

January 13, 2018 – Weekly Review

A strong Friday rally pushed the price of gold higher by \$20 (1.5%) for a fifth straight week and a four month high. A further \$25 or so rally would push gold to highs not seen in several years. The same Friday rally managed to pull silver up to no better than unchanged, following a week of mostly desultory, but very high volume trading on the COMEX. The price strength in gold relative to silver caused the silver/gold price ratio to widen out by more than a full point to 77.7 to 1, still stuck in the same fairly tight trading range of the past few years.

While there is no doubt that silver has appeared to struggle relative to gold on the rally in each over the past month, short term price performance is generally not particularly reliable in the end. As and when silver starts to shake a real move, it can and will take off vertically, like a scalded cat. But that is not intended to minimize what has transpired in gold on this move higher. Should gold power higher to multi-year highs, as seems very possible or likely, it will create a set up not seen in years.

I'm sure it's not just me, but the world, politically and financial market-wise, seems, well, nuttier than in all my years. Nuttier or not, there's no denying many (or most) markets have reached valuation extremes barely imagined previously. The valuation extremes have strongly confirmed one collective trait of investors, namely, the strong urge to plow into markets that are making new highs and to keep on plowing in as prices move even higher. Historically, such massive investor inflows and extreme valuations tend to end in heartbreak whenever the collective exit occurs; but on the way up, it's mostly buy because prices are moving higher.

Gold is one of the few truly international investment assets in the world, known to just about everyone everywhere. In addition to the world getting nuttier, it has also gotten more price momentum oriented, thanks to the explosion in the quantitative (technical) approach to markets. With an almost unimaginable record level of investment buying power in the world, I would think new multi-year price highs in gold could set off strong price momentum buying in gold. Should that gold buying momentum cross over the physical side of the metal (such as strong ETF buying), it's not hard to imagine a serious push to the upside in gold prices. That said, this potential investment surge has not been what has powered gold higher over the past month.

There is no question that what has powered the \$100 rally in gold and the \$1.50 rally in silver since Dec 12 has been the massive buying by the managed money traders on the COMEX. In gold, the managed money traders bought, 120,000 net COMEX futures contracts from the lows, the equivalent of 12 million ounces or a far greater amount of gold than was bought anywhere else, paper or physical. In silver, the managed money traders bought 52,000 net COMEX silver contracts or the equivalent of 260 million ounces over the past month, or nearly 4 times the amount of silver mined in the world over the same time. The real wonder is why didn't gold and, particularly silver, rise much more over this time. I suspect you know the answer to that, but in case you don't, it has to do with who was selling all the paper gold and silver that the managed money traders bought.

I'll get into the changes in this week's Commitments of Traders (COT) report momentarily, but my point is that, regardless of the reason for why gold prices rose over the past month, the possibility

exists that at some slightly higher price, a whole different type of gold buying could kick-in, independent of the managed money futures contract buyers. That's not something we've seen in a number of years and over that time, in addition to the world getting nuttier (and likely more conducive to buying gold), the war chests and buying power of international investors have grown to all-time extremes. In other words, if someone sets a match to what appears to be a swimming pool filled with gasoline, this baby could blow. Will it? Who knows? Could it? Heck yeah.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses amounted to 4.1 million oz this week, as total inventories rose by 1.1 million oz to 246.6 million oz, yet another 20+ year high. Another 0.6 million oz came into the JPMorgan COMEX silver warehouse, pushing the total there to 120 million oz, also another record. Admittedly, I tend to focus on this quite closely, but despite some 3 million oz coming into the JPM warehouse over the past month, I haven't seen where those inflows came from the other COMEX warehouses where JPMorgan holds more than 13 million oz on which it took delivery in December. I can't know if the JPM warehouse is getting close to full up, necessitating that it leave the silver it stopped where it sits, or if JPM will eventually move the silver into its own warehouse. Either outcome doesn't alter the fact that JPMorgan, in its own and other COMEX warehouses, owns more silver than the Hunt Brothers of Warren Buffet ever held. As to JPM holding another 550 million oz elsewhere and out of sight, I'm starting to think that knowledge might cause some people's heads to explode.

