

Gold prices surged to six year highs, ending the week up \$58 (4.3%). While silver also rose by 52 cents (3.5%), it certainly felt like it was still dragged along reluctantly. The silver/gold ratio reflected that, widening out by another three-quarters of a point to 91.5 to 1, yet another new silver relative undervaluation mark extending back more than 25 years. Why the heck is silver acting so punk compared to gold?

I can tell you that silver is underperforming gold not because of some obvious actual supply/demand factor where massive numbers of real metal investors are dumping silver in favor of gold. That's flat out ridiculous. The total value of all the gold in the world is now \$8 trillion (5.7 billion oz X \$1400) – the total value of all the silver in 1000 oz bars is a little over \$30 billion (2 billion oz X \$15) and JPMorgan owns nearly half of that. Even if all the silver were sold (an impossibility) it would amount to less than one-half of one percent of what all the gold in the world is worth. Besides there's absolutely no evidence of real silver being sold to buy real gold. Then what accounts for the extreme relative price weakness of silver compared to gold?

At the risk of being repetitive, the reason for nearly all price movement – and not just in gold and silver – is the same old reason rehashed on these pages, namely, futures contract positioning. The simple answer is that there has been much more managed money buying (and commercial selling) in gold than there has been in silver. I'll get into the actual details in a moment, but it's instructive to recognize it wasn't just gold that surged this week – the world's most important commodity, crude oil, surged in price by more than double the percentage that gold rose. Please keep in mind that the annual production of crude oil is more than \$2 trillion, compared to gold's annual production of \$140 billion. (Silver's annual production is a small fraction of both at \$15 billion).

And why did crude oil jump 10% in price this week? For the first time in weeks, the managed money traders in NYMEX futures bought, instead of selling, into the Tuesday cutoff. These traders undoubtedly bought more in the three days since the cutoff, but we have to wait until next week's COT report to see how much (allowing for Monday and Tuesday). Yes, I know, there was all that business in the Gulf, but what happened to all the bearish talk as oil prices were collapsing into the previous week? Price makes news and the managed money traders make price – you can take that to the bank (well, maybe not the bank that JPM runs).

The point is that gold has risen by more than \$120 over the past 4 weeks because the managed money traders have bought close to 200,000 net COMEX gold contracts (extrapolating for the last three trading days) – the equivalent of 20 million oz of gold. It may be paper contracts I'm talking about, not actual gold metal, but it happens to be fully documented (or will be by next week's COT report). I have fully admitted all along that many factors favored gold moving much higher, including sovereign buying, central bank easing and more bona-fide gurus jumping on the gold bandwagon than ever.

But at the same time, I am not aware, over the past 4 weeks, of any of these factors actually kicking in or of any other unusual buying of gold – save one, the managed money buying on the COMEX. I've looked closely for any unusual non-COMEX buying of gold, but haven't been able to uncover any (certainly, if you think I'm missing something, please let me hear from you). Therefore, the only documented gold buying of an unusual nature that stands out is the buying by the managed money traders on the COMEX. That's why I focus so myopically on this issue. When other factors start to strongly influence prices, I'll focus more closely on those factors – but not before. I don't think anything could be more important than understanding what

causes price change. More on positioning, of course, in a moment.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses remained above the average weekly movement of around 4.5 million or so oz over the past 8 years, as 6.5 million oz were moved this week (325 million oz annualized). Total COMEX silver inventories rose by 1.9 million oz to 304.6 million oz, still about 3 million oz shy of the record set a couple of months back. Once again, there was a net inflow into the JPMorgan COMEX warehouse this week, as just over 1.6 million oz were deposited, raising the amount of silver there to 153.4 million oz, a new record. I'll say one thing about these crooks - they don't appear to give a damn what anyone thinks (including, obviously, the CFTC or DOJ).

