

## February 24, 2018 – Weekly Review

Gold and silver prices fell for the week, with gold ending \$20 (1.5%) lower and silver finishing down a dime (0.6%). As a result of gold's slight relative underperformance, the silver/gold price ratio tightened in by half a point to 80.6 to 1. This is still nosebleed territory signifying a deep undervaluation of silver compared to gold, but like many things in life, even the most extreme circumstances seem to become normal and customary through the passage of enough time. I have no doubt that we all look back in time and marvel, not only about how cheap silver had become compared to gold, but also for how long that extreme undervaluation persisted.

In effect, this was another week off the calendar in terms of what occurred in gold and silver in the broadest sense, or another week where the resolution of the extreme dichotomy between the market structures in each remained suspended. COMEX futures market positioning remains the main, if not sole driver of gold and silver prices and how the very different structures in each get resolved will determine prices ahead. That doesn't mean that there weren't some other noteworthy developments this week away from the new COT report, which I'll discuss momentarily.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses approached 4.5 million oz this four day work week, as total inventories fell a sharp 6.8 million oz to 246.4 million oz. There were no further deposits in the JPMorgan COMEX silver warehouse beyond the 1.6 million oz inflow for the week, as I reported on Wednesday. The silver in the JPM COMEX warehouse remains at a record 135.3 million oz.

If you're not scratching your head at this point, I would ask you to reread the last paragraph. I assure you that my numbers are correct, but you should be asking yourself how the heck can the movement be 4.5 million oz, with another 1.6 million oz brought into the JPMorgan warehouse and total inventories drop by 6.8 million oz? As it turns out, there is an unusual explanation for something that should otherwise be impossible.

Earlier in the week, there was an unusual "adjustment" of 6.6 million oz out of the HSBC COMEX silver warehouse. I say unusual because heretofore adjustments to COMEX metal inventories always involved switches from the registered to eligible category or vice versa, which didn't involve any actual physical movement of metal, or very minor changes in inventories. This time was very different – a big chunk of metal was physically removed; this was no simple bookkeeping adjustment between categories. This was confirmed by the CME's Registrar in response to my inquiries. What does this mean?

For starters, it means that 6.6 million oz of silver, representing 11 full truckloads of cold hard metal and 3 full days of world mine production that up until last Tuesday was reported as being in the HSBC COMEX warehouse, was suddenly no longer there. Obviously, it had been removed sometime prior to the "adjustment." While the 6.6 million oz was not a particularly large percentage of total COMEX silver inventories, it did represent a rather significant percentage (nearly 20%) of the silver in the HSBC warehouse (now less than 26.5 million oz). I can understand a warehouse adjustment of less than a percent or so from time to time, as paperwork is reconciled and inventories audited, but how do you

miss 20% of what you supposedly hold? Sloppy is an understatement.

Certainly, it's no surprise that the 6.6 million oz involved the HSBC warehouse because the bank and its client(s) were the big issuers of silver in the December COMEX futures deliveries, delivering more than 16 million oz. I remember portraying the December silver and gold deliveries as a mano y mano contest between JPMorgan taking delivery of physical gold and silver in enormous quantities and with HSBC as the primary issuer. (That contest has continued in the current February COMEX gold delivery period).

It is troubling that the CME, in effect, has been publishing erroneous COMEX silver warehouse data for the past month or so and I hope this misreporting is a thing of the past, as these data are very important, at least to me. If the CME is going to publicly report on the world's second largest stockpile of silver (behind the SLV), it must make every effort to ensure that the data are accurate and timely.

One thing the misreporting did was to give the impression that silver was coming from outside the COMEX into JPMorgan's warehouse, when in fact it was being shipped from one COMEX warehouse to another. Silver coming into the JPM COMEX warehouse from outside the COMEX warehouse system conjures up the impression that silver is widely available. Stuff shifted from one COMEX warehouse to another COMEX warehouse does not imply great availability. That's been my basic premise all along.

Clearly, the misreporting overstated total COMEX silver inventories by 6.6 million oz until the adjustment was made. While total inventories are still close to multi-decade highs, those inventories are now no higher than they were since late December. Anyone thinking from where all the silver was coming from that was finding its way into the JPMorgan COMEX warehouse over the past month or so would not have thought that way had the HSBC warehouse data been reported timely and correctly. I mention this because I've witnessed some recent commentary about a looming silver physical surplus, which is illogical and contrary to the facts to the point of being moronic.

