Gold and silver prices closed higher for a second week, with gold finishing higher by $21 (1.7%) and silver ending up by 33 cents (2%). The slight relative outperformance of silver caused the silver/gold price ratio to tighten in by a fraction of a point to just under 78 to 1. The ratio remains trapped within a fairly tight trading range of the past few years, meaning anyone who traded gold for silver (or vice versa) over this time has neither benefitted nor been harmed – sort of like kissing your sister (assuming you have good sisters, as I do). In time, and maybe not much of it, those who have switched to silver should finally be rewarded.

Even though silver slightly outperformed gold in percentage terms this week, Friday's rally saw gold close over its two most important moving averages (the 50 day and 200 day ma's) for the first time in a month, where silver, while up the past two weeks like gold is still below its key moving averages. Again, moving averages don't mean squat to me, except that the most influential category of traders on the COMEX – the managed money traders (technical funds) – are robotic slaves to these averages.

If these technical funds didn't slavishly adhere to buying as prices rose up through the moving averages and selling on downward penetrations, I doubt you'd be reading this because I can't see how I'd be writing twice a week about silver and gold or how there would be any discussion of the Commitments of Traders (COT) report by anyone. What makes the widespread COT commentary not only possible, but flat out mandatory is the slavish addiction of the managed money traders to buy as prices rise and sell as prices fall and the exploitation of that addiction by the commercial traders. Never has the addiction or exploitation been more evident than over the past month.

In fact, this past month has been almost other-worldly to me in the several astounding new developments, mostly centered on the COMEX. What makes it surreal is that while the developments have come fast and furious making it difficult to put a proper sense of perspective on it all; yet at the same time, events seem to be unfolding in ultraslow motion, as least as far as price resolution. What developments am I referring to?

Let me start with the December COMEX deliveries on gold and silver, which are in the last days of delivery. If you asked me a month ago, just prior to the start of the delivery process what I was expecting, I wouldn't have had much to say as I've never figured out any way of predicting what would happen in any previous delivery month. But if you asked me what I was on the lookout for, hands down it would be what JPMorgan was up to. No expectations, just observations.

After a month, the only observation that matters is that JPMorgan took physical ownership on more COMEX gold and silver contracts than ever – nearly 5500 gold contracts (550,000 oz) and nearly 2800 silver contracts (14 million oz), all in its own name (plus more on behalf of customers). On the issue side, HSBC stood out in delivering from its own house account 6087 gold contracts and in junction with clients and from its own account also issued 3266 silver contracts. The December COMEX gold and silver deliveries were shocking in size and in the mano y mano makeup. They also featured the dramatic return of JPMorgan to the taker side after 9 months of absence in silver and longer than that in gold. I can't lie – JPM's actions look more like a last minute grab of as much physical silver and gold as it can get its hands on, opposed to the start of a long term period of quiet accumulation of metal on the sly.

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

The past month has seen highly unusual changes in the levels of the short positions in SLV and GLD, the big silver and gold ETFs, as well as prospective changes. In addition, the changes in silver deposits into the SLV have been more than noteworthy. I won't rehash the ETF developments today, but they look powerfully bullish to me.

Finally, the most important development, by far, is the absolutely stunning positioning change in the market structure of COMEX silver and gold futures contracts. A month ago, unless I've completely lost my mind, I was pondering whether the commercials would be able to lure the managed money technical fund traders to add aggressively to the short side on lower prices. I had been pondering this central issue since mid-September. Particularly in silver, if the commercials hoped to buy massive quantities of contracts (both short covering by the big 8 and new long buying by the raptors) that buying could only come from big new short sales by the managed money traders. This was simple mathematical market mechanics.

With yesterday's release of the new COT report, there can be no doubt that the commercials succeeded in luring the managed money traders to sell aggressively over the past 4 reporting weeks in COMEX silver. From the COT report of Nov 14, the managed money trades have added more than 50,000 contracts of new silver shorts, in addition to selling and liquidating more than 31,000 long contracts. That's more than 81,000 net contracts of silver (405 million oz) sold by traders operating as robotic price slaves.

