

## Weekly Review

Gold and silver prices rose for the fourth week running, with gold ending higher by \$13 (1.1%) and silver by 30 cents (1.8%). As a result of silver's relative outperformance compared to gold this week, the silver/gold price ratio tightened in by a bit, to just under 71 to 1. As hard as it is to reconcile the feeling that silver is acting much weaker than gold on a daily basis these past few weeks by observing the minute to minute price action, the actual numbers indicate otherwise. That said, what will matter most is the relative performance of these metals over the longer term; and I'm sure you know that I favor silver by a very wide degree.

From my vantage point, the big stories this week centered on the action in the COMEX silver warehouse owned by JPMorgan and another big surprise (of the good kind) in the gold Commitments of Traders (COT) Report. I'm aware that there was other news in the form of the inauguration of a new US President, but I must leave what that means for silver and gold prices to others; my market perspective includes market structure and physical developments. I'm sure we will see price impacts from world and political happenings, but those are impossible to predict, at least for me.

I've often said that predictions about what an upcoming COT report might indicate must be viewed not with an expectation of pinpoint accuracy, but in line with the precision of tossing horse shoes, hand grenades or atomic weapons. Where close enough is good enough. This week, I'm happy to report, my prediction for what would be reported in the gold COT was akin to nailing the wrong target by 1000 miles ☐ I was that far off. I'm happy because the actual results augment my already bullish market structure conclusion.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses remained frantic during this four day work week, as 8.3 million oz were physically moved. Total COMEX silver inventories fell by 0.7 million oz to 180.1 million oz. Over the past three weeks (two of which were 4 day weeks), 28 million oz of silver were physically moved, while total inventories fell by only 0.6 million oz. This has been my point for nearly six years ☐ an unbelievably frantic physical turnover in the COMEX silver warehouses with a remarkable minor change in total inventories. I've never seen anything like it and continue to conclude such frantic actual turnover but with little relative change in total inventories points to tight supply lines.

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

In addition to the overall frantic physical silver turnover, JPMorgan took another 2.9 million oz into its own COMEX warehouse, bring the total in that warehouse to just under 89 million oz, another new record. Over the past three weeks, JPMorgan has taken in 7.6 million oz into its own COMEX warehouse, almost to the ounce the amount of silver it took delivery on in the December futures delivery process (1550 contracts or 7.75 million oz). The bank also shipped out several hundred thousand silver oz this month, undoubtedly related to the less than 200 contracts JPM issued in January.

The thing that gets me is that I'm always on constant alert to what JPMorgan may have up its sleeves when it comes to silver because it would seem reasonable to conclude the bank would prefer to go about its silver accumulation with the least amount of outside prying possible. Yet for years, the bank has left a glittering trail of evidence pointing to its accumulation of silver on the COMEX in the most transparent manner of all. It's not as if we weren't expecting JPMorgan to move the silver it took delivery of in December futures contracts into its own warehouse, because I remember writing those very words just a short while back. I mean □ why are they making it so easy to track? Most remarkable of all is how so few commentators remark on something that is as visible as a hit Broadway show on a years-long run.

No matter how you look at it, the silver in the COMEX warehouses never seems to be at rest. This brings to mind the term applied to silver and the title of the book written by Roy Jastram 35 years ago [The Restless Metal], although Professor Jastram wasn't referring to the future turnover in the COMEX warehouses or the massive accumulation by JPMorgan of the metal. Anyway, I have no good explanation for why more don't comment on what is so readily visible and of apparent significance.

I'm on the fence as to whether JPMorgan has ended or is still acquiring Silver Eagles (and Canadian Maple Leafs). Nearly 4.6 million coins have been sold this month, but considering the near lack of sales in December, it's hard for me to get a bearing on JPM's actions at this time. Part of me says JPM might quit while they're ahead (to the tune of 150 million oz in Eagles and Maple Leafs over the past six years), while another part says the bank will stay on it until the last coin can be bought. All I can do is analyze the continuing flow of data.