The sharp rise in gold and silver prices this week resulted in much higher than normal volumes in ETF trading, both for GLD, the big gold ETF and its silver counterpart, SLV. As I've explained in the past, COMEX futures positioning sets the price and investors react accordingly in the ETFs. When prices rise enough, collective investor demand rises to own the ETFs, resulting in net new buying. This net new ETF buying requires, according to the prospectus, that new metal be deposited to equal the new shares created.

Until a moment ago, I was prepared to write that despite yesterday's deposit of 120,000 oz of gold into the GLD, that much more gold was owed to the trust - hundreds of thousands of ounces more. But in checking further, it seems that 1.1 million gold oz were deposited, making the "pot right". This is the way it's supposed to work. 1.1 million oz of gold is worth \$1.5 billion, hardly chump change and highlights the "Death Star" (Carl Loeb's term) attribute of the hard metal ETFs; the self-fulfilling nature of net investor demand for GLD and SLV triggering physical

demand - most often unintended by the share buyers.

The average buyer of GLD and SLV, I'm convinced, is not really concerned with the mechanics of the trusts, they are just looking for investment exposure to gold or silver. But there is a self-fulfilling feature in that the new physical demand further drives prices higher (all things considered). The reverse is also true when COMEX positioning sends prices lower. While the pot is right in GLD, as far as there roughly being enough metal deposited to match up with estimated new buying of shares, there still seems to be 5 or 6 million silver oz "owed" to the SLV.

Turning to yesterday's Commitments of Traders (COT) report, the results were as expected in silver, but a bit better in gold than I predicted. Of course, since the Tuesday cutoff, there has been massive new managed money buying in gold, as well as silver. Through this past Tuesday's cutoff, gold prices rose moderately during the reporting week (compared to the gains since then), by \$20 or so and silver by 20 cents or so, but silver did re-penetrate its 50 and 200 day moving averages on the cutoff date. My guesses were for 30,000 contracts (and, hopefully, no more than 40,000 contracts) of managed money buying/commercial selling in gold and 10,000 and no more than 15,000 contracts of the same in silver.

In COMEX gold futures, the commercials sold and increased their total net short position by 21,800 contracts to 223,900 contracts. This is another new high going back to March 2018 and where I would be inclined to term this level as perhaps more bearish than neutral, I would estimate that the commercials sold (and managed money traders bought) at least another 50,000 net gold contracts since Tuesday, as gold prices rose more than \$60 over those three days on extraordinarily large volume.

As of yesterday, the total commercial net short position would appear to around 275,000 contracts, up close to 200,000 contracts from the end of April and 300,000 contracts from the commercial net long position of last Oct 9. Suffice it to say that the risk lamp is on. Let me be very careful not to pronounce that gold prices will now come down, because I can't know that. If the managed money traders have more buying power and choose to deploy that buying power, gold prices could continue to surge. Also, other factors away from COMEX positioning could kick in.

Then, there's always the possibility of what my good friend and mentor, Izzy Friedman, long expected in silver, namely, the full pants down or commercial overrun to the upside. I must say, never in the decades that I have studied silver (and gold) closely, has there ever been a single case where the commercials, as a group, ever abandoned short positions and tried to buy back at higher prices, incurring losses. In fact, precisely because the commercials have never collectively rushed to buy back COMEX gold or silver short positions at a loss is perhaps the clearest proof that these markets have been manipulated in price. But that's not to say such a circumstance could not occur. Should it occur, it would be for the very first time, but it is possible (why do I hear Dirty Harry asking, "Do you feel lucky punk, well do ya?").

One bit of encouraging data was that the big concentrated shorts didn't participate as much on the sell side as in the prior week, when the 4 biggest traders sold 90% of the 29,500 commercial contracts sold. This week, they sold 7100 contracts or about a third of the 21,800 commercials contracts sold. The next COT report will be very instructive on the issue, as will it be for JPMorgan's involvement on the short side of gold. As of Tuesday, I'd peg JPM as being short around 35,000 gold contracts, about average for the other traders in the big 4 category which hold 146,652 contracts collectively.