The real wonder is how silver prices only fell a buck and half as the equivalent of half the world's annual silver mine production was dumped in a few short weeks. No other commodity could come close to withstanding the sudden sale of half its world annual production and only decline by 10% or so. About the only plausible (or possible) explanation that occurs to me for how the price of silver declined as little as it did was because the buyers were super anxious and eager to buy whatever the managed money traders could be persuaded to sell. I'll come back to this in a moment.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses surged this week to more than 6.8 million oz and total inventories rose by 0.9 million oz to 240.2 million oz, another new two-decade high. The JPMorgan COMEX silver warehouse took in another 1.2 million oz this week, increasing the total in that facility to 118.2 million oz, also a new record high.

Two points. If past is prologue, there may be another 12 million oz of silver in the process of being brought into the JPM warehouse based upon this month's COMEX deliveries. Second, the amount of silver in the JPM COMEX silver warehouse is now roughly equal to the bank's net paper short position in COMEX futures, which means the JPM paper short position is now completely neutralized by its COMEX warehouse holdings. The other 550+ million oz of physical silver held by JPM is fully exposed to a price upside that will benefit the bank more than any other entity as and when silver rallies. They may be crooks, but it seems to me that JPM's interests are now closely aligned with all other silver investors.

The changes in this week's COT report were largely within expectations in gold and did managed to exceed or at least come close to what I was hoping for in silver (although I refrained from specific contract predictions). As a reminder, gold prices rose as much as $25 in the reporting week and silver rose by more than 50 cents, so it would not be surprising to see some managed money buying and commercial selling, although no big moving average penetrations occurred. This largely occurred in gold, but a different story emerged in silver, a story I was hoping for.

In COMEX gold futures, the commercials increased their total net short position by 8800 contracts to 128,200 contracts. This week's increase in commercial selling pales, of course, with the commercial buying over the previous two reporting weeks of 127,000 contracts and as such is no big deal to a gold market structure which had recently turned very bullish.

Underneath the hood, there was a standout feature to the commercial category breakdown, as the 4 biggest commercial shorts actually bought back 2900 short contracts, while the big 5 thru 8 traders added 4700 new shorts and the gold raptors (the smaller commercials apart from the big 8) sold off 7000 long contracts. Admittedly, I am overly sensitive to patterns involving the largest traders and most attentive to what the very biggest traders are doing. In this case, it adds to my impression that JPMorgan is clearing the decks for a big move higher in gold and, particularly in silver.

The managed money traders bought a bit over 5000 net contracts in gold, but it was a somewhat unusual pattern, which featured the sale of 6497 long contracts and the buying and covering of 11,516 short contracts. The managed money long position in gold, 116,642 contracts, is very low by recent historical standards with not much additional long liquidation likely. The real puzzle is the very low level of the managed money short position, now down to 35,397 contracts.

One question I have been pondering with no apparent answer is how and why the managed money traders in gold weren't lured onto the short side as they were in silver. I would imagine there may be some technical fund mechanical explanation for this, but not being of the technical fund religious persuasion, the reason escapes me. But since I am much more interested in what the technical funds and commercials are doing, rather than what they may be thinking, I know it's much more bullish to have as large a managed money short position as possible, regardless of how or why it came to exist. The massive increase in managed money selling in silver is the single most bullish reason that could exist.

In COMEX silver futures, the commercials reduced, for the fourth reporting week in a row, their total net short position by a hefty 6,200 contracts to 18,600 contracts. This is the lowest (most bullish) commercial short position since August 2015. Just this past April, the total commercial net short position (the headline number) hit an all-time bearish high of nearly 117,000 contracts and here we are just about 100,000 contracts lower. That's the equivalent of 500 million oz that the commercials are no longer on the short hook for and I can assure you that this is the prime driver of price.

By commercial categories in silver, the big 4 bought back 1200 contracts and the raptors added 6500 new longs to a net long position now amounting to 65,700 contracts, very close to the raptor record long positions in the summer of 2015. The big 5 thru 8 actually added 1500 new shorts, but there can be no question that this was managed money selling, as opposed to commercial selling. I would imagine there are now at least two managed money traders in the big 8 short and one of them may have made it to the big 4 level.

I'd peg JPMorgan's short position to be down to 24,000 contracts (120 million oz) and maybe less, if my speculation about a managed money trader making it into the ranks of the big 4 is correct. Hopefully, this is something to be revealed in the next Bank Participation Report, due two weeks from yesterday. As far as I can tell, JPMorgan has really outdid itself this past month in all three categories of world-class silver manipulator competition – physical accumulation, short covering in SLV and on center stage, COMEX positioning.

