June 24, 2017 – Weekly Review

Following two weeks of price declines and further new price lows earlier in the week, gold and silver managed to eke out small gains by yesterdayâ??s close. Unchanged to slightly higher always feels better following the price declines seen, particularly in silver, the prior two weeks. Gold finished up by $2, while silver ended the week a mere 3 cents higher, hardly budging the silver/gold price ratio, which remained just below 75.4 to 1.

If my â??expect the unexpectedâ?• price explosion in silver comes to fruition (as I still believe), the silver/gold price ratio will reset in dramatic fashion, certainly not just by a few points. I hadnâ??t quite thought of it in these terms before, but should my explosion premise prove to be true, this would be the last call to switch gold into silver (or to just buy silver).

This week, like most weeks, the most significant development in the world of silver and gold was the positioning change in COMEX futures, as depicted in yesterdayâ??s Commitment of Traders (COT) Report. The changes this week were spectacularly bullish, pushing the already extremely bullish silver market structure even more so and putting gold more bullish than neutral.

There seem to be fewer things to discuss in regards to future price performance in gold and silver, away from changes in COMEX market structure and possible regulatory influence, and that explains my narrowing focus in these reviews. However, if you have questions about something Iâ??m leaving out, please drop me a line and I promise at least a semi-coherent response. I just donâ??t see the point in discussing matters that have little impact or meaning to price.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouse surged to just under 7 million oz this week, as total inventories rose by 0.4 million oz to 205.8 million oz, another 20+year high. Even though JPMorgan has not been taking delivery of silver on futures contracts in its own account of late, another 1.3 million oz was deposited in its COMEX warehouse, increasing silver holdings there to 111.6 million oz, another new record high.

The big deal here (apart from the 800 lbs. JPM gorilla in the room) is still the unique and unprecedented physical turnover that has lasted for six years running. No other commodity has experienced such physical turnover. The world mines less than 17 million oz each week, why would 7 million oz be moved in six COMEX warehouses in and around New York City? All this movement involves 1000 oz bars of silver being put onto and taking off trucks. Why is this occurring?

My best answer is the metal is being moved about because it is in high demand and, further, that the turnover is directly related to JPMorgan accumulating physical silver. Letâ??s face it, the unprecedented silver turnover began six years ago, the same time JPM opened its COMEX silver warehouse and it is over this time that the JPM warehouse came to hold the lionâ??s share of metal. Let me be clear, the 111 million oz in the JPMorgan COMEX warehouse came from futures deliveries; thereâ??s another 100 to 150 million oz that JPM has â??skimmed offâ?• the unprecedented physical COMEX weekly turnover. Admittedly, none of this has had any price impact to date, but in terms of prospective price change, it looks beyond significant.

JPMorgan has still been absent from making or taking deliveries, in its own name, in the June COMEX gold and silver deliveries and for that reason I have nothing special to say. Next week starts the July

COMEX delivery period, a very big traditional delivery month for silver and I would imagine the key feature will be will JPM return to taking silver deliveries in its own name as it did in every traditional delivery month for a couple of years running, until it stood aside in the May delivery. Thereâ??s no telling what JPM will do (heck, they could even turn around and issue deliveries) and thatâ??s the problem when a big trader dominates the market â?? nothing matters except what that big player dictates.

Sales of Silver and Gold Eagles are so embarrassingly low, following the cessation of purchases by JPMorgan that itâ??s hard to see an alternative explanation for the lack of sales. Apparently, the market criminals at JPMorgan decided they purchased enough Silver Eagles and Maple Leafs over the past six years (150 million oz in total). Thereâ??s not much to do about it now, but seeing JPMorgan misuse the US and Royal Canadian Mintâ??s bullion program for its own selfish purposes doesnâ??t leave me feeling especially warm and fuzzy; but it is bullish (and in conformity with my price explosion premise).

https://www.usmint.gov/bullion-sales

On to the changes in this weekâ??s COT report. We knew from price action and what drives prices that the commercials would be buying and the managed money technical funds would be selling; otherwise gold and silver prices wouldnâ??t have moved lower during the reporting week thru Tuesday. The good news is that the commercial buying and technical fund selling was much greater than what I expected.

Not only did the commercials buy more than I expected, the alternative headline number of net managed money selling was much larger than what the commercials bought. In gold, I expected commercial buying of 25,000 contracts, supported by a drop in total open interest of that amount. Instead, the commercials bought more than 38,000 net contracts and the managed money traders sold more than 48,000 net gold contracts.

I didnâ??t have specific numbers in mind in silver, given the very small drop in total open interest (less than 1300 contracts) and was blown away by the 13,100 net contract purchase by the commercials and even more by the 17,600 net contract sale by the managed money traders. I hope I was clear in previewing the report that I was more convinced that the deliberate salami-slice pattern of new lows in silver told the real story and that yesterdayâ??s report would reflect, in essence, the most technical fund selling that could occur, almost regardless of what the report indicated. But to have the report indicate a very large amount of technical fund selling was nothing short of exhilarating.

