It's no secret that I have long studied and written about the Commitments of Traders (COT) report as the principle data source for understanding and anticipating changes in prices for silver and gold. That's only logical because I've always been convinced that changes in the market structure of futures contract positioning on the COMEX is the main force behind price change. It's not right that paper trading on the COMEX sets the price, essentially, for all physical transactions and not changes in actual production and consumption, because that's like the tail wagging the dog. But lots of things in life are not as they should be and we must adjust and adapt to how things are and deal with them as best we can.

What the COT report reveals are positioning changes among different groups of futures traders and answers important questions about who's buying and selling, information not readily available from other data sources. Not only is the information in the report valuable, some clear and observable patterns have emerged over the decades that have been so closely aligned with price change so as to appear to reflect a causal relationship between positioning and price change.

To get specific, whenever one group of traders, called the managed money traders, got extremely net long and their principle counterparties, called the commercials, got extremely net short, it was only a matter of time before prices declined significantly. And when the managed money traders got extremely net short and the commercials got net long or its equivalent, gold and silver prices were sure to rise in time. So regular were these patterns that increasing numbers of observers came to embrace the patterns in formulating price expectations.

Therefore, it's no surprise to me that more observers and commentators than ever rely on the market structure positioning of COMEX gold and silver futures contracts

as indicated in the COT report. Because the managed money traders currently have an extremely large net long position and the commercials are extremely net short, particularly in COMEX gold futures but also in silver, the positioning structure must be considered bearish and that prices are likely to fall significantly in time.

As a devout student and believer in the COT market structure premise, I can certainly appreciate the bearish implication for price. That's the only possible reason to hold a bearish price opinion at this time for gold and silver and, certainly, if prices do move significantly lower from here, the price decline will most likely be because the managed money traders sold aggressively.

On the other hand, there are some other positioning peculiarities that point to a very different price outcome from what has always been seen in the past. Those peculiarities include the fact that the managed money traders should have already sold aggressively to this point and they haven't, the special role of the most influential market participant, JPMorgan, and the current unusually vulnerable position of the biggest commercial shorts.

Torn between the way it has always turned out in the past and the existence of the unusual peculiarities of today, I've conceded prices could go either way, but that I am approaching it as if the old reliable pattern will fail and I am playing it as if prices will explode instead of declining. Further, if gold and silver prices do decline as could occur, that will be the last such price decline before prices do explode.

As much as I am a devout believer in the market structure approach, I have also written previously that someday the COT report will stop working as it had in the past. It's just not natural that large speculative paper positions will always dictate the price for important commodities and not real world actual supply and demand

considerations. And it's absolutely astounding to me that the paper positioning has lasted as long as it has.

But I always thought that it would be forces in the physical world of silver that would come to overshadow the unnatural and artificial price influence of paper positioning, much like has occurred in palladium, where paper trading hardly influences prices any longer and where the physical forces dictate prices. I still think that a physical shortage in silver will be the ultimate determinant of prices in the end, just as has occurred in palladium, but before that shortage arrives, I now see the makings of a seismic shift of a different kind. The shift I envision concerns paper positioning.

Notwithstanding today's sharp selloff in silver, it is glaring how little managed money selling has occurred in gold and silver on a price decline that is now entering into its third month. Of course, it is still quite possible that the managed money traders will sell aggressively in the end, but what's most remarkable is that they haven't sold more to date. To be sure, I have no real knowledge as to why the managed money traders haven't sold anywhere near as much as they have sold under similar price declines and moving average penetrations of the past. After all, my analysis is not based upon insider contacts or highly-placed informants – I rely strictly on public data, like the COT report.

Therefore, I don't know why the managed money traders haven't sold; I just know they haven't sold, at least until this point. I have speculated that JPMorgan may have curried favor with a number of its large hedge fund clients and whispered in their ears about what may happen, but that's just speculation on my part, as I disclosed at the time. But it doesn't really matter why the managed money traders haven't sold – what matters is if they will sell on lower prices ahead. Again, if the managed money

traders do sell aggressively, we will go lower in price.

However, if they don't sell on lower prices, it would appear that the largest commercial shorts could be in for a world of hurt. I didn't mention it in Monday's brief comments on the new COT report, but the concentrated short positions of the 4 and 8 largest shorts in COMEX gold and silver are, effectively, quite close to the highest levels in history. In one sense, this isn't surprising considering how close, at least in gold, we are to all-time total commercial net short positions. But looked at with a different perspective, the concentrated short positions in gold and silver are nothing short of astounding.

For one thing, the near-record concentrated short positions exist while the leading gold and silver price manipulator, JPMorgan, holds quite small COMEX short positions. This leaves the big concentrated shorts perhaps swinging in the wind should JPMorgan not come to their rescue by adding more short positions. Stated differently, adjusting for JPM's current low short positions on the COMEX, the remaining big commercial shorts have never held a larger short position than they hold now. And that was as of Tuesday, Nov 26.

