

After falling for five consecutive weeks, prices for gold and silver rose for a second week, with gold adding \$27 (2.2%) and silver 55 cents (3.4%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by another full point to 76 to 1. I found silver's relative outperformance somewhat surprising, since day to day observation of market action seemed to suggest that gold was leading silver higher and not the other way around. I think it has to do with just how cheap silver is relative to gold (and everything else) that even slight moves to the upside feature larger percentage gains in silver. The real tale, of course, will only be told when silver starts to move higher in earnest.

Also somewhat remarkable that silver has outperformed gold over the past two weeks is the fact that gold has now penetrated both its key (the 50 and 200 day) moving averages to the upside, while silver has yet to do so, setting the stage for potential price fireworks in silver whenever the upward penetration occurs. True, both gold and silver have regained about 50% of the price declines since June 6 (\$90 in gold and \$2.50 in silver), but the most remarkable feature in both is in how little deterioration, in terms of COMEX positioning changes, has occurred on the rally so far. This was the key takeaway message in this week's surprisingly bullish COT report, which I'll get to momentarily.

I continue to be dumbfounded at the explosion in COT commentary in gold and silver. It's fair to say that such commentary now dominates the space, with those not commenting on COT matters relegated to distinct minority status. And all for good reason – COMEX futures positioning determines price, period, so it should be no surprise more focus on it than ever before. I have a few minor, even puerile and self-

centered negative feelings about the explosion of COT commentary and awareness and one very big positive feeling.

The negative feelings concern how many put themselves forward as expert COT analysts, without any acknowledgement about where and how they came to gain their expertise, as if it just occurred to them one day. And I have negative vibes about anyone implying that they know what will unfold in markets in the manner of "listen to me, because only I can tell you what the future holds." Base your conclusions instead on the facts as they are presented and the reasoning of the argument, not personal forecasts by others (including me). The last negative feeling has to do with so many commentators presenting a pretty balanced COT presentation, but then trying to avoid the unmistakable proof that the analysis itself is prima facie evidence of price manipulation.

This last negative feeling is also the most powerful positive in the dominant COT commentary of late. With so many now focusing intently on COMEX positioning and COT report matters, it's only a matter of time before the whole scheme and scam comes apart. About the only ones seemingly not aware that the managed money technical funds are getting hosed and abused are the funds themselves. As I'll get into in a moment, I believe that those funds are about to have their "come to Jesus moment" in the very near future and then even these funds will join in the awareness brigade. It's hard for a scam to continue when everyone is aware of it.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses was up a bit from last week, but still on the subdued side as 2.9 million oz were physically moved and total inventories rose by 0.1 million oz to 213.4 million oz, another 20 year high. JPMorgan added 0.63 million

oz to its COMEX warehouse holdings, pushing its holdings to a record 113.1 million oz.

Sales of Silver Eagles have picked up for the month, but still remain well (50%) below the levels that prevailed before JPMorgan quit buying them some six months or so ago. Every month that goes by now reaffirms that JPM was a massive buyer of these coins (and Canadian Maple Leafs) for six years.

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

The changes in this week's Commitments of Traders (COT) Report were surprisingly bullish when compared to previous general expectations. Add this week to a surprising string of significantly bullish recent reports. I studiously avoided any specific contract predictions for yesterday's report, but the odds-on bet was to expect managed money buying and commercial selling in gold (which occurred on the managed money side, but not in significant amounts) and to a lesser extent in silver. The reasoning was that gold's \$30 rally during the reporting week, particularly the upward penetration of gold's 200 day moving average, would trip off managed money technical fund buying. The price of silver rose 50 cents during the reporting week, but didn't come close to upwardly penetrating either of its key moving averages.

In COMEX gold futures, instead of the commercials increasing their total net short position, that position was reduced by 300 contracts, to 73,600 contracts. By the slimmest of margins, this is another new low in the total commercial net short position and the most bullish the gold market structure has been in a year and a half. But the real story in gold to me was in the commercial category breakdown.

The 4 largest gold shorts actually increased their net short position by a very hefty 10,100 contracts and the big 5 thru 8 gold shorts also added 1500 new short contracts. This meant that the gold raptors (the smaller commercials away from the big 8) actually added 11,900 new long contracts, increasing the raptor net long position to 121,100 contracts. This is the largest (most bullish) raptor net long position in nearly two years (Aug 2015), just prior to a \$150 rally in gold prices.

This raptor buying was the most significant feature of the gold report, so let me take a moment to discuss its possible implications. On Wednesday, mostly concentrating on silver, I explained how I expected the silver raptors to sell all of their 50,000+ net long contracts on rising prices, with the key price factor still being whether JPMorgan would add to its silver short positions. I didn't reference the gold raptors in that discussion and I don't think the question of whether JPM adds to shorts applies in gold as it does in silver, but the sharp increase in gold raptor long positions may portend a bigger move up in gold, more than I would have thought otherwise.

My reasoning is that if the gold raptors are actually adding new long positions on a noticeable price rally (up through one important moving average), instead of selling and taking profits at the first opportunity to do so, as is their custom, it might mean that they intend not to sell aggressively until much higher gold prices are achieved. This adds a completely new potential bullish factor I'll get into later.

On the managed money side in gold, these traders did buy close to 5700 net contracts, including adding new longs of 3409 contracts and the buyback of 2282 short contracts; but this is only a fraction of what would normally be expected. Again, the managed money technical funds, at least thru Tuesday's cutoff, have

bought way fewer gold contracts than have been historically purchased at similar price and market structure setups. And I don't think this is a function of these traders not buying, but of them not buying yet.

