June 30, 2018 – Weekly Review

Gold and silver prices fell for a third week, with gold ending lower by $17 (1.3%) and silver finishing lower by 35 cents (2.1%). Silverâ??s relative underperformance caused the silver/gold price ratio to widen out by nearly half a point to just under 78 to 1, but the real wonder is how closely gold and silver prices seemed to be joined at the hip â?? I mean aside from it being that way day after day, year after year.

Itâ??s important to seek out the reason why prices are joined at the hip â?? and Iâ??m not talking about only gold and silver. A number of metals have joined in on the hip joining. Copper and platinum have also decline for the past three weeks, with only palladium escaping by the narrowest of margins. In addition, gold, silver, platinum and copper ended the week, quarter and half-year at new weekly lows (and multi-year lows for platinum).

What could possibly account for these very diverse metals acting in such price lockstep? If you try to concoct a plausible sounding legitimate economic explanation, say focused on actual supply/demand considerations, the dollar, tariffs or anything similar, I guarantee you will drive yourself to the point of madness. The last thing I wish to see is for any of us turning into blithering idiots.

Instead, the answer is painfully obvious â?? the common denominator for the lockstep price performance of all these diverse metals is the same one I try to pound home in just about every article I write â?? COMEX (or NYMEX) futures contract positioning. Specifically, prices are set by what the brain dead managed money technical funds are persuaded to buy or sell by the commercials. New price lows are always caused by heavy managed money selling â?? no exceptions.

Iâ??ll run through the details in a bit, but we have to keep the facts accurate â?? prices are set by what the most speculative paper traders are tricked into buying or selling. That this excessive speculation is illegal under US commodity law, yet is occurring in full view is the big scandal of our time and a stain on the federal regulator, the CFTC, which canâ??t even address the simplest questions about the illegal price discovery process. Instead, the regulatory lowlifes at the CFTC had the unmitigated gall to publish a new finding saying that everything is just peachy-dory in our futures markets, while completely avoiding the excessive speculation by the managed money traders and their commercial puppet masters. To add insult to injury, tax dollars are used to publish this crap.

https://www.cftc.gov/PressRoom/PressReleases/7748-18

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained at an elevated rate this week, as more than 5.6 million oz were moved. Total COMEX silver inventories rose strongly again, by 3.1 million oz to 275.9 million oz, yet another 25-year high and now less than 10 million oz below the all-time high. I suppose there are some who believe rising COMEX silver inventories are bearish, but Iâ??m not one of them. Time will tell and the â??tellâ?• will be if silver prices climb with the â??highâ?• level of inventories, so letâ??s reserve judgement.

It looks to me that the recent jump in inventories is related to the July deliveries on the COMEX and the most plausible reason for bringing in more is because the metal already there wasnâ??t available for delivery. The same need to make delivery would appear to be behind yesterdayâ??s reclassification of 3.5 million oz from the eligible to the registered category. JPMorganâ??s COMEX warehouse inventories remained at 143.2 million oz and it does look like JPM is caught up on moving in the metal it took delivery of back in May.

After the first two days of delivery on the big COMEX July silver deliveries, the standout feature is that JPMorgan has not shown up in its house account. There have been a good number of total issuances (3471), with the featured stopper being Goldman Sachs, already over the supposed limit with 1502 contracts stopped so far and the big issuers being a customer(s) of HSBC (1048) and Scotiabank in a new corporate name, issuing 827 contracts. I donâ??t particularly trust Goldman (I donâ??t trust any of them, to be sure) since it had shown up in the past as a big stopper of silver, only to turn around and later deliver all it had stopped. For all any of us know, Goldman may be fronting for JPMorgan.

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

If JPMorgan isnâ??t using Goldman as a front man to camouflage it continuing to acquire physical silver via COMEX futures deliveries, then I would suppose JPM is laying off stopping deliveries because availability may be tight. It seems to me that JPMorgan is relying more on other means of acquiring physical silver, principally around the big silver ETF, SLV, based on continued counterintuitive withdrawals and deposits of metal into the trust and changes in the short position on SLV.

The most recent short report, for positions held as of June 15, indicated a big increase in the short position on both SLV and GLD, the big gold ETF. The short position in SLV increased by more than 3.7 million shares to just under 12 million shares (12 million oz), while the short position in GLD increased by 1.36 million shares to just under 10.5 million shares (1 million oz).

http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%E2%84%A2

I continue to believe that JPMorgan is behind everything unusual in SLV, with counterintuitive withdrawals of metal occurring as it converts shares to metal to avoid SEC reporting requirements and counterintuitive deposits of metal being used to cover short positions. I should write about it one of these days since there is still much buzz and discussion about COMEX EFP (exchange for physical) transactions said to involve physical metal transfers (to London of all places) but which are just another form of paper futures transactions. The real EFPs are of the form JPMorgan is pulling off, primarily in SLV.

This week, some 3 million oz of silver were deposited into SLV, as prices moved to the lows of the year, about as counterintuitive as it gets. The most plausible explanation for this weekâ??s deposits was to cover the recent increase in the short position on SLV. Forget plausible, if thereâ??s any other explanation, Iâ??d love to hear it.

