

Gold and silver prices fell for the week, with gold ending down \$7 (0.5%) and with silver down by 10 cents (0.6%); leaving the silver/gold price ratio basically unchanged at just under 79 to 1. Trying to sum up precious metals performance year-to-date, the word dullsville comes first to mind; although I would point out that gold's close this week was the second lowest of 2018, while silver remains in the same very narrow trading range of the last 4 months, but down a bit more than gold since the start of the year. Whatever is going on beneath the surface, which I sense is a lot, is certainly not reflected in price change.

While the price action has been frustratingly dull, there are some distinct changes in normal patterns that I have noticed, including the all-important patterns in COMEX positioning, as reflected in the Commitments of Traders (COT) report, which I'll cover in a bit. Many of these pattern changes involve JPMorgan, who according to me, is the undisputed boss of bosses in the gold and silver market.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses this four day work week increased back to the average weekly movement of the past seven years, as just over 4.5 million oz were moved. Total COMEX silver inventories inched up by 0.4 million oz to 270.4 million oz, another new 25 year high and only 15 million oz away from setting an all-time high. I suppose some might take this as a bearish indicator, but I'm certainly not in that camp for a variety of reasons I think I've explained previously and will again, but not today, as I'd like to focus on pattern changes instead.

The first pattern change is the drop in holdings in the JPMorgan COMEX silver warehouse, which fell this week by 1.3 million oz to 138.9 million oz. Last week, I reported a separate pattern change in the JPM COMEX silver holdings, in that metal

seemed to be coming in by dribs and drabs and not in the full container truckload quantities that characterized the dramatic buildup in holdings over the past seven years. Plus, it seemed that JPMorgan was due to take in another 3 million oz or so as a result of its taking delivery in the May futures contract should the familiar pattern of the past continue of JPM shipping into its own COMEX warehouse the metal it stopped delivery on its own name.

Metal coming out when it always went in may be no big deal normally, because while the data are reliable, they never tell you the whole story, leaving one to turn to speculation. This is particularly true when the data involve silver and JPMorgan. My speculation is that JPMorgan may be putting out some fires breaking out in unexpected demand for physical metal that require it to part with some of its massive physical stash of silver. This goes along with its recent COMEX futures positioning as well as the recent counterintuitive deposit of 2 million oz into the big silver ETF, SLV. I should remind you that I'm most sensitive to pattern changes of any type in silver, particularly when they involve JPMorgan.

Turning to gold, there is an unusual pattern developing in the June COMEX delivery of an unmistakable low number of gold contracts (194) issued after the first three delivery days in what traditionally has been the second largest gold delivery month versus a rather large remaining open interest of 7000 contracts. In fact, more silver contracts have been issued this month than in gold, which is kind of weird since June is definitely not a traditional delivery month for silver, as it is in gold. Since JPMorgan has not turned up as an issuer or stopper in silver in its own name, I'm going to confine my comments to gold.

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

Over the years, I'm sure you have read countless stories, bordering at times on hyperventilation, describing the very large amount of open contracts remaining in an upcoming COMEX gold or silver delivery month about a week or so before the first notice of delivery day. Invariably, these breathless stories pointed to the mismatch between the amount of physical metal available for delivery in the COMEX warehouses versus the very large amount of remaining open interest, with hints or outright declarations of pending delivery default. Just as invariably, the very large remaining open interest in the pending delivery month got radically reduced in the days immediately ahead of first delivery day, as traders rolled-over contracts into more deferred delivery months, although there was usually no follow up to the most breathless of prior warnings of pending default.

There is a very good reason why so many contracts are rolled over at the very last minute, namely, none of the major participants have the slightest interest in making or taking physical delivery on futures contracts. As I've described previously in (some might say excruciating) detail, the major trading participants are the managed money technical funds and the commercial and other traders who prey on the managed money traders. This is what sets the price. Clearly, the managed money traders have no interest in taking or making physical delivery and wouldn't be allowed to anyway, if they developed an interest. The traders preying on the managed money traders are interested in taking money away from these technical funds and little or no interest in anything else. As to why they all seem to roll at the last minute it's because that's the time of maximum roll over liquidity; a self-fulfilling phenomenon.

