Gold and silver prices finished higher for the third straight week and at close to two month highs; with gold ending $14 (1.1%) higher and with silver up by 24 cents (1.5%). With relative performance only slightly varied, the silver/gold price ratio tightened in a bit to just under 76 to 1, not far from unchanged and still within the fairly tight trading range of a couple of years. To be sure, gold has been slightly stronger than silver year to date, but don't let that lull you into thinking that silver is not wildly undervalued relative to gold; because it is.

The key feature for the week was the mostly expected deterioration in the COMEX market structure in gold and silver, following six straight weeks of notable improvement. While I admit to being slightly disappointed (I always am) upon yesterday's release of the Commitments of Traders (COT) Report showing buying by the technical funds and selling by the commercials in both gold and silver, I think that may have been due to a case of getting spoiled by the string of bullish readings that preceded this week's report.

After all, gold and silver prices had been on the upswing for nearly three weeks through the Tuesday cutoff by a decent amount from the lows in early July (gold by $45 and silver by $1.30) and we all know by now that technical fund buying is what drives prices higher. Sooner or later, such buying must be reflected in the COT report, otherwise there would really be something amiss. On a longer than one-week perspective, the market structures in gold and silver still look bullish and particularly so in silver. I'll dig into the COT report in a moment.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses increased to 5 million oz this week, as total inventories fell by 0.5 million oz to 213.9 million oz. There was unusually large movement in the JPMorgan COMEX silver warehouse this week, with more than 1.7 million oz coming in and 0.9 million oz departing, pushing the total amount of metal in this warehouse to 113.9 million oz, another new record.

This week's movement was close to the average weekly movement over the past six years and longer, ever since JPMorgan opened its COMEX warehouse and began to hoard physical silver. That's an annual physical turnover of 250 million oz; meaning that over the past six-plus years, more than 1.5 billion ounces of silver have been moved in and out of six warehouses in and around New York City. That total physical turnover of 1.5 billion oz is about equal to the total amount of silver bullion in the world that I wrote about on Wednesday.

I find it astounding that the equivalent of all the visible silver in the world moved into or out from six COMEX warehouses over the past six years – and all this metal began to be physically moved just as JPMorgan opened its own COMEX silver warehouse. While I have been diligently reporting and commenting on both the movement and the JPMorgan connection every week since May 2011, even I am taken aback by what has unfolded in full public view. Can anyone fail to see the outsized role that JPMorgan has played in a physical turnover and total inventory story that is unprecedented?

Can anyone and, most particularly the Enforcement Director for the CFTC, James McDonald, not see that JPMorgan completely dominates both the physical side of silver, as well as the price-setting paper side of the metal based upon the public record? Can anyone deny that JPMorgan was asked by the US Government to rescue the largest short in COMEX silver and gold (Bear Stearns in 2008) and received private assurances and guarantees in connection with that request? Am I the only one who finds it strange that the largest and most important bank in America has a strangle-hold on the silver market in every way possible?

I didn't see anything super special in Monday's first delivery day stats for the August COMEX contracts, either in gold which is a traditional delivery month or in silver which is not. JPMorgan was, by far, the largest gold issuer and also stopped a decent number of contracts, but all for clients, not itself. JPM remained MIA in silver deliveries either for itself or clients.

There were another 1.1 million oz of silver removed from the SLV and another 285,000 oz of gold removed from the GLD since Wednesday's report, on higher prices, continuing the very counterintuitive circumstance of ETF withdrawals on higher prices. I know this matter has drawn widespread attention, but as far as I can tell, no one has offered an explanation apart from my deliberate conversion from shares to metal premise to avoid share ownership reporting requirements and hide accumulation of metal by a large entity. I'd prefer to choose the most plausible explanation among several to explain something that should be explained, rather than settle by default to my own premise; but no alternative explanations have been forthcoming.

The changes in this week's COT report were expected, although perhaps a bit larger than hoped for, even though I avoided specific contract number predictions. There was more technical fund buying and commercial selling in gold than there was in silver, which was fully expected (given the upward moving average penetrations in gold), but I was hoping for lower numbers in each, since I was becoming somewhat addicted to the surprisingly bullish COT reports of late.

In COMEX gold futures, the commercials increased their total net short position by

29,700 contracts to 103,300 contracts. This was the first increase in the commercial short position in six reporting weeks and is still more than 113,000 contracts lower (more bullish) than it was on June 6. Undoubtedly, there has been continued technical fund buying and commercial selling since Tuesday's cutoff given the price action.

By commercial category in gold, it was decidedly a Three Musketeers effort, as the big 4 adding 8800 new shorts, the big 5 thru 8 adding 8900 new short contracts and the raptors pitching 12,000 long contracts. The standout feature in the commercial category breakdown on the $85 gold price drop (from June 6) into early July and the subsequent $45 rally into Tuesday, which involved a 113,000 contract reduction (improvement) in the total commercial net short position, has been how little participation there has been by the 4 largest shorts in gold and how much participation there has been by the raptors (the smaller commercials away from the big 8).

Since June 6, the big 4 in gold have only reduced their net short position by 12,000 contracts, while the raptors have added 98,000 new long contracts through Tuesday. This is as lopsided as I can recall and one takeaway is that the raptors are playing a much larger role in COMEX gold positioning than ever before. There is a similar pattern in silver of the raptors dealing in a much larger role than typically, despite the clear dominance of JPMorgan in that market. More and more, the raptors seem to be calling the price shots.

