

## January 6, 2018 – Weekly Review

Gold and silver prices rose for the fourth consecutive week; with gold ending \$15 (1.1%) higher and silver finishing up by 25 cents (1.5%). As a result of silver's slight relative outperformance, the silver/gold price ratio tightened by a bit, remaining below 77 to 1; still stuck in the same fairly tight trading range of the past few years in which no one has been rewarded or punished for switching one metal for the other. But remind me to tell you how silver will vastly outperform gold one day, in case I might have missed doing so previously.

Once again, the standout feature for the week was the change in paper positions in COMEX gold and silver futures, both in yesterday's COT report and in the prospective changes in positioning since the report's Tuesday cutoff. While there have been all sorts of commentary about what has and will influence gold and silver prices, to this point nothing comes close to explaining price movement more than COMEX paper positioning changes.

In fact, a funny thing has occurred just as many increasingly expect the COMEX to wane as the main price driver for gold and silver. The funny thing is that the price influence of COMEX paper positioning has only gotten stronger and more pronounced. That's easily documented in the flow of data in the COT reports which shows larger, not smaller positioning changes between the two main trading counterparties in COMEX gold and silver, the managed money traders and the commercials. Therefore, the thought that the COMEX might be waning in price influence is absurd on its face.

On the other hand, knowing that COMEX paper positioning is inherently artificial and manipulative to price, it's hard for me to see how this positioning can exist indefinitely. Therefore, it also seems to me that if the COMEX were to lose the price control it so clearly wields over gold and silver, it won't happen gradually over a long time, but in a rush. And if there is any chance of detecting when the great final switchover from COMEX paper positioning control to a free market physical market price control is about to occur, it stands to reason the evidence is likely to reside in COT report data.

To be sure, just as COMEX positioning solely explains gold and silver price movement through today, there is no way in the world that COT report data won't explain an end to the silver (and gold) price manipulation. Whether that can be spotted in advance is more of a question, but this argues for more, not less scrutiny of the COT data. Along these lines, this week's report indicates a number of unusual developments that I'll get into in a moment.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses featured another four-day work week and yesterday there was zero movement in the COMEX silver and gold warehouses, making it, in effect, a three-day week. Still, silver warehouse turnover hit 4.2 million oz, as total inventories rose again by 2.1 million oz to 245.5 million oz, yet another multi-decade high.

If there is any connection between higher COMEX silver inventories and weaker prices, as many seem to believe, then that connection hasn't been operative over the past month or so, as both inventories and prices have climbed in lockstep. No change in the JPMorgan COMEX silver warehouse this week, while we await whether JPM will ship the 13 million oz it holds in other COMEX warehouses

to its own warehouse, which holds 119.4 million oz. Regardless, JPMorgan now holds 132 million ounces of silver in the COMEX warehouse system, more than the Hunt Bros. or Warren Buffett ever owned in total. And JPMorgan owns scads more physical silver than what it hold on the COMEX.

There was another 2 million oz of silver withdrawn from the big silver ETF, SLV, a day ago, another highly counterintuitive move given rising silver prices. The only plausible, if not possible explanation is that a large entity (JPM) is still converting shares of SLV into physical metal to avoid share reporting requirements. Thus, JPMorgan is still acquiring physical silver, even as it adds to paper short positions on the COMEX. If there is a single circumstance more corrupt and manipulative than this, then I'm not aware of it. These crooks at JPMorgan take the cake.

The changes in this week's Commitments of Traders (COT) Report, fortunately, came in below my expectations. It was no surprise that we saw significant deterioration or managed money buying and commercial selling, given gold's \$30 and silver's 60 cent price advance during the reporting week ended Tuesday. A quick glance through my notes indicates it was the largest weekly deterioration in silver in more than 2 years.

Still, I felt relieved that the managed money traders bought only 23,000 net silver contracts, shy of the 30,000 contracts I expected and the same managed money traders bought 40,000 net contracts in gold and not the 60,000 contracts I expected. And thanks to other large reporting speculators taking a piece of the managed money traders' betting action, the increases in commercial selling was even less than what the managed money traders bought in both markets.

