On the last trading week of the year and for the third consecutive week, gold and silver prices rose, with gold ending $26 (2%) higher and with silver ending up by 57 cents (3.5%). As a result of silver's relative percentage outperformance, the silver/gold price ratio tightened in by more than a full point to just under 77 to 1; still within the fairly tight trading range of the past few years.

Despite silver's relative outperformance in percentage terms, gold price action has been much stronger visibly, with silver appearing to struggle to keep up with gold on this recent rally. I would attribute silver's better showing in percentage terms to be due strictly to just how cheap the price of silver has become. Even a visible lagging in the price of silver compared to gold, still manages to translate into better relative percentage returns on the recent rally. If that isn't proof positive that silver is undervalued relative to gold (and everything else) then I don't know what is.

Certainly for the year, gold has outperformed silver, in adding $150 (13%) while silver ended the year $1 higher (6.3%). And for the year, the silver/gold price ratio widened out by 5 full points, reflecting gold's relative outperformance. Actually, this is the second consecutive year for rising gold and silver prices, as gold prices rose $90 for 2016, while silver added $2 for that year. Of course, the back to back annual gains in gold and silver, came after 3 years of substantial declines, starting at the beginning of 2013. All told, over the three years ended 2015, gold lost $600 (36%), while silver fell by $16 (50%) and even more when measured from the top in 2011. After such horrific price declines, a two-year rally of $240 in gold and $3 in silver doesn't seem as much of an achievement as would be the case absent the big previous declines.

And not for a moment am I disappointed in silver "acting" weaker than gold, because I know price strength only comes on heavy managed money buying and when silver is performing weaker than gold in the short term, it usually means the big managed money buying has yet to kick in.

I've gotten away from annual reviews for a lot of reasons, but the main one is that the calendar doesn't seem like it has much to do with price movement, other than serving as a mile marker on a long journey. Replacing the passage of time and changes in actual supply and demand as a price influence is the overwhelming price influence of positioning changes in COMEX futures contracts. These positioning changes certainly have their own time cycles, but the cycles are not driven by the calendar. Instead, the positioning changes revolve around how much the managed money technical funds can be induced into buying and selling by the commercials and then reversed. Therefore, it would seem to make more sense to analyze the market around the positioning changes and that explains the focus of this service.

I don't think that anyone paying a modicum of attention could realistically dispute that this recent rally in gold and silver, just like the previous declines into early December was exclusively due to positioning changes in COMEX futures contracts. The amount of commentary focused on COT report analysis continues to astound me, both in quantity and quality. This is exactly as it should be, given the vice-like control this paper positioning has on price. I'll get into the changes reported in yesterday's report and the prospective changes since Tuesday's cutoff in a moment, after first covering what were some truly outstanding developments in matters typically covered.

The turnover, or physical movement of metal brought into or taken out from the

COMEX-approved silver warehouses cooled a bit in the holiday-shortened work week, as 3.2 million oz were moved in (none were removed) and total inventories grew by that amount to 243.4 million oz, another multi-decade high. I know it seems like growing inventories would be bearish on price, but that would only be the case if COMEX inventories were growing because no one wanted the stuff and it was being dumped into the COMEX warehouses as a last resort. But that is far from the case in silver, or so it appears to me.

In fact, it looks like JPMorgan, the unquestioned criminal kingpin of the silver (and gold) market just can't get enough of the stuff. In addition to JPM adding another 1.2 million oz into its own COMEX warehouse (now at a record 119.4 million oz) this week, the bank looked to be the culprit behind yesterday's extraordinary category changes in the COMEX silver and gold warehouses. Some 13.8 million oz of silver and 430,000 oz of gold were shifted from the registered category into the eligible category in a number of COMEX warehouses (away from the JPM warehouse). You may recall that earlier, at the outset of the December deliveries, great quantities of metal were switched the other way – from eligible to registered – for the purpose of making delivery.

