

December 7, 2019 – Weekly Review

A sharp Friday selloff, ostensibly caused by a much stronger than expected monthly US jobs number, resulted in lower gold and, particularly, silver prices for the week. Gold ended lower by \$6 (0.04%) for the week, while silver was slammed for 50 cents (2.9%). While gold is still flirting with 4 month price lows, the flirtation was over in silver which closed at its lowest daily and weekly level in more than 4 months.

As a result of silver's pronounced relative weakness, the silver/gold ratio widened by more than two full points to 88.25 to 1, making silver cheaper compared to gold than any time, not surprisingly, in the past 4 months. For those completely opposed to buying deeply undervalued assets close to all-time (thousands of years) objective measurements of undervaluation, this is a time to avoid silver (yes, I'm being facetious).

I say yesterday's selloff was "ostensibly" caused by the employment report because if there is any real connection between the report and silver's (and gold's) reaction to a stronger than expected signal on the economy then I continue to fail to see such a connection. I do see the report as being a great cover story for price rigging on the COMEX and the reason this particular report seems to exert whatever influence it seems to have is more an in-your-face demonstration of the COMEX's dominance on price than anything else "since most world markets are closed when the report is published."

Plus, it never ceases to amaze me, as occurred again yesterday, how silver prices can suddenly and near-instantaneously drop 40 cents and then just about "stick" at that same price level for the many hours remaining in the trading day. How could that possibly be associated with any legitimate free market price discovery?

This particular rigging also demonstrates that while spoofing may be dead (I think), the commercials on the COMEX have other price-rigging tricks in their dirty tricks tool bag. I say this because who else (other than the big commercial shorts) benefits from such sharp selloffs? But I won't say it too loudly for fear of waking the somnolent regulators at the CFTC and DOJ. By the way, the selloff this week, particularly the sharp selloff in silver did benefit the 7 big shorts to the tune of \$400 million; reducing their total combined open and unrealized loss to \$1.8 billion, the lowest in 4 months (I'll return to this later).

And if the employment report was the catalyst for pronounced weakness in silver, typically and selectively derided for being mostly an industrial commodity, why was it that two other industrial commodities, crude oil and copper, just happened to surge on Friday to multi-month highs? I haven't mentioned either crude oil or copper in a while, but both have extremely bullish COT market structures and both closed over their respective 200 day moving averages yesterday, copper for the first time in a year. I suppose "industrial" means something different than what I thought, namely, it excludes silver when convenient. Let me not beat around the bush "the selloff in silver was the result of a COMEX commercial rig job, pure and simple "making it a much better value and buy than it was before yesterday's rig job."

The turnover or physical movement of metal either brought into or removed from the COMEX-approved

silver warehouses remained strong this week, as just under 5.2 million oz were moved. Total COMEX silver inventories rose by 1.1 million oz to 314.5 million oz. For the sixth week in a row, the inventories in the JPMorgan COMEX warehouse remained unchanged at 161.1 million oz.

A week or so ago, a subscriber asked me to explain a bit more about my claim that JPMorgan had "skimmed off" at least 200 to 250 million oz of the total annual COMEX silver warehouse movement over the past now nearly 9 years. Kevin asked a great question because of all the various means by which I've alleged that JPM has accumulated 900 million oz of physical silver, the skimming component is the most "sketchy". (The other means "taking delivery on futures, conversions of SLV shares to physical and the buying and melting of Silver Eagles and Maple Leafs are more straightforward).

The way I tried to explain it was by acknowledging the skimming component was the hardest to explain and that I came to it, not immediately, but by the greater weight of the evidence. I don't know how many times I've openly solicited explanations for why the unprecedented physical COMEX silver warehouse inventory began turning over frantically in April 2011, the exact same time that JPMorgan opened its COMEX warehouse and, in hindsight (years later), began accumulating physical silver. Remember, the physical movement of silver in the COMEX warehouses is the only such movement in any commodity to this day.

We would all agree that no one is moving so much physical silver for giggles and the heck of it "there has to be a reason. If JPMorgan hadn't been acquiring silver by the other means I've outlined, I would never have come up with my skimming premise. But since it can be demonstrated that JPM has been accumulating in the other means I've observed, the skimming premise fits like a glove. Once again, I solicit any other alternative explanation for why so much physical silver (and not any other commodity) has been so moved over the past nearly 9 years. All told, some 2 to 2.5 billion ounces of physical silver has been moved in and out from the COMEX silver warehouses over this time and it's more likely my 200 to 250 million oz acquisition by JPMorgan is a severe underestimation, rather than an overestimate. Of course, the regulators (the CFTC, CME or DOJ or JPM itself) could ascertain what the answer is with a minimal effort.

