July 11, 2018 – Silver – The Big Guy(s) Cometh

Shortly after publishing my comments on Monday on the holiday-delayed Commitments of Traders (COT) report that day, I went back to the report to check on something and by accident another something caught my eye. I had completely overlooked this other â??somethingâ?• for the two or three months it had been developing, even though I had regularly discussed certain aspects of it.

I am referring to the unusual buildup of some 40,000 net contracts on the long side of the managed money category since April, pushing the total gross long position to 72,000 contracts (accompanied by a gross short position of 62,000 contracts). Obviously, I hadnâ??t missed the addition of 40,000 long contracts in the managed money category, as a two to three month purchase of 200 million oz of equivalent silver in any one category of the COT report would be pretty hard to miss by anyone who studies the data closely. After all, the managed money gross long position is the largest single long category in the disaggregated COT report.

What I missed was just how concentrated this newly-increased long position was â?? it is now the largest concentrated long position in the history of the COMEX silver market. Iâ??ve always focused on the concentration on the short side of COMEX silver because therein lies the proof of the silver manipulation. Over the years, the concentration on the long side of silver by the 4 largest traders was always much less than the concentration on the short side, most often by half or less.

But since April 3, the net concentrated position of the 4 largest traders on the long side of COMEX silver has doubled, both in percentage of total open interest and in contract terms and is now less than 2% or 3500 contracts less than the short concentrated position. Never has the concentrated long position in silver been this large, either in absolute terms or relative to the concentrated short position.

A concentrated position is a large position held by a small number of traders, in this case 4 or less, since that is the benchmark used by the CFTC (along with the 8 or less largest traders). For the COT report as of July 3, the 4 largest traders in COMEX silver futures held 63,332 net long contracts and a different 4 traders held 66,827 contracts net short. Stated differently, the 4 largest longs held 15,833 contracts each on average, while the four largest shorts each held 16,707 contracts short on average. Thatâ??s a far cry from the 2500 contracts I proposed as a position limit and which thousands seconded with the CFTC ten years ago.

What does the emergence of a record concentration on the long side of silver mean? First, let me state what the data indicate and then try to analyze what it may portend for price. Simply put, maybe just one, but certainly no more than 4 large managed money traders have added 30,000 long contracts (150 million oz) of COMEX silver futures over the past three months at an average price of around $16.50. This is hard fact based upon changes in the concentration data as indicated in the COT reports.

Regular readers no doubt remember the buildup of a similar number of core non-technical fund managed money long positions over the three years into the end of 2017; that suddenly was sold off starting in 2018 and continuing through April. The liquidation of that position appeared related to changes in index fund portfolio allocations. This three-month buildup of 30,000 new long positions is different, not only in the time it took to be created, but also by the very small number of traders doing the buying this time around. The previous long buildup of managed money long positions was by many different traders and not at all concentrated in nature. This time, the data indicate the buildup is by a few big traders.

These very few large traders who have purchased 30,000 net contracts of silver over the past three months would not appear to be technically oriented since silver prices have gone nowhere and have spent much more time trading below silverâ??s key moving averages than above. In fact, based on the silver price pattern over the past three months and more recently, purely-technical managed money traders have built up a very large short position at the very same time the concentrated long position has been established. If the few big traders who have purchased 30,000 silver contracts were not technically-oriented as seems reasonable, then that means they were motivated by something else â?? like becoming convinced that silver was grossly undervalued (a sentiment shared by a few other deranged souls, like myself and quite a few of you).

If, in fact, these recent large buyers of silver futures are convinced that silver is undervalued, it may mean a number of things; not least of which is a possible answer to a question on my (and Iâ??m sure your) mind for a very long time, namely, if silver is so grossly undervalued and manipulated as I claim it to be, then why hasnâ??t anyone recognized this and moved to buy the snot out of it (apart from the crooks at JPMorgan)? The fairly sudden and unquestionably record concentrated purchase would also seem to suggest that these buyers arenâ??t likely looking for a quick trade of a dollar or two profit, but thatâ??s speculation on my part.

Whatâ??s not speculation is that if a few traders did decide to buy a very large chunk of silver in a hurry, say 150 million oz or so, the only way to do so would be via COMEX futures. Thereâ??s no way in Godâ??s world anyone would be able to purchase 150 million oz of actual silver or in the SLV in three months without sending the price through the roof. Yes, JPMorgan has purchased more than 700 million physical ounces, but it has taken seven years and being the continuous controlling short seller on the COMEX to pull it off. Anyone looking to buy the equivalent of 150 million silver oz in three months would had to do it through COMEX futures.

Very long term readers may recall my aversion to seeing a large concentrated purchase of COMEX silver futures because of the Hunt Bros experience, in which the exchange and the CFTC forced the Hunts to divest their holdings. But there are a number of important differences this time around. For one, the Hunts deliberately intended their outsized purchases to drive silver prices higher, while that intent is not present in the recent purchases of silver futures. And the Hunts bought futures and physicals concurrently; this time it looks like futures only.

Most importantly, the CFTC and the CME Group have adopted a hands off approach over the years to restricting larger and larger position taking by both the concentrated shorts and the technically-oriented managed money traders. If they attempt to discriminate against traders which have built up non-technically oriented large positions that havenâ??t impacted price, the regulators risk exposing themselves for the do-nothing hypocrites they really are (and bringing attention to silver). Plus, I would assume the regulators are fully-aware of the concentrated long position, since they are publishing the data which show it.