Let me reaffirm something I originally pointed out a while back, namely, the clear pattern of growing competition to the commercialsâ?? once-exclusive feeding rights to the technical funds. Other large and small traders have joined in to feed on the technical funds as the game, as Iâ??ve always described it, becomes more obvious. This is confirmed in recent data which show larger managed money buying or selling than commercial counterparty amounts. I guess the race is on to see who can catch and eat the most technical fund salmon.

In COMEX gold futures, the commercials reduced their total net short position by a very hefty 38,600 contracts to 165,000 contracts, the smallest (most bullish) level since mid-May. Weâ??re now closer to the extremely low levels of the total commercial net short position that has typified important gold price bottoms over the past year or so, than we are to the highest levels of commercial selling, so while I still suppose thereâ??s always room for further price pressure, we look as much bullish as neutral in terms of gold market structure.

By commercial category, the big 4 bought back 13,400 short contracts, while the big 5 thru 8 bought back 6700 shorts and the raptors bought the most of all, in adding 18,500 new longs. Itâ??s always been a bullish sign when the gold raptors (the smaller commercials apart from the 8 largest commercials) get big net long and at 41,000 contracts net long, the raptors are now more net long than at any time since January.

The managed money traders in gold sold more than 48,000 net contracts, including the sale and liquidation of 49,920 long contracts and the buyback of 1800 short contracts. The buyback of short contracts, despite its modest amount, looks somewhat out of place relative to the amount of longs liquidated and my most plausible explanation is that the managed money traders which added gold short positions recently and bought back this week were not technical funds, but feeders of technical funds (even though both are in the managed money category).

In COMEX silver futures, the commercials reduced their total net short position by 13,100 contracts, to 58,800 contracts. As was the case in gold, this is the lowest (most bullish) total commercial net short position since May 16, but itâ??s also much more than that in silver. Looking beyond the previous low water mark of 57,300 contracts on May 16, youâ??d have to go back to Feb 2, 2016, to find a lower commercial net short position in silver than that reported this week.

As a reminder, we got to the early May price low and extremely bullish commercial net short position as a result of the 17 day consecutive price decline in silver, in which 60,000 net commercial contracts were bought in 4 reporting weeks. Incredibly, four weeks prior, on April 18, the commercials held their largest net short position in silver in history. So we went from the most bearish market structure in COMEX silver on April 18 to the most bullish in more than a year over the course of 4 weeks and on a $2.50 price drop. The commercials bought the equivalent of 300 million oz on a $2.50 price drop (while the technical funds sold 400 million oz). Is there any wonder that and why the big commercials have a perfect trading record in silver? How the heck could that be done if the game wasnâ??t rigged?

By commercial category, the big 4 bought back 3400 short contracts and the raptors added 9700 new longs, increasing their net long position to 31,400 contracts. As I just mentioned in gold, the larger the raptor long position, the more bullish the market structure and the raptorsâ?? net long position in silver is the largest in nearly a year and a half (Jan 2016). The big 5 thru 8 didnâ??t appear to add or close out short positions, but beneath the surface, commercials were buying and managed money traders were adding to shorts â?? always bullish.

Iâ??d peg JPMorganâ??s silver short position to be 22,000 contracts down 3000 contracts again this week and not that much above the lowest (revised) short position of 20,000 contracts a short while ago. Therefore, JPM is within 2000 contracts of its lowest recent short position and down about 12,000 contracts from its recent peak of 34,000 contracts on April 18. And I suppose JPMâ??s position could be lower still in trading since Tuesdayâ??s cutoff.

On the sell side of COMEX silver futures, it was all a managed money (technical fund) affair as these traders sold a very large 17,610 net contracts, including 8,625 contracts of long liquidation and 8,986 contracts of new shorts. Last week, I thought the managed money longs might have bottomed out around the 77,000 contract level, following the pronounced salami-slicing in the previous reporting week, so I was somewhat surprised to see big long liquidation come this week and not last. However, no harm, no foul â?? weâ??re back to a 68,000 contract core non-technical fund managed money long position, suggesting no great liquidation in that category on lower prices.

Likewise, the sharp jump in managed money shorts this week was surprising to me since the prior COT report didnâ??t feature that much of an increase relative to the price action. Now at 42,364 contracts short, the managed money short position is about 9000 contracts shy of the extreme peak on May 16. While I suppose that short position could still be achieved (on lower prices), my sense is that it wonâ??t and that this is the peak in managed money shorting.

One thing that stands out to me this week is that while we had a large increase in managed money short selling, the actual number of total managed money traders holding short positions actually decreased by one (to 28 traders). This tells me that only one or a very few number of large managed money traders added to silver short positions this week, as opposed to larger numbers of traders jumping on the short bandwagon. In other words, the smaller than expected number of managed money traders holding short positions suggests to me the bandwagon is not widely popular and, therefore, indicative of narrow and fickle conviction.