One thing the adjustment underscores is my point over the past seven years of incredibly frantic physical turnover in the COMEX silver warehouses with not that much change in total inventories, a circumstance not present in any other commodity. The physical turnover in COMEX silver over the past five weeks has been more frantic than in any similar past period and now we learn total COMEX inventories haven't changed at all over that time. Such circumstances imply tight supply conditions, not surplus. The facts also indicate that if there is one entity most responsible for tight supply conditions in silver (as well as in gold), then that entity is JPMorgan.

New data overnight indicate that the resolution of the remaining open interest in the COMEX February gold contract came about nearly exactly as expected, namely, with JPMorgan stopping (taking) delivery on most or all of the contracts just delivered. JPMorgan stopped 820 of the 825 gold contracts (99.4%, just like the purity of Ivory soap) issued for delivery on Monday and has now taken 2174 contracts out of the total 2625 contracts issued to date or 83% of the total. This is just the number stopped by JPM in its own house account and name. In addition, customer(s) of JPM have taken another near 400 net contracts of gold deliveries this month. The signs of JPMorgan scooping up every ounce of physical gold and silver available are beyond visible; they are undeniable.

[http://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

The changes in yesterday's Commitments of Traders (COT) report were largely within the general expectations of not radically altering the market structures in COMEX gold and silver, although I refrained from specific contract predictions. That was because the reporting week covered in yesterday's report was largely unchanged in price overall, but featured one sharp up day and one equally sharp down day in both gold and silver. The biggest difference was that gold remained at all times above its key moving averages, while silver ended below its key moving averages after a brief upside penetration on the one day rally. On that basis alone, price action suggested managed money buying and commercial selling in gold and the opposite in silver (or so I hoped).

In COMEX gold futures, the commercials increased their total net short position by a rather hefty 20,300 contracts, to 214,900 contracts. (As I'll discuss in a moment, the managed money traders only accounted for buying about 30% of what the commercials sold, somewhat mitigating the large commercial selling). This is the largest (most bearish) total commercial net short position in three weeks, but it's much more accurate to say that we are still close to the levels of the commercial short position seen since year end; in other words, still unresolved.

By commercial categories, it was a bit strange in that the big 4 added 9300 new shorts, while the raptors (the smaller commercials apart from the big 8) sold out a very hefty 16,100 long contracts, reducing their net long position to 22,200 contracts, the lowest (most bearish) level since September 19. Big 4 shorting is only at levels witnessed a few weeks ago, but must be considered bearish overall. A surprise, away from the heavy raptor long liquidation, was the buyback of 5100 short contracts by the big 5 thru 8 shorts.

On the buy side of gold, the managed money traders bought only 5698 net contracts (compared to the 20,300 contracts of net commercial selling), comprised of new longs of 4215 contracts and the further short covering of 1483 contracts. The managed money traders now hold less than 15,000 contracts of gold shorts, not the lowest level ever, but pretty darn close. The low level of managed money shorts and high level of managed money longs (over 190,000 contracts) has to be considered much more bearish than bullish, although it is possible for their holdings to get even more bearish on higher gold prices. As was fully expected, the neutral to bearish gold market structure did not change materially, except to get a bit more bearish and less neutral.

In COMEX silver futures, the commercials reduced their total net short position by 2500 contracts to 19,500 contracts, the lowest (most bullish) level since December 19 (18,600 contracts) and before that the most bullish reading since August 2015. The number of reporting weeks where the total commercial short position in COMEX silver has been below the 20,000 contract level (100 million oz) over the past ten years have been few in number and when that occurred it always led to rallies of decent (although diminishing) proportions. I see no reason to expect any different outcome this time around, although I can't rule out further price weakness before that near-certain rally commences.

By commercial category, the big 4 added 3200 new shorts, while the raptors went the other way in adding a hefty 6000 contracts of new longs, increasing their net long position to 65,200 contracts, and the big 5 thru 8 bought back 300 short contracts to complete the overall commercial activity. Because there is now a managed money trader in the ranks of the 4 biggest shorts, it's harder for me to draw a clear bead on what the crooks at JPMorgan did in the reporting week, but since I didn't attribute

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anything to JPM with last week's increase of 2000 contracts of big 4 shorting, I should add at least 2000 contracts to my estimate of the JPMorgan short position, making that short position 27,000 contracts. I'm hoping it is less than that, but it looks like I'm going to have to wait a couple of weeks until the next Bank Participation Report to be sure.

