A third weekly decline in gold and silver prices proved to be steepest, with gold falling $30 (2.3%) and silver closing 60 cents (3.6%) lower for the week. Due to the relative weakness in silver, the silver/gold price ratio widened out by more than a full point to just under 79 to 1, close to the most undervalued silver has been relative to gold in three years. Because silver is so incredibly low in absolute price terms, I suppose it would be near impossible for it not to be undervalued as well relative to gold (or anything else). Simply put, when we turn upward (as we surely will), silver should vastly outperform gold in percentage terms. These are the investment terms that matter.

The standout development of the week was yesterday's stunningly bullish Commitments of Traders (COT) report. I had expected hefty positioning changes, but the report still blew me away. I actually had trouble sleeping because it contained so much thought-provoking data. With so many now following COT market structure analysis, prepare for widespread commentary on some of the largest weekly changes in history. And -stop the presses – price and trading volume over the past three days suggest continued bullish changes since the Tuesday cutoff.

I'll certainly dig into the details in a bit, but I would first like to put things into perspective. I rant and rave about how the only price force that matters in gold and silver is positioning change in COMEX futures contracts, perhaps to the point of obsession. But this week's COT report only fuels that obsession. After months of fairly stable prices and close to unchanged positioning changes, gold and silver prices fell sharply on massive positioning changes with the identity of those traders buying and selling predicted beforehand.

On every past instance of a notable price declines in gold and silver, it is always the commercials (banks) buying and the managed money traders (technical funds) selling – always. Not only has it never happened any other way, I'm convinced it can't happen any other way. So it's no surprise that on this week's price drop, the banks bought massively while the technical funds sold. Because the quantities of contracts bought and sold are so massive in size relative to real world equivalents, particularly in silver, it's easy to see (once you think about it) that this COMEX positioning sets price. It has nothing to do with sentiment or coincidence, or anything else in the world; this futures positioning is the direct cause of price change. That's nuts and is supposed to be illegal, but can't be denied (legitimately).

On a completely different level, the actual and prospective changes in the COMEX market structure have left me more bullish on silver than I have been in quite some time. As you know, I have been wildly bullish on silver for its non-COMEX supply and demand circumstances for three decades and began petitioning the regulators about the COMEX price manipulation for just as long. Remarkably, over that entire time, I have witnessed the COMEX paper influence grow stronger and the actual supply/demand fundamentals grow weaker as a price influence, despite the growing general awareness of the paper influence.

Feeling certain that there must come a time when the actual metal fundamentals in silver would overcome the artificial paper price influence and further reasoning that the time would likely come when it was most advantageous to those in charge of the manipulation; I became convinced that the "big one" or big silver move higher would come after the 8 big commercials had whittled down their concentrated short position to the lowest levels they could. So every time the concentrated short position got to what looked like it couldn't get much lower, I proclaimed not only a

price bottom, but the likelihood of the big silver move higher. The price bottoms always came, mostly according to my expectations, but not the big one.

The positioning changes now suggest a price bottom is within sight or at hand and just like the boy who cried wolf, the next move up looks to be the big one in silver to me – more so than ever before. One thing that makes it different to me this time is not just the massive number of contracts repositioned, but the unique manner in which the repositioning occurred this go around. Plus there are other unique non-paper related issues in play.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained active this week as 4.2 million oz were moved. Once again, it was mostly an “in” affair, as total COMEX silver inventories rose by 2.8 million oz, to 239.9 million oz, another 20 year+ record. I don’t consider the steady increases to be bearish, as the most recent additions appear related to futures contract delivery demands and not because there is no place else to put the metal.

Along those same lines, another 600,000 oz were deposited into the JPMorgan COMEX silver warehouse, which now holds 117 million oz, another new record. It’s a little early, based upon past patterns, to conclude that JPM has begun to move the 12 million oz of silver it has taken delivery of so far this month into its own warehouse, but that seems like a reasonable assumption. It sure doesn’t suggest that JPMorgan has quit its epic physical silver accumulation, now approaching its seventh year.

There were no big new surprises in the continuing December COMEX gold and silver futures deliveries, but open interest in December is still high enough to warrant attention. That doesn’t diminish the delivery surprises to date, namely, the

reemergence of JPMorgan as the big stopper and the emergence of Goldman Sachs as a big stopper in both gold and silver, as well as the standout role played by HSBC on the issuer side of both metals.