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

On to the changes in this week's COT Report. As a reminder, on Wednesday I

had predicted an increase in the headline number of the total commercial net short position in COMEX gold futures of 30,000 to 40,000 contracts, the same prediction I had made for the previous report and on which I came up way short (fortunately). This week, I missed more badly than I can recall. I'm glad to have been wrong, since the misses only cement my bullish interpretation of the current COMEX market structure in gold. I am tempted to continue missing badly on purpose on some superstitious level, but will get into why I think I was so off in a moment. By the way, I was much closer on silver, but the commercial selling was less than what I expected ☐ also good news.

In COMEX gold futures, the commercials actually reduced their total net short position by 2700 contracts to 123,100 contracts. The first thing that stands out to me is that over the past four reporting weeks, as the price of gold climbed more than \$75 and decisively penetrated its 50 day (and all lesser) moving average, is that there has not only been no increase in the total commercial net short position, but an actual reduction of 11,000 contracts (from Dec 20). A standard finding of the market structure premise is that the lower the commercial net short position, the better. Therefore, it's hard for me to conceive of better (more bullish) news than for the commercials not to increase their short position on a significant price rally.

I'm going to skip over the commercial category breakdowns because the managed money short position increased and there still appear to be managed money traders in both the big 4 and big 5 thru 8 short categories, which are usually reserved for commercials only. This distorts the calculations, but the net result is bullish, because it means less concentrated commercial short selling.

While some managed money traders increased their short position by 3047 contracts (to 82,931 contracts), other managed money traders increased their separate long positions by 6003 contracts (to 141,566 contracts). This means there was net buying by managed money traders of close to 3000 contracts over a reporting week in which gold prices did rise by nearly \$30, so the world hasn't gone completely mad. However, it is still remarkable that there were only 3000 net contracts bought by the managed money traders during such a pronounced up week.

In COMEX silver futures, the commercials increased their total net short position by 2800 contracts to 81,700 contracts. This was less than my guess of a 5000 to 10,000 contract increase, but less is good in this case (and at least I hit the lower number in the managed money alternative headline number). As was the case in gold, the commercial category count still appears to be messed up by the possible presence of a managed money trader in the ranks of the big 4 or

big 5 thru 8, but all the commercials sold (big 4, big 5 thru 8 and raptors, just not in excessive numbers (given the small overall commercial selling).

I'd peg JPMorgan at 18,000 contracts short, up a thousand, but would note this may be hazy until the Bank Participation Report in three (long) weeks. I would note that JPM is still covered by the near exact amount of physical silver in its own COMEX warehouse and I'll only get concerned by aggressive short selling by this crooked bank in amounts greater than 5000 to 10,000 contracts.

The managed money traders in COMEX silver bought 5003 net contracts, including 2544 new longs and the short covering of 2459 contracts. Managed money longs now total 67,215 contracts, about 10,000 more than at the recent low water mark. Managed money shorts are now down to 15,438 contracts, about 4000 contracts below the recent peak, suggesting the total number of contracts that could potentially be sold by this category to be 15,000 contracts (total long liquidation and new short selling) should the commercials rig prices lower□ not such a large number that a severe price decline might generate, making the likelihood of a big price smash reduced.

While managed money shorts did buy back this reporting week, the number of traders in this category also dropped by 2 to 17, raising the likelihood that the big recent short is still in place. By my back of the envelop calculations, this managed money short is out a dollar or so from where the position was established, creating an open loss of \$25 to \$35 million.

More importantly, we're now back to the silver price levels of mid-November and from when I first noticed the sea change of the lack of new managed money shorting where such new shorting had always previously occurred (save for the very recent singular managed money short seller now deeply in the red). I still don't know why the body of managed money traders didn't add to shorts on the price decline that began a few days after Election Day; but I do know that those deciding not to short silver then are now no worse off for having made that decision. My sense is that those who decided not to sell short back then are unlikely to sell short should silver get clipped from here (alleviating additional selling pressure again).

Before I summarize the current market structures in gold and silver, please let me comment on how and why I could be so far off on recent COT predictions, most particularly in gold. I look at a variety of indicators, including trading volume, changes in total open interest and price change, especially when key



moving average penetrations are made. While some things have changed, my methodology has remained fairly constant over the years.