Now that the December COMEX deliveries are complete, it's clear that JPMorgan, in its own name and for its own account, took, essentially, all the physical silver and gold that were issued for delivery. That came to 5520 gold contracts (552,000 oz) and 2800 silver contracts (14 million oz) taken by JPM, both amounts close to double the limits allowed (Oh, it must be good to be the market king and having the regulators kissing your feet). Remarkably, JPMorgan continues to be the main stopper in the much smaller January COMEX deliveries, apparently eager to take any and all amounts of physical silver and gold it can get its hands on, large or small.

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

It is now clear that the previous category shifts from eligible to registered at the start of the December delivery period were caused by the need to make ready to deliver physical silver and gold to JPMorgan. Now that the delivery month is complete and the metal has been delivered to JPM, it is also clear that the reverse category shifts, from registered to eligible, reflect a consolidation by JPM of its recently stopped deliveries. This may indicate the shifted category metal is in the process of being transferred to the JPM COMEX silver and gold warehouses, or just a negotiated reduction in the monthly cost of leaving the metal stored where it is. The takeaway here is that JPMorgan has a Jones for physical silver and gold.

JPM's physical metal craving is also evident in developments in the big precious metals ETFs, SLV and GLD. This week, a quite significant 5 million ounces were removed from SLV, despite some pretty perky price action. This is counterintuitive on its face as there was absolutely no suggestion of widespread investor liquidation on lower prices, since silver prices moved higher. When metal leaves the trust on higher prices, making it akin to a man bites dog occurrence, the only plausible explanation is the one I always give – a big buyer converted shares into metal to avoid SEC reporting requirements for large share investors (there are no large physical metal reporting requirements).

While the identity of the buyer remains shielded by the share for metal conversions, it would stand to reason that the one entity most suited for this type of transaction would be JPMorgan. This, by virtue of its role as not only being the leading Authorized Participant (AP) in SLV, but also as the sole custodian for metal in the trust. Throw in the fact that JPM has been gobbling up silver at an unprecedented pace on the COMEX this month and that's just too many clues to waste time thinking about an alternate buyer.

Between the COMEX deliveries and SLV conversions, it would appear JPM has taken well over 20 million oz of physical silver this month, yet hardly a word is spoken about that which is almost impossible not to see. Instead, there is constant chatter about EFP's and other transactions in which little hard data can be deduced. Go figure.

The new short report for stocks was released mid-week and featured a slight increase in the short position in SLV of 250,000 shares to 13.2 million shares (ounces). The short position in GLD, the big gold ETF, fell by 2.1 million shares to 12.8 million shares (1.2 million oz).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2

I had expected big reductions in both ETFs' short positions given the large metal deposits during the matching two-week reporting period, but only GLD met those expectations. Immediately, I concluded that I was just off in my expectations in SLV and chalked it up to just another wrong guess about a data series especially difficult to predict (given its many moving parts). It wasn't until the next day that I remembered my discussion on "shorting against the box" (hey, I can't remember everything I write all the time). JPMorgan (why beat around the bush?) did bring in metal to cover its SLV shorts, but elected to keep the short position separate from the shares it picked up by a reverse conversion (exchanging metal for shares). JPM's SLV short position was, effectively, covered, but looks like it remains open until the last clerical click of the send button completes the transaction. JPM's motive is nothing more than obscuring its actions to hide the fact that it is acquiring physical silver and covering SLV shorts. Judging by how little is written about this anywhere else, JPM is doing a bang up job of obfuscation and covering its tracks.

Turning to the just-released Commitments of Traders (COT) Report, there were no truly significant surprises, although it seems something of interest is usually revealed. Of much more significance, of course, are the expected positioning changes in the new reporting week which started Wednesday. Let me cover the reporting week ended Tuesday first.