Not much new to report on the December COMEX gold deliveries (and even less in silver). It has been an active delivery month with the most recent standout feature being the rise in both stopping and issuance by customers of JPMorgan, which just demonstrates the bank's near-complete dominance of everything precious metals related. Goldman Sachs appears to be reissuing many of its previously stopped contracts, but not yet for Citibank. I can't say anything really new jumps out at me.

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

Over the past month, there has been a notable reduction of around 15 million oz of silver in the world's leading silver ETFs, principally SLV and SIVR, while gold ETF holdings have been reduced by much smaller amounts. Yesterday's nearly 2 million oz withdrawal from SLV doesn't appear related to that day's sharp price decline because there is usually more of a time delay. I would note that yesterday's sharp price decline generated much more relative trading volume in SLV than in GLD, a pattern also noticeable in the relatively higher trading volume in COMEX silver than in gold yesterday.

Turning to yesterday's new Commitments of Traders (COT) report, there was nothing truly shocking

(away from the continued truly shocking lack of managed money selling on the price declines since September). I did think there would be significant managed money buying and commercial selling in gold and there was, although not to the extent I imagined (I didn't know what to expect in silver and kept my mouth shut). Of more importance is what may have occurred on the sharp high volume selloffs in silver, on Wednesday and yesterday, after the Tuesday cutoff.

In COMEX gold futures, the commercials increased their total net short position by 17,300 contracts to 322,800 contracts (less than the 30,000 contracts or thereabouts I had envisioned). Since this is the second largest total commercial net short position since the all-time high on Sep 24 (345,100 contracts), it must be considered extremely bearish in any conventional and historical sense.

And judging by a number of reports I've read and expect to read, extremely bearish is how the current market structure is being widely interpreted. As for me, while I wouldn't fall down in shock and awe if gold and silver were to experience a thorough price washout to the downside, complete with aggressive managed money selling (including new short selling), I still believe there may be a lot more to the story of why haven't the managed money traders sold much more to this point. Whereas there has never been an occasion where the managed money traders have not completely capitulated and sold to the downside, the possibility exists that they won't.

Getting back to the gold COT report, the big shorts (the 4 and 8 largest combined) sold about half of the what the commercials sold on balance and I would peg JPMorgan's short position to be around 30,000 contracts - still very low in the total scheme of things (also supported by the latest Bank Participation report). As the reciprocal of the lack of managed money selling to this point, the big commercial shorts have yet to buyback anywhere near the number of short contracts typical bought back in past cycles (excepting JPMorgan). Now whether the other big commercials haven't bought back more short contracts to date by choice (not wanting to book realized losses) or because of the lack of managed money selling is something that should be known in time (just not at this time).

On the buy side of gold, the managed money traders bought less than what the commercials sold, in buying 13,429 net contracts, comprised of the purchase of 13,552 new long contracts and the buyback of 123 short contracts. The lack of more short covering can hardly be considered a surprise since the managed money short position is and has been at near historical lows. The resultant managed money net long position of 207,962 contracts (232,276 longs versus 24,314 shorts) must be considered extremely bearish on a conventional market structure basis (but there is a question in my mind as to whether that's the correct way of looking at it).

Some things that jump out at me about the current gold market structure is the marked divergence in the behavior within the commercial community. The Producer/Merchant category (home to JPMorgan) has been buying back short positions since mid-September (30,000 contracts net), while the Swap Dealers have been net sellers of around 15,000 contracts over the same period. In fact, the swap dealers are holding their largest net and gross gold short position in history, while the producer/merchant short position is around 60,000 contracts less than its most recent previous high in early 2018 (and by an even greater amount if you go back to 2012). And back in 2018, the Producer/Merchant category was 50,000 contracts greater net short than the Swap Dealer category. Today, the Swap Dealers are 65,000 contracts more net short than the Producer/Merchants. Since we're not talking about real producers (miners) and just banks, the difference involves JPMorgan getting out of its gold short positions and the other banks not doing the same. (By the way, there are

some similarities between the Producer/Merchant and Swap Dealers categories in silver, but not to the extent in gold. And the next point is not present in silver at all).

Another marked shift in gold involves the large reporting speculators not in the managed money category. I've read recent reports that combine or blend the managed money traders with the other large reporting traders and lump the combined position against the commercials â a speculator versus commercial matchup. I don't think that's the way it should be looked at. While it's true that the managed money traders are relatively close to a record net and gross long positions in gold and the other reporting traders are even closer to record long levels, this has not been the case historically.