JPMorgan is still the dominant stopper in both gold and silver, with Goldman in second place. Goldman still appears to have been instructed to reduce its silver stops this month back to 1500 contracts (7.5 million oz) and has only 23 contracts to redeliver to get to the limit allowed. Limits, obviously, don't apply to JPM, as it is over both the limit in silver, with 2408 contracts (12 million oz) already stopped, as well as being over the limit in gold (3000 contracts) with JPM stopping 3692 contracts (369,200 oz) so far and still taking more of each metal.

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

There were very large deposits into the big silver ETF, SLV, over the past week or so of more than 5 million oz. If it isn't related to the large 4 million oz recent increase in the short position, then I don't have an alternative explanation. The deposits of metal in SLV and last week in GLD seem designed to reduce the large recent increases in the short positions of each, but the timing of the deposits came after the cutoff date for Monday's new short report. The likely sharp reductions in the short positions of SLV and GLD, whenever reported, is also highly consistent with a price bottom.

I was gobsmacked by yesterday's COT report. Given that gold had fallen more than $30 over the reporting week, penetrating its 200 day moving average on the Tuesday cutoff for the first time in 5 months, I was expecting big managed money selling and commercial buying. Likewise in silver, which fell more than 80 cents in perfect salami price slices, there was certain big managed money selling and commercial buying.

But considering how small the weekly positioning changes had been for months, I thought I might be going overboard in predicting a 15,000 net contract change in silver and a 30,000 contract change in gold and, hopefully, much more in each. Not only would I have been embarrassed if the numbers came in much less than I was expecting, I would have been sorely disappointed as well. That the numbers came in close to double my expected changes in the commercial headline number and more than double in the managed money alternative headline number has me ecstatic. And the more I contemplate the changes, the more bullish silver, in particular, appears.

In COMEX gold futures, the commercials reduced their total net short position by 56,700 contracts to 189,900 contracts. This is the lowest (most bullish or least bearish) commercial net short position since early August. It is striking that there was such large commercial buying on a gold price decline ($30) that can hardly be considered unusually large by historical standards. That, plus the breakdown by commercial categories seems to suggest a highly coordinated aspect to the price drop, certainly different from anything I've previously observed.

By commercial categories, the big 4 bought back an astoundingly large 28,800 short contracts, while the big 5 thru 8 bought back a very large 16,900 short contracts, with the raptors (the smaller commercials away from the big 8), buying 11,000 new longs, increasing their net long position to 29,500 contracts. I always pay particular attention to the 8 biggest shorts in gold and silver and can't recall a time when the big 8 bought this large a percentage of the total commercial buying.

I still can't call the gold market structure bullish, but I find the actions of the biggest shorts to be extremely bullish. Generally speaking, the big 4 and big 8 only get to buy back significant quantities of short contracts towards the end of a price move lower,

after the raptors have added many more longs than they hold now. At least as concerns past positioning patterns, this time looks different. Of course, if the managed money traders do sell as many gold contracts as they have sold in the past (both in terms of further long liquidation and additional new short sales), the commercial category changes to date may not seem as unusual and noteworthy as they appear to be now.

On the sell side of COMEX gold futures, the managed money traders sold more net contracts than the commercials bought, as these mostly technical fund traders sold 64,030 net contracts, including the liquidation and sale of 41,344 long contracts, as well as the new short sale of 22,686 contracts. As of Tuesday, there looked like "only" another 35,000 managed money long contracts could be liquidated to get back to recent extreme low readings, but more than that should the technical funds add to short positions as they have in the recent past. This is all after subtracting the managed money contracts sold after the cutoff, which appear to be substantial.

In COMEX silver futures, the commercials reduced their total net short position by an astounding 26,700 contracts, to 46,400 contracts. This is also the lowest (most bullish, least bearish) total short position since August. As was the case in gold, there was very substantial short covering by the 4 and 8 largest commercial shorts, as the big 4 bought back 6400 short contracts and the big 5 thru 8 bought back 4700 short contracts. The raptors added 15,600 long contracts to a net long position now amounting to 41,600 contracts.

