

Gold and silver prices fell to fresh year to date lows early in the week for the fourth straight week, before stabilizing a bit. Gold managed to finish higher for the week by \$2 (0.2%), while silver ended down by 8 cents (0.5%), causing the silver/gold price ratio to widened out by more than half a point to 78.2 to 1. Other futures positioning dominated metals fared even worse, with copper falling to one-year lows and platinum ending at two and half year lows.

With the Commitments of Traders (COT) report delayed until Monday, we'll have to wait to view the actual details, but make no mistake – recent price declines in all the metals have been dictated by futures contract positioning changes on the COMEX/NYMEX. Yes, I'm fully aware of all the news of tariffs and reports of economic slowdown and while the world could be on the verge of a serious and damaging trade war, the declines in metals have nothing to do with that, in my opinion. Take copper, for example.

I've read news reports attributing the 50 cent (15%) decline in price of copper over the past four weeks to collapsing industrial demand or fears of same. Yet aside from the price decline itself, there is little corroborating evidence of such a demand collapse. Yes, I know that copper is called the metal with a PhD. in Economics (Dr. Copper) and I also admit there are signs suggesting the world economy could unravel. But I see much stronger evidence for the real reason copper prices have gotten smacked so sharply – COMEX (and LME) paper contract selling by the brain-dead managed money traders.

While we'll have to wait, not only until Monday, but until next Friday to get an accurate take on how much managed money selling occurred in copper, since new price lows were established yesterday, the data through the COT report of June 26 is

enough to make the case. First, let's call the copper price move accurately – before it fell 50 cents in four weeks, it had suddenly exploded by 25 cents in the week before the price decline commenced. Adjusting for the sharp one-week rally, copper has fallen about 25 cents over the past five weeks.

On the one-week 25 cent price run up in copper, the nitwit managed money traders bought 50,000 net COMEX contracts (and much more on the LME) because prices penetrated key moving averages to the upside. That's the equivalent of 625,000 tons of copper on the COMEX alone. Over the next three reporting weeks thru June 26, these same idiot managed money traders sold 60,000 net COMEX contracts, the equivalent of 750,000 tons of metal. I'm certain even more managed money selling has occurred since June 26, as copper prices continue to melt down.

All this data is published by the federal commodities regulator, the CFTC, and points to copper and other metals prices, certainly including gold and silver, being set by enormous amounts of purely speculative trading. Yet the agency pretends that this excessive speculation plays no role in the price setting process. I contend it is the price setting process. Who are you going to believe? I say trust the data. More on this later.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses was mostly of the "in" variety this four-day work week as just over 3.5 million oz were moved and total inventories rose by 2.9 million oz to 278.8 million oz. This is another 25 year high and not much more than 6 million oz from setting a new all-time COMEX record. (For the second week running there was no movement in the JPMorgan COMEX warehouse, which stood at 143.2 million oz).

Over the past month or so, COMEX silver warehouse inventories have grown by more than 8.5 million oz. In addition, there has been a net increase in the holdings of the big silver ETF, SLV, of more than 5 million oz, mostly of the highly counterintuitive type (as silver prices have been lower). On the other hand, there have been big reductions in other silver holdings (most notably in the ETF, SIVR), so the net increase of all visible world holdings of silver in the form of 1000 oz bars has only increased by a little over 4 million oz, to 1.018 billion oz, barely a rounding error. My conclusion is that while there has been fairly large turnover in many visible forms of silver, total inventories haven't changed that much.

This is the same point I've tried to make about COMEX silver inventories over the past seven years, namely, that the real story is in the turnover, not the absolute level of inventories. And while COMEX silver inventories have doubled over this time, the entire increase can be traced to JPMorgan's epic accumulation of silver. The turnover or physical movement of silver towers over any net increase in total inventories. And I continue to maintain that the biggest takeaway from the impossible to deny frantic turnover is a tightness in physical supplies because no one moves around metal for the fun of it.

There was an unusual deposit of close to 190,000 oz this week in the COMEX gold warehouse of HSBC in that such deposits are much rarer in gold than in silver. Something about the deposit struck me as weird and when I relayed my thoughts to Ed Steer, he confirmed my suspicions that it was the result of a withdrawal from the JPMorgan COMEX gold warehouse a few weeks back. You may recall that JPMorgan issued just over 4000 gold contracts (400,000 oz) in the June deliveries and the metal was removed from JPM's warehouse within a few days. HSBC was the big stopper of gold in the June deliveries and the 190,000 oz that came out of the JPM warehouse

was clearly the same gold deposited this week into the HSBC warehouse (since the JPM withdrawal and HSBC deposit were accurate to the ounce).

Two points about this 190,000 oz gold withdrawal and deposit. One, the metal, worth some \$250 million, was not just sitting on a truck parked on a street in NYC for weeks; it was deposited the same day it departed the JPM warehouse and only HSBC's sloppy reporting caused it not to be reported for weeks. More importantly, since the withdrawal and deposit can be clearly demonstrated as being the same metal, it points to the closely-held nature of COMEX gold warehouse inventories. If I can trace COMEX gold deliveries and subsequent changes in specific warehouse withdrawals/deposits, it can only be because there is a high degree of unavailability associated with COMEX gold inventories (similar to silver inventories). In other words, there may be more than 8.5 million oz of gold in the COMEX warehouses, but that is very different from there being that much truly available metal. Coupled with an extremely bullish COT market structure in COMEX gold futures that only enhances the prospects for a significant price rally ahead.

