

## January 14, 2017 – Weekly Review

### Weekly Review

For the third week in a row, gold and silver prices rose, with gold ending \$24 (2%) higher and silver up by 30 cents (1.8%). As a result of gold's slight relative outperformance, the silver/gold price ratio widened out by a fraction to 71.3 to 1. While it continues to feel like silver has been dragging its heels relative to gold, I suppose the numbers don't lie and the actual price ratio doesn't reflect the perceived relative weakness in silver compared to gold. Of course, today's feelings won't matter much over the long term, where I expect silver to vastly outperform gold.

The key feature of the week was yesterday's release of the Commitments of Traders (COT) Report. I am happy to report my fears and trepidations for a very large increase in managed money buying and commercial selling were not realized and I consider this to be the best news possible. Of course, we did see some managed money buying and commercial selling, otherwise gold and silver prices never would have risen in the first place; but not to the extent I feared. I'll have the blow by blows in a moment, but let me run through some not insignificant weekly developments. Hopefully, you won't be terribly surprised that JPMorgan appears to be a feature in all developments related to silver and gold, certainly including the COT report.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses exploded again this week to 11.7 million oz, one of the largest, if not the largest weekly movement ever. Total inventories increased by a scant 0.1 million oz to 180.8 million oz. Last week, the total silver physical movement was 8 million oz, also much larger than usual. Two weeks ago, I speculated that maybe that week's very low (0.1 million oz) movement might signal an end to the near six year run of the unprecedented frantic silver warehouse movement. This week, I would ask you to forget my prior speculation (or at least, not to remind me of it).

Instead, I would ask you to consider why would an amount of silver equal to more than 50% of the silver produced in the world last week find its way in and out of a handful of exchange warehouses in and around the New York metropolitan area? Remember, no other commodity has such a physical warehouse movement. My answer, of course, is that it represents wholesale physical tightness, largely prompted by the actions of JPMorgan. I'm still searching for a plausible alternative explanation.

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In last week's review, I predicted that after taking more than a million oz of silver into its own COMEX warehouse that week, JPMorgan would likely move the 6 million or so oz remaining of the 7.6 million oz it took in December futures contract deliveries into that warehouse in the immediate future. This week, JPMorgan moved another 3.4 million oz into its own COMEX silver warehouse, bringing the amount of silver there to 86.6 million oz, close to 50% of total COMEX silver inventories. A few points.

The amount of physical silver in the JPMorgan COMEX warehouse, mostly moved in the past few years as a result of JPMorgan taking delivery on futures contracts in its own proprietary trading account now equals or slightly exceeds the size of its COMEX paper short position. The actual metal that JPMorgan holds in its own warehouse immunizes it against any risk of loss on its paper short position. It took JPMorgan nearly six years to achieve this balance, but before anyone (not subscribers) says this shows JPM is now legitimately hedged, I hope it is clear that JPM shorted the paper contracts first, to drive the price down, and only afterwards bought the physical silver. This is as far from a legitimate hedge as is possible.

Just like the tip of an iceberg is the only visible portion of the entire mass of the iceberg, JPMorgan's COMEX warehouse silver holdings are only a small visible percentage of the bank's total silver holdings, around 15% of the total 550 million oz I calculate the bank has acquired over the past six years. Yet remarkably, even though JPM's COMEX holdings are as visible as the tip of an approaching iceberg, relatively little is written about even the visible portion of the bank's silver stockpile. Anyone associated with silver analysis or commentary not commenting on JPMorgan's COMEX silver holdings and asking why those holdings have grown so large is, in my opinion, missing a lot. I admit that it takes some analytical snooping and digging to trace the physical silver holdings JPM has accumulated through SLV conversions of shares to metal and the accumulation of metal through Silver Eagles and Canadian Maple Leafs. But the stopping of silver deliveries on the COMEX by JPM and the subsequent movement of these deliveries into JPM's own warehouse even Stevie Wonder could see (in the dark).

<http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notice.html>

Speaking of share to metal conversions in SLV, this week nearly 3 million oz were so converted. With silver prices rising steadily and SLV trading volumes mostly below average over the past few weeks, there is not a hint of suggestion that there has been net investor selling behind the sudden redemption of silver from the trust this week. Instead, the only plausible explanation for the redemption is that a large shareholder (because it didn't want to be identified as a large shareholder) converted shares into metal. Once again, this is done to evade SEC share ownership reporting requirements.