You'll remember that the 4 day reporting week featured a $20+ price gain in gold, as well as a decisive upward penetration of both its key (50 and 200 day) moving averages. Silver had gained 50 cents during the reporting week, but had yet to penetrate either of its key moving averages. The price action indicated managed money buying and commercial selling, but low trading volumes were expected by me to contain the increase in commercial selling to 15,000 contracts in gold and 5000 net contracts in silver.

In COMEX gold futures, the commercials increased their total net short position by 21,300 contracts to 149,500 contracts. Over the past two reporting weeks, as gold has climbed $50, the commercials sold 30,000 net contracts, after buying 127,000 contracts in the two prior reporting weeks, which left much commercial selling potential (and managed money buying potential) ahead (although the rally since Tuesday does change that, as I'll discuss in a moment).

By commercial category in gold, the big 4 added 13,200 new shorts, and the big 5 thru 8 traders added 5400 new short contracts. The raptors (the smaller commercials apart from the big 8) sold 2700 long contracts, reducing their net long position to 62,800 contracts. I took pains to single out the reduction in the big 4 concentrated short position of 2900 contracts in the previous reporting week as a bullish sign and must be consistent in considering this week's increase as bearish on its face.

On the buy side of COMEX gold, the managed money traders bought even more net contracts than the commercials sold, as these traders bought 26,513 net contracts, including new longs of 11,073 contracts and the buyback and covering of 15,440 short contracts. The managed money short position wasn't that large to start with and this week's reduction was more than 40% of last week's total.

Very recently, I wondered out loud why the managed money short position in silver had grown so large and was at close to historic peaks, while the managed money short position in gold remained historically at very low levels. I concluded that I didn't think like a technical fund on market religious grounds and left it at that. It mattered more what the funds did, rather than what they thought. While that's still true, it dawned on me why there would be such a contrast in technical fund behavior on the short side of silver and gold. It has to do with the 200 day moving average.

In fact, I distinctly remember writing on several past occasions how the 200 day moving average was the most important technical indicator to Paul Tudor Jones, the legendary (for good reason) hedge fund titan. Jones said he wouldn't buy anything that traded below its 200 day moving average and the converse of that is that he wouldn't sell (short) anything above its 200 day moving average. Taking that simple premise into account, I think I found the obvious answer to my own question.

If you look at the price charts for silver and gold over the past several months, the price of gold has traded above its 200 day moving average for 80% to 90% of the time, while the price of silver has been below its 200 day moving average for nearly that same percentage of the time. Therefore, it should be no real surprise or question why the managed money traders were more comfortable with going short silver than they were in gold. I suppose it's good when you get to ask and answer one's own questions (although it also suggests encroaching madness). Regardless, I can't help but think that none of the deliberate price tape painting was accidental and was specifically designed to engineer a very large managed money short position in silver because that's the main attraction for JPMorgan.

In COMEX silver futures, the commercials increased their total net short position by 2100 contracts to 20,700 contracts, still a very low (bullish) headline number. I wasn't crazy about the commercial category breakdown, as the big 4 increased their net short position by 1300 contracts and the big 5 thru 8 added 700 short contracts, leaving the raptors as selling only 100 long contracts and leaving their net long position at 65,600 contracts.

As is my custom, I'll attribute most of the increase in the big 4 short position to JPMorgan, whose short position I'd now peg at 25,000 contracts, up 1000 for the reporting week. I'm looking forward to next week's COT and Bank Participation Reports with both trepidation and hope, as that should be the first clear sign what the swells at JPM are up to, particularly considering the trading and price action since the Tuesday cutoff. I mean I know that these crooks are buying every ounce of physical metal not nailed down, but the wildcard has always been whether they aggressively add to paper shorts on the next (this) silver rally.

On the buy side of silver, the managed money traders bought many more net contracts than what the commercials sold, as these traders bought 7121 net contracts, comprised of 1785 new long contrcats and the buyback and covering of 5336 short contracts. Neither figure was of particular surprise, as the new managed money long position of 48,483 contracts is not large and underscores the 46,000 contract mark as the new core non-technical fund managed money low water mark. The remaining 55,670 contract managed money short position was still very large (bullish) as of the Tuesday cutoff, but less so after the last three trading days.