The new short report for stocks, as of Dec 29, was uneventful in SLV, the big silver ETF, as its short position declined by 850,000 shares to 12.3 million shares (ounces). The decline in the short position in GLD, the big gold ETF, was much sharper as more than 4 million shares were eliminated and just over 8.7 million shares (850,000 oz) remained open. Down is always better when it comes to the short position in these two securities, as far as I'm concerned. I still sense that the short position in SLV may be lower in reality, due to JPMorgan holding a big portion of the short position open against the box but the main takeaway is still the short positions in both SLV and GLD pale in comparison to the size and changes in COMEX positioning. I'm just recapping this week's short report so that you don't think I'm slipping and losing it.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

Likewise, there's not much to report in Silver and Gold Eagle sales from the US Mint in the New Year, other than JPMorgan is still long gone after its six year snatch and grab of Silver Eagles (and Canadian Silver Maple Leafs). In the great coin heist of 150 million oz over that time, JPMorgan also happened to pick up, quite distinct from its COMEX warehouse holdings, a separate chunk of physical silver greater than what either the Hunts or Buffett ever held. But now that they are gone (but not forgotten), watching Mint sales is like watching paint dry - so boring and uneventful that it hurts. Therefore, unless something dramatic occurs, I'm not planning on mentioning Eagle sales on a regular basis.

<https://www.usmint.gov/about/production-sales-figures/bullion-sales>

The changes in this week's COT report were both largely expected and as hoped for, in coming in a shade under my worst fears. Significant deterioration was expected and the managed money traders bought nearly 48,000 net gold contracts, slightly less than the 55,000 contracts suggested by the increase in total open interest over the reporting week. The managed money traders in silver came very close to splitting my 20,000 to 25,000 contract expected range of buying precisely in the middle,

although the commercials sold a lot less than the managed money traders bought (one of the report's highlights).

In COMEX gold futures, the commercials increased their total net short position by 42,700 contracts to 220,300 contracts. This is the largest (least bullish and most bearish) net short position since Nov 28, just before the two-week price take down to the Dec lows. So, in terms of COT positioning, we have come almost full circle since then.

By gold commercial category, it was pretty much all hands on deck, as the big 4 added 17,800 new shorts, the big 5 thru 8 added 11,100 new short contracts and the raptors (the smaller commercials) sold off 13,800 long contracts, reducing their net long position to 48,500 contracts. Despite the raptors' sale, their net long position is still relatively high given the more than \$80 gold price rally through Tuesday's cutoff from the Dec bottom. I mentioned this last week and I am still sensitive to the fact that of the 100,000 net gold contracts sold by the commercials since Dec 12, the raptors have only accounted for 24,000 of those sold contracts. I find this to be a small amount of raptor selling given how large the raptors long position had been back then. (I'll get into this more when I get to silver).

On the buy side of gold, it was an exclusive managed money affair, as while the commercials sold, but so did the other trading categories apart from the managed money category. The managed money traders bought 47,876 net contracts, including 47,692 new longs and the short covering of 184 short contracts. Of course, the short position of the managed money traders, now at 20,065 contracts, had been at the "when you ain't got nothing, you got nothing to lose" category for some time, so the lack of short covering doesn't come as a surprise.

Also as expected, the large increase in total open interest in COMEX gold over the reporting week fully reflected new managed money buying, as it was almost mathematically impossible for that not to be the case. Now at 216,115 contracts, there is still room for another 60,000 contracts of new managed money longs to go before hitting the most recent extreme of September and perhaps another 20,000 contracts on top of that before the all-time extremes of the summer of 2016 are achieved. And, most certainly, there has been additional managed money buying since the Tuesday cutoff, as total gold open interest is up another 20,000 contracts through yesterday.

For the first time in a while, there are now many more potential managed money long gold contracts to be sold than there are to be bought. This, plus the fact that there are hardly any managed money short contracts to be bought back and a boatload of new potential shorts to be sold if the commercials can engineer another manufactured selloff, leaves the gold market structure no better than neutral and even more objectively, on the bearish side. Certainly, if the commercials succeed in taking the managed money traders for a price trip downtown, that will be the sole reason for a gold selloff. Please understand that I am speaking in clinical COT terms, as it sure doesn't feel like gold should drop sharply in a world as nutty as it appears to me.

In COMEX silver futures, the commercials increased their total net short position by 12,800 contracts, to 49,900 contracts. As was the case in gold, this is the largest net short position since Nov 28, but the commercial short position, subjectively, feels less bearish and more bullish than it appears in gold. By commercial category, the big 4 added 2400 new shorts and the big 5 thru 8 added a very hefty 4200 new shorts. The raptors sold the most of all in pitching 6200 long contracts and reducing their net long position to 47,400 contracts. Still, I am surprised that the raptors didn't sell more.

I'd peg JPMorgan's short position to be 33,000 contracts, up 2000 for the week. While new shorting by JPMorgan is more annoying than the sound of fingernails scratching a blackboard, quite frankly, I was also surprised that they hadn't sold many more. The other surprise on the commercial side of silver was that the big 5 thru 8 sold as many new short contracts as they did. I'm not going to take the time to go back through my records, but if I'm not mistaken, the net short position of the 5 thru 8 largest traders in silver, at close to 34,000 contracts, may be the largest ever.

