June 29, 2019 – Weekly Review

For the last week of the first half of 2019, gold and silver performed in line with how they performed for the past six months, namely, with gold prices finishing higher and silver not so much. For the week, gold ended $9 (0.6%) higher and silver ended off by 7 cents (0.5%). The continued relative outperformance of gold to silver pushed the silver/gold price ratio out to 92.5 to 1, the widest mark in more than 25 years. In practical terms, this is the most undervalued and cheapest silver has been to gold in our collective investment lifetimes. The last time silver was this cheap compared to gold was a few years before I started writing on the Internet.

At the start of this year, the silver/gold price ratio was 82 to 1, having pulled back from 86 to 1 in the fall of 2018, the cheapest silver had been relative to gold in a quarter century. Universal expectations (including mine) were that silver had gotten way too cheap to gold and switching from gold to silver made great sense â?? especially considering the actual supply/demand fundamentals. If there were any predictions espousing that silver was way too expensive relative to gold, I donâ??t remember them â?? again, I harbored no such expectations.

Instead of contracting, the silver/gold price ratio did nothing but widen, defying universal expectations and suggesting that Mr. Market does have a wicked sense of humor. I donâ??t think there were many (any) predictions at year end for gold to advance by $130 to six year highs and for silver to fall by 40 cents in the first half. Now what? Recognizing the possibility of me being just plain stubborn and trying to view things objectively, I believe the current undervaluation of silver relative to gold is now way beyond absurd. Even allowing for silver to get even cheaper to gold in the short run (days and weeks), the likelihood of a dramatic contraction in the ratio and of silver rising dramatically relative to gold is on the order of hitting something when shooting fish in a barrel.

The new Commitments of Traders Report was a bit worse than I expected in silver and better than expected in gold and chock full of anomalies that Iâ??ll discuss in a moment. In fact, even away from the COT report, a good number of anomalies â?? or things out of the ordinary â?? have come up, which Iâ??ll touch on. Long term readers know that Iâ??m always on the hunt for developments that are different in any way from what has occurred previously â?? looking for signs that the long run manipulation may be close to being terminated.

One of the anomalies I uncovered a little over 8 years ago was the sudden pickup in the physical movement of metal being shipped in and out of the COMEX-approved silver warehouses. Having monitored the COMEX silver warehouse inventories on a daily basis for some 25 years (by telephone) prior to April 2011, I couldnâ??t help but notice that, quite suddenly, the physical turnover basically exploded. Not only was this sudden increase in physical movement unusual for silver, what made it more unusual was that it was confined to silver â?? no other commodity, in COMEX or any other warehouse system, experienced a similar sudden increase in inventory turnover.

Remarkably, the sudden and unprecedented physical turnover in the COMEX silver warehouse inventories that began in April 2011 has continued to this day (as I have chronicled on the pages weekly). And no such similar movement has occurred in the inventory of any other commodity on the COMEX or elsewhere (including gold). Even though the data is published daily by the CME Group, Iâ??ve yet to hear anyone discuss what it may mean.

For my part, I believe JPMorgan is behind the physical movement and has been using it to skim off physical silver in its great accumulation of physical metal over the past 8 years. April 2011 is the date that I believe JPMorgan made the decision to begin to acquire physical silver and when it opened its own COMEX warehouse. Â Since that date, some 2 billion oz of silver have been physically moved in and out of the COMEX warehouses for no apparent reason. I claim JPMorgan has both created the movement and skimmed off at least 250 million ounces over the past 8 years, deposited in warehouses outside the COMEX warehouse system, part of the 850 million oz it has accumulated.

I believe there is only one entity that can either verify or refute my premise and as it turns out, that entity is currently investigating JPMorgan and manipulation in COMEX silver and other metals. The Department of Justice is that entity and it has the authority and responsibility to look into the unprecedented physical movement in the COMEX silver warehouses. Will the DOJ do so? I donâ?? know.

This week, the turnover or physical movement in the COMEX silver warehouses amounted to just over 4.5 million oz, about the average weekly turnover over the past 8 years. Total inventories increased by 1.9 million oz to 306.3 million oz, only about a million oz or so below the all-time peak set a couple of months back. The holdings in the JPMorgan COMEX warehouse increased by 375,000 oz to 153.8 million oz, a new record high.

Another anomaly I noticed this week was that JPMorgan didnâ??t appear as a stopper (or issuer) in its own propriety trading house account for the first two days of the big COMEX July futures contract. Customers of JPMorgan were both big issuers and stoppers of July deliveries (with issuances of 1400 contracts and stops of 539 contracts), but JPM was absent in house account dealings. This year, JPMorgan has been a consistent stopper of silver contracts (with no issuances) in its house account, but at a pace noticeably less than in past years.