In COMEX gold futures, the commercials increased their total net short position by 28,100 contracts to 177,600 contracts (less than half what I expected). While that was delightful reading, the commercial category breakdown was much less delightful, as the 4 largest commercial shorts added 21,300 new shorts and the big 5 thru 8 shorts added 6,300 new short contracts, leaving the raptors (the smaller commercials away from the big 8) as having sold only 500 contracts of their net long position, now amounting to 62,300 contracts.

As you may know, I find it troubling when the biggest shorts add aggressively to their concentrated short position as that is at the core of the price manipulation. On the other hand, I find it especially intriguing (and potentially bullish) that the gold raptors sold so little this week and last. In fact, the low level of raptor selling in gold, as well the lower than expected raptor selling in silver was the biggest surprise in this week's report, which I'll get into momentarily. (Another bullish surprise this week was the low level of managed money short covering in platinum, at least through Tuesday).

On the buy side of gold, the managed money traders bought just over 40,000 net contracts, including 40,708 new longs and the new short sale of 292 contracts. I suppose it might be somewhat of a surprise that there wasn't more short covering, considering the price rise in gold, but the managed money short position, at just over 20,000 contracts was so small that massive short covering was near impossible (as I believe I have been pointing out recently).

While the managed money long position in gold was less than what I would have expected, at 168,000 contracts, there can be little doubt that this long position has greatly expanded in the three trading days since the Tuesday cutoff. Total gold open interest has climbed another 53,000 contracts since the cutoff and it's safe to conclude that most of the total increase in open interest is due to new managed money buying. In fact, it's more a question of which commercials and other traders sold to

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the technical funds than whether the managed money traders bought.

In COMEX silver futures, the commercials increased their total net short position by 16,500 contracts, to 37,200 contracts. While this was the largest weekly increase since Oct 2015, it was almost half the increase I expected (he said happily). Unfortunately, the silver crook of crooks, JPMorgan, appears to have added strongly to its manipulative COMEX silver short position. The 4 largest shorts added 4900 new shorts, while the raptors sold off 12,000 long contracts, reducing the raptors net long position to a still-high 53,600 contracts. The big 5 thru 8 bought back 400 short contracts and that undoubtedly reflected managed money short covering.

The release of the monthly Bank Participation Report, along with this week's increase in the big 4 short position, causes me to recalibrate and peg JPMorgan's short position at 31,000 contracts, up from the 25,000 contracts I estimated last week. Even more interesting in the Bank Participation Report was the continued reduction in the short position of the non-US banks. Best I can tell, a big foreign bank which was formerly heavily short silver and gold has moved to reduce its short exposure. Of course, this matches perfectly with my prior speculation and press reports that Scotiabank was seeking to sell its ScotiaMocatta precious metals unit or pare back its operation. As a result, JPMorgan and other large shorts may have had to increase short positions as Scotia seeks to quietly exit stage left.

On the buy side of COMEX silver, the managed money traders bought nearly 23,000 net contracts, including adding 5,821 new long contracts and the short covering of 17,169 contracts. Frankly, I was expecting more of each and was relieved my expectations weren't met or exceeded. With 54,304 long contracts as of Tuesday, the managed money traders have inched up from the 46,000 core non-technical fund long position hit a few weeks back (more on that in a moment), leaving not that much room for long liquidation on lower prices. Also as of Tuesday, the remaining managed money short position of 38,501 leaves plenty of room for further short-covering to the upside.

Of course, that was as of Tuesday and there has been additional managed money buying since Tuesday, as silver prices were salami-sliced to new highs on heavy COMEX trading volume. Unlike the case in gold, where total open interest surged by 53,000 contracts since the cutoff, total open interest in COMEX silver has only risen by less than 2500 contracts through yesterday's preliminary open interest data. But, as I explained last week, additional new managed money buying and short covering in silver wouldn't result in big increases in total open interest as is the case in gold where the managed money traders' short position is tiny to begin with.

