February 16, 2019 – Weekly Review

A sharp rally on Friday erased what were lower prices through Thursday and enabled gold to close $7 (0.5%) higher for the week and at fresh 9 month weekly closing highs. A similar Friday rally in silver was not sufficient to put its price higher for the week, as the white metal ended 7 cents (0.4%) lower, although off its weekly low by 30 cents. As a result of the goldâ??s outperformance, the silver/gold price ratio widened out by nearly a full point to just over 84 to 1; still at near unbelievable relative undervaluation levels for silver.

As to why silver is so darn cheap relative to gold and just about everything else in the world, the answer is still that it is the most manipulated market ever. Iâ??m not being flip or making excuses – my only question is what will break the manipulation and when. My hope and expectation is that it will be due to Justice Department action and soon.

Yesterdayâ??s Commitments of Traders (COT) report for positions as of Jan 22 was even better than expected for both gold and silver, as Iâ??ll discuss shortly. As a reminder, yesterdayâ??s report covered the weak price action into mid-January following the new price highs that were hit early in the month. Next weekâ??s two reports (on Tuesday and Friday) will cover the price rally to new highs that occurred at the end of January and will give us a clearer picture of market structure.

Regardless, at this point I am quite impressed with goldâ??s market structure considering the extent of the price rally since Nov 13. As for silver, there is so much potential stuff going on behind the scenes that I am nowhere near as concerned with what would normally be considered a bearish market structure to abandon a full exposure on the long side.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained at or above the average weekly movement of the past 8 years, as 5.5 million oz were moved this week. Total COMEX silver inventories fell 0.9 million oz to 296 million oz. The standout feature this week was the removal of 3 million oz from the JPMorgan COMEX warehouse (after an early week near 0.5 million oz deposit) which reduced the silver holdings in that warehouse to 147.7 million oz. Not enough data is available to conclude what JPM may be up to, except no good in general.

I ran across a real â??wise guyâ?• twitter response to one of the questions I contend only the Justice Department can get answered; the one asking to explain why so much silver has been moved in and out of the COMEX warehouses over the past 8 years (2 billion oz in total). The wise guyâ??s answer was that it was just refiners depositing metal and users withdrawing it (which is not very much different than what Iâ??ve been suggesting and indicative of really tight wholesale conditions). What makes me term it a wise guyâ??s smart aleck response was him ignoring the obvious point that this was occurring only in COMEX silver of all commodities. (Yes, the guy is a staunch manipulation denier).

There was a bit of a surprise in the concluding gold deliveries in the COMEX February contract delivery month, as Citigroup turned around and issued 927 contracts, after stopping 2474 gold contracts earlier in the month. Prior to this month, Citi hardly ever turned up as an issuer or stopper of gold (or silver) futures contracts, despite being a large participant in OTC derivatives. By redelivering, Citigroup appears to have pulled a mini-Goldman Sachs, in that it issued a lot of what it had stopped earlier â??

making one scratch his head for what the exercise was all about. Strictly speculation on my part, but I get the sense that Citi was acting as a front for JPMorgan, as Iâ??ve suspected in the prior Goldman Sachsâ?? redeliveries. Yes, JPMorgan has been the largest stopper of gold this month, both for itself and clients. In fact, JPMâ??s appetite for physical gold and its lack of holding COMEX gold paper shorts is a decidedly bullish factor for gold.

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

Turning to the still delayed COT report as of Jan 22, the first thing to remember was that this marked the end of the two week pull back in price made shortly after the first of the year. For gold, prices had pulled back to just under $1280 from the $1300 high hit in early Jan, while silver had pulled back from just under $16 to $15.20 on Jan 22. Silver had slightly penetrated its 200 day moving average to the downside on Jan 22, while gold didnâ??t really come close to penetrating either its 200 or 50 day moving averages.

Considering the price action, what has most surprised me has been the dramatic improvement in the gold market structure over the past three (delayed) reporting weeks. From the COT report as of Dec 31 thru the report as of Jan 22, the gold commercials have bought and reduced their total net short position by 52,500 contracts, while the managed money traders have been net sellers of 34,000 contracts (other large and small traders have sold the difference).

I find this surprising because gold prices on Dec 31 were around $1280 and while mostly higher in the interim, ended around $1280 on Jan 22; again not penetrating any key moving averages to the downside. I would and did expect the opposite, namely, managed money buying and commercial selling on that type of prices action (new multi-month price highs). Obviously something persuaded the managed money and other traders to sell, most likely the fear or expectation of falling gold prices. In the perverse nature of markets, this selling must be considered bullish.

