In an occurrence that has been rare this year, gold prices ended the week a bit lower, while silver prices ended a bit higher. Gold finished $7 (0.5%) lower, while silver ended the week 18 cents (1.1%) higher. Silver's relative outperformance caused the silver/gold price ratio to tighten in a further point and a half to 86.5 to 1. No one knows the short term direction of the price ratio (because no one knows the short term direction of any price), but if we don't look back to this time and marvel at how cheap silver got relative to gold I will be gobsmacked.

Before I get into the week's developments, I must note two happenings at the CFTC, the federal commodities regulator. The first was the announced settlement with two traders who admitted that they spoofed and manipulated precious metals futures on a civil basis. Both traders had also pled guilty to criminal charges with the Justice Department for the same violations, including John Edmonds, the ex-trader from JPMorgan who plead guilty last October. Once one pleads guilty on a criminal basis, pleading guilty on a civil basis to the same infraction is not exactly man-bites-dog news, so there can't be any surprise to the CFTC's settlements.

https://www.cftc.gov/PressRoom/PressReleases/7983-19

The only question, of course, is whether the Justice Department (and the CFTC) will confine the ongoing DOJ investigation to spoofing or will they look to the much more serious price manipulation run by JPMorgan, which utilized spoofing as a tool to control silver and gold prices on a much more systematic basis for the past decade. I will admit that spoofing alone appears to be enough to bring JPMorgan to its knees considering how widespread and pervasive the practice was at the bank (I'd swear JPM had classes and workshops teaching its traders how to spoof, according to the public statements form the DOJ and CFTC). Remember, Merrill Lynch/BankAmerica capitulated completely in its deferred criminal settlement for spoofing, with none of the allegations of the systemic practice that existed at JPM. The problem, of course, is what regulator wants to put JPMorgan out of business?

The second development this week at the CFTC was unabashedly good news, at least to me. Nearly a year and a half ago, a district court dismissed the CFTC's case against Monex, the retail precious metal dealer from Newport Beach, CA, for widespread fraud that involved hundreds of millions of dollars of losses to unsuspecting clients, many of them elderly. This week, the Ninth District Appeals Court reinstated the CFTC's case against Monex, allowing it to proceed.

When the CFTC first sued Monex I was elated and I admit to being crushed when the case was dismissed. (It didn't help when I discovered former CFTC officials were actually assisting Monex, but I suppose that's our rotten system). My own opinion of Monex, formed over more than two decades was that it deceived unsuspecting clients into trading metals on margin and should be put out of business. I just hope that this time the CFTC succeeds in doing just that. Certainly, putting Monex out of business would not entail the same collateral damage as putting JPMorgan out of business.

https://www.cftc.gov/PressRoom/PressReleases/7984-19

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to just over 1.8 million oz this week, with almost all the movement being of the "in" variety, as total inventories rose 1.6 million oz to 308.7 million oz. This is an all-time record for the COMEX silver inventories, but I continue to focus on the movement, which has amounted to more than 2 billion oz over the past 8+ years.

I continue to detect a cooling off in the frantic physical movement over the past 4 weeks, as over this time the weekly average has been 2.3 million oz, about half of the weekly average over the past 8 years. Of course, I may be premature in sensing a cooling off in the unprecedented physical silver turnover, as there is no way to anticipate what future movement might be. But I am also convinced that the unusual physical turnover erupted in April 2011 (like so many other things), as JPMorgan began skimming off the weekly COMEX movement as one means of its accumulation of silver. If the recent cooling off in the turnover is an indication that the movement has permanently subsided that would mean to me that JPMorgan had accumulated enough metal in this manner and that was sign we would move up in price. Of course, we'll see. By the way, no change in the JPMorgan COMEX warehouse this week, still stuck at 153.8 million oz.

The big news in the physical world of silver continues to be the incredible inflows into the world's silver ETFs, led by SLV, although we started to see some outflows over the past couple of days. Over the past month or so, more than 50 million physical ounces of silver has been deposited into the world's silver ETFs (led by SLV, with 35 million oz deposited).

Regular readers may know that I believe the price of silver ran up to nearly $50 in April 2011 as a result of physical demand for the metal, mostly the 60 million oz that were deposited into the SLV into the price peak. The usual sole driver of the price of silver, COMEX futures positioning, played little role in the price run up in early 2011. Therefore, it is only natural to compare the big deposits into the SLV and other silver ETFs then and now.

While the actual amounts of physical silver being deposited is remarkably similar to this point, there are some stark differences. One big difference is that there was widespread investor demand for silver in all forms going into April 2011, as prices climbed by $25 an ounce in the six months preceding the price peak. While I detect some pick up in overall investor demand on the much smaller price rise currently, it simply does not come close to the investor demand of 2010-11.

