I'm going to mix things up a bit and comment on some recent developments before finishing with an article I just wrote for Investment Rarities, Inc.

I continue to be taken back by the growing attention given to the market structure on the COMEX in gold and silver, as revealed in the COT Report. More and more, I find such references even when I'm not expecting them. For example, here's an article that concerns the tailwind given to gold (and I would argue silver as well) by the fact that more than $9 Trillion worth of sovereign bonds offer negative interest rates, thus undermining for the first time the argument that gold not paying interest is a price negative.

http://www.bloomberg.com/gadfly/articles/2016-07-22/gold-s-9-2-trillion-tailwind

I found the article well written and making a good point. What floored me, however, was the unexpected reference to investment funds (managed money traders) having switched from record short positions in COMEX gold futures at the start of the year to record long positions presently, thus indicating potential short term price headwinds. Maybe I'm overly sensitive to the issue, but since I believe COMEX positioning is the prime price driver, I take the increased commentary about it as confirmation of its importance.

Just so you don't think I'm myopic, let me reference an article that doesn't mention COMEX positioning and gives only passing reference to gold. The article is thought provoking in different ways, touching on topics from terrorism to program trading (which the author condemns in terms in line with my own thinking).

http://www.cross-currents.net/charts.htm

When I read the author's brief comments on gold price performance since the horror of 9/11/01 as being up 364% (through April 30), as a silver analyst, I was compelled to look up silver's performance since then. To make a long story short, on that dreadful day gold was priced at $285 and silver was at $4.20, or at a price ratio of around 68 to 1, just about the same ratio as today. There have been large variations in the silver/gold price ratio over the past 15 years and while I still feel silver will vastly outperform gold in the long term, at least silver has kept pace through today. To my mind, the biggest difference between then and now is that silver is written about much more frequently today than it was back then, which I believe will augment its relative performance going forward.

The new short interest data on stocks indicated sharp increases in the short positions of both the big silver ETF, SLV, and the big gold ETF, GLD, for positions held as of July 15. The price action for the two-week reporting period included the price fireworks around July 4, in which new price highs were made in both metals. The short position in SLV rose by 3.3 million shares to 13.5 million shares (ounces), while the short interest in GLD rose by more than 4.6 million shares to nearly 15.2 million shares (1.5 million ounces).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

I didn't have any strong expectations for what the short report would indicate, but neither can I say I'm surprised at the big increases given the sharp jump in price. Both short increases come from fairly low levels to start with, so the new totals can't be considered historically large. Still, there is little doubt in my mind that the most plausible explanation for the large increase in short selling was a lack of physical metal available for immediate deposit at the time. Other data continue to point to physical tightness in silver and gold.

The concluding COMEX July gold delivery month remained extraordinary, following an even more extraordinary June delivery process. One of the features that made both gold delivery months unusual was the nearly continuous

addition of new contracts established after first notice day, up until the final trading day. New contracts created after first delivery day usually indicate an urgency in either receiving or delivering physical metal before that month ends.

According to exchange contract terms, the seller of a futures contract decides when delivery will be made during the delivery month, but the delivery must be made by the last delivery day. Someone buying late in the delivery month, therefore, has a firm expectation of receiving delivery by the end of the month, so any such buying can be interpreted as the buyer desiring prompt physical delivery. Further, this is more prevalent in times of physical tightness. Given most things evident in gold, including ETF deposits, pricing and COMEX deliveries, physical tightness seems the obvious conclusion (as opposed to the voluntary dumping of metal).

Another unusual feature in the June and July COMEX gold delivery months is that the formerly hard spot month position limit of 3000 contracts was exceeded on multiple occasions. Not unusual, of course, is that most of the big buying were represented by JPMorgan, either for its own account or for a client(s). In June, JPMorgan stopped more than 6700 gold contracts (670,000 oz) in its own name and another more than 4000 contracts for a client(s). JPM

subsequently physically moved all the gold it took in its own name into its own COMEX warehouse. In July, JPMorgan took no gold deliveries in its own name, but has taken more than 4800 additional contracts for a client(s).

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

In just two months, JPMorgan has taken, either for itself or on behalf of a customer(s) more that 15,600 COMEX gold contracts, the equivalent of 1.56 million ounces, or more than $2 billion worth of gold. HSBC has remained the big seller/issuer over this time, with over 10,400 gold contracts delivered. Somewhat surprisingly, the recent extraordinarily large gold deliveries on the COMEX have gone largely unreported, even though they are among the largest on record.