And while both the commercial net short position and managed money net long position increased in silver, in contrast to gold; the increases werenâ??t overwhelming â?? 7,000 contracts of commercial selling and 5,000 contracts of net managed money buying from Dec 31 to Jan 22. If it wasnâ??t for the actual improvement in gold, I donâ??t think I would be at all unhappy with the small deterioration in silver in that period. Of course, what matters most is what next weekâ??s reports show in that both gold and silver made new price highs in the two prospective reporting weeks thru Feb 5. There will be market structure deterioration (managed money buying and commercial selling) in next weekâ??s reports, but Iâ??m starting to think the surprise may be in how little, not how much deterioration there will be (he said, hopefully). Let me run through the details of the COT report for the week ended Jan 22, while also dealing with the theme of the general market structure.

For the reporting week ended Jan 22, in COMEX gold futures, the commercials bought and reduced their total net short position by 16,000 contracts to 92,100 contracts, the lowest (most bullish) levels since mid-Dec. It looks to me that JPMorgan holds no COMEX short position in gold (whereas it was short at least 100,000 net contracts as of last April). For the same reporting week, the managed money traders sold 8725 net gold contracts, consisting of the sale and liquidation of 10,356 long contracts and the buy back and covering of 1631 short contracts.

From the price low of $1200 on Nov 13, when the commercial net short position was just under 2000 contracts, goldâ??s price has advanced by as much as $100 as the commercials sold 90,000 net contracts (mostly new short selling in the swap dealer category). The managed money traders over this time bought nearly 95,000 net gold contracts and, interestingly, that buying was mostly of the short-covering variety, as opposed to new buying. I would have expected more overall managed money buying and definitely more new contract buying on the rally, perhaps 100,000 contracts more. That we didnâ??t get that, at least through Jan 22, is most remarkable and I believe bullish (as Iâ??ll explain momentarily).

For the reporting week ended Jan 22 in COMEX silver futures, the commercials bought and reduced their total net short position by 6,800 contracts to 64,900 contracts. Both the concentrated net short position and JPMorganâ??s short position was reduced by around 2000 contracts and Iâ??d peg JPM to be short around 20,000 contracts. The managed money traders sold 4058 net contracts for the week, comprised of the sale and liquidation of 2706 long contracts and the new short sale of 1352 contracts.

From the price low of $14 on Nov 13 through Jan 22, the commercials sold 60,000 net silver contracts on a price rally of as much as $2, but that had been trimmed to $1.30 by Jan 22. On that same rally and pullback, the managed money traders bought 76,000 net contracts, the equivalent of 380 million ounces. Clearly, there was much more relative managed money buying in silver (76,000 contracts) on the rally than the 95,000 contracts bought in gold, considering that the gold market, in COMEX contract terms, is more than twice as large as the silver market. It also means that the commercials were much more aggressive in selling in silver than they were in gold. This also corresponds to my prior expectations being so wide of the mark. Iâ??d like to speculate as to why this was so.

As to why the managed money traders bought relatively fewer gold contracts than expected (meaning the commercials also sold less), appears to be related to a subjective override of typical technical signals suggesting the gold price (at $1300) may have been â??too highâ?• and likely subject to a selloff. As to why that same subjective buying caution wasnâ??t evident in silver was most likely due to the fact that, even by technical fund subjective standards, $16 silver wasnâ??t considered overly expensive. I donâ??t know either for a fact, but am groping for the most plausible explanations to fit the data recorded. If correct, two related but somewhat different outcomes might lie ahead.

In gold, the lack of much more aggressive managed money buying and commercial selling through Jan 22 suggests much less potential managed money selling to the downside and that much more potential buying on higher prices. Even though the managed money traders have bought close to 95,000 net gold contracts since Nov 13, there is easily room for a further 200,000 contracts of net buying to get to the extremes witnessed in all three previous years. Supporting this premise is that the commercials have been fairly aggressive in buying back gold shorts on the rather shallow price decline into Jan 22, made more unusual by the fact that the commercial short covering appears to have been at a loss, a rather rare phenomenon. This makes next weekâ??s two delayed COT reports all the more interesting in determining how aggressive the managed money traders were on the buy side on goldâ??s rally to $1330 in very late January (and conversely, how aggressive the commercials were in selling into that managed money buying). The bottom line, however, is that, at least thru Jan 22, the COMEX gold market structure is much more bullish than I would have imagined at this point.

Itâ??s different in silver, but perhaps not in terms of how prices will play out. There has been much more managed money buying and commercial selling than there has been in gold on a relative basis, but if that difference is explained by managed money subjectivity that silver prices are cheap at $16 or lower, it may not matter much unless the commercials are more successful than they have been in rigging prices lower through the moving averages very recently.