For instance, while I imagine the US Mint will update and increase the number of Silver Eagles sold over the next few days before sales for the month of July are closed, until it does sales for the month are the lowest of the year. Even if sales double the less than 500,000 coins sold so far, that will still be a quarter of what was being sold back in 2011.

https://www.usmint.gov/about/production-sales-figures/bullion-sales

There is no doubt that the trading volume in SLV exploded, starting on Monday July 15, as prices began to rally by as much as $1.50. That explosion of trading volume slightly preceded the bulk of the 35 million physical ounces deposited into the SLV. While I highlighted all along the amount of silver I believed was "owed" to the trust as a result of the net new buying represented by the explosion in trading volume, in truth I was surprised at how quickly the metal I assumed was owed was actually deposited. This led me to a number of conclusions.

One conclusion was that the explosion in trading volume in SLV, starting on July 15, was not primarily the plain-vanilla collective investor buying that occurred into April 2011, but something else, namely, a highly specific type of buying. This new specific type of buying seemed to be directly related to the other highly unusual development of the past few months, namely, the unprecedented buildup of the large concentrated long position in COMEX silver futures. The odds of two such unusual developments –

the explosion of trading volume and physical deposits in the SLV and other silver ETFs and the emergence of the large concentrated long position in COMEX futures – not being directly connected seems farfetched.

This led me to the conclusion that the big long or longs in COMEX futures, having bought the futures first and having locked in the price, were now converting the futures positions into physical via the silver ETFs. It was a move that made a lot of sense to me. The subsequent decline in the concentrated long position (not this week) that basically mirrored the amount of metal deposited into the silver ETFs further convinced me that a big hedge fund type operator had made a move on silver.

As far as where all the physical silver was coming from and so quickly into the silver ETFs, it could only be from JPMorgan. The only question I have is whether JPMorgan was providing the physical silver in a straight sale or whether it was making the metal available via some type of a lease to other dealers, who in turn made it available to the ETFs. This is a very critical difference, because if JPMorgan was lending the metal (as I suspect), then it hasn't truly relinquished ownership, but has set up the dealers who may have borrowed the metal from JPM to get much deeper on the short side and in a position to truly get double crossed.

I know the matter of metals leasing causes peoples' eyes to glaze over, because the basic concept is so corrupt and fraudulent that most folks can't grasp just how devoid of legitimacy the premise is. All I can say is that when I first started writing on the Internet two decades ago, my main topic was metals leasing and how the mining companies were nuts to engage in it. None of the miners heeded my warnings and in the end Barrick, AngloGold and Newcrest lost more than $20 billion as a result. While no miner would ever consider leasing metal again, I can see some dealers falling for the scam and borrowing silver from JPMorgan as it is so expedient. Here's an article from 18 years ago, if you want to revisit the leasing issue.

https://www.investmentrarities.com/ted-butler-commentary-march-13-2001/

As a result of the massive deposits of physical metal into SLV and other silver ETFs, there has been little need for the Authorized Participants to engage in short selling of the shares. In fact, the short sale statistics as of the close of business on July 15, showed a pretty hefty decline in short selling in SLV to a level that must be considered very low by historical standards – less than 10 million shares or 2.6% of total shares outstanding. Of course, if the AP's are borrowing metal from JPM to deposit into SLV, then those dealers are short metal.

https://quotes.wsj.com/etf/SLV

A further thought on why the short position on SLV hadn't grown (to July 15) is that if there has been one large buyer of SLV shares as a result of an arbitrage conversion of COMEX futures into shares of SLV (as opposed to widespread investment buying) that big and apparently sophisticated buyer would be sensitive to any sharp increase in SLV short selling and be in position to complain to the trust's sponsor, BlackRock, that the terms of the trust were being violated. In other words, if there were widespread collective buying, individual buyers wouldn't know whether the right amount of physical was being deposited, but a single buyer would know in a heartbeat. This would encourage the sellers to borrow metal to make deposits quickly, to avoid having to reveal physical was hard to get.

Turning to the new Commitments of Traders (COT) report, I was disappointed that the results fully matched my expectations of significant managed money buying and commercial selling in silver and less than that in gold, although I passed on offering specific numbers.

In COMEX gold futures, the commercials increased their total net short position by 10,400 contracts to 287,800 contracts. By a slim margin, this is the highest (most bearish) reading since Sep 2016, which makes perfect sense if you believe, as I do, that price rallies are caused by managed money buying which the commercials sell into. I'd have some 'splainin' to do if it were any other way.

One potential bright spot in an otherwise bearish gold market structure was that there was another reduction, albeit slight, in the concentrated short position of the 4 largest traders. Even though the total commercial net short position this week was a thousand contracts more than the previous high-water market on July 2, over that same span the concentrated short position of the 4 largest traders is a hefty 30,000 contracts less than it was back then. I'm very sensitive to changes in the concentrated positions because such changes reflect the dealings of the very largest traders (read JPM). In this case, I get the sense that JPMorgan may be better positioned for an upside move in gold than the total commercial data might suggest (in double cross terms).