Therefore, the only way to judge if there is any chance of delivery congestion or some type of potential mismatch between those intending to make or take actual

delivery is after first delivery day and after the vast bulk of contracts have been rolled over. After three day of delivery in the current COMEX June gold delivery month, there does appear to be a large number of open contracts (7000) which represents 700,000 oz of gold, not especially large compared to total COMEX gold inventories of 9 million oz, but not exactly chump change in terms of dollar value at close to \$900 million.

The remaining longs in June would seem to have the easier hand of it in standing for delivery as it should be no problem for the exchange to insure they have the funds to take delivery, so the real onus is on the shorts, which must come up with the physical gold in some way that the longs would accept (say an exchange for physical or EFP). The delivery data indicate that the biggest stopper or taker of gold so far is HSBC in its house account with 87 contracts, while customers of JPMorgan have both issued and stopped similar amounts. Based upon my knowledge of COMEX delivery procedures, it appears likely that HSBC, having taken 45% of the 194 gold contracts issued so far, may be in position to take around 3000 total deliveries should it hold that percentage of the remaining 7000 contracts in June. By the way, 3000 contracts happens to be the position limit in gold for any one stopper. This would be somewhat unusual in that HSBC has been more often an issuer of gold deliveries, although I sense it may have awoken, belatedly, to the physical metal accumulations of JPM.

Of greater interest is who is short the remaining open interest in June. Here, the normal COMEX delivery procedures are of little use, because so few deliveries have been made so far as to not suggest who might be the big short. As always, it's in a short's best interest, if he is going to make delivery, to do so promptly as there is nothing to be gained by waiting. The most plausible reason for waiting is to see if the longs really intend on taking delivery and if not, then remaining longs and shorts can

both close out their open contracts by futures contract liquidation and avoid physical delivery altogether.

So the real questions are if HSBC and whoever else are still long the June contract intend to insist on delivery and who might be in position to make delivery should the longs so insist. This puts us firmly into the realm of speculation with little else to go on, except the knowledge that this pending delivery drama must be completed by month's end. For what it's worth, my very WAG (wild-assed guess) is that JPM turns up as the big issuer, if the longs don't back down.

Turning to the changes in this week's COT report, they were mildly disappointing in silver, but decidedly more so in gold from my expectations. On Wednesday, I indicated that I would be happy if there were little managed money net buying in silver and ecstatic if these traders had sold on a net basis, so the increase of less than 1400 contracts of net buying was slightly disappointing. The commercials sold more than that, but I'll get into that in a moment. You'll remember the reporting week featured somewhat erratic penetrations of silver's 50 day moving average, making a specific contract prediction impossible (at least for me).

I was also hoping for no more than 15,000 contracts of managed money buying in gold, but missed that mark by more than double (at least I had the general direction right). The commercials sold much less than the managed money traders bought, but I've taken to handicapping the managed money headline number due to the growing participation of other traders in preying on the technical funds, so the miss was still a miss. That said, there was still a surprise or two in the new report, especially one in silver involving you know who.

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

21,100 contracts to 136,700 contracts. This still leaves the market structure of gold solidly in the bullish range, just not extremely so (same with silver). By commercial categories, the big 4 added 5800 new shorts, while the raptors (the smaller commercials away from the big 8) sold off 17,800 longs, reducing their net long position to 86,900 contracts, still quite large and bullish. The big 5 thru 8 went the other way and bought back 2500 shorts, but I'm willing to bet that was the work of a managed money trader which had previously ascended into the ranks of the big shorts.

On the buy side of gold, the managed money traders went nuts, in buying an astounding 37,470 net contracts, including 16,471 new longs and the covering and buyback of 20,999 short contracts. I say nuts because while there was a rally of about \$15 or so during the reporting week, neither of gold's key moving averages were penetrated. The discrepancy between what the managed money traders bought and what the commercials sold was due to the selling by the other large non-commercial reporting traders and the smaller non-reporting traders.