Upon further review, I have been meaning to mention a definite increase in overall COMEX trading volume, an increase not accompanied by a commensurate increase in the trading volumes of the big gold and silver ETFs, GLD and SLV. Usually, COMEX and ETF trading volumes increase or decrease at the same times, but not since the start of this year. My sense is that some new computer-generated trading systems have been instituted on the COMEX for the purpose of additional day trading. This has contributed to and may account for a marked increase in day to day price volatility.

There has always been "scam within a scam" trading in COMEX silver and gold, in which the commercials take short term chunks out of the managed money traders' hides, but the new computer day trading systems greatly accentuate trading volume and price volatility. The thing I can't understand is who profits and, even more importantly, who loses as a result of all the garbage computer trading taking place?

All futures contracts are derivatives, meaning the games' results are zero sum. This means the winners win what the losers lose, no more, no less. In other markets, like stocks, bonds and real estate, everyone is long, with only a handful of shorts. This means when markets go up, most everyone gains and when markets go down, everyone loses — save for the few short. But for derivatives, there must always be a long and short, so one side wins what the other side loses and vice versa. I can understand that whoever is winning as a result of the marked increase in day trading in COMEX gold and silver would continue such trading indefinitely. But for the life of me, I can't figure out who would willingly continue to lose. Reaching a sound economic justification for such trading is not helped by my conviction that the COMEX and the CME are cesspools and dens of iniquity in every sense of the words. If you have any thoughts on this, please pass them along.

Still, the increase in computer-generated day trading in COMEX gold and silver has little to do with the remarkable changes, or lack therein, in market structure, since day trading doesn't affect overnight positioning. So I wouldn't begin to explain my wide misses in COT predictions on increased trading volume. Simply stated, my missed predictions have everything to do with the managed money traders not buying more gold and silver contracts given the price rally and penetration of key moving average. Please don't misunderstand me — the best news possible is as small a long exposure in the managed money

category as is possible, which is currently the case. That's what explains why the commercials haven't increased their short exposure over this time. But if I'm going to be so far off, even if it's good that I am, I still want to know why. Why haven't the managed money traders been more aggressive in buying, particularly in gold, but also in silver?

The most plausible explanation I can come up with is something I wrote about some time back, but didn't think of fully until this last COT report. I remember writing over the past year or so how important the 200 day moving average is to technically oriented traders. Specifically, I remember including direct quotes from the famous (and well-deservedly so) commodity trader Paul Tudor Jones on why, effectively, he wouldn't buy anything if it wasn't above its 200 day moving average. You must understand that I'm not a dyed in the wool technical trader, but I do pay attention to what they do, don't do or are likely do, since the whole market structure game is between the commercials and the managed money technical funds. So the lack of buying by managed money traders might have to do with the lack of upside penetration of the 200 day moving averages.

In addition, gold and silver have been below their respective 200 day moving averages for an extended time and the last time either's price penetrated this average to the upside was last January for both. One could say that was the

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start of last year's bull run. Since I'm not a devout technical disciple, I can't tell you exactly what these funds and traders will do as and when the 200 day moving averages are penetrated, according to precise time tables and quantities, but feel safe to say that they will buy and not sell. At that point, the key question becomes what will the commercials and, most particularly, JPMorgan will do.

Suffice it to say that because the managed money traders have not yet bought with great vigor (for whatever reason), the commercials and JPM haven't had to sell aggressively yet. I see no reason to expect that the managed money traders won't buy with great vigor at some higher price, given their behavior in the past in gold and silver and currently in other markets, so it's just a matter of time before they do buy. Only then will we be able to judge how the commercials will react. The bottom line? The chance that this could be the big move up is not only very much alive, but seems to be kicking as well.

Ted Butler

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Silver - \$17.10 (200 day ma - \$17.88, 50 day ma - \$16.75)

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Gold - \$1210      (200 day ma - \$1269, 50 day ma - \$1184)