For a change, despite the increase in total commercial selling, the managed money traders also sold 1886 net gold contracts, consisting of the sale and liquidation of 3169 long contracts and the buyback and covering of 1283 short contracts. Other reportable and non-reporting traders were the big buyers. The resultant managed money net long position of 178,173 contracts (208,153 longs versus 29,980 shorts) must still be considered bearish on a historical basis, but that's been the case for the past month.

In COMEX silver futures, the commercials increased their total net short position by a hefty 16,800 contracts to 76,100 contracts. This is the highest and most bearish reading since Feb 26, when silver topped out and began a two dollar decline that would last three months. Ominously, everyone's favorite crooks at JPMorgan appear to have replicated the short position they held at the Feb 26 top or nearly so. I'd peg JPM as being short 20 to 25,000 silver contracts as of Tuesday, versus 28,000 on Feb 26.

The managed money traders bought even more contracts than the commercials sold, in buying 23,892 net silver contracts, comprised of new longs of 11,799 contracts and the buyback and covering of 12,093 short contracts. The resultant managed money net long position now stands at 51,656 contracts (90,924 longs versus 39,268 shorts) and while not at historical extremes, isn't that far away either.

Over the past two reporting weeks, the managed money traders have bought 36,129 net contracts of COMEX silver futures on what has been a rally of $1.45. That's the equivalent of 180.6 million oz of silver, about what the entire world mines in two and a half to three months. Managed money traders, by CFTC classification and definition, are pure speculators (so are the commercials, in essence). The wonder, of course, is that such a large amount of buying only drove the price of silver up by a buck and a half. The only plausible explanation for why silver "only" rose by $1.50 is due to the aggression of the sellers, mostly commercials.

The concentrated long position of the 4 largest trades rose this week by around 1600 contracts to 61,266 contracts, but that was a small gain when considering nearly 12,000 new longs were bought by managed money traders. Over the past two reporting weeks, 21 new managed money traders have established reporting status (at least 150 contracts) and more than 14,000 new longs were put on. What this suggests to me is that the concentrated longs' decrease in holdings since June 25 was the result of conversions of futures into physical ETF positions. Despite the increase this week in the concentrated long position, for the first time since late April, the concentrated short position is now greater than the concentrated long position – the way it had always been throughout history.

So where are we in COT market structure terms? Essentially, the market structure allows for a selloff, but it's much more than that in that if we do selloff it can only be because of the market structure. In other words, there is nothing in the world that would suggest a selloff in gold or silver other than the market structure. This is an important consideration, perhaps the most important consideration of all. Nothing else could possible cause a selloff – just the commercials rigging a price decline to induce the managed money traders to sell. That's it – there's no other explanation if we selloff.

Will the current bearish market structure in COMEX gold and silver cause a selloff? I don't know. I do know there that are more bullish factors than you can count and only one bearish factor, but that sole bearish factor has been responsible for every selloff over the years, with no exceptions. I also know that the same crooked COMEX game of the commercials zooming the managed money traders must end some day and that end will be spectacular, especially in silver. I just can't know THE day.

I further know that JPMorgan will decide and that there is an ongoing investigation by the US Department of Justice into precious metals manipulation centering on JPMorgan. But I don't know if the DOJ (and CFTC) is as clueless as it seems to be at times in focusing on spoofing while ignoring JPMorgan's (and the other commercials') perfect trading record and easy to prove manipulation which uses spoofing as a tool. I know, based upon the Merrill Lynch/BankAmerica settlement that the DOJ can snap JPMorgan like a twig should it so choose, but what good would that do the country?

The alternative, it seems to me, is to bring the silver manipulation to an end without having to put JPMorgan out of business. That involves silver moving sharply higher in price for a reason apparently unrelated to JPMorgan; such as the sudden emergence of a surprise big buyer. The only question, of course, is that now or after one final manipulative takedown? While no one can answer that, silver is still so darn cheap and enough new signs have emerged suggesting that the time is nigh, that it's nearly impossible to gamble that we're not on the precipice of a major and imminent move. I'll somehow manage to live and position myself again if the crooks take her down one more time before the inevitable day of reckoning. To step aside now and have this turn out to be the big one is not something I could live with.

On the money scoreboard front, this week's decline in gold prices brought some respite to the 7 big shorts, despite the increase in the price of silver. Last Saturday, I pegged the 7 big shorts as being out a combined $1.9 billion in open and unrealized losses. This week, the open loss was reduced to $1.8 billion.

Ted Butler

July 27, 2019

Silver – $16.40 (200 day ma – $15.08, 50 day ma – $15.15)

Gold – $1419 (200 day ma – $1297, 50 day ma – $1365)