On the buy side of gold, it was the revenge of the technical funds, as the managed money traders bought 50% more contracts than the commercials sold, as these traders bought nearly 45,000 net gold contracts, including the purchase of 9331 new long contracts and the short covering and buyback of a very hefty 35,380 short contracts. It can’t be considered surprising that the technical funds would be so quick to buy back losing short positions as the key moving averages were penetrated to the upside, because at that point, the funds had no reason to be short at all. Still, I was hoping for more of a price pop than seen.

I take some consolation in the managed money traders buying many more contracts than the commercials sold in that other traders – the other non-managed money large reporting traders, as well as the smaller non-reporting traders – sold aggressively to the technical funds. Over the past three reporting weeks, the other large reporting trader category has added around 35,000 new gold short contracts. In fact, in the COT report of June 11, I remember thinking (and writing) that the 25,000 contract increase in the short position in the other large trader category might have been a reporting error. But if it was an error, it would have been corrected by now.

Instead, we have a circumstance that is highly unusual, if not unprecedented, in that the other large reporting trader category in gold (essentially large traders dealing for themselves rather than with other investors’ money) now has a larger gold short position than do the managed money traders. As you know from reading these reports, positioning is almost exclusively a matter of the managed money traders aligned against the commercials. This is different. Although I have been reporting of increased competition to the commercials’ dominance over the managed money traders by other non-commercial and smaller traders to get a piece of the technical funds’ hides, it strikes me as dangerous to and for other large traders to add aggressively to short positions as the technical funds are buying. It’s one thing to sell out long positions to technical fund buying, but it is a different matter for these other large traders to add short positions against technical fund buying.

The last time there was a comparable increase in the short position of the other large traders in gold was at the tail end of the epic price decline into mid-2013 (when gold fell $400 or more). But no sooner had the short position been taken, than the price of gold shot up $200, largely due to short covering by these very same traders. There no way of knowing if the very large short position held by the other trader category will meet a similar fate, but that seems more than plausible to me as I doubt very much these traders would have much choice but to buy back these shorts on higher gold prices. After all, they have as much chance of delivering gold as any speculator, which, in essence, is slim to none.

In COMEX silver futures, the commercials reduced their total net short position by 7600 contracts to 29,500 contracts. Aside from the last two reporting weeks, this is the lowest (most bullish) commercial short position in more than a year and a half. By commercial category, it was mostly the same two-legged affair it has been lately involving the big 4 and the raptors. The big 4 added 2500 new shorts and the raptors sold off 5300 longs (the big 5 thru 8 bought back 200 shorts). The raptors are now long 48,100 contracts which is still in nose-bleed bullish territory.

I'd peg JPMorgan's short position to be 13,000 contracts as of Tuesday, but still admit it could be two or three thousand contracts more than that. I like seeing the big 4 short position increase about as much as I like hearing from the IRS, since it has everything to do with whether silver explodes or not, but I try not to be overly sensitive to smaller increases. One clarifying feature is that since next Tuesday is the first day for August, we won't have to wait long for the next Bank Participation report, which should be published next Friday.

On the buy side of silver, the managed money traders bought twice as many contracts as the commercials sold, as these traders bought more than 15,300 net contracts, included new longs of 3138 contracts and the very large short covering of 12,168 contracts. With managed money longs amounting to nearly 62,000 contracts that adds further confirmation that the 56,000 long contract position of two weeks ago might hold as the bottom of the core non-technical fund long position.

It did hurt that more than 12,000 technical fund short contracts were bought back at such low silver prices and before there was any key moving average penetrations to the upside. But another way of looking at it is that measured from the recent price lows ($15.15) and on a last-in and first-out accounting basis, all the technical fund contracts bought back this week were bought back at pretty hefty losses (a dollar or so or as much as $60 million or more collectively). In other words, there was more a money management and loss-limiting motivation to the short covering than by pure technical fund signals.

It can’t be any giant surprise that there was technical fund short covering in silver since this was basically preordained. I remember commenting recently that technical fund shorting of silver in a price hole was a lame trade and this just adds an exclamation point. And, just as was the case in gold, there is some consolation that the commercials sold many fewer silver contracts than the technical funds bought. There is a similar situation in silver, as there was in gold, of the other large reporting traders adding a noticeable number of new short contracts (10,000) over the past three reporting weeks. Likewise, these traders have as much chance or less of delivering 50 million oz of real silver as I do and it’s just a matter of time before these short contracts are bought back.

One thing that I have overlooked mentioning recently is that even after this week's increase in commercial selling, on a gross basis, the total non-commercial large trader and small trader short position in COMEX silver is larger than the commercial short position. This is very rare and points to the still-extremely bullish market structure in silver, as there is still plenty of potential non-commercial short covering ahead.

In fact, this is the main takeaway in silver, namely, just how bullish the market structure is at this point. If you told me earlier this year that the total commercial short position would get reduced by 87,000 net contracts from April 18 to last Tuesday on what is now only less than a $2 price decline, I wouldn't have believed you. I wouldn't have imagined that the technical funds could have been hoodwinked that badly or that they would still be over a barrel as bad as they are now. Quite simply, even though I imagine there has been further technical fund buying since the Tuesday cutoff, the current market structure is about the best it has ever been on an all-around basis.

Therefore, the silver price explosion premise is still very much alive, despite my initial misgivings about this week's report. The COT market structure analysis must be evaluated on a complete cycle basis and one or two weeks is not of sufficient time to conclude ultimate price outcomes. There's no question that gold and silver prices have rebounded due to COMEX positioning, just as they fell first on the same positioning factors. Those factors are still extremely bullish, particularly in silver.

Ted Butler

July 29, 2017

Silver – \$16.74 (200 day ma – \$17.16, 50 day ma – \$16.66)

Gold – \$1269 (200 day ma – \$1232, 50 day ma – \$1252)