As I recently wrote, if anything, the other large reporting traders have been more likely to align themselves with the commercials and against the managed money traders. The current near-record long gold position of the other large traders is almost completely out of step with how they previously positioned themselves relative to the managed money traders. To have both the managed money traders and other large traders both close to record long positions is quite rare (as in, I've never seen it before, at least over the past five years or so). Now this doesn't mean both the managed money traders and other reporting traders will turn out to be right or wrong on this go-around, but it does likely mean it will be one or the other.

In COMEX silver futures, the commercials increased their total net short position by a scant 400 contracts to 74,300 contracts following the prior week's much larger increase (7300 contracts). As a result of this week's report and recalibration from the Bank Participation Report, I'd peg JPMorgan as being short at least 10,000 contracts and maybe a bit more. At the same time, the sharp price selloffs on Wednesday and yesterday on very heavy trading volume persuades me that JPMorgan likely did an impressive amount of short covering on those days.

The managed money traders also sold on a net basis and quite a bit more than the commercials, as these traders sold 3966 net silver contracts, consisting of the sale and liquidation of 2565 long contracts and the new sale of 1401 short contracts (most likely a reaction to the prior week's aggressive and largely unexpected buying). The resultant managed money net long position of 44,173 contracts (73,377 longs versus 29,204 shorts) must be considered bearish, although not nearly as bearish as the managed money net long position in gold.

After all, the record managed money net long position of 100,000 contracts of early 2017 is some 55,000 contracts larger than the current reading, leaving a good deal of potential buying. Then again, were we return to the most recent peak of the managed money net short position of 40,000 contracts of early this year, that would allow for the sale of 85,000 net contracts of managed money selling. Just trying to remain objective.

The key, both in gold and silver, is if the managed money traders sell aggressively on lower prices from here, particularly in terms of selling new contracts short. This, of course, has been the focus of my recent ramblings and that is still the case, namely, can/will the managed money traders be persuaded/tricked into selling and selling short on lower prices? Yes, they always have been so persuaded and tricked in the past, so it's hard to argue that they won't be fooled again.

Then again, the managed money traders have had more than ample opportunity and motivation in the form of lower prices and downward moving average penetrations to have sold aggressively by now and

they haven't. As a result of the lack of selling indicated in the current COT report, I'm still of the opinion that either they will or won't, but I'm still playing it as if they won't and that prices should surprise to the upside. Alternatively, if the managed money traders do get tricked into selling aggressively (including new short sales), I'm still convinced that will prove to be the final selloff.

The concentrated position of the 4 largest longs in COMEX silver was reduced by 2800 contracts to 49,805 contracts, taking some steam away from the big new whale premise. The 4 largest longs in COMEX gold increased their concentrated long position by 500 contracts to 130,389 contracts, leaving the big gold whale premise still alive. However, reports that the largest COMEX gold holder may be holding 100,000 contracts or more seem wildly inflated, as mathematics dictate the position most likely to be no more than 50,000 contracts (5 million oz).

I also must note that mining share performance, particularly of the silver variety, still seems extremely noteworthy compared to metal price performance. The most logical explanation is an expected coming significant rally in the price of the metal as it is hard to reconcile why investors would expect continued share price appreciation in the absence of a similar price appreciation in silver itself.

A subscriber asked me yesterday at what price silver (and gold) would have to drop to in order to eliminate completely the now remaining open loss of the 7 largest shorts in gold and silver (\$1.8 billion). My answer is roughly a dollar in silver and \$50 in gold, something that can hardly be considered farfetched in the face of this week's metal price performance. I was quick to point out that eliminating the open and unrealized loss is one thing, while actually closing out all the positions is something else entirely. It's a function of price and actual positioning change, two different things. I must note that on a pretty miserable price week (more in silver than gold), gold is still only about \$20 below a price level which will cause all the moving averages currently below the price to be at or above those same moving averages.

The big commercial shorts are quite adept and capable of rigging prices lower, almost at will (and unfettered by any interference from the CFTC and DOJ) as this week's price action in silver would attest. But getting the managed money traders in gold and silver (and other reportable gold traders) to go along with the scam and actually sell appears more problematic this time than it has in the past. The actual positioning changes to come (or not come) will be what determine the next chapter in this ongoing saga. While many proclaim to know what will happen next, the reality is that no one knows for sure (except for you know who). This current circumstance is much different than any we've witnessed before and we'll all know a lot more as this plays out. In the meantime, I'm just trying to focus on what matters most.

Ted Butler

December 7, 2019

Silver – \$16.60 (200 day ma – \$16.23, 50 day ma – \$17.37)

Gold – \$1465 (200 day ma – \$1407, 50 day ma – \$1486)

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