

Weekly Review

Despite a Friday rally, the price of gold finished the week lower by \$6 (0.5%), its fourth consecutive lower weekly close and another new low weekly close extending back to February. Silver bucked the trend, ending 25 cents (1.5%) higher after three weeks of declines. As a result of silver's outperformance, the silver/gold price ratio tightened in by more than a full point to just under 70.5 to 1.

Obviously, not this day, but someday we will look back and marvel about how cheap and for how long silver remained so undervalued relative to gold. Seeing that day in real time is about the only thing on my bucket list □ along with the knowledge that those who did and do switch gold to silver will then be able to pursue any conceivable bucket list of their own.

Gold is still up \$120 for the year, but is now down nearly \$200 from the summer price highs. Likewise, silver is still up \$3 for the year, but down \$4 from the highs. Superimposed upon both the up and down price trends this year (and every year) is the causal effect of changes in market structure on the COMEX.

In terms of market structure, we started the year at bullish extremes, which switched over to bearish extremes as prices rose. Now, I believe we are back at bullish extremes in the paper market structure and I'll explain why in a moment. First some developments in the physical world.

I glossed over the details last week in the turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses, so let me catch up. Last week, movement cooled off to 3 million oz, as total inventories rose 0.6 million oz. This week, turnover cooled further to 2.7 million oz and inventories fell a million oz to 177.8 million oz. There was no movement over the past two weeks in the JPMorgan COMEX silver warehouse. The first three days of this week featured hardly any movement at all. Maybe a cessation of the unusual frantic turnover over the past nearly six years may indicate prices about to explode ☐ I wouldn't rule it out.

We're four days into the big December COMEX delivery in gold and silver futures. At this point more than 8300 contracts of gold have been delivered or re-delivered and less than 2000 contracts appear to remain open. Therefore, unless there is a surge of new buying in the December contract, there wouldn't appear to be delivery fireworks in play in gold. On a combined basis, JPMorgan in its house account and for its customer(s) are the largest stoppers (acceptors)

of gold this month with 3162 contracts. This continues a physical gold accumulation by JPM and its customer(s) evident since April.

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

In COMEX silver deliveries, JPMorgan has, once again, emerged as the leading stopper in its house or proprietary trading account, taking 593 of the 1469 total contracts issued this month. Based upon the remaining 2000 contracts open in December, JPMorgan is in position to stop the full 1500 contracts (7.5 million oz) allowed in any one delivery month. JPMorgan has been in this position in previous delivery months, only to back down and, in effect, let short contract holders “off the hook” rather than set off a physical squeeze. Will it do so again? Time will tell.

Ironically, on Wednesday I answered a subscriber question by stating that, no, I couldn't prove JPMorgan held the 550 million oz of physical silver I claim it owns. On the other hand, I've offered proof on a weekly basis for years. How else to call JPMorgan's relentless stopping of COMEX silver deliveries in its own name over the past couple of year? Before the start of this month's COMEX silver deliveries, I had the same question I always have before big delivery months,

namely, what will JPM do? Invariably and like this month, the answer comes back – JPM will take as many physical silver contracts as it can get its paws on – all in its house account. And then move the metal into its own COMEX warehouse. The important point is to remember COMEX silver deliveries are very transparent and make up only a small slice of its total silver holdings (if 81 million oz can be considered a small slice).

Over the past month, more than 2.5 million oz of gold have been redeemed from the big gold ETF and more than 12.5 million silver oz have been redeemed in the big silver ETF, SLV. The metal doesn't cease to exist, of course, it is now owned outside the trusts. It's no secret or surprise that there would be metal redemptions in GLD and SLV, as gold fell \$120 and silver by \$2 over this time, undoubtedly setting off net investor liquidation.

I would remind you that when COMEX positioning sets off price rallies, like the one that commenced at the start of this year, this price surge led to 10 million oz of gold being deposited in GLD as investors bought shares. This is a simple mechanical process. Starting in January, managed money buying on the COMEX drove gold prices higher and the higher prices induced investors to buy GLD, thus requiring the metal deposits. I'm not denying that there is a self-reinforcing nature to this, namely, that the buying of physical metal by GLD helps foster

more paper COMEX buying by the managed money traders, as that is obvious.

What I'm talking about is the timeline of which comes first. Always does price action, up or down, come first from COMEX positioning, to be followed by metal buying or selling by GLD or SLV. Trying to figure out which came first, the chicken or the egg, might be difficult, but not which comes first for price, COMEX positioning or ETF flows. Here's where it gets a bit trickier □ determining who is buying when there is broad investor selling as just occurred?

I'm convinced the price takedown over the past month in gold and silver was as deliberate and highly orchestrated as any I've ever seen. I know I'm talking about a price manipulation which shouldn't be condoned in any way – but the manipulation itself was masterful, nonetheless. The largest amount of gold and silver ounces repositioned were of the COMEX paper variety by far, but the 2.5 million physical ounces of gold withdrawn from GLD was worth \$3 billion, hardly chump change. There's no doubt in my mind that whoever primarily orchestrated the price decline on the COMEX, not only bought back a large number of gold and silver short futures contracts, but much of the physical gold and silver dishoarded by investors in GLD and SLV, as well. Along with stopping big physical deliveries on the COMEX.