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

As a reminder, I go into every traditional COMEX silver and gold delivery month with an eye towards what JPM will do, particularly in its own house account (since it is the undisputed king of silver and gold). JPMâ??s actions (or lack thereof) in the first two days of delivery in the July contract is an anomaly and suggests to me that physical silver conditions are tight enough to cause JPMorgan to stand down from taking additional deliveries in its own name so as not to disrupt the market.

Along the same lines of physical tightness in silver (against a price backdrop that suggests no such tightness) are the last two days of deposits of 3.5 million oz into the big silver ETF, SLV. I had been estimating that SLV was â??owedâ?? some 10 million oz of physical silver, so the deposits werenâ??t shocking, even if incomplete. Another anomaly of sorts is that over the last 9 trading days on little more than a total price advance of 40 cents, the trading volume in SLV has been extremely large, both compared to average volume and compared to the trading volume in GLD, the big gold ETF.

Gold has had a much larger increase in price over the past two weeks and the increase in trading volume in GLD appears normal. Last weekâ??s big deposit of 1.2 million oz in the GLD appeared to make the â??pot rightâ?• as far as metal â??owedâ?• to the trust. The subsequent much smaller withdrawals in GLD over the past few days also appear normal and in keeping with how metal flows into and out from the hard metal ETFs. So I see no anomalies in GLD trading volumes and metal flows.

However, that is not the case in SLV, where the trading volumes are much higher than would normally be expected and, as I indicated, a lot of metal still appears owed to the trust. In fact, the volume in SLV relative to GLD is particularly an anomaly when you consider that there is nothing unusual about the very high volume in COMEX gold futures compared to silver futures. I sense there is some type of covert accumulation of SLV.

Turning to yesterdayâ??s release of the COT report, there was no surprise in the large increases in managed money buying/commercial selling in both gold and silver futures â?? had there not been such increases that would have been the biggest anomaly of all. Any surprise was confined to the net positioning in silver being greater than the 15,000 contracts I guessed and smaller than the 50,000 contracts I predicted in gold.

I didnâ??t mention it on Wednesday, but as of Tuesday morning (the day of the cutoff) when gold was trading over $1440 and up more than $95 for the reporting week, I would have estimated that the managed money traders had bought (and the commercials had sold) as many as 75,000 net contracts for the reporting week had trading ended at that point. Instead, gold prices did selloff more than $30 from the early Tuesday highs and a tremendous amount of manage money contracts were pitched on that selloff, leading me to conclude 50,000 for the week. My sense now is that even more were sold than I anticipated. Obviously, we didnâ??t hit any moving averages on the selloff, but the managed money longs were extremely exposed, having added aggressively all the way up and were quite sensitive to getting caught in a protracted selloff with the boat fully loaded.

In COMEX gold futures, the commercials increased their total net short position by 36,000 contracts to 260,200 contracts. This is the largest (most bearish) commercial net short position since Sep 12, 2017, when gold hit $1350 and would subsequently decline to $1250 within months. The concentrated net short position of the 4 and 8 largest traders accounted for the bulk of the commercial selling, with the 4 largest shorts adding 19,100 contracts and the big 8 (all commercials) adding 32,800 of the 36,000 total commercial contracts sold.

While all this must be considered bearish, an anomaly appeared in gold in that both categories of commercials (producer/merchant and swap dealer) added a significant number of new gross long gold contracts, more than 15,000 (itâ??s just that other commercials added more than 51,000 new gross short contracts to get to the net of 36,200). Iâ??ll cut to the chase and say that this strikes me as being in double cross territory, with bullish implications. Iâ??ll leave it to you to decide whoâ??s zooming who, but it doesnâ??t seem possible for JPMorgan to get double crossed by the other commercials.

On the buy side of gold, I was further surprised that the managed money traders bought as few relative net contracts as they did, accounting for only 27,225 net contracts, comprised of 13,152 new longs and the buyback and covering of 14,073 short contracts. The bigger surprise was the large amount of short covering, considering how low the managed money short position was already. The managed money short position is now the lowest in a year and near historical lows and canâ??t go below zero. The resultant managed money net long position of 177,741 contracts (204,918 longs versus 27,177 shorts) is bearish on its face, but is less than I thought it would be (and somewhat bullish).

If the COT results reflect the big managed money long reduction I imagined on Tuesdayâ??s late selloff and there is some type of commercial double cross in play, it is possible that what would normally have to be considered a bearish market structure in gold, might instead signal price fireworks to the upside instead.