If there is one party that Iâ??m sure is more than aware of the new concentrated long position in COMEX silver, then that party is JPMorgan, master of all aspects of silver and gold (by the way, in case you are wondering, I see no signs of a concentrated long position in COMEX gold). In fact, I canâ??t help but speculate that the emergence of this record long concentration in COMEX silver futures has prompted recent moves by JPMorgan in its double cross in gold and move to buy back as many of its short silver and gold positions as possible. And while Iâ??m not yet convinced that the big recent concentrated buyers of silver futures are related to or motivated by JPM, I wouldnâ??t bet my life against it either.

Iâ??ve been asked who I think the big managed money traders which purchased so many silver futures contracts may be, but I canâ??t know because Iâ??m not an insider or dealer in confidential information â?? Iâ??m solely an analyst of the data. But what intrigues and impresses me the most about the revelation of an unprecedented concentrated long position by a few large managed money traders is that it is entirely consistent with my narrative to date and for what it portends for price. I have maintained from the beginning that the price of silver (and gold) is dictated by COMEX positioning and this new development completely fits in with that, particularly as for what it portends for price.

That said, if this concentrated long position gets sold that will be immediately evident in the data and I will report on it just as immediately. Iâ??m more concerned with what happens if the concentrated long position isnâ??t sold in the immediate future, as Iâ??m inclined to believe. Assuming the concentrated long position isnâ??t sold in the very near future, then its ultimate effect is yet to be felt. Letâ??s face it, no one can say it has had any upward impact on price to date, since as I write this silver prices are threatening to make new lows. But thatâ??s very different than the impact this position may have in time. Please allow me to explain.

As much as it seems out of tune at this precise moment, at some point, the price of silver will rise enough to penetrate its key moving averages to the upside. This is a mathematical certainty. How soon and at what price the moving averages will be penetrated is unknown, but its eventual occurrence is a sure thing. When, not if that occurs, it is most probable that we will get the same managed money technical fund reaction we have always gotten in silver and just about every other commodity. That reaction will be buying by the managed money technical funds, same as it ever was.

The near certain managed money technical fund buying that will occur when the moving averages are penetrated will be of two types; one, the buyback of short positions and two, the purchase of new long positions. While not necessarily precise, we can reasonably estimate the quantity of total managed money contracts of both types to be bought based upon the historical record. We know, for instance, that as many (or more) than 40,000 of the 62,000 contracts held short will be bought back on silver prices that remain above the moving averages for more than a few days.

In addition to those 40,000+ short contracts that will be bought back, there will likely be an equal or much greater number of new longs then purchased by the same technical funds in the managed money category. Again, based upon the historical record, it is easy to estimate 80,000 to 100,000 total net COMEX silver contracts, and possibly many more, being bought (or being attempted to be bought) as and when the key moving averages are penetrated to the upside. Since there must be a seller for every silver contract purchased by the managed money technical funds, letâ??s look at the probable sellers.

As and when the managed money technical funds move to buy 80,000 to 100,000 contracts or more of silver futures, the most likely sellers will be the raptors who are long around 65,000 contracts and the big commercials who may go short, particularly JPMorgan. However, there is a complication with the potential raptor selling in that they appear most interested in selling at as high a price as possible and are not as much interested in capping silver prices as JPMorgan demonstrated recently when it added 20,000 contracts of new silver shorts on a fairly mediocre silver rally to just above $17. In fact, the lowest raptor long position this year-to-date was back in January when silver hit $17.50 and the raptor long position fell to 44,000 contracts.

Raptor selling of 20,000 contracts is not going to be anywhere near enough to offset the potential of 80,000 to 100,000 contracts of technical fund buying that should come in on a decisive penetration of the key moving averages in silver. By decisive, I mean more than the three days or so that the 200 day moving average was penetrated in April and June. The raptors will undoubtedly sell more than 20,000 contracts on still higher silver prices, but those higher prices will beget even more technical fund and other momentum buying.

The wild card, as always, is how aggressive JPMorgan will or wonâ??t be in adding new silver shorts when the key moving averages get penetrated to the upside. JPM did add 20,000 new shorts, increasing its total short position to 40,000 contracts in June, before whittling it down to 27,000 contracts as of the last COT report. But there were extenuating circumstances in that JPM was in the midst of executing its perfect double cross in gold in which it bought back a much larger number of gold shorts by increasing its silver short position temporarily to prevent silver prices from rising more. That was then and this is now.

Now JPMorgan has largely completed its gold double cross and, thus, has lost a big incentive for capping silver prices again. The emergence of the managed money concentrated long position means that JPMorgan will have to sell many more additional silver contracts on the next upward penetration of the moving averages and my bet (quite literally) is that it wonâ??t. Whether JPMorgan is behind the newly created concentrated long position or not, there is absolutely no way it has not been keenly aware of it from the get go. JPM owns COMEX silver and doesnâ??t need to study COT reports, like me, to know whatâ??s going on.

This new managed money concentrated long position changes profoundly the numbers and dynamics of the COMEX positioning game to the point where it has never been more advantageous to or imperative for JPMorgan to not add aggressively on the next silver rally. At least, thatâ??s my take. I shouldnâ??t need to remind anyone that if JPM doesnâ??t add aggressively to its silver shorts on the next rally, that rally should one for the record books.

As far as what to expect in this Fridayâ??s COT report, given the relatively flat price action through yesterdayâ??s cutoff, I wouldnâ??t imagine much of a change in precious metals, but would be surprised if there wasnâ??t additional managed money selling in copper. Todayâ??s fresh price weakness is a matter for next weekâ??s report. Obviously, I will be scouring the new report for clues related to todayâ??s discussion and I still canâ??t believe it took me so long to spot the concentrated managed money long position, considering it had been developing for months.

Ted Butler

July 11, 2018

Silver – $15.82Â Â (200 day ma – $16.66, 50 day ma – $16.45)

Gold – $1244Â Â Â Â Â Â (200 day ma – $1304, 50 day ma – $1290)

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