Where last week the managed money traders which bought back shorts made very decent profits, those buying back this week on the \$15 rally didn't take big profits, but neither did they suffer losses of significance - more breaking even than anything else. This is also a change in pattern that bears comment, namely, what caused these managed money shorts to cover so quickly, before any of the big moving averages were penetrated decisively to the upside? I'm not a mind reader but my sense is that they must have been uncomfortable in being short gold (for whatever reason) and ran on the first hint of an upside price reversal.

Taking this a bit further, while the big net buying by the managed money traders this

week clears the way to renewed selling if, as and when the commercials rig gold prices lower, it might also suggest that the managed money traders might be more tentative in replacing shorts on lower gold prices. In other words, any new downdraft in gold prices might prove fleeting if the managed money traders are skittish enough not to add large numbers of new shorts. After all, this is what sets prices.

In COMEX silver futures, the commercials increased their total net short position by 3900 contracts to 35,300 contracts. The commercial category breakdown was quite interesting in that the big 4 (read JPM) increased their net short position by 3200 contracts, while the raptors bought, adding 2200 new long contracts, to a net long position now totaling 59,200 contracts. The big 5 thru 8 added 2900 new shorts, but that looked to be the work of a managed money trader, not commercials.

I would peg JPMorgan's short position to have increased by 3000 contracts for the fourth reporting week running and now totaling 33,000 contracts (165 million oz). Considering that, heretofore, JPMorgan was always the silver short seller of last resort and now has reaffirmed that it is also the short seller of first resort that is a rather strange change in pattern to be noted. The absolute key to JPM never taking a loss when adding to short positions for the past 10 years was the fact that it came in after all the other commercials had sold aggressively into managed money buying. That previous strong pattern has clearly been broken.

Over the past 4 reporting weeks (since May 1), the commercials have increased their total net short position in silver by 23,000 contracts, with JPMorgan accounting for 12,000 contracts (more than 50%), the raptors accounted for a bit over 6000 (long) contracts sold and the big 5 thru 8 the balance of 5000 contracts. This is a notable change in pattern for JPM to be this aggressive a seller this early and on relatively

low prices. After all, silver prices are only marginally higher over this time.

Another pattern change this week is that JPMorgan was a big short seller while the raptors were buyers, also something far from typical. Seeing as the raptors were not particularly aggressive sellers over the past month, having sold aggressively only in the prior reporting week, this week's buying by the raptors strongly suggest that they are most likely in the buy mode should prices sell off from here. This sets up some interesting possibilities ahead. Let me finish the silver COT report and come right back to this.

The managed money traders bought 1381 net silver contracts, comprised of new longs of 3611 contracts and the selling of 2230 new short contracts, a bit of a strange mix. The managed money traders are now long 59,999 contracts and short 59,208 contracts. It's more than a bit unusual to see both new longs and new shorts added in the same reporting week, even if the numbers weren't particularly large.

The managed money long position of 60,000 contracts is now up 28,000 contracts from the recent low, but close to what the core long position used to be before the dip to 32,000 contracts. For sure, there may be room for long liquidation but the question, as always, is how much? On the other hand, the managed money short position is still quite large and we are about 17,000 contracts away from the peak in managed money shorting just a short while ago. I do find it somewhat ironic that the managed money traders seem to be very skittish about being short gold (which I have no trouble understanding), but apparently don't share that same skittishness in being short silver, where their short position is larger. Maybe I'm living my life all wrong, but how anyone could sleep soundly being heavily (or even lightly) short silver escapes me (JPMorgan aside).

Back to the possibilities of what all these change in patterns may mean. Certainly, the aggressive new short selling by the biggest silver crook opens the possibility of a selloff to new price lows (sub \$16) as JPMorgan, once again, buys back its recently added 12,000 contracts of new shorts and keeps intact its perfectly impossible trading record of never taking a loss. This has happened so many times that the only objection may be in calling it a possibility. That said, there are other possibilities or at least complications to this highly expected outcome.

