

A Look Back

Before I get to the main theme of today's report, allow me to review a few more recent developments. On Saturday, I stated that the monthly Bank Participation Report issued Friday was published in error, since there was a wide difference between the total open interest listed in the report and the total listed in the companion COT report on the same cutoff date in many markets. There's no way that could possibly be correct.

In addition to sending Saturday's review to the commissioners and relevant regulators at the CFTC (as I always do), I sent a head's up Monday to the webmaster at the agency pointing out the obvious error (I've written previously that the webmaster had always responded to any note from me promptly). I didn't hear back from anyone at the agency, but the report was amended yesterday, although with no acknowledgement that incorrect data had been up for a few days (which I thought was kind of weasel-like for a federal agency).

I'm not looking to make a mountain out of a molehill, because on most occasions, not much new is revealed in the Bank Participation Report, although

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there have been a few occasions when the report revealed block-buster information. The prime example was the report in August 2008, which first revealed that JPMorgan was the big COMEX silver and gold crook and the reports of early 2013 which showed the same bank swung from a short market corner in COMEX gold to a long market corner. Most other times the report doesn't shock. But still, if an agency of the US government undertakes the effort and that involves taxpayer expense to file a monthly report and thoroughly screws it up without any acknowledgement; that's not exactly a non-event either.

As it turns out, the amended (and presumably correct) report did cause me to revise my estimate of what JPMorgan held net short in COMEX silver futures, which happens to be the one thing why I do monitor in the Bank Participation Report. As of last Tuesday, I've had to revise upward to 17,000 contracts (85 million oz) JPM's COMEX silver short position, upon reviewing the new data. This doesn't change things radically, but it does confirm that JPM is still the big silver crook by virtue of being the biggest silver short in COMEX silver futures. Just to keep things in proper perspective, I must point out that JPMorgan was short about 25,000 COMEX silver futures contracts in the November Bank Participation report, so I would consider the bank's current short position to be more bullish than bearish and would point out the bank has probably accumulated at least 20 million ounces of physical silver since early November.

The new short report on stocks, for positions as of December 31, was released last night and wasn't especially significant. The short position in SLV, the big silver ETF, increased by 1.5 million shares to just over 10.3 million shares (ounces). Ten million ounces is the equivalent of 2000 COMEX contracts, so it's hard to consider the short position in SLV of having undue influence on the price of silver at this time. However, should the position increase by a factor of two or three, as it has in the past that would be a different story. The short position in GLD, the big gold ETF, went the other way and decreased by nearly 4 million shares to just under 8.8 million shares (880,000 oz). When it comes to the short positions in the two premier hard metal ETFs, the lower the better and there are no strongly bearish price suggestions in the current level of total shorts in either.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Sales of Silver and Gold Eagles from the US Mint have begun to be reported for 2016, but it's too soon to reach firm conclusions. I think it will take until month end to determine the true situation. Sales look strong so far, but not excessively so. I would expect sales of close to 5 million Silver Eagles and 100,000 oz of Gold Eagles by month's end. One thing I would note is that reports from the retail front indicate overall low demand, so it still looks like demand is coming

from a big buyer.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Last week, a subscriber asked me about the circumstances of the rise in the price of silver to nearly \$50 in April 2011. It's hard not to focus on the rotten price behavior since that date and I think it's safe to say that I do devote sufficient time and effort to the decline; so let's look further back for a change. Many things do come into clearer focus with the passage of time and I think that's the case here.

With the benefit of hindsight, which tends to make everyone a market genius, please allow me to summarize what was behind the rapid climb to nearly \$50 in silver by the end of April 2011 and the rise in the gold price to \$1900 by the late summer of that year. Here's one conclusion that appears inescapable when viewing the cold hard data □ silver's rise had little, if anything to do with the market structure on the COMEX, while gold's price rise had everything to do with the COMEX market structure as verified in COT data.

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I wasn't particularly surprised that silver's rise wasn't due to technical fund buying, as that's the way I remembered it and think I portrayed it at the time. As always, if you feel anything I contend to be factual is at odds with what I may have written at the time (available in the archives), please feel free to correct me. And while I knew I actively reported on the COMEX market structure in gold into its run to all-time highs, I must say things look incredibly clear in hindsight that technical fund buying carried gold to its highs.

To summarize, managed money technical fund buying had next to nothing to do with silver's climb to \$50 in 2011, while the move to \$1900 in gold now appears to have been solely dependent on managed money technical fund buying on the COMEX. Here's the simple proof of this in a nutshell □ in silver, the managed money long position did not increase and was nowhere near a record when silver hit its price high; while in COMEX gold futures, the managed money long position not only increased sharply, but also established a record right into the price high.

I never quite saw this as clearly as it appears now and I think that may be due to the fact that there were a few months separating the timing of each metal's price highs. This is something that became more obvious with the passage of time. A few other differences include gold never exceeding its managed money

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record long position since 2011, while silver's managed money long position has been mostly higher than it was at the price peak in 2011 (although, that is due to the growth in the non-technical fund core long position in silver, something not apparent in gold).

One thing that does stand out in the historical COT data where silver and gold are configured the same is that the managed money technical fund short position in each at their respective price highs in 2011 was so low as to be almost non-existent. In other words, at what is now recognized to have been important price highs in both gold and silver in 2011, the managed money technical funds in each held remarkably low short positions. As you know, with silver and gold prices now near 6 year lows, the technical fund short position in each is near record highs. In light of the old market saw about buying low and selling high, you have to wonder how the technical funds could be more out of touch with market reality.