So, it must be expected that there has been significant deterioration in both gold and silver since the cutoff. Should the deterioration be on a par with last week (not knowing what will transpire on Monday and Tuesday), the gold market structure would then be no better than neutral, while silver's market structure would still likely be more bullish than neutral.

The surprise to me in this week's COT report was the lack of raptor selling in gold, where only 500 long contracts were pitched and even in silver where 12,000 raptor long contracts were sold. Over the past two reporting weeks in gold, nearly 50,000 commercial contracts (the equivalent of 5 million oz) have been sold as prices have risen fairly sharply, but the raptors have sold only 3200 long contracts - the 4 and 8 largest shorts have added more than 46,200 new short contracts.

Seeing as the gold raptors had added more than 50,000 net long contracts into the recent price lows of early December, I would have expected these traders to have sold many more contracts than they did

through Tuesday. After all, this was among the best positioning the gold raptors had ever achieved in that, collectively, they were quickly up more than \$250 million on long positions taken just weeks earlier. Yet they didn't sell (at least through Tuesday).

In silver, the raptors sold off 12,000 contracts this reporting week, but that's also the two week total, as they sold only a hundred contracts in the previous reporting week. As was the case with the gold raptors, the silver raptors had added 45,000 net long contracts since mid-November, so the sale of 12,000 of those long contracts over the past two reporting weeks, given the more than one dollar increase in price, seems on the light side. Quite frankly, I was anticipating that the silver raptors would have sold two or three times the number of long contracts they were reported to have sold.

Usually, total money returns (or losses) are bigger in gold than silver, given that the gold market is much larger than the silver market. But in this case, the raptor long position in silver was large enough (near a record) that the recent silver price rally was also worth about the same as the \$250 million collectively to the silver raptors as it was in gold. I would guess the gold raptors are largely the same traders as the silver raptors, so collectively, these 30 or 40 traders were up a combine \$500 million over the past few weeks.

Typically, these raptors sell and take profits as quickly as they can and then look to reestablish positions also as quickly as can be arranged. If you recall, I took to calling these smaller commercials the raptors, after the much smaller but quicker and just as vicious dinosaurs, the velociraptors, which hunted in packs in the movie, "Jurassic Park" more than a decade ago (the big 8 were the T. Rexes). The COMEX raptors have been knocking them dead for years and, apart from JPMorgan, are the single most profitable trading category of traders. It is fair to say that the raptors tend to make most of what the managed money technical funds lose. If there is one subset of traders most responsible for skinning the managed money technical funds consistently over the years, that subset is the raptors. And if you are looking to identify the mysterious traders most responsible for the sudden and inexplicable sharp selloffs and rallies in gold and silver over the years, then look no further than the raptors.

Therefore, it is more than puzzling to me that there has been such relatively light selling of profitable long positions by the gold and silver raptors over the past two reporting weeks when they were capable of booking perhaps their largest profits in memory. Of course, should the raptors be reported to have been much bigger sellers in the next COT report, then my puzzlement will vanish. With that caveat in mind, I can't help but to speculate on what the lack of raptor selling might mean.

Anytime a trader or group of traders choose not to sell profitable long positions, the most plausible explanation is that they are expecting even higher prices at which to sell. No tricks here, just common sense. The potential significance here is that the raptors in gold and silver are not just any traders, but the traders most responsible for leading the managed money technical funds into and out from long and short positions. JPMorgan is clearly the king gold and silver crook, but it increasingly operates at the margin, backstopping (not necessarily willingly) price moves up by selling as many additional short contracts as needed to cap prices after the raptors are finished selling.

But what happens if the raptors are now looking for much higher prices than they have sold at in the past? It would mean that JPMorgan would have to step in and short much more aggressively than they had to do when the raptors were more willing to sell at lower prices in the past. This is especially true if a former big short seller, ScotiaMocatta, has also decided to forsake the short selling manipulation.