In COMEX silver futures, the commercials increased their net short position by 19,100 contracts to 53,600 contracts. This is the largest (most bearish) commercial net short position since Feb 26, but is still decidedly less than the total net short position on that date (78,200 contracts). As I was sort of expecting, I canâ??t determine what JPMorgan did, although I hope to get a better idea when the next Bank Participation report is released on Monday July 8. I would guess JPMorgan is short anywhere from zero to 5 or 10 thousand COMEX silver contracts, which even in a worse case basis is still appreciably less than at previous times. For instance, back on Feb 26, JPM was short 28,000 silver contracts.

On the buy side of silver, the managed money traders bought 18,946 net contracts, comprised of 6756 new longs and the buyback and covering of 12,190 short contracts. Thus, the managed money traders nearly matched the commercial selling contract for contract (as is most often the case). The resultant managed money net long position of 23,267 contracts (79,943 longs versus 56,682 shorts) is not that far from the 20,000 net long I was expecting and almost exactly equidistant from historical managed money net long and short extremes and, therefore, neutral on its face.

One great anomaly in silver that has been developing, particularly over that past four reporting weeks, is a curious increase in the concentrated net long position of the 4 largest COMEX silver traders. Normally, I rant and rave about the concentrated short position in silver and gold, because therein lies the proof of the price manipulation. But here Iâ??m talking about the very large concentrated long position of the 4 largest COMEX silver traders, which in the current reporting week is 67,322 contracts or 29.4% of the total open interest of 229,007 contracts as of June 25.

Not only is this concentrated long position the largest in history, it is 14,421 contracts larger than the concentrated short position of the 4 largest short traders (and actually down a bit from last weekâ??s record difference of 15,805 contracts). From the running COT data, the concentrated long position of the 4 largest traders was, effectively, almost always less than the concentrated short position and crossed over to being larger this past April, only to accelerate the trend the past 4 weeks. Thus, this is a very recent phenomenon.

And I should point out that this condition of the concentrated long position being larger than the concentrated short position is unique to silver, as the concentrated short position of the 4 largest gold shorts is more than double the size of the concentrated gold long position. I should also point out that while I do have a habit of introducing issues that seem to come out of the blue, all such issues are fully backed and explained by easily verifiable public data. In other words, I donâ??t have any secret inside sources, just the public data.

What does this mean? One thing it doesnâ??t mean is that the price of silver has been manipulated higher â?? not with prices below the primary cost of production and with silver at quarter-century new lows relative to gold. I would certainly concede that without this pronounced concentrated buying, the price of silver would, undoubtedly, be lower. One thing it does mean is that someone big has been buying COMEX silver futures and despite that documented buying, the price has not surged (far from it). Youâ??ll recall above in the other anomalies that I pointed out, there appeared to be notable buying in SLV.

Who are these big silver buyers? No names are available, of course, but the only plausible trader categories the 4 big traders could be in would be the managed money, swap dealer and producer/merchant categories, in that order. I donâ??t think the 4 large traders are in the managed money trader category exclusively, but would conclude that at least two of the large traders are in the managed money category, with at least one in the swap dealer category. Itâ??s possible, although not necessarily likely that one could be in the producer/merchant category.

Long time readers might recall that something like this issue emerged in the spring/summer of 2018, as some managed money technical fund-type traders emerged as big longs as silver prices rose up through moving averages. Unfortunately, those big technical fund longs ended up taking the pipe and sold out at much lower prices, incurring massive losses. The dastardly commercial won the day yet again. Therefore, I want to be careful in price pronouncements this time around.

However, there are some important differences between what happened in 2018 and what is happening now. For one thing, it doesnâ??t appear that technical funds are the exclusive buyers this time around and at least some of the buyers arenâ??t technically-motivated. For another, back in 2018, the concentrated longs never came to hold a larger position than the concentrated shorts, as clearly is the case now. Lastly, although it is not part of the COT data, there was no announced Justice Department investigation centered on COMEX precious metals and JPMorgan in 2018, as there is today.

Speaking of JPMorgan, what role, if any, is it playing in the curious case of the very large concentrated long position in silver? I donâ??t think JPMorgan would lie in reporting its positions to the CFTC as required, since that is such a blatant violation of law. But then again, this is the very first time the data has suggested something like this could be in place. Considering just how corrupt and crooked is JPMorgan in silver and gold matters, would anyone fall down shocked and surprised to discover it was clandestinely accumulating COMEX silver futures in a phony name? Whether JPMorgan is somehow nefariously involved, the data show that some big traders have been buying unusually large quantities of COMEX silver futures. Obviously, this is something Iâ??ll monitor on a continuing basis.

(On a housekeeping note, I am switching to the September COMEX silver contract from July for closing price purposes, which effectively adds about 8 cents to the price of silver).

Ted Butler

June 29, 2019

Silver – $15.35Â Â Â Â (200 day ma – $14.96, 50 day ma – $14.84)

Gold – $1412Â Â Â Â Â Â Â Â (200 day ma – $1277, 50 day ma – $1316)

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