This conversion of shares to metal seems to have been behind the recent big redemptions of metal from the big gold ETF, GLD. On gold's sharp plunge in price from Election Day into yearend, it should be considered normal that the metal holdings in GLD would and did decline sharply, as investors sold on balance. But the gold redemptions continued even as prices rose in the New Year, puzzling many. Once again, the most plausible answer seems obvious Â? deliberate conversions of GLD shares to metal to avoid reporting requirements. And guess who is most likely behind the conversions in both GLD and SLV? (No prizes offered, as you should know this).

The midweek release of the short interest report for positions as of yearend indicated a reduction of nearly 1.2 million shares in the short position of SLV, to just over 12.3 million shares (ounces). The reduction came close to reversing the increase in the prior short report as of mid-December. The short interest in GLD increased slightly. I continue to see nothing to get excited about here, certainly compared to the various COMEX developments, so I'll move along.

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

The US Mint started to report sales of coins for the New Year. While it's far too early to decipher trends for the rest of the year, I have the suspicion that JPMorgan may have called it quits on it's more than five year binge of buying Silver Eagles (to melt into 1000 oz bars). If my hunch is correct, that would likely result in a big falloff of sales of Silver Eagles this year, barring a sudden eruption in retail demand. For those concerned this will have an impact of silver prices, I don't think so. After all, since the five strongest years of sales for Silver Eagles featured nothing but declines in the price of silver; a falloff in sales might portend a big rally. But I'll monitor sales reports as they occur and report accordingly.

<https://competition.usmint.gov/bullion-sales/>

On Wednesday, I wrote that I hoped I was wrong, but that I feared a big increase in managed money buying and commercial selling through the Tuesday cutoff of 30,000 to 40,000 contracts in gold and 5000 to 10,000 contracts in silver, as a result the price rise during the reporting week and a possible catching up of data not reported in the prior COT report. For a change (it seems), I got my wish and my fears turned out to be unfounded. For the record, I was closer on the alternative managed money headline numbers than I was on the commercial headline numbers, but still low on both measures.

In COMEX gold futures, the commercials increased their total net short position by 8,200 contracts to 125,800 contracts. This is the first increase in the total commercial net short position in the two months since Election Day (Nov 8), a fairly long stretch of declining prices and net commercial buying. Over this time, gold declined by more than \$200 and the commercials bought nearly 130,000 net contracts (13 million oz). The decline is still attributed to the US election results, but it is my hope that subscribers see it as I do, namely, an exclusive COMEX production camouflaged by a very convenient cover story. In any event, this week's 8200 net increase is small potatoes when compared to the previous two months of a near 130,000 contract reduction.

By commercial category, the big 4 reduced their net short position by 600 contracts, while the raptors (the smaller commercials away from the big 8) sold 2800 long contracts and the big 5 thru 8 added a hefty 6000 new shorts. I can't tell if the increase in the big 5 thru 8 short position was a result of a managed money trader being pushed back into that category by having reduced its short position, but that was likely the case.

On the buy side of gold, the managed money traders bought more than 19,000 net contracts (somewhat closer to my prediction), including the addition of 7,777 new long contracts and the short covering of 11,345 contracts. The increase of more than 19,000 contracts in total open interest during the reporting week seems due to an increase in spread trading by managed money traders (I don't have a sound economic reason at the ready for why managed money traders would be positioning so many new gold spreads).

In COMEX silver futures, the total commercial net short position increased by a relatively small 3100 contracts to 78,900 contracts. Unlike the case in gold, the commercial headline number in silver has been stable since before Election Day, despite a price decline of as much as \$3, and has ranged mostly between 74,000 and 82,000 contracts since the beginning of October. Historically, this level of a commercial net short position would be considered very bearish; but as I hope I've explained over the past couple of months, the level has not appeared particularly bearish to me (due to the lack of big managed money shorting and the actions of JPMorgan).