I am particularly encouraged by the relatively low volume on the price advance in gold and silver after the Tuesday cut off, as it portends not much of a deterioration these past few trading days.

A subscriber asked a good question this morning – why did JPMorgan allow the raptors to step in front of the bank this past month? By my count, JPM bought back at least 16,000 net short silver contracts (maybe more), while the raptors added new longs of at least double that amount. My answer was that JPMorgan can't control everything, including what competitors may do. I should have added that the key determinant is not so much the buying competition from the raptors, as much as it is the supply of contracts the managed money traders can be lured into selling. If the food supply of plant-eating technical fund selling is sufficient, then all the meat-eaters, from the T.Rex's to the raptors eat well. But rarely have all the silver meat eaters fared as well as they have this month.

On the sell side of silver this week, it was all the managed money affair, just as it has been for weeks. These traders sold 8,659 net contracts this week, including the sale and liquidation of 577 long contracts and the new short sale of 8,082 contracts. It was the new short sales that I was most hopeful about in Wednesday’s commentary, in pointing out a pattern of the technical funds continuing to add new shorts even as prices turned higher (because the rally lowered the perceived risk when prices were still far below the key moving averages). This had occurred at the important price bottoms of May and July of this year and just occurred again.

The new managed money short position of just over 61,000 contracts is close to the previous record and provides rocket fuel type buying potential of the same 50,000 contracts that were just shorted over the past month. Now that it has already occurred, the managed money short position in silver has become the prime supply of buying power in silver; something, by contrast, that isn’t present in gold. The potential for big managed money short covering, after all, only exists when there is a big managed money short position. Not that gold won’t move higher, because I expect that it will, but the contrast in managed money shorting is quite noteworthy.

It wasn’t particularly surprising that the managed money long position in silver, now at 46,698 contracts, was down so slightly this week, following the previous weeks’ much bigger declines. Based upon my methods, this new level becomes the new core non-technical fund managed money long position. Since silver prices only declined over the past month due to the 81,000 total net managed money contracts sold on lower prices, that same number of contracts and even more are most likely to be bought on rising silver prices. The questions are how and when these silver contracts will be bought and who will sell to the managed money traders when, not if they turn buyers.

The answers will soon be known and will be defined by whether JPMorgan adds to short positions on the next silver rally, same as always. This happens to be at the core of my extremely bullish outlook for silver (and gold) at this time. This past month has been the most important period in quite some time, in everything I consider important – physical market developments, the short positions in SLV and GLD and, most particularly, in COMEX positioning changes. There would be something wrong with me if I wasn't as bullish as I am right now in silver.

It's certainly true that I am always bullish on silver based upon the big picture of real world supply/demand fundamentals; but I believe it's also true that when the COMEX market structure is negative, I am quite vocal about the probabilities for lower prices in the short term. Therefore, when the COMEX market structure turns as bullish as it is now, there is no reason for me or anyone else to be anything but extremely bullish. Yes, of course, the COMEX commercial crooks have to be expected to rig prices lower at will, but at points like now, when they have already deployed just about every dirty trick up their sleeves to achieve record positioning changes, this is not the time to pussy foot on the bull side.

Here's a special holiday greeting. After more than six years of truly rotten price action in silver and gold, it is natural for many to be downbeat about the prospects for higher prices. But just as the market structure only improves on the same lower prices that undermines collective sentiment, the proper approach is to be most bullish when the collective sentiment is most bearish. This is easy to say, but harder to do. The problem is the conflict between collective sentiment and actual market structure – we should feel better at market bottoms about the prospects for higher prices, but, as humans, we don't or can't. But what a waste it is to feel bad when we should feel good.

This is the most joyous time of the year and we all have a limited supply of future joyous seasons ahead of us, so it is wasteful not to be thankful for all we have been given. In terms of silver, it is just as wasteful and unproductive not to be excited about the prospect of gains to come, seeing how great the market structure has become. At least as far as I can tell, the setup for higher prices looks as good as it gets, so I would exhort you to be upbeat and encouraged by the prospects of much higher silver prices to come – especially since they appear to be on the way. Merry Christmas and Happy Holidays to all.

Ted Butler

December 23, 2017

Silver – $16.43 (200 day ma – $16.98, 50 day ma – $16.70)

Gold – $1279 (200 day ma – $1270, 50 day ma – $1276)