The combination of all these commercial category changes, the big 4 (JPM) up less than expected, the big 5 thru 8, up more than expected and the raptors long position down less than expected, suggests to me that something new may be afoot. Add to that the fact that the commercials overall sold a lot less than the managed money traders bought, around 9500 contracts to be exact, due to net selling by the other reportable traders and the non-reporting traders, has me more sensitive to the possibility of something different this time. I'll explain momentarily.

On the buy side of silver, the managed money traders bought 22,229 net contracts, including new longs of 11,920 contracts and the buyback and covering of 10,379 short contracts. Total managed money longs now amount to 66,224 contracts, nearly 20,000 contracts more than the recent dead lows, still leaving room for 15,000 additional new longs to hit the extremes of Sep and 50,000 contracts away from the all-time extremes of the summer of 2016. With 28,122 short contracts as of the Tuesday cut off, the managed money traders have another 18,000 contracts of potential short covering and more than that now in terms of potential new short selling should the commercials be able to arrange new price lows. On a clinical COT market structure basis, I'd call silver neutral to bullish, as opposed to gold's no better than neutral and likely bearish subjective take. This, of course, is a result of gold's relatively stronger price performance.

But in non-clinical terms, something appears to be afoot in silver and perhaps gold. The selling this week in silver by the other large reporting traders as well as the smaller non-reporting traders completely confirms the growing appetite of these traders to capture a piece of the wash, rinse and repeat snookering of the managed money traders by the commercials. My only question is if these other traders have the same financial stamina of the commercials in withstanding higher prices. Selling short silver at these prices is extremely dangerous in the best of times, particularly if you don't have the ability to manipulate prices by yourself (an ability these other traders don't have).

And it's not just the strong entry of these other traders on the sell side; it's also that the commercials, particularly the big 4 and the raptors, don't seem to be pressing the sell side as they have in the past. The big 4 (JPM) short position is less than I would have imagined to this point and the raptor long position is still downright high, despite the raptors holding their largest collective open profit ever. The raptors still appear to be gunning for much higher prices before selling, something I detected

very recently, which has continued in this week's report.

As for JPMorgan, despite the recent increase in its COMEX short position, for quite some time, years in fact, it has been in position to profit from a silver price explosion by virtue of its massive physical long position. This is what prompted the double cross premise in the first place. The new and somewhat unusually large selling by the 5 thru 8 big commercial shorts plays perfectly into the premise as well, as does the reluctance to sell by the raptors to this point.

So what am I saying? I'm saying that on an objective and clinical market structure analysis, the price rally in gold and silver has used up much of the managed money buying potential of December, as has occurred on numerous past occasions. While there is still price room higher as and when the managed money traders fully load up on the long side and the commercials on the short side, as and when that positioning is complete, it would be reasonable to expect prices to then move lower.

But on a non-clinical basis and considering the nuances I've highlighted above, something else may be in play that is very different from what I've seen in the past. To be sure, I'm speaking of nuances that most would have no clue that exist. For instance, few away from these pages would even know what the big 4 and big 5 thru 8 might be up to, or have any comprehension of who the raptors might be, as there is no trader category in the COT report with that title. But unless I'm misreading things completely, the nuances are pointing to a potential outcome that could be far different than the usual clinical outcome.

For sure, we know in advance how prices usually evolve, namely, driven higher by managed money buying until that buying is exhausted and the inevitable selling commences and in which prices then move lower until the point of maximum selling is seen. And that may be how it turns out on this go-around, yet again. But now there are signs, faint, but factual nonetheless, that suggest a completely different outcome may be at hand. This very different outcome will be explained in future COT reports should it occur, but at this moment the clues are tentative and only seen through a unique perspective. Then again, no one ever expected JPMorgan to take out newspaper ads announcing when silver will lift off.

Put simply, we may be set up for a very different price outcome ahead, particularly in silver. No, we're not at the drop dead bullish market structure of December and many times before that and we could be witnessing the maturity and eventual decay of the bullish COT case in gold and silver, same as it ever was. Then again, these recent nuances might be pointing to something, I for one, have been waiting for for far too long.

On a housekeeping note, I made public yesterday an expertly edited version of Wednesday's article. The editor was Jim Cook, president of Investment Rarities and the only editor I've ever had. Cook did a particularly good job with this edit, as I'm sure you will agree.

<http://silverseek.com/commentary/last-great-silver-buy-17047>

Ted Butler

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Silver – \$17.25 (200 day ma – \$16.96, 50 day ma – \$16.71)

Gold – \$1340 (200 day ma – \$1275, 50 day ma – \$1284)

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