When calculating what Friday's COT report will indicate as of yesterday's cutoff, it's hard not to expect a significant increase in managed money buying and commercial shorting, based upon yesterday's strong gold rally and large jump in total open interest. For the reporting week ended yesterday, total gold open interest is higher by more than 30,000 contracts (with most of the increase coming yesterday) and since we are now past the period of spread trading, I would expect a net increase of similar proportions in the total commercial net short position in gold. The only question will be how much JPMorgan may have joined in on the short side.

The main issue is that the big commercial shorts (we know the big concentrated shorts are commercials since the managed money gross short positions are now too small to make any of them a big concentrated short) are holding a record large concentrated short position sans JPMorgan. And that was before yesterday's sharp rally and jump in gold open interest.

While more have come to embrace the COT report and the market structure premise, I can still count on one hand (with several fingers left over) the number of observers and commentators which ever even mention the concentrated short positions in COMEX gold and silver. This, despite the CFTC having been forced to publicly comment on the concentrated short position in COMEX silver on multiple occasions in the past (although not for the past 11 years).

Make no mistake, the concentrated short position in COMEX gold and silver is the most pressing issue of all. Price manipulation is not possible without the existence of a concentrated position, which is defined simply as a large market position held by one or just a handful of traders. When a large concentrated position does exist, as is indicated by official COT data, the probability soars that a price manipulation exists. The most recent COT report indicates unusually large concentrated short positions in COMEX gold and silver, although the CFTC refuses to rectify or even comment on the matter.

As of Nov 26, the 8 largest commercial shorts in COMEX gold futures held a concentrated net short position of 275,738 contracts (27.6 million oz) which was more than 90% of the total commercial short position of 305,500 contracts. In silver, the concentrated short position of the 8 largest commercial traders was 101,029 contracts (505 million oz), which was, astoundingly, fully 27,000 contracts larger

than the total net commercial short position of 73,900 contracts. As difficult as that may be to comprehend, the short position of the 8 largest commercial shorts in silver was larger than the short position of all the commercial shorts (meaning more commercial traders held long positions).

The numbers in silver are so extreme that I know it confuses people. So look at it this way – if the concentrated short position of no more than 8 traders didn't exist, not only would there be no commercial net short position at all, there would be a commercial net long position in silver. And when you consider that the 8 largest shorts in silver are banks and not miners or anyone engaged in legitimate hedging, it is absurd that the regulators would allow that many short positions be held by traders whose only purpose is to prevent prices from rising. Eight bank speculators are short more than 500 million ounces of silver (60% of annual world mine production) and the CFTC looks the other way, even though it is providing the data indicating the existence of the manipulative short position.

However, because silver has been so successfully depressed in price by the 8 big COMEX shorts, the running open and unrealized losses to the 8 big shorts (ex-JPM) have come mostly on the gold side. I believe the largest potential liability to the 8 big shorts will prove to be in silver, but to date gold has accounted for the largest share of open losses. By the way, as of today's prices at time of publication, the 8 big concentrated shorts in COMEX gold and silver are out a collective $2.3 billion, up about $100 million from Friday's close.

Interestingly, the current open and unrealized losses to the 8 big shorts in COMEX gold and silver, while way down from the peak in September, are somewhat larger than the open losses that existed at the time of the peak losses of 2016 (adjusting for

JPM's share back then). But the big difference between then and now, apart from the absence of big participation by JPM currently, is that the losses in 2016 coincided with the peak in prices that summer before the subsequent large price declines into Election Day 2016.

Currently, gold and silver prices have already declined for the past 2 to 3 months, penetrating most moving averages and the managed money traders have yet to sell aggressively. Yet the big commercial shorts are in the same financial hole they were in at the top of prices in 2016. In addition, JPMorgan was the largest short seller back in 2016 and is nowhere near as short today. So what's going to happen to the big shorts if it turns out the managed money traders don't sell aggressively on lower prices ahead? My only conclusion, in that event, is nothing good for the big shorts.

Finally, as I indicated on Saturday, not only have we remained below the vast majority of the moving averages (except the 200 day moving average), we have remained below the averages for long enough so as to now threaten upside penetrations, particularly in gold. Despite a slightly lower close today, the 50 day moving average in gold is less than $10 over the today's close (and lower moving averages, such as the 20 and 30 day moving averages have already been penetrated to the upside). I have some reservations about how many more gold contracts might be purchased by the managed money traders on decisive upside penetrations, but it is not a rigid amount.

Again, I can't tell you whether the managed money shorts will sell aggressively on lower prices in the near future (as they always have in the past) or why they haven't sold aggressive to this point. I can tell you (or rather the COT data indicate) that they haven't sold. And while I further stipulate that the big commercial shorts are more

than capable of rigging prices sharply and suddenly lower at will (look at silver today), so far the lower prices have yet to result in aggressive managed money selling. I don’t claim to see the future with precision, but it seems to me that if the managed money traders continue to refuse to sell aggressively on lower prices, that will constitute a seismic shift from how the COT market structure premise has played out in the past. If that turns out to be the case, it’s hard to envision how the ultimate result won’t be sharply higher prices.

Ted Butler

December 4, 2019

Silver – $16.90 (200 day ma – $16.21, 50 day ma – $17.45)

Gold – $1479 (200 day ma – $1405, 50 day ma – $1488)