Speaking of JPMorgan, I sense the bank's octopus reach for physical metal continues to extend into Gold and Silver Eagles. This past month featured weak retail demand for these coins, just as the same weak retail demand was reflected in redemptions in GLD and SLV. Yet the US Mint sold more Gold Eagles in November than in any month this year. These circumstances can't be explained away from it being the work of a big buyer. And the only reason I can come up with why JPMorgan hasn't been buying more Silver Eagles is that its overall silver buying has become too obvious in too many venues. The bottom line on all this is JPMorgan is taking extraordinary measures to buy as much physical silver and now gold as it can. Maybe you should too.

<https://competition.usmint.gov/bullion-sales/>

The changes in this week's Commitments of Traders (COT) Report were, once again, simply fascinating. One might think that after studying a drab and dry government statistical report for 30 years, the study would grow somewhat stale and redundant. Yet, increasingly, I find myself more anxious and interested than ever before. For a moment, let's leave aside the possibility that I am losing my marbles and focus on what has me so excited. The COT reports of late seem to conform to long held specific premises of mine, while at the same time conforming to them in ways unexpected.

I think it has to do with the perspective I have on silver. The minute the lightbulb went off in my head (thanks to Izzy's challenge) that silver was manipulated by concentrated positioning on the COMEX, I started looking at the concentration data in the report. In fact, I keep my ongoing handwritten log of each report the exact same way today that I did 30 years ago, with a focus on the concentrated short positions in silver and gold. Later, as new data was provided by the CFTC, my perspective came to include the raptors and detailed managed money statistics. Yet very few commentators ever mention the concentrated positions in the COT report. My point is that if I was relying on just the headline numbers and not factoring in certain details under the hood, along with the nature of the traders involved, I would probably have a very different opinion on the market structure than I actually hold. This week's report is a case in point.

On Wednesday, I estimated that the headline number in gold would feature a reduction in the total commercial net short position of 30,000 or hopefully much more and 5000 contracts or more in silver. The numbers came in less than that, at 24,300 contracts in gold and 2800 contracts in silver. I spent some time explaining how the numbers may be altered by spread liquidation ahead of the December delivery period and, in effect, that was why the numbers were in the under category. So, on the surface, the report yesterday could be construed as

somewhat disappointing; but under the hood, a completely different reading emerged □ this was one of the most instructive COT reports in memory (missing marbles and all). Let me run through the details.

In COMEX gold futures, the total commercial net short position declined by the aforementioned 24,300 contracts to 167,800 contracts, the lowest (most bullish) reading since February. By commercial category, the 4 big commercial shorts bought back 8500 short contracts and the big 5 thru 8 bought back 1600 shorts, leaving the raptors (the small commercials) to buy 14,200 contracts completely covering last week's 9600 contract net short position and leaving the raptors net long by 4600 contracts. The big 4 and big 8 now hold their lowest concentrated short positions since March and the raptors are now net long for the first time since February. In a manipulated price environment, nothing matters more than the concentrated position and the lower that position, the better (for coming higher prices).

On the sell side of gold, the managed money traders accounted for nearly 17,500 contracts sold, including the liquidation of 9778 long contracts and new short sales of 7670 contracts. Most (over 90%) of the time, the managed money traders completely offset what the commercials do that week, but this is one of those times when that wasn't the case (also in silver this week). It's not a

particularly big deal, mainly because it happens so infrequently, but the explanation is that other categories of traders accounted for the difference, namely other reporting but non-managed money traders and smaller non-reporting traders. It doesn't change anything important about market structure, as non-reporting traders have about as dismal a forecasting record as the managed money traders.

In COMEX silver futures, the commercials reduced their net short position by 2800 contracts to 75,400 contracts, not much different than the headline number of Oct 11, some seven weeks ago and over the interim period. The headline number is down about 35,000 contracts from the peaks of summer, but on its face, a 75,000 contract headline number in silver would be considered quite bearish on an historical basis. In fact, up until now, had you ever tried to convince me that such a headline number could be considered bullish in silver, I'd bet that you had lost your marbles. Yet the market structure in silver looks as bullish to me as it ever has. It has to do with concentration and category breakdowns.

By commercial category, the big 4 (read JPMorgan) bought back more than 2500 shorts, with the big 5 thru 8 buying back 500 shorts, and with the raptors selling off 200 long contracts. As a result of JPMorgan's disproportionate share

of total commercial buying, I'd peg its paper COMEX short position to be down to 18,000 contracts (90 million oz), the lowest it has been since early in the year. This also means that JPM is not likely to be the largest single short on the COMEX and certainly means, by virtue of its massive physical silver holdings, that JPM is more exposed to the long side of silver on a net basis than it has ever been. Yes, that's another way of saying that should silver explode in price now or soon, JPMorgan will make more than ever before. Next week's Bank Participation Report will help in recalibrating JPM's position.