By (mostly) commercial categories in silver, the big 4 reduced their net short position by 700 contracts, while the raptors sold off 3700 long contracts and the big 5 thru 8 added 100 contracts of new shorts. The best news (for silver bulls) was that JPMorgan didn't appear to add any new shorts and looks to me to have bought back a thousand contracts. I'd peg JPM's paper silver short position to be 17,000 contracts (85 million oz). Yet again, JPMorgan finished the reporting week with its largest actual silver long position and smallest paper short position ever. In simple terms, this means the bank is in the best position ever for a sharp rise in the price of silver and the best position for double crossing any and all other silver shorts.

The managed money traders bought 4441 net silver contracts (closer to the lower band of my expectations), including the purchase of 2995 new long contracts and the short covering of 1446 contracts. Because the number of managed money short traders fell again (from 23 to 19), I'm inclined to believe that the big managed money short trader whose position grew large enough (to around 8000 contracts) to gain entry into the ranks of the big 4 is still in that category and didn't cover this week.

The managed money long position is now 64,671 contracts, up from a recent low of around 57,000 contracts. If my premise is correct that there were no technical funds long in the managed money category at the recent low water mark that would suggest only 7000 or 8000 contracts of potential long liquidation should silver prices head south from here. The managed money short position is 17,897 contracts, still less than 1500 contracts above last week's high point.

My point is that there doesn't appear to be that many (less than 10,000) net contracts of managed money selling for the commercials to lure back to the sell side should the commercials decide to rig silver prices lower from here. Of course, I'm speaking of traders with the morals of a jackal and who would steal a dollar from their dying grandmothers, so it's not a question of would they and more a question of can and will they? And then what?

Let me not beat around the bush. This week's COT report, as well as the past few have been bullish surprises to me. That, in itself, is somewhat of a surprise, as I am more accustomed to negative surprises than positive ones over the years. More specifically, the key features that I focus on have kept on a bullish track, including the most important feature of all — what the chief silver crook, JPMorgan, is up to. Should JPMorgan add aggressively to its COMEX paper short position, as it always has on every stinking silver rally over the past nine years, then get ready for an eventual price flush to the downside, also as has always occurred.

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However, should JPMorgan not add aggressively on the next silver price rally, then get ready for something very different. The funny thing (only I'm not laughing) is that, thanks to the recent Republican election sweep, there is less than a zero chance of any regulatory action against the long running silver manipulation. There was even a measure passed by the House last week overruling any attempt at imposing position limits, should anyone have the nerve to suggest that. Talk about shooting a dead horse – the CFTC has no intention of passing position limits in any way, shape or form; yet the House (or some committee) saw fit to declare, before it got to any other business on its agenda that the agency must not even consider such limits. I'm not making this up.

My point is that it's up to JPMorgan. Should the bank decide it's time for silver to roll to the upside, then roll we will. Since the bank won't inform me in advance of its intentions, then I'm forced to rely on the continuing flow of data. That data now suggest to me that JPM is better positioned for an upside move in silver (and gold) than any time previously. Therefore, it's wise to take that possibility into one's thinking. No guarantees, of course, but when are there ever guarantees?

Finally, in thinking about the recent string of surprises in favorable COT report outcomes, I can't help but notice that there hasn't been more managed money buying considering the recent rise in both silver and gold prices. Here we are, already having penetrated all the moving averages up to the 50 day moving average in silver (and slightly through the 50 day moving average in gold for the past three days) with no big buying. Only the 100 day and 200 day moving averages have yet to be penetrated and the managed money traders (technical funds) have yet to make a move towards big buying.

Because there is no reason to expect that this herd of traders won't be spooked into buying en masse once the moving averages are fully penetrated, as has always occurred in the past, it has become more a case of the potential buying being more condensed and concentrated than previously. In other words, because there has been a lack of technical fund buying to this point, when it does finally kick in, it is likely to be more forceful than typically. If that more forceful buying, whenever it occurs, coincides with JPMorgan refraining from aggressively shorting in silver, I'm hard pressed to come up with a better formula for a price explosion.

Ted Butler

January 14, 2017

Silver – \$16.80      (200 day ma – \$17.84, 50 day ma – \$16.85)

Gold – \$1197      (200 day ma – \$1269, 50 day ma – \$1191)

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