In addition to witnessing that spoofing is no longer a working commercial tool (for obvious reasons), there can be little question that price action, both in gold and silver, has been â??differentâ?• of late. Whether that is only temporary and we revert to the same old wash, rinse and repeat flush out of managed money traders to the downside remains to be seen; but recent price declines donâ??t seem to have the same follow through to the downside, particularly in silver. I may be prejudiced, but I think that has a lot to do with the Justice Departmentâ??s Nov 6 announcement.

This isnâ??t rocket science; the DOJ openly announced it was engaged in an ongoing investigation into COMEX market manipulation on Nov 6 and gold and silver began one of their largest recent rallies shortly thereafter. That makes the rally since Nov 13 the first since the DOJâ??s open declaration on Nov 6, or in other words, the first on the DOJâ??s â??watchâ?•. Iâ??m not saying itâ??s impossible for a selloff to occur, just that it is hard to imagine the Justice Department not understanding why the selloff would have occurred. Additionally, JPMorganâ??s role in adding shorts on the rally since Nov 13 is different, in that it has added no new shorts in gold (at least thru Jan 22) and far fewer shorts in silver than it has previously, in terms of its share of new commercial shorting.

As to why the commercials have added as many new shorts as they have since Nov 13, particularly in silver, I believe the Justice Department has been so tight-lipped about the progress of its ongoing investigation that virtually no one (aside from JPMorgan) is aware of what is transpiring behind the scenes. The commercials which have added shorts, particularly of the concentrated variety, are conducting business as usual â?? selling whenever the managed money traders buy, just like they always have. And why wouldnâ??t they?

Of course, if something is going on away from public view (as I hope and expect) and the Justice Department is taking a real interest in what sets precious metals prices, at some point it will conclude that paper positioning is illegal price-fixing and will react accordingly. Should that reaction occur while there is a large concentrated short position in place in COMEX silver futures (almost inevitable since there is almost always a large concentrated short position held by either the commercials or the managed money traders), those holding the concentrated short position at that time will be in harmâ??s way. Should it be the commercials holding the concentrated silver short position (as is the case presently), that greatly augments the premise of the first commercial short covering overrun ever.

As far as why JPMorgan would have added any new silver shorts in light of the Justice Departmentâ??s investigation (of which JPM is surely aware), I think it comes down to being the lesser of two evils. Had JPMorgan not added any silver shorts, it is a certainty that silver prices would have rallied further than they did rally, perhaps by enough to prove to the Justice Department that JPMorgan is every bit the market manipulator I allege it to be. It remains to be seen whether JPMorgan has the chutzpa to rig silver prices lower to buy back added shorts at a profit, as Iâ??ve previously postulated.

We will have learned a lot more by this time next week when we have the next two COT reports in hand and even the report next Tuesday, covering the reporting week ended Jan 29 should help clarify how aggressive the managed money traders were on the buy side and the commercials on the sell side, since gold had rallied above $1300 and closed at new highs and silver also rallied, although not yet trading above $16. The COT report next Friday will be more conclusive.

In the interim, all things considered, even if the new COT reports prove disappointing, itâ??s hard to justify not maintaining oneâ??s full long exposure. Something Iâ??ve been thinking about, but havenâ??t mentioned in eons, is my belief that, one day, the COT positioning will not function as it had, meaning not so much that COMEX positioning wonâ??t matter at all, but that it will impact the market in a manner completely different than previously. In other words, a pricing world unlike any we have grown accustomed to over the years. Iâ??m more sensitive to this way of thinking as a result of the very different price patterns of late and, most emphatically, the Justice Departmentâ??s announcement on Nov 6.

Finally, having written to the Justice Departmentâ??s Antitrust Division asking it to investigate the concentrated short position in COMEX silver futures on monopolistic pricing and restraint of trade grounds (Wednesdayâ??s article), I was more than interested to read a speech given yesterday by the Assistant Attorney General who heads the Antitrust Division to a distinguished antitrust symposium. What caught my eye was this quote â?? â??There is today a chorus of calls to bring antitrust enforcement actions to solve problems that are sometimes correlated with, but not necessarily even caused by, concentration in an industry.â?•

https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-george-mason-law-review-22nd

This issue in COMEX silver futures is as purely and exclusively a matter of concentration as is possible. On that basis alone, antitrust enforcement is called for.

Ted Butler

February 16, 2019

Silver – $15.75Â Â Â Â (200 day ma – $15.30, 50 day ma – $15.39)

Gold – $1325Â Â Â Â Â Â (200 day ma – $1251, 50 day ma – $1286)

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