Unlike the case in gold, the managed money traders proved to be almost the same exclusive counterparties to the net commercial buying in silver as usual, as these traders sold 2232 net contracts, comprised of further net long liquidation of 1310 contracts as well as the new short sale of 922 contracts. We're now down to 36,171 managed money long contracts, with every slice lower a new non-technical fund potential core long position bottom, as well as a very high 46,693 contracts of managed money shorting.

Therefore, the silver market structure of near record low managed money long positions and closer to record large managed money shorts is the mirror image opposite of what exists in gold, where the managed money longs are closer to record highs than lows and managed money shorts are ridiculously low. That, in a nutshell, summarizes the market structures in silver and gold - extremely bullish in silver, while bearish in gold. While I can speak with relative certainty as to the current market structures, as to how this plays out, we can only speak in terms of probabilities and possibilities.

The most probable scenario to me is that the commercials set off significant managed money selling in gold (both long liquidation and new short selling), by rigging prices below the key 50 and 200 day moving averages. Such gold selling, should it occur, would likely induce additional sympathetic managed money selling in silver (mostly of the new shorting variety) with potential new short sales in silver growing to near the previous record of 60,000 or so contracts seen in December and July of last year. Should that occur, it would put silver in a drop dead extremely bullish set up, as opposed to just the extremely bullish set up currently in force.

Trying to guess how much silver prices would need to drop if such new managed money shorting was arranged is trickier because silver has been consistently below its key moving averages of late (the only metal below both key moving averages, I might add) and it wouldn't necessarily require a big price drop from here to uncover the potentially missing managed money shorting - say only 50 cents or a dollar lower from here. To get gold below both its key moving averages would require a decline in the price of gold of at least \$60 or so for starters and, more importantly, the potential sale of 100,000 net contracts or more of managed money selling. It is because the apparent downside in silver looks limited both in price and potential new managed money selling (15,000 contracts or so), that I've chosen to remain all in on this recent downdraft.

Other possibilities that I can see (also raised by a number of subscribers) is that JPMorgan might rig a price break designed to catch a number of the smaller commercials (the raptors) off guard enough to cause some raptor long liquidation into what I believe will be the final price bottom. I'm not necessarily expecting this outcome, but it seems I have an Easter Bunny costume as a result of saying the raptors would never liquidate to the downside a few years back and I'm not looking forward to seeing if it still fits. Never say never.

Superimposed on any market structure resolution must be the realization that JPMorgan, the silver and gold short seller at the margin and of last resort, now holds a massive physical long position in each metal much larger than any paper short position it holds or may hold. This means that JPM can flip the up price switch at any time it decides and that wild card must be respected.

Finally, I did receive a number of constructive suggestions from subscribers as a result of me soliciting for such suggestions on Wednesday. All were greatly appreciated and food for thought. A number involved a push for awareness via social media which were quite sound and worthy of further investigation, despite me being perhaps the most tuned out of all in such matters â?? no LinkedIn, no Facebook, no Twitter, no nothing, not even a smartphone. I suppose you can teach an old dog (me) new tricks. Weâ??ll see.

One reader suggestion, however, can be done now should anyone be a shareholder in JPMorgan. Over the years, Iâ??ve heard from quite a few asking how I felt about investing in JPMorgan stock on the basis of how much money the bank would ultimately make as a result of its massive physical position in silver. I would always answer that I agreed in principle but I was not a stock analyst or investment advisor and there were other variables, so I couldnâ??t suggest buying the stock.

For those that went ahead and bought JPMorgan stock or own it for other reasons (now at historic price highs), I canâ??t see how it would hurt to use your ownership of JPM shares as the entry to asking the company about my allegations of illegal market activities in silver (and gold). I would never ask anyone to put themselves in harmâ??s way and I canâ??t see how a shareholder asking about my allegations would bring anyone the slightest bit of trouble, except me, of course. So if you own JPM shares and are so inclined, please feel free to ask the bank what they have to say about my allegations (if they havenâ??t been reading all the emails I send them). You have my permission to reproduce anything Iâ??ve written about JPM, which, as you know, is plenty.

Ted Butler

February 24, 2018

Silver – \$16.50Â Â Â Â (200 day ma – \$16.84, 50 day ma – \$16.77)

Gold – \$1330Â Â Â Â Â Â (200 day ma – \$1285, 50 day ma – \$1318)

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