To be fair, while the delivery demands of JPMorgan and its client(s) look unabashedly bullish to price, it is almost just as remarkable that so much physical gold has come to be delivered with relatively little impact on price. Mindful of not wanting to overemphasize a preexisting belief, I can't help but conclude that the lack of price reaction (so far) to the extraordinarily large COMEX gold deliveries tends to confirm that the main price driver lies

elsewhere, namely, in COMEX futures contract positioning.

Since it still looks like JPMorgan is heavily net short in COMEX gold futures, its stopping of so many gold contracts for both itself and a client(s) makes it hard not to conclude that the bank has intended to pressure gold prices lower while picking up massive amounts of physical gold on the cheap just as it has done in silver for the past five years. In a better world, one would think the federal commodities regulator, the CFTC, would take some interest in what the primary data have been indicating as a clear conflict and potential violation of commodity law. The big August gold delivery month begins in two days, so I suppose I'll be continuing to comment on COMEX gold deliveries.

I received comments from two subscribers that were related to the current extreme positioning on the COMEX. Gary asked me to comment on what brought the commercials to the potential brink in being short so much silver (and gold) and by silver's rise from $14 to over $21 at the peak. He asked, specifically, if it was voluntary or involuntary on the commercials' part and the methodology to the madness of being so exposed to being overrun. The short answer is probably both and it's what they do.

At the start of the year, the commercials had minimal exposure to the short side of COMEX gold and silver because the technical funds held record short positions. Therefore, the first $200 of the gold rally and $2 to $3 of the silver rally were highly advantageous to the commercials, as the raptors were heavily long and the big 8 commercials were lightly short. I pegged the combined realized gain in gold and silver at $1.2 billion for the commercials (raptors). The raptors took a highly voluntary profit and the big 8 voluntarily added aggressively to shorts on that first leg up.

Thereafter, on the gold move up to $1370 in gold and $21 in silver, the commercials continued to sell short as the technical funds established unprecedented long exposure. Early on in this price leg up, the commercial shorting may have been highly voluntary, but I think that might have changed a bit, considering the growing size of the unrealized losses to the commercials as prices continued to rise The Turning of the Tide?). Now, as Gary suggested, more recent short selling looks definitely like price capping.

As to the commercials' method of madness, it is quite clear that they are the exclusive counterparty to the technical funds, making a market and taking the opposite side of whatever the technical funds wish to do, buy or sell. In fact, this commercial market making is usually given as the alternative explanation to the

manipulation premise. Some say, it's not manipulation because the commercials must sell when the technical funds move to buy, otherwise there would be no sellers. This conveniently bypasses and avoids the fact that the commercials aren't hedging silver (or gold) when they sell short, because they neither produce nor hold the physical metal. Instead, this explanation seeks to legitimize the extreme commercial short selling by categorizing it as some type of mandatory market making, designed to provide liquidity and price stability. I understand the argument, yet still vehemently disagree with it.

For one thing, the current excessive commercial short selling is only mandated by the equally excessive technical fund buying and not any legitimate hedging requirements emanating from the actual world gold or silver production and consumption. As such, there can be little argument that both the technical fund buying and resultant commercial selling are both purely speculative in nature and not remotely related to the economic justification for futures trading bona fide hedging.

The truth is that both sides, the technical funds and the commercials are dyed in the wool speculators, out to make a buck. There's certainly nothing wrong with the quest for profit, but not when pure speculation determines price and not actual supply and demand. This just certifies that COMEX futures positioning

sets prices and by definition, that is price manipulation. Both sides, the technical funds and the commercials need to be restrained by speculative position limits, as is required by Dodd Frank and thoroughly ignored by the regulators. I'd like to tell Gary (and you) how this all turns out, but I can't do that. I can set the parameters and describe the set up, but I can't know the resolution.

Another subscriber, Chris, asked that I differentiate between the commercials' current open and unrealized losses and the realized profits they took earlier in the year on the initial price run up in gold and silver. It's a fair request that I tried to accomplish by including both realized and unrealized and by calculating from an accepted start date of year end. Please know that my running calculations are not designed to be as strictly precise as to be explanatory. My calculations are intended to be a scoreboard and a measure of commercial failure should that occur.

The combined $1.2 billion gold and silver commercial realized gain taken this year (by the raptors) is just that realized and booked, as Chris suggests. Whether it is applied against any unrealized loss is up you to include or not. For the sake of consistency, I'll include it for a while longer in updating my running financial scorecard.

On Saturday, I calculated the running combined net loss to the commercials (including the $1.2 billon realized gain) to be $900 million on Friday's closing prices of $1323 in gold and $19.70 in silver. Without subtracting the realized gain, the commercials would have been in the hole by $2.1 billion on Friday's close.