On the buy side of gold, the managed money traders bought 21,356 net contracts, consisting of 22,126 new longs and the buyback and short covering of 770 contracts. I mentioned last week that the low level of managed money shorts precluded big new short covering. The resultant net long position of the managed money traders was 150,516 contracts (191,766 longs versus 41,250 shorts), a bit lower than I expected, but I'd have to estimate that the managed money net long position is now close to 200,000 contracts as of yesterday. Previous high water marks for the net long position of the managed money traders were around 250,000 contracts in the summer of 2017 (\$1350 gold) and 275,000 contracts in the summer of 2016 (\$1375 gold).

It's quite possible that the managed money traders have more buying power than they did on those previous occasions, but that's not something I know how to predict. In fact, I'm not predicting anything - I'm just pointing out that gold has jumped more than \$120 in four weeks on 200,000 net contracts of managed money buying and commercial selling. I would certainly declare that what comes next in managed money and commercial positioning will be what dictates the price, but since I don't know what the positioning will be (neither does anyone else, by the way), I can't know what the price action will be. But I'm not forgetting for a moment that JPMorgan is holding 20 to 25 million oz of physical gold and even if it adds more to its COMEX shorts, it is in position to double cross the other commercials and make a massive score on higher gold prices. I further believe both features (making financial scores and double crossing competitors) are part of JPM's DNA.

In COMEX silver futures, the commercials sold and increased their total net short position by 9300 contracts to 34,500 contracts. While this is the largest commercial short position in a couple of months, it is not particularly large (and bearish) on a

historical basis. To be sure, silver had not penetrated its last remaining important moving average (the 100 day ma) in the reporting week ended Tuesday, but has over the last two trading days. Accordingly, as of yesterday, I would guess that there has been an additional 15,000 contracts or so of managed money buying and commercial selling.

I would imagine if – and that’s a very big if – the commercials succeed in rigging gold prices lower, that silver would follow suite, seeing as it is much closer to downside moving average penetrations than is gold. But that’s just an observation and big “what if”, not a prediction. Silver certainly has a lot – and I do mean a lot – of catching up to do. The last time gold traded where it closed yesterday, back in 2013, silver was trading over \$30. Silver’s price is so darn cheap and out of line with gold and everything else, that it feels silly to talk about potential downside flush outs. Then again, this is the most manipulated market in the world, so how can I not imagine yet another rig job to the downside – it certainly doesn’t look like the Justice Department would prevent it.

What might prevent a rig job to the downside, or cause it for that matter, is JPMorgan. A bright spot (a very bright spot) in the just-released COT silver report is that it doesn’t look like JPMorgan is selling short aggressively. Now maybe that changes in next week’s report, but since we are not yet privy to that data, we must deal with what we have. This week, JPMorgan may have sold 1000 silver contracts or so and over the past three reporting weeks (not including next week), JPM appears to have sold no more than 6000 or 7000 silver contracts. Since it was long 6000 contracts or so on May 28, it should be no worse than 1000 contracts short as of Tuesday.

Since the commercials have sold 35,000 silver contracts over the past three reporting weeks, JPMorgan's share of that selling is around 20% of the total commercial selling to this point, much less than the 40% to 50% share this big silver crook has sold on the last couple of silver rallies. JPM did, of course, make profits on the silver sales it made over the past three weeks, since it was selling long contracts bought lower, thus preserving its never lose, always win COMEX trading record. And if it hasn't added, or doesn't add aggressive new shorts since the Tuesday cutoff and beyond, that will be a monumental shift in its past behavior. Nothing could be more important for the price of silver.

On the buy side of silver, the managed money traders bought 12,375 net contracts, consisting of new longs of 7404 contracts and the buyback and covering of 4971 short contracts. The resultant managed money net long position as of Tuesday was 4315 contracts (73,187 longs versus 68,872 shorts). This is still a remarkably low (and bullish) managed money net long position at this stage and, particularly, compared to gold.