After a few days of the COMEX July silver delivery period, the master manipulator, JPMorgan, showed up as a stopper (taker) in its house account. As reported previously, JPM was MIA over the first days of the delivery period. And while it has only stopped 123 contracts (615,000 oz) so far, it appears to have bought those contracts well after first delivery day, suggesting to me it was waiting to see how tight things were before picking up more physical metal. No doubt you've heard of the Cookie Monster; JPMorgan is the physical silver (and gold) monster.

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

Goldman Sachs continues to be the largest silver stopper this month in its own name

with more than 2100 contracts (10.5 million oz) stopped so far, despite a COMEX rule limiting any one stopper to no more than 1500 contracts (obviously, rules are for the little people, as far as the CME and CFTC are concerned). Goldman has a recent history of stopping large quantities of silver deliveries only to turn around and redeliver them, so who knows what these guys are up to? I still hold that Goldman Sachs could be fronting for JPMorgan and before you rush to tell me that would be illegal, I would ask you since when did that matter?

Regardless, I get the feeling that JPMorgan, at least as far as COMEX silver deliveries are concerned, has either resorted to using front men or is scrounging up metal because it's not as freely available as it had been over the prior seven years. Should my assessment be correct, it would be very bullish because once JPMorgan can no longer accumulate physical silver (and gold) as readily as it has in past years, there is little reason for it to prolong the manipulation – after it has bought back all the shorts it can, which it has strived mightily to do.

I made a quick mention of it on Wednesday, but while precious metals prices came back and closed well off the new lows made earlier in the week, finishing close to unchanged, mining share stocks ended the week quite strong. Usually, I don't mention mining stock performance, since I find mining shares are more dependent on metals pricing than vice versa, but I can't help but mention again that the recent outperformance of mining shares has much to do with them not being directly subjected to the futures positioning influence that dominates the metals. You won't find the same record managed money selling and short selling in the shares that has occurred in COMEX/NYMEX metals, or in fact, any such selling. Thus, mining shares are not directly driven by the managed money traders. Just looking to keep things clear and simple where possible.

July 7, 2018 – Weekly Review

Here is where I would normally turn to discussing the COT report, but the July 4th holiday postpones that discussion until late Monday afternoon. I'm also anticipating how much the new Bank Participation report that day confirms my JPMorgan double cross premise. Always bound by the hard data, I'll adjust my premise accordingly.

With the exception of copper, which remained under price pressure through yesterday, the price of gold, silver, platinum and palladium stabilized after the Tuesday cutoff. Therefore, I wouldn't expect there was much of a positioning change in the precious metals in trading since the cutoff and my take on Wednesday for what Monday's report would likely indicate wouldn't have changed much.

While I still expect additional managed money selling in gold and silver, given the move to new lows during the reporting week ended Tuesday, changes in total open interest suggest new managed money shorting in gold and managed money long liquidation in silver. I wouldn't be surprised to see a new all-time managed money record in terms of a gross and/or net short position in gold and would be more surprised if we don't come close to the old records.

Almost regardless of what gets reported in silver, we'll still be 50,000 contracts or so away from similar managed money shorting records set this past April. What makes the managed money traders do what they do at some times and not at other similar times is one of life's great mysteries and highlights the inherent subjectivity in precise market structure analyses. I suppose you have to be a managed money trader in order to think like one.

A few months back, the silver market structure was white hot bullish and the gold market structure was no better than neutral and leaning towards bearish. Now there has been a complete reversal when measured in conventional historical terms and

gold's market structure looks white-hot bullish, with silver decidedly less so.

Speaking clinically, I suppose it's possible for much greater managed money selling to emerge in silver than has been uncovered so far, but that's not the way I'm playing it personally (owning more call options than ever).

If, in fact, I turn out to be wrong and much more managed money selling emerges in silver, the stark truth is that will only make the market structure much more bullish under the most basic premise of the market structure principle. When the managed money traders are at record or near record net long positions, as they were in gold and silver in the summer of 2016 (\$1350 gold and \$21 silver), while I classified the market structures as being bearish, I always allowed for the possibility of the commercials getting overrun to the upside, by a fluke or whatever.

But it's not the same when the managed money traders get to record or near record short positions, as they are currently in gold, platinum and copper. Since it is a hard fact that these traders have no possibility of delivering actual metal to close out their record short positions, it is only a matter of time before they will buy back their short positions. Of course, it's possible that a small number of managed money shorts can close out positions at a profit before prices turn higher; but it's virtually impossible for the collective body of managed money shorts to buy back their short positions at profits.

Maybe impossible is the wrong word – let's just say it has never happened and for a very good reason, namely, it would take massive commercial selling and short selling at low prices in order for the managed money shorts to buy back at low prices. Can you picture JPMorgan selling short aggressively at prices lower than it just bought back at profitably in order to accommodate the managed money traders so that those

traders could collectively closed out their shorts profitably? Neither can I.

Whether there is more to the downside is always a legitimate question and possibility, but that is very different from whether the managed money shorts have the commercials over a barrel because they don't. The only reason the managed money traders have sold as much as they have is because they were tricked into doing so by the commercials. If, as and when they sell more just means they were tricked into selling more, not because they turned the tables on JPMorgan. And the more the managed money traders sell, the more they must then buy.

As a reminder, there will be a review of Monday's new COT report, most likely published here around 6 PM, New York time.

Ted Butler

July 7, 2018

Silver - \$16.07 (200 day ma - \$16.67, 50 day ma - \$16.47)

Gold - \$1256 (200 day ma - \$1304, 50 day ma - \$1292)