One highlight of the silver COT report (also true to a certain extent in gold) was that the managed money traders bought more than 5000 more contracts than the commercials sold. In looking for an answer for the mismatch this week (usually managed money and commercial positioning net each other out, or nearly so), it was clear that other large reporting speculators sold more than 5000 long contracts. What this indicates to me is that these other large traders were simply aligning themselves against the managed money traders, as I had been suggesting all along, but to a much greater degree than I imagined.

In other words, I thought maybe these other large traders who went long silver as the managed money traders were shorting had some sense that silver was undervalued and a longer term buy and hold. But the quick sale of silver contracts at a profit but under the moving averages by these other large traders tells me they don't give a darn about silver's value, but were just eager (and correctly so) to take the other side of what the managed money traders were selling. That's how obvious and blatant the ongoing positioning scam has progressed. At this point (Tuesday's close), it's all good news as whatever the reason the commercials didn't sell more matters less than the fact that the commercials did not sell more. Hey, did I tell you that the real key is whether JPMorgan, the main commercial crook, adds to silver shorts or not? This selling by the other large speculators just postpones the answer to the key wildcard.

Undoubtedly, there has been significant deterioration in the market structure of COMEX gold and silver over the past three trading days, much more than the largely expected relatively minor deterioration of the report issued yesterday. Since Tuesday, gold has powered upward by $20 to new multi-moth price highs on heavy trading volume in classic slice the salami to the upside fashion driven my managed money buying. Silver has moved higher by nearly 60 cents over the last three days as well on heavy COMEX volume, penetrating first its 50 day moving average starting on Wednesday and then its 200 day moving average yesterday.

There's little doubt there has been significant managed money buying and commercial selling over the past three trading days (otherwise prices wouldn't have climbed at all). How much? Shooting from the hip, I'd venture 50,000 to 60,000 net contracts in gold and as many as 20,000 net contracts in silver through yesterday. In these matters, it's more conservative to predict higher, rather than lower contract changes.

Does this mean the move is largely over or so well-advanced at this point that my big one premise in silver is down the tubes? As far as I can tell, not yet. In fact, in many ways we've just reached the critical point in silver. I fully admit that it could always go either way – another capped rally or the start of the big price liftoff in silver, with the lynchpin being whether JPMorgan adds aggressively to silver paper short positions. I'm still playing it as if it is the big one and will be intellectually crushed again should these crooks go back Jack and do it again.

In that unfortunate event (a capped and failed rally), I also plan to pick up any shattered intellectual pieces and get back on the horse for me to do it again as well; as the only reason why JPMorgan wouldn't let silver rip at this point is if it thought it could buy even more physical silver than it has accumulated to date, or some 675 million oz. Although I am virtually alone in my contention that JPMorgan has amassed such quantities of physical silver, the real truth is that I think I'm too low.

I get the feeling that we may have just gone "live" in this very recent gold and silver rally. As such, I also feel we may not have to wait very long to see the outcome. After waiting for 30 years for the big move to develop in silver and despite a few heart-stopping false starts over that time, it's no understatement to say that I'm ready (already). Then again, I know it's not up to me or you or anyone else apart from JPMorgan. That being the case, it's wise to keep your own version of the serenity prayer on tap. You know, asking God to grant the serenity of accepting the things that we cannot change, the courage to change the things we can and the wisdom of knowing the difference. To that I would add holding enough of a long exposure to make a difference if JPM decides to let her rip.

The very best of health and wealth to you and yours in the New Year.

Ted Butler

December 30, 2017

Silver – $17.00 (200 day ma – $16.98, 50 day ma – $16.67)

Gold – $1305 (200 day ma – $1272, 50 day ma – $1276)