As was the case in gold and given the small overall change in commercial positions, the managed money traders did little in silver this week, selling only 962 long contracts and (be still my beating heart) actually buying back 1085 short contracts. Over the past three reporting weeks, the managed money traders have bought back close to 1500 short contracts, instead of selling ten or twenty times that amount. Had the managed money traders added to shorts as they have on numerous occasions in the past under the price action similar to the past month, they would be holding a short position in excess of 40,000 contracts, instead of the 14,327 contracts that they do hold short. This is nothing short of monumental in market structure terms.

I hope I've been clear that I went into this report hoping (and expecting) two

main things □ JPMorgan buying back shorts in silver and gold and the managed money traders not adding much in the way of shorts in gold or silver. My expectations were met in gold and wildly exceeded in silver. Accordingly, the 75,000 contract headline number in silver, a number that must be considered bearish in historical terms is now meaningless to me as a bearish indicator. In fact, it's hard for me to express just how bullish I find the market structures to be, particularly in silver. Let me go over my reasoning again.

We've just come through a wicked and consistent price decline in gold and silver over the past month, down \$120 in gold and \$2 in silver, with every important moving average decisively penetrated to the downside, both in the manner of persistent salami slices and bigger, more dramatic price chunks. Thus, we've just witnessed the precise price scenario where, if you were a technical fund, you would be out of all long positions and short to the maximum level that money management guidelines would allow. Instead, COT data clearly indicate that is not the case and that is a very big deal.

Let me use silver as the main reference, but the setup is very similar in gold. It's not that there has been no liquidation of managed money long contracts from the price highs of summer. In fact, there has been substantial managed money long liquidation from the peak, some 40,000 contracts in silver (200 million oz)

and nearly 140,000 contracts in gold (14 million oz). Despite this long liquidation being among the largest on record, the managed money long positions remaining after the liquidation is enormous at 57,000 contracts in silver and 162,000 contracts in gold. This is an older story in silver than it is in gold, as I discovered it in silver over the past few years. It has to do with the emergence of non-technical fund traders in the managed money category.

According to CFTC classification, traders in the managed money category are doing just that – managing others' money, as opposed to trading for their own accounts. There is no requirement about the trading methodology a managed money trader must employ and where the category was almost always made up of technical-type traders, that started to change – first in silver and now, apparently, in gold as well. Starting a few years ago, the telltale signs of non-technical-type traders infiltrating the managed money category began to appear.

The telltale signs were different trading patterns. Where technical funds always sold out long positions on major price declines, the non-technical fund managed money traders bought as prices went lower and never sold on even lower prices. Therefore, my COT market structure analysis took this into account and I began to net out the core non-technical fund long position from the pure

managed money technical fund position. Doing that currently tells me not much of the 57,000 contract managed money long position in silver is held by technical funds and I suspect not much of the 162,000 long contracts in the gold managed money category is held by pure technicians.

Given the dismal price action of late, how could any technically motivated (moving average) trader justify a long position? Therefore, if few to no technically oriented traders are still long in the managed money category, lower prices from here are unlikely to generate a large amount of selling from managed money longs in silver and gold.

A similar circumstance exists on the short side of the managed money category. The level of managed money shorts in COMEX silver and gold is very low on an historical basis, more akin to what one would expect to find at market tops, not the market bottom I perceive. The same question must be asked □ if a technician hasn't already gone short on the clear technical price signals over the past month, would still lower prices convince him to then go short? I don't think so given recent COT reports. The change in behavior by the managed money shorts over the past three weeks is now undeniable and it is very unlikely they will short on lower prices from here (nor will they likely short on higher prices).

Therefore, the stage would appear to be set for very little selling from here from either managed money longs or shorts. Along with the commercials, the managed money traders make up one side of a strictly two-sided market. COT data scream out at me that the managed money traders won't be selling large numbers of contracts, either by long liquidation or by new short selling. In essence, that means no selling in COMEX gold and silver, except what the commercials can scrounge up from the other trading categories which promises to be slim pickings indeed.

Seeing no big potential selling coming from what formerly was one of the two largest market forces on the COMEX (the other force being the commercials), I keep asking myself how prices can go lower and not go higher? I keep getting the same answer □ prices won't go lower, they will go higher. Throw in the not so minor fact that JPMorgan, the undisputed king of silver and gold, is better positioned for an upside move in history and the only answer I get is even louder □ prices must go higher.

Thus, I've gotten even more bullish on the price prospects from here, having made the switch from leaning towards the probability of a selloff up to as

recently as a month ago. Not that I was dogmatic about a silver and gold selloff, it was more a case of sensing one final selloff resulting in the big move up. It now looks to me that we have had the final selloff or are close to finishing it. This is the time to prepare and position for the big move up. How big the move up will be is dependent on how aggressively the commercials and most importantly, JPMorgan, add to short positions on rising prices. My sense is that they will not sell aggressively and that alone will insure that the next move up will be the big move up. Then again, maybe I have lost my marbles.

Ted Butler

December 3, 2016

Silver - \$16.75 (200 day ma - \$17.68, 50 day ma - \$17.70)

Gold - \$1178 &