As a student of the COT report and a firm believer that the COMEX market structure is responsible for price movement, the historical record certainly proves that to have been the case in gold in 2011; but what drove silver to its high in 2011 was not COMEX futures positioning. In light of what I usually write about, these findings are quite incredible in that the COT data clearly show that

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market structure was much more important to gold in 2011 than it was in silver. I didn't see that completely at the time, but think I do now.

OK, what do these findings about the historical COT data mean? My takeaway is that it proves more than ever before that all that has mattered to the price of gold has been COMEX positioning, because the data confirm that from price highs until now. It also means that all the developments and events from 2011 until now in gold, including central bank and Asian buying, have not impacted price — only COMEX positioning. I'm not suggesting those real world developments will never impact the price just that they haven't until now.

But the data in silver point to something much different. I don't deny for a moment that COMEX positioning has set the price of silver over the past five years as my record indicates otherwise. What I am saying is that COMEX positioning had little to do with the price run up in silver from \$18 in the summer of 2010 to near \$50 by the end of April 2011, particularly the run up from \$25 in January to the April peak. The COT data are remarkably clear on this point.

So the obvious question is, if it wasn't COMEX positioning behind the move in silver to \$50 by the end of April 2011, then what the heck caused the price to soar? Well, since there are only two things that can move silver prices - COMEX paper positioning or developments in the physical market - by process of elimination, the answer becomes obvious. Physical market developments caused silver to soar in 2011. And it's not just the absence of COT data, physical market developments in silver at the time provide all the necessary additional proof needed.

Among those physical developments in the silver market into 2011 was the significant build up in the physical holdings in the big silver ETF, SLV, of 60 million oz over the 8 months into the April price highs. On a purely mechanical basis, net new buying in SLV or GLD mandate a physical metal deposit and the quantity of silver mandated into April was very significant. The most reasonable conclusion is that SLV physical demand drove silver prices higher. (By contrast in gold, there was no notable build in the holdings in GLD into the gold price high in September, which further strengthens the COMEX positioning premise).

Perhaps the most vivid physical development in silver in early 2011 was the initial offering of a physical silver ETF by the Sprott Organization. Though smaller than the flows of physical metal into the SLV at the time, the 20 some

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odd million oz deposited into the PSLV back then was notable because there was a verified delay in receiving all the metal. In fact, there were public statements by Eric Sprott about some silver bars that were finally received bearing a manufactured date later than the original date they were first ordered. It's impossible not to see that wholesale forms of silver (1000 oz bars) were on the verge of severe physical shortage into April 2011. And because there was a complete lack of data pointing to COMEX positioning being behind the silver price rise, only a fool or a knave (aka, a manipulation denier) could fail to see that it was physical demand behind the rise to near \$50 in 2011.

There is no doubt in my mind that the clear lessons of the physical shortage in silver in early 2011 were learned quite well by the largest physical silver holder in history, JPMorgan. In fact, it was the developing silver shortage that caught the bank completely off-guard and out of position, in that it held significant short positions and no physical silver holdings. But it didn't take JPM long to adjust its thinking about silver and over the next five years, the bank built up the largest privately owned physical silver hoard in history, at over 400 million oz by my estimates.

Not only does JPMorgan's accumulation of actual metal make silver the single best investment opportunity, it also, unfortunately, explains why prices have

yet to surge. That's because JPMorgan is still accumulating physical silver, at a rate that I would estimate is some 10 million oz per month. The continued low price of silver works against the interests of producers and longtime investors, but it suits JPMorgan just fine and in the manipulative world that is all that matters.

The point of all this is to show conclusively that silver rose to its price highs in 2011 due to pressures of the physical kind, not the paper derivative kind. And having done so in 2011, it can easily do so again. Only the next time silver does enter into pronounced physical tightness, it will have a tailwind and ally in the move to higher prices □ JPMorgan. My message of encouragement today is a reminder that for the first time in history, the most corrupt financial entity to ever exist stands in position to let silver prices run to levels never seen before, whenever it so decides. Try to look past why it has not done so to date and focus on the day JPM will let it go.

In considering price action this week, including today's price pop in silver, it's hard to tell if today's rally is the start of something serious or another dippy-doodle move in which silver collapses as quickly as it rose. Time will tell. But it is important to recognize that silver remains grossly undervalued □ the evidence of which can be seen in the carnage of silver stock performance. The

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single most important factor to any producer of any product is the price of the product. The one common denominator all silver producers share is that they are all receiving a manipulated low price for their principle product. Why they don't see this and/or attempt to do something about the COMEX manipulation remains one of life's great mysteries.

After reporting on Saturday that (through Friday) I had expected a hefty 30,000 to 40,000 contract increase in the total commercial net short position in gold in this Friday's COT report; now I'm not sure what to expect because of gold price weakness through Tuesday. We have remained above gold's 20 and 50 day moving averages, despite a near \$30 decline in the price into yesterday's cut-off, suggesting the technical funds may not have re-sold any contracts bought as prices rose through those moving averages on Wednesday and Thursday. That would suggest my original guess may be close. However, there are suggestions in the daily open interest that the technical funds may have, in fact, resold many gold contracts bought last week.

In silver, the price weakness through yesterday looks pronounced enough to have caused the technical funds to have resold any silver contracts bought on Thursday's sharp rally. In one of my weakest conviction guesses in quite some time, let me call for a 20,000 contract increase in the total commercial net short

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position in gold and unchanged in silver. Almost no matter what, the market structures in both gold and silver should remain extremely bullish.

Ted Butler

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Silver - \$14.13 (50 day moving average - \$14.22)

Gold - \$1092 (50 day moving average - \$1079)