However, with silver having penetrated its last remaining key moving average to the upside since the cutoff (the 100 day ma @ \$15.14), it's hard to imagine how there wasn't at least 15,000 net contracts and maybe more of managed money buying as of yesterday. Truth be told, if JPMorgan wasn't an active seller into that managed money buying, it wouldn't matter much to me how much managed money buying and other commercial selling might have taken place. But that's like saying if I get a new bike for Christmas, I'll go riding with you. Let's see what JPMorgan did when next week's COT report comes out. (Looking beyond next week's report which is scheduled for Friday, there will be a delay in both the COT and Bank Participation reports for the following week, due to the July 4<sup>th</sup> holiday).



In summary, as far as where the positioning stands as of yesterday, we are now definitely in bearish mode in gold and no better than neutral in silver. Undoubtedly, what caused the price of gold to rise as far and as fast as it did was the close to 200,000 net contracts of managed money buying. There may be another chunk of managed money buying ahead, perhaps as many as 50,000 to 100,000 contracts or even more and if there are that many to be bought, gold prices could continue to increase.

Other bullish possibilities exist, such as new physical buying kicking in (ETFs or sovereign buying) or the possibility of one of the big commercial shorts getting into trouble financially by margin call demands. This was likely what pushed Bear Stearns over the financial edge in 2008, so it can happen. Remember that it took JPMorgan acquiring Bear Stearns' silver and gold COMEX short positions to prevent a melt up in prices back then. This is just one reason to look at what JPMorgan does now.

I will concede that should JPMorgan so choose, it can singlehandedly cap the current gold (and silver) rally. It has enough physical metal and futures shorting capacity to meet any amount of managed money buying that may still exist. The question is will JPMorgan cap and kill the current rallies? The answer is up to JPM. Arguing against it killing the current rallies is the glaring fact that it will make more money than anyone in history in gold and silver if it doesn't cap and kill.

Another reason JPMorgan may refrain from truly leaning in on the short side is that if it does sell the massive quantities it is certainly capable of selling (should it so choose) is the knowledge that it must yet again take the time and effort necessary to then rig prices lower in order to get the managed money traders to puke up and sell all the contracts they have recently bought. Aside from the time it would take, it

would likely trigger yet more attention on just what rotten, stinking crooks the SOBs at JPMorgan really are. Granted, JPMorgan is a force unto itself, but it can't be welcoming the additional scrutiny a prolonged manipulation would bring. That argues for ending the gold and silver scam while the ending is good and before too many come to see JPM's perfect criminal scam.

Finally, there exists the double cross potential whereby, if it doesn't cap and kill the rallies, JPMorgan not only stands to win big (on its gold and silver physical holdings), but also gets to witness real pain being inflicted on its competitors who are short without physical offsets. On Wednesday, I mentioned that it was a bit premature for me to crank up the money scoreboard and start calculating the open and unrealized losses accruing to the big commercial shorts. Funny how a \$60 gold rally in three days can change things.

I did mention that should gold run up a sudden \$100, the 8 big commercial shorts would be out a quick \$2.5 billion. The \$60 rally since Tuesday, puts these big shorts out a quick \$1.5 billion, or nearly \$190 million per trader on average. I'm counting JPMorgan as one of those shorts, but it is different from the other shorts in that while it may be out \$190 million on its paper shorts, it saw an increase of \$1.2 to \$1.5 billion on its physical gold holdings (on 20 to 25 million oz).

Of course, I can't dismiss the possibility, if not probability of JPMorgan going along with the other commercials and working to rig prices lower to screw the managed money longs. That has always occurred in the past and I would be negligent to dismiss this outcome occurring again. However, I still firmly believe that this crooked game must come to an end and if that end is nigh, I'll be damned if I don't approach it fully invested.

Ted Butler

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Silver - \$15.34 (200 day ma - \$14.93, 50 day ma - \$14.80)

Gold - \$1403 (200 day ma - \$1272, 50 day ma - \$1303)