Based upon yesterday's release of the monthly Bank Participation Report, I'd peg JPMorgan's short position to be 29,000 contracts, down 11,000 contracts over the past two reporting weeks. That's the equivalent of 55 million oz of silver and means

that JPMorgan has profitably covered (yet again) massive short positions while at the same time picking up more than 12 million oz of physical silver on the cheap via COMEX deliveries. Is or isn't JPMorgan pulling off the perfect silver crime in full view? Don't misunderstand me – nothing could be more bullish for the future price of silver than to have JPM cover as many paper shorts and continue to accumulate physical silver, but it's also patently criminal.

On the sell side of COMEX silver futures, the managed money traders outdid the commercials by selling nearly 35,000 net contracts, including the sale and liquidation of 12,339 long contracts and the sale of 22,576 new short contracts. I should point out that in both gold and silver, the managed money traders sold more than the commercials bought due to buying competition from the other large reporting (non-managed money) traders. It seems more want a piece of the managed money action.

With the managed money long position down to 57,446 contracts as of Tuesday and I would imagine lower still as of yesterday, the core non-technical fund long position is now at or likely below the previous low-water mark of 56,000 contracts. Future COT reports will clarify this issue, but as far as I'm concerned, the lower the better as it helps contribute to the big one premise. Likewise, I am delighted that the managed money traders came close to tripling their short position, at nearly 36,000 contracts as of Tuesday and undoubtedly higher thru yesterday's trading.

New managed money shorts are nothing but good news, once they have been placed. That's because these shorts represent certain buying as prices rise. That's the difference between the big commercials adding new short positions and the managed money traders doing the same. The commercials only cover shorts at lower prices (like now), while the managed money traders only buy on rising prices (like will

come).

The real story, as was the case in gold, is how the heck did the commercials generate such massive managed money selling in silver (both long liquidation and new short selling) as they did in such a short period of time? Granted, silver did fall in price (80 cents) more than gold prices fell in percentage terms during the reporting week, but the quantities sold were still disproportionate to the price decline.

I get the feeling the commercials, led by JPMorgan, pulled out all the stops in getting the managed money traders to sell so aggressively. While I do mean the literal setting off of managed money sell “stop loss” orders placed below the market, I sense other tricks pulled by the commercials away from this. What tricks? You have to remember that the biggest commercial short, JPMorgan, is also the leading prime broker to the managed money traders. This means that JPMorgan knows all that needs to be known about its clients, in this case many large managed money traders, and exerts a level of influence that even the managed money traders probably don’t recognize.

My sense is that JPMorgan and the other commercials in position to do so (those functioning as prime brokers to the managed money traders) did everything within their power to “persuade’ the technical funds into selling more aggressively than ever before. Something has to explain why the managed money traders sold so aggressively in such a short period of time and while I doubt it will ever come out, I sense a much greater and more coordinated effort by the commercials than previously.

Of course, the reasons why the managed money traders sold so aggressively, particularly on the short side of silver, are less important than the actual fact that

they did sell. All that matters to price is and has been managed money and commercial positioning and the new COT report indicates a record bullish positioning change, with strong indications it continued through yesterday. I would consider his week's change to be of sea change proportions.

While I have held that the greatest probable outcome of the COMEX market structure in gold and silver to be lower in price since early September, this week's report changes that. The probability now is for higher prices, all things considered. Prices can still go lower and likely will if there is enough new managed money selling ahead, particularly in gold because the managed money selling is much more advanced in silver. I am as certain as I can be that it is only a matter of time before silver is substantially higher in price than it is today. Even if the final lows haven't been seen, it seems impossible to me that silver prices won't move higher and quite soon.

Accordingly, I have been increasing my short-dated and out-of-the-money call option positions at a pace that seems reckless. Reckless, that is, until I consider the growing evidence of a pending moon shot in silver. Then it seems reckless not to be exposed to the max at this time, all while assuming that every call option I buy will expire worthless. I wouldn't hold silver (or anything else) on margin and I will hold my now all-in fully paid for silver positions regardless of future price declines. But to juice it up, I am prepared to add new options as the old ones expire until I run out of purely speculative money, a process I've budgeted a few months for at this point.