I guess it doesnâ??t matter much if many technical funds hold a collectively large silver short position or if the bulk of that collective position is held by just a few large technical funds, since shorting silver here is a lame trade and any technical fund who joins the short side, large or small, is likely to be picking up their teeth with broken arms (financially speaking) when silver rallies.

To repeat, the market structure setup in gold is more bullish than it is neutral (and certainly not bearish). I thought the commercials would have been able to get gold to penetrate its 200 day moving average to the downside, since they were highly successful in rigging the downward penetration of the 50 day moving average. Perhaps the aggression with which the gold raptors bought this week, as well as the buying competition from other non-commercial traders might prevent a violation of the 200 day moving average and up we go from here. Even if the big commercials pull a crooked rabbit out of their hats and rig a further price decline in gold, it shouldnâ??t last terribly long before the price turns higher.

In silver, the market structure went from red-hot bullish to white-hot bullish. I havenâ??t mentioned it in a while, but following my refusal to lighten up back in April when silver was $18.50 (a mistake in hindsight), I also didnâ??t lighten up when silver hit $17.50+ a few weeks ago for the same reason â?? there was too much suggesting a possible price explosion for me to lighten up (another mistake in hindsight). Hey, did I ever tell you no one ever makes a mistake with the benefit of hindsight; hence the magic and treasure of hindsight.

I did say that if silver did correct as it has, I would do what I could to scrape up some throw away money to buy call options. My choice was doing it behind her back or groveling with my wife for her â??permissionâ?•. Tough guy that I am (lol), I went the groveling route and got permission. You certainly donâ??t want to consider the whacky and ridiculously speculative call options that I bought, but I bring this up as a follow up and indication of my price expectations. Pick just about whatever silver related investment that may be at your disposal, including the best of all â?? a plain vanilla purchase of physical silver, and itâ??s hard for me to see how that will turn out to be anything but great from this point.

Finally, a few comments on a second price manipulation case brought and simultaneously settled this month by the CFTC, under its new Enforcement Director, James McDonald. This case was brought a few days ago and involves live cattle futures. The first, earlier in the month, as you know, involved manipulation in COMEX gold and silver futures. First, hereâ??s the press release and following that is the link to the order itself in pdf format.

http://www.cftc.gov/PressRoom/PressReleases/pr7574-17#PrRoWMBL

http://www.cftc.gov/idc/groups/public/@lrenforcementactions/documents/legalpleading/enfmcveanorder06

The CFTC doesnâ??t have a very good track record in leveling or proving price manipulation cases, yet these are the most important under commodity law; so two highly successful cases back to back makes one stand up and take notice. Also notable were the very strong words attributed to Director McDonald in this case.

Very briefly, the new case involved price manipulation in the CME Groupâ??s live cattle futures (the CME also owns and operates the COMEX), pertaining to collusion, violations of position limits, and the creation of false market signals. There is definitely a connection between the issues in this cattle manipulation and what I have argued to be the case in silver over the years.

My initial take on the new case is one of being quite impressed by the complexity of the manipulation and the CFTCâ??s rooting out of the facts and making an air-tight case. I immediately thought that if the agency could see through the complexity of what was transpiring in cattle futures, seeing whatâ??s really going on in the COMEX silver manipulation should be a snap, particularly since I think I explain it so clearly. I canâ??t see how the agency could undertake and prosecute the case in cattle and not be able to do the same in silver.

The infractions in the cattle case occurred four or five years ago and the case was well underway before McDonaldâ??s arrival to the Commission a little over two months ago. Still, I canâ??t shake the feeling that the timing of the two new findings of price manipulation, in COMEX gold and silver and now in cattle, is connected to McDonald. Both of the new manipulation cases are quite rare in terms of prior CFTC history, in that they were brought in the first place and were wildly successful to boot.

In the press release, McDonald was quoted as saying, â??For markets to have integrity, market participants must be able to trust that the markets operate free of manipulative or deceptive conduct. The Commission will always act to address those threats to the markets it regulates. That includes cases like this one, where market participants try to game the markets by injecting false information, which distorts the view of that market seen by other participants.â?•

Admittedly, I may be reading too much into his words and actions, but McDonald seems to be taking a much different approach to manipulation than his predecessors. It sounds to me like he is trying to send a strong message to those involved in price manipulation, as well he should. Unless he has some other undisclosed agenda, it appears that we havenâ??t heard the last from him regarding the COMEX silver manipulation, the most blatant price manipulation of all.

Ted Butler

June 24, 2017

Silver – $16.68Â Â Â Â (200 day ma – $17.47, 50 day ma – $17.09)

Gold – $1257Â Â Â Â Â (200 day ma – $1241, 50 day ma – $1260)

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