For one, the relative lack of selling over the past month by the raptors and particularly the buying this week, strongly suggests further buying by these traders on lower prices, as well as some buying by other traders on lower silver prices. This means that even if the managed money traders fully cooperate and agree to getting hoodwinked again into selling aggressively on new lows, JPMorgan won't have the buying all to itself, as there will be certain buying competition for any managed money silver contracts sold.

Another possibility is the one raised by subscriber Shailendra about JPMorgan setting the stage for its first-ever loss in shorting silver as a means of disproving my contention that it has never taken a loss when adding to short positions. Heck, if no one can refute that allegation on the past data, the only alternative may be to refute it on a current basis. I've long speculated about a possible double cross by JPMorgan of the other commercials and this new shorting by JPM doesn't diminish that premise in the least.

Not only would JPMorgan be refuting my allegations of its impossibly perfect and perfectly illegal trading record should it move to buy back its recently added short positions, the impact of any such short covering would be nothing short of

electrifying to price. Let's face it, the short sale of 12,000 COMEX silver contracts by JPMorgan over the past month has been, far and away, the main reason why silver prices have not rallied. Not adding to short positions by JPM would probably be enough to lift prices sharply as the key moving averages were penetrated to the upside, but the actual buyback of short positions by JPM would be a shock to the system. Why in God's world would JPM ever do such a thing as turn around and buy back short positions to the upside for the first time ever? In simple terms, in order to make a bundle.

Sure, JPMorgan would book what would seem to be enormous losses should it buy back its recently added short positions on higher prices, but whatever those losses may be, they would be only be one-fifth of the true profits JPM would make on its massive physical long position. Every dollar of loss that JPMorgan would suffer in buying back its silver short position would be offset by five dollars of real profit. Not that it needs it, but in addition, buying back its shorts would eliminate any question of why JPM was buying so aggressively, as there's no law against buying back short positions. Hey, did I ever tell you that this is the perfect market crime?

I think it comes down to either outcome, namely, JPM engineering silver prices sharply lower and covering its recently added short positions at yet another profit or deciding that the jig is up and making some real coin by a double cross to the upside. Time will tell, of course, and perhaps these recent changes in patterns mean something after all.

Finally, I put up an edited version of last Wednesday's article in the public domain (a special thanks to Jim Cook for a superb editing job). It occurs to me that if you're mad as hell (or frustrated, disgusted or just sick and tired) of this ongoing silver (and

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gold) fraud, this may be an opportunity to do something constructive about it. Since the facts have never been clearer or the evidence of wrongdoing more specific, this may be the time to speak up again. In the past, I know many of you have written to your elected officials and others and for that I thank you profusely. And years ago there were lawsuits against JPMorgan that petered out.

In the interim, however, the facts have become more precise and unassailable. Now there exists a documentable case to be made that JPMorgan has never taken a loss in shorting silver over the past decade as well as it accumulating a massive hoard of physical silver, all while maintaining the largest COMEX paper short position of any trader. Had these facts been in existence at the time the original lawsuits against JPMorgan were brought, a different outcome would have occurred. Of this, I am certain.

Therefore, I ask you to take the simple step of writing anew to your representatives and senators (they're not doing much anyway) and ask them to look into this public article and question the CFTC about it. In addition, if you know of any investigative reporter or attorney who you think might have an interest, send it to them as well. I think there is a Pulitzer Prize or mega legal payday in the offing.

<http://silverseek.com/commentary/great-frauds-require-darkness-17280>

(On a housekeeping note, I'm switching from the June contract to August for price purposes in gold, which adds about \$5 or so to the price, while maintaining the July contract in silver until the end of the month).

Ted Butler

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Silver - \$16.42 (200 day ma - \$16.79, 50 day ma - \$16.55)

Gold - \$1299 (200 day ma- \$1309, 50 day ma - \$1323)