitments of Traders (COT) report were generally as expected, in that there was managed money buying and commercial selling in both gold and silver, although I refrained from actual contract predictions. While the recent gold rally is far short of overly impressive and the silver rally has been flat-out disappointing, there have been rallies from the price lows and those rallies can be traced to managed money buying on the COMEX.

The only real question has been the composition of the counterparty commercial selling, specifically, how much new short selling has been at the hands of the super-crooks at JPMorgan? The news, to this point, is mostly good, as the crooks have not been overly aggressive on the short side; likely influenced by the watchful eyes of the Justice Department (he said, hopefully).

In COMEX gold futures, the commercials increased their total net short position by 15,300 contracts to 92,700 contracts. This is yet another new notch up in the total commercial net short position not seen since July 10, when the price of gold was largely the same as it is today. In between, of course, gold dropped by nearly $80 as the commercials bought all that the managed money traders would sell into early October. On October 9, the commercials were actually net long by 26,000 contracts, meaning they bought back nearly 120,000 net gold contracts as the price fell from $1260 to below $1190.

So now that we're back to the same prices ($1260) that prevailed in early July and the commercials are now holding about the same number of COMEX gold contracts net short as they held back then, does that mean we are destined to experience the same $70+ price decline seen since July? An objective reading would include that some price decline is possible, given that prices are determined by COMEX positioning. However, the current level of commercial selling (undoubtedly higher still by virtue of trading since the Tuesday cutoff) is still quite low by historical measures. Based upon the standards of recent years, I would conclude that the market structure wouldn't be considered bearish until the commercial net short position exceeds at least 200,000, if not 300,000 contracts.

While always leaving open the possibility of a sudden selloff given the erosion in market structure to date and the clear fact that gold is manipulated in price, the most salient feature to me is that the main manipulator, JPMorgan, doesn't appear to be adding to gold shorts in any meaningful way. In fact, this week, JPMorgan appears to have bought back gold shorts, despite net commercial selling, based primarily on a decline in Producer/Merchant shorting. Quite bluntly, I wouldn't care if the commercials sold until the cows came home, as long as the crooks at JPMorgan weren't adding aggressively to shorts, since I am convinced JPMorgan is the big manipulator without which the manipulation couldn't continue.

This is a week by week, let's see what they do situation, as far as I am concerned and at this point JPMorgan doesn't appear to be adding to gold shorts. And while I make a much bigger deal about how much physical metal these crooks hold in silver (800 million oz), I also believe JPMorgan holds at least 20 million oz of physical gold. That's the equivalent of 200,000 COMEX gold contracts and insures that JPMorgan is best positioned for gold to move higher, if not explode in price.

On the buy side of gold, the managed money technical funds bought 11,264 net gold contracts, comprised of new longs in the amount of 10,886 contracts and the short covering of only 378 contracts. Managed money longs as of Tuesday amounted to 100,828 contracts, still quite low by historical standards and leaving much room for further buying. I do sense there was significant buying since the cutoff, perhaps to the tune of 25,000 contracts or more which increases the chances for a commercially induced (perhaps sans JPM) selloff, but in the current general unsettled financial circumstances other things may matter more.

In COMEX silver futures, the commercials increased their total net short position by 7,600 contracts to 35,500 contracts. As was the case in gold, this was the largest commercial net short position since July 10 (funny how that works), when silver was priced over $16 and on its way to sub-$14 in the months that followed. So whereas gold made it all back to its July price levels, silver is still shy by much more than a full dollar. I suppose this is to be expected considering that silver is the most manipulated market in the world. The flip side of this equation is that when the silver manipulation does end, as it must, and silver does finally "go", it will go like a scalded cat.

Based upon changes in the Producer/Merchant category, I would estimate that JPMorgan added no more than 2000 new shorts in silver or less. I would estimate that JPM is now net short no more than 7000 silver contracts (and around that in gold), not particularly meaningful, considering its physical holdings. Back on July 10, my estimate was that JPMorgan was short 26,000 net silver contracts and 15,000 contracts as of Nov 6, so while I would prefer these crooks not be short a single contract, I suppose everything is relative. Certainly, there can be no argument that JPMorgan is holding much more physical silver than it held on July 10, in addition to being close to 100 million paper oz less short than back then. Hey, maybe it is a wonderful world after all.

The tradeoff to silver acting so punk relative to gold this past week price wise is that I would estimate there was nowhere near the managed money buying in silver that there was in gold since the Tuesday cutoff; thus alleviating the need for JPMorgan to add new short positions. As just discussed above, I'm not concerned in the least about the level of commercial selling in silver away from what JPMorgan is up to. That's because for nearly the past eleven years, the new short selling by JPMorgan on every silver rally has been the single determinant that has caused an eventual silver price decline. Without JPMorgan's new short selling at the margin, there would be no wash, rinse, repeat price scam in silver (and gold).

On the buy side of silver, the managed money traders bought nearly 11,000 net contracts, consisting of new longs in the amount of 3818 contracts and the buy back and covering of 7,125 short contracts. While there has been substantial managed money net buying since the absolute price lows (more than 40,000 contracts), managed money longs of 48,462 contracts are still quite low by historical standards. Likewise, the remaining number of managed money shorts, 46,673 contracts is still quite large (also bullish). The net long position of the managed money traders, at less than 2000 contracts is extremely low and bullish for any time except the crazy extremes witnessed this year.

The main takeaway, of course, is not so much the levels of managed money and commercial positioning, but of JPMorgan positioning. If these crooks don't add to silver (or gold) shorts, then it will be a new day. With the Justice Department engaged in an ongoing investigation centered on JPMorgan's activities in COMEX precious metals, the likelihood of JPM quitting its evil ways is greater than ever before. It's not possible for me to be more specific.

Considering the newfound anxiety and chance of a major sentiment shift in the stock market, the chance of a Justice Department resolution coupled with a turn in broader markets sets up a truly explosive opportunity in silver. That many years' worth of price suppression has wrung out most, if not all risk to the downside sets up an investment opportunity that is hard to describe in unemotional terms. Needless to say, I could have never imagined such a set up as exists today when I first stumbled onto silver as a result of Izzy Friedman's challenge some 33 years ago. What a long strange trip this has been.

My friend and long term sponsor, Jim Cook, did a rare interview with Chris Marcus the other day and I am providing the link. Without Cook and the support of subscribers, I doubt anyone would have the slightest awareness of my findings (but I will leave out whether that would be good or bad). Anyway, the sincerest thanks to all for allowing me to do what I do.

https://www.youtube.com/watch?v=MmFuTT_-6YM

I'm planning an article on Wednesday dealing with some constructive solutions for what the Justice Department might do if it finds that JPMorgan has manipulated the silver market as I allege. In the interim, here's the very best of wishes to you and yours for Christmas and the New Year (as well as belated wishes for Hanukkah, which I missed by nearly a month).

Ted Butler

December 22, 2018

Silver – $14.70 (200 day ma – $15.47, 50 day ma – $14.47)

Gold – $1259 (200 day ma – $1257, 50 day ma – $1232)