On today's sharp rally on the COMEX to $1331 in gold and $20.15 in silver, the commercials are a further $400 million in the hole from Friday or $1.3 billion after allowing for realized gains or $2.5 billion on a pure unrealized basis. I'm using an average sale price of $1285 for the commercials' 32 million oz gold short position and an average sale price of $17.20 or so for the 350 million oz held short by the commercials (ex-JPM's 150 million oz short position). There is no question that the resolution of the extreme positioning on the COMEX lies dead ahead, for the simple fact that it is still very much open.

As far as what will be reported in this Friday's Commitments of Traders (COT) Report as of yesterday's cut-off, I would expect a decent reduction in the headline number of the total commercial net short positions in gold and silver, but not enough to make a firm number prediction. After all, prices have been

irregularly lower during the reporting week and total open interest in gold has declined by more than 50,000 contracts in gold. However, total gold open interest declined by 33,000 contracts yesterday alone and all things considered, yesterday's big decline in open interest looked directly related to spread liquidation which should have little impact on net positions.

Here's the article I promised at the outset –

What's Wrong With Silver

Makes It Right For You

In case you haven't noticed it, there has been a tidal shift in the world of silver commentary when it comes to coverage of matters related to manipulation, the COT Report and details related to COMEX silver trading. The number of commenters and analysts which focus on these matters has never been greater it's actually gotten to the point where the commentators who don't cover the COT report and COMEX details have become much fewer in number, and for good reason. It has taken some time for this turnabout to occur, but there can

be little doubt that it has occurred.

Of course, not all of those studying and reporting on COMEX dealings have declared that the price of silver is manipulated, but a remarkably large percentage has. And while only the passage of time will determine how many more become convinced that silver is manipulated in price, I remain convinced that once you dig deep into these matters, it's only a matter of time before you see the manipulation.

One thing for sure — there are more people writing about silver today than ever before, mostly on the Internet, but also in more establishment media. And the vast majority write that silver has great supply/demand fundamentals and its price is destined to climb. The number of articles presenting a genuine case for why the price of silver will fall in the long term is practically nil. This is great news for the prospective silver investor because without the manipulation silver would not be the great investment opportunity it is. What's wrong with silver is that its price is too low, but for the prospective silver investor, the price can never be too low.

Certainly, every existing silver investor feels its price is too low and is destined to climb in the long term, otherwise they wouldn't continue to hold. All of the analysts and commentators recommending silver for investment are convinced the price will rise sharply in time. The hard facts about silver are impossible to deny □ world inventories down 90% over the past 75 years and 90% of current production is consumed by industrial and total fabrication demands, leaving only a fraction available for investment. In a world with record investment buying power and zero interest rates, it's only a matter of time before silver is □discovered□ and its price soars.

The truth is that those who hold and study silver know its price is wrong, perhaps intuitively, or maybe because they dug into the matter deeply. They have seen its price explode on a number of occasions over the past few decades, only to fall back sharply each time. When silver has exploded in the past, its gains have far outdistanced any other commodity, meaning the amount of money made on silver is greater than just about anything else. The historical facts point to silver climbing yet again, or so believe the legions of investors who hold it and the commentators who write about it. Are all these people (myself included) wrong?

Well either they are wrong or something else about the price of silver is wrong.

The problem in assuming silver investors and commentators are wrong in their collective price outlook is that there is little to no advocacy for lower prices. What are the bearish arguments that the world is flooded with unwanted silver? Then how come there's less of it in existence than just about ever before? Or that we don't consume as much silver industrially as before? The facts show we consume more silver in more varied ways than at any time in the past. Investigate all you want you will find no compelling case for the price of silver to fall over the long term.

What's wrong with silver is simple 8 traders are short more of it on the COMEX than in any other commodity. Most people have trouble understanding what a short position is or how anyone can sell what he doesn't own and especially how just 8 traders can be allowed to sell short so much silver. This complexity explains how what's wrong with silver has been allowed to continue for as long as it has. But don't get bogged down in the details step back and put this into perspective.

Silver is cheap in price for a reason and it's not because silver investors have been selling or that commentators have been suggesting sale or because there is too much actual silver. Silver is cheap because there is too much paper silver being sold short on the COMEX by only 8 traders, none of which are legitimate

silver producers. The concentrated short position by these 8 traders, the largest by far in any commodity, is the explanation for why silver is so cheap in price and this amounts to manipulation. This is what's wrong with silver.

To be sure, the regulators responsible for preventing what I just described have denied a manipulation ex