Again, I am speculating about the raptors's intentions after only two reporting weeks and future heavy long liquidation by the raptors would cause me to change my mind. But I can't help but think that it may have dawned on the raptors that if they don't sell aggressively at current prices, then prices would have to rise unless JPMorgan adds to short positions much more aggressively than it has ever had to previously. As I said, this is all speculation at this point, but it would serve no good purpose not to mention it now as opposed to much later. Still, I am convinced that if the raptors don't sell as aggressively as they have in the past, that's a potential bullish factor that hasn't existed previously.

I ran across a recent article from Reuters that I think helped explain another thing that surprised me – the rather sudden drop in the core non-technical fund managed money long position in COMEX silver, from what had been a solid 56,000 contracts down to around 46,000 contracts. You'll recall the 56,000 contract floor had been in place for a number of years. Ironically, the article talked about how Fidelity Investments, the giant asset manager, was maintaining its core exposure to commodities, so in no way am I suggesting that Fidelity was responsible for the recent decline in the core non-technical fund managed money silver long position. It's just that the article got me to thinking (I know, I know – always dangerous).

<https://www.reuters.com/article/us-funds-fidelity-commodities/fidelity-retirement-funds-take-multiyear-hit-from-commodities-bet-idUSKBN1ET1NC>

To summarize the article, it seems Fidelity has taken more than \$3 billion in realized losses since 2012 from its investment in a variety of commodity futures bets, including gold and silver. The surprise to me was that Fidelity was a big holder of commodity futures contracts to start with, but that's beside the point. I did know that certain money managers held a very large position on the long side of COMEX silver that was completely different in nature from the money managers who bought and sold massive quantities of contracts on a technical basis. The COT report doesn't disclose the identities of large traders, so I suppose my surprise at seeing Fidelity identified would have been the same regardless of which money manager was identified.

Importantly, not only doesn't this change anything, but it also confirms previous findings. In hindsight, the recent unusual reduction in managed money longs in silver most likely is the result of a yearend portfolio adjustment by a large money manager or two; which represents the one-time sale of perhaps 10,000 COMEX silver contracts in December.

The most remarkable feature of this sale is that it occurred as the technical fund money managers were selling longs and also selling short like crazy. In little more than a couple of weeks, some 80,000 net contracts of silver were sold by the money managers in silver, those technically-oriented and those not motivated by price action. That the equivalent of 400 million oz of silver could be sold by a handful of large money managers in such a short period of time on –only– a \$1.50 price drop is way beyond most remarkable; it points to markets and market regulation gone stark raving mad.

The 400 million oz of equivalent silver sold in a couple of weeks is more silver than has ever been sold previously. That amount of silver is close to half the world's annual mine production. I would stipulate, without the slightest fear of legitimate contradiction, that it would be impossible for any group of traders to sell the equivalent of half the world's annual production of any commodity on any futures market. Not just that it has never occurred in any other commodity, but that it would be impossible for it to occur in any other commodity, except in COMEX silver. And don't forget that every ounce of the 400 million oz sold on the price takedown into early December was sold by traders officially identified as speculators; meaning there wasn't an ounce of futures selling by real producers or owners of actual silver as a legitimate hedge, the supposed purpose for why congress allows futures trading in the first place.

This is what makes silver the most manipulated market in the world and what makes the federal regulator, the CFTC, the most incompetent or corrupt regulator that has ever existed. It makes the self-regulator, the CME Group, the most corrupt regulator in that role, since continuing large profits rule out incompetence. I wonder at times if the Enforcement Director at the CFTC, James McDonald, now approaching his 10<sup>th</sup> month on the job has not experienced his family being kidnapped and held for ransom under the threat to not end the silver manipulation. Something has to explain the blatant dereliction of duty (apart from the get out of jail card issued to JPMorgan ten years ago).

Ted Butler

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Silver – \$17.25 (200 day ma – \$16.98, 50 day ma – \$16.68)

Gold – \$1320 (200 day ma – \$1273, 50 day ma – \$1279)

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