In COMEX silver futures, the commercials also reduced their total net short position, but in an amount much greater than in gold, as the net short position was reduced by 2700 contracts for the reporting week, down to 21,900 contracts. This is the lowest (most bullish) commercial short position since mid-November 2015. There wasn't the standout commercial category feature that occurred in gold, as the big 4 bought a bit more than 300 shorts back and the big 5 thru 8 also bought back 1800 shorts, while the raptors added 600 contracts of new longs. The raptor net long position of 53,400 contracts is the largest (most bullish) raptor net long position since August 2015.

I'd peg JPMorgan's COMEX silver short position to be unchanged at 10,500 contracts and readily admit it might be a few thousand contracts higher, but that matters little at this point. JPM has been the single largest buyer of COMEX silver contracts since April 18 and has never been in a better position to profit from a big move up in the silver price. More importantly, it is very difficult for me to imagine JPMorgan buying many, if any COMEX silver contracts on lower prices, so there is little incentive for the bank to press silver prices lower from here.

On the managed money side of silver, these traders sold a net 725 contracts, including the purchase of 3130 new longs and the new sale of 3855 short contracts. With the managed money long position now close to 59,000 contracts, that adds more conviction that last week's dip to 56,000 long contracts still looks like the bottom of the core long position. But the standout feature in this week's silver report was the increase in managed money shorts to nearly 66,000 contracts, another all-

time record.

As far as why the managed money short position increased this week, I have two explanations. One, it might be an adjustment related to last week's suspicious increase in the other large trader category or two, it could be that, just as occurred in May, some managed money traders added to shorts on the silver rally that approached, but never penetrated any key moving averages. The silver price rally from deeply oversold levels, in technical fund theory, reduces the risk on new shorts that are much closer to the moving averages than short sales much deeper below the moving averages. After all, the closer your buyback point is to where one goes short, the less risk the trade contains. In theory.

From a technical fund perspective, that sounds fine, but the net effect of adding silver shorts at this time might not be adequately and fully measured by how close the price of the short sale is to the expected closeout price of the moving average penetrations. That's because an upward penetration of the key moving averages in silver might not fully reflect the true risk of being short silver at this time. In other words, the managed money technical funds may believe they will have no great difficulty in buying back all their silver shorts (and getting big long) at some reasonable proximity to the moving averages, as has always occurred previously; but that is not written in stone. The technical fund silver shorts' belief and past experience is hardly guaranteed to prove true again and, in fact, rests solely on the intentions of the commercials, big shorts and raptors alike.

In essence, this is an extension of what I just discussed above about the gold raptors showing no signs of selling aggressively on the upward penetration of one important gold moving average. The silver raptors didn't add many new longs in the reporting

week on silver's rally, but they sure didn't sell any to this point. The fact is that the price rally over the past two weeks has been sufficient enough to put the technical funds which did add aggressively to gold and silver short positions and the raptors which bought most of those contracts close to even in current mark-to-market money terms.

Stated differently, the absolutely huge bet by the technical funds on the short side of COMEX gold and silver and the equally huge bet by the raptors on the long side is now even in running money terms. That the bet is still completely open is my key point. What it means is that the short technical funds are truly over a potential barrel and more dependent than ever on the actions and intentions of the raptors. Should the raptors decide to rip the technical funds a new one, there's never been a better time for them to do so.

Admittedly, this only strengthens and makes more compelling my silver price explosion premise and extends it to include gold. I have been expecting a price explosion in silver since early May, when the COMEX positioning extremes in silver hit then-record levels (Remember the unprecedented 17 days of consecutive price declines?). But incorporated in my price explosion premise was that the raptors would be ready sellers of their big long positions as prices rose. With the new COT report indicating that not only have the raptors not begun to sell on higher prices, they actually added new longs. If this was no fluke and is indicative that the raptors may be in no rush to sell, then who the heck is going to sell to the technical funds when they plow onto the buy side?

This is the perfect set up for a selling vacuum and price explosion that I have long envisioned, but not with such clarity. Yes, it is possible that the gold and silver

raptors will return aggressively to the sell side on higher prices and the rally will be contained to \$100 or so in gold and a couple to a few dollars in silver, same as always. But it is possible that the raptors might realize the strong driver's seat they are in and if they do, quite literally, nothing and don't rush to sell, then gold and silver must explode in price. There's no question that the technical funds will rush to buy (or attempt to buy) many tens of thousands of COMEX gold and silver contracts on higher prices from here; the only question is who will sell to them? If it isn't the raptors, it is a near-certainty that prices will explode.

Therefore, we are at a highly unique juncture in the price history of gold and silver. Never before has the market structure been so extreme and so promising for sharply higher prices. My focus is mostly on the mechanics of how prices are set and, as you know, this is rooted in COMEX positioning and market structure issues. But I would be remiss if I didn't mention that I sense all sorts of positioning extremes in other markets as well, including stocks, bonds and real estate.

I'm not offering any advice for those markets, to be sure, but it seems to me the possibility for major adjustment exists in many markets. Add in the most dysfunctional and politically extreme US Government situation that I have witnessed in my more than half-century of first hand observation and it's not hard to imagine many things going haywire besides silver. The difference is that I hope broader dislocations can be avoided, but that just doesn't seem possible in silver.

Let me conclude by apologizing up front and in advance if silver doesn't unfold as I expect, but I just don't see much room for a significant price rally not occurring dead ahead based upon all the facts presented above. Again, not because I say so, but because of the facts at hand. If there's ever been a better time to be positioned to the



maximum for a silver rally than now, that time is unknown by me.

Ted Butler

July 22, 2017

Silver - \$16.50 (200 day ma - \$17.18, 50 day ma - \$16.66)

Gold - \$1255 (200 day ma - \$1232, 50 day ma - \$1249)