It's not just all the signs I see of a pending upturn, it's more how good of a position that JPMorgan is in for a silver price explosion; in fact, better than ever. Of course, when we turn up in price, it will be JPMorgan which decides if that move will be the

big one, by not adding to silver shorts as prices rise. Yes, I know JPM has always added shorts on every silver rally over the past ten years and that's exactly why we haven't witnessed the big one to date. I'm the guy who pointed that out in the first place. But if I didn't think that could and would change, I wouldn't be buying reckless silver calls.

On the running money scoreboard on the status of the big 8's combined short position in gold and silver, this week the 8 big crooks were ahead about a billion dollars in unrealized profits. Of course, the big shorts are closing out (profitably) as many open short positions as possible, so this is where the scoreboard becomes less important. The crooks did and are doing what they had to do to extricate themselves from underwater short positions and this also points to a clearing of the decks prior to a potential price moon shot.

Questions

I've received a number of timely questions from readers that go into issues I know many are interested in and, in fact, are along the lines of what I think about constantly. The questions are related, but different enough to comment on individually.

The first has to do with the December COMEX deliveries in gold and silver; I was asked how prices could possibly go lower in the face of such big JPMorgan and now Goldman Sachs buying of physical metal. The answer has to do with the mechanics of the delivery timing sequence. Deliveries have to do with the conversion of futures

contracts into metal (or vice versa). No buying or selling necessarily occurs on a COMEX delivery – paper contracts are exchanged for ownership of metal. In this case, JPMorgan and Goldman Sachs bought their gold and silver contracts prior to the delivery as did HSBC on the sell side.

The real question here is how could silver and gold prices drop in the face of the delivery data becoming known? This goes to the heart of the matter, namely, that paper trading supersedes any developments in the real world of physical metal. And in this case, the biggest COMEX paper short, JPMorgan, happens to also be the biggest physical silver buyer and long, which is too crazy (and illegal) for words. The fact is, however, that JPMorgan stands more to gain in the short term when silver prices decline because it can buy back many more paper short positions profitably than it can buy cheap physical silver. In this case, JPM wins on both counts, as COT data has confirmed. Sure, JPM loses a little temporarily on its new deliveries, but made out much better in buying back paper short positions.

The next question is a recurring question – why can't this COMEX manipulation go on forever? After all, why would JPMorgan step away from its perfect trading record of never having taken a loss on any paper silver short position it added over the past decade? The answer, once again, resides in what's best for JPMorgan. Yes, JPMorgan, by my estimates has made $2 or $3 billion over the past decade by profitably closing out newly instituted COMEX short positions at lower prices than originally sold short at. That comes to $200 or $300 million per year. Crooked or not, who gives up such a continuing income stream willingly?

Because so much competition has come in to take part in skinning the managed money traders (the raptors and other traders), JPM's ongoing paper trading profits

have been compressed. The bank has continued to make profits in paper trading, but at a greatly diminished rate. More importantly, JPMorgan's physical silver position has grown so large (now well over 650 million oz), that the mathematics now dictate the bank can make, quite literally, many hundreds of times the profits it had been making in paper trading by letting the price run.

At this point, every dollar up in silver will make JPM $6.5 billion – at $100 silver, JPM's physical stash would be worth $65 billion (minus a much smaller loss on its paper short position). Let's see – scrape by with maybe a hundred million dollar a year profit as opposed to a multi tens of billions of dollars score – what would you opt for if you were JPM? Remember, JPMorgan is large and in charge. It is now in JPM's best interest that silver price rise and by a lot.

Finally, a reader recently asked me why I always buy silver too soon, or before the market structure is flashing extremely bullish (like now)? Perhaps the simple answer is that I can't help myself given what I think I know about silver; but it's more than that. Because I think I know that when the turn upward comes, particularly if it turns into the big one (JPM doesn't add to shorts), then I can't see how it would be better to wait for the turn. That's because once silver prices start to run, it gets increasingly difficult to buy cheaply, particularly when it comes to buying cheap call options. It's just one of those cases where it's much better to be early than a day too late

Ted Butler

December 9, 2017

Silver $15.85 (200 day ma – $17.08, 50 day ma – $16.86)

Gold – $1250 (200 day ma – $1268, 50 day ma – $1281)