The changes in the just reported Commitments of Traders (COT) report were of the expected variety, given the series of new price lows (salami slices) that occurred not only in gold and silver, but also in copper, platinum and palladium over the reporting week ended Tuesday. â??Expectedâ?• in this case means notable managed money selling, as this is perhaps the most important commandment of the (rigged) markets, namely, managed money selling begets lower prices. The CFTC is babbling about why flash crashes donâ??t really matter, while ignoring the obvious, namely, that excessive speculation has come to set prices in most commodities.

While I didnâ??t lay out contract number predictions, the new report indicated the expected managed money selling in gold and silver in an amount similar to, but less than in the previous week (although commercial buying was a bit more than the previous week in silver due to an increase in shorting by non-reporting traders). Certainly, there appeared to be further managed money selling and commercial buying on the price weakness after the cutoff (in keeping with the First Commandment).

In COMEX gold futures, the commercials reduced their net short position by 19,200 contracts to 95,000 contracts. This is the lowest (most bullish) commercial short position since last July and before that back to early 2016, as a gold rally of $300 took hold. By commercial category, the big 4 bought back 2800 short contracts, while the big 5 thru 8 bought and covered 3800 short contracts and the raptors (the smaller commercials apart from the big 8) added 12,600 new longs to a net long position now amounting to 81,200 contracts. It was expected that the raptors would be aggressive buyers on the gold price weakness and Iâ??m sure that continued after the cutoff.

The big 4 short position in gold is now the lowest (119,000 contracts) since May of last year and the double cross I see that JPMorgan has pulled off is still very much alive and well. In fact, it is almost impossible for the double cross to dissipate unless we rally sharply and JPMorgan begins to add to shorts anew. This is the Second Commandment of rigged markets, namely, that commercials, including JPMorgan, donâ??t sell on lower prices.

On the sell side of gold, the managed money traders sold 10,552 net contracts, including the purchase of 548 new longs and the new short sale of 11,100 contracts. The net position of the managed money traders is now, essentially, zero with 94,845 longs and 94,869 shorts. This is the lowest managed money trader net long position (actually, itâ??s a net short position) since the beginning of 2016. Iâ??m not particularly surprised by the lack of managed money long liquidation this week since weâ??re close to the lowest gross long levels for this category in nearly ten years. Â Any additional managed money selling should come in the form of new short sales and I think that has occurred since the cutoff.

An interesting twist in gold and the explanation for why there was so much more commercial buying than there was managed money selling this week was the surprising sale by other large non-commercial traders of more than 9200 net contracts, including the sale and liquidation of 8345 long contracts. My best guess as to why the sudden selling from this group of traders is that one or more may have become overextended and fell victim to forced liquidation on the continued price downdraft. There is no market commandment that Iâ??m aware of that speculators, no matter how large, canâ??t become overextended and forced to sell. In any event, this does nothing to detract from the extremely bullish market structure in gold and, in fact, enhances it, since once sold, these contracts canâ??t be sold again.

In COMEX silver futures, the commercials reduced their total net short position by 9500 contracts to 49,000 contracts. This is the lowest commercial net short position in two weeks, not in a year or so as was the case in gold, so Iâ??m hesitant to call it bullish on its face. After all, the commercials are still more net short by 37,000 contracts than they were on May 1, less than two months ago. Still, looking under the hood and viewing the metals markets as a package, itâ??s hard for me not be extremely bullish in silver (either that or I need some excuse to be holding more crazy out of the money kamikaze call options than Iâ??ve held in years â?? I mean, aside from me losing all good sense).

By commercial category, the big 4 bought back only 400 short contracts, disappointing initially, while the big 5 thru 8 bought back 1100 shorts and the raptors added a hefty 8000 new longs to a net long position now totaling 58,700 contracts. My initial disappointment about the low amount of big 4 short covering dissipated when it occurred to me that a managed money trader had entered into the ranks of the big 4 and that JPMorgan likely bought back the 3000 short contracts I anticipated (also based upon healthy buying in the producer/merchant category, where JPM dwells). Thus, I would peg JPMorganâ??s short position to be 30,000 net contracts as of Tuesday, down 10,000 from the 40,000 contracts it was short two weeks ago, but still up by 10,000 contracts from the lows of May 1. The emphasis here is as of Tuesday â?? more on that in a moment.

On the sell side of silver the managed money traders sold 5675 net contracts, consisting of the sale and liquidation of 885 long contracts and the new short sale of 4790 contracts. The biggest surprise was the lack of more long liquidation in the face of new 2018 price lows during the reporting week. With 74,273 managed money long positions as of Tuesday, we are still more than 40,000 contracts above the level of managed money longs we saw in April, less than 3 months ago. Letâ??s face it â?? silver price action wouldnâ??t seem to warrant such a big long position on purely technical grounds; but Iâ??m hesitant to declare this to be a core non-technical fund long position because the last time I did that the position was ultimately liquidated. So, a puzzle exists as to why we havenâ??t seen more managed money long liquidation.

The managed money short position is 52,212 contracts, not small by any historical measure, save perhaps the record short position of April which was more than 20,000 contracts higher than the current level. This does leave room for additional short selling on lower silver prices, but much more potential short covering (rocket fuel buying) is now in place on higher prices. As Iâ??ve been mentioning recently, the key in silver is whether more managed money selling occurs on lower prices â?? thatâ??s still the big question.

As I indicated earlier, trading since the Tuesday cutoff suggests continued managed money selling in gold, silver and the other metals. Thursday was a weak price day for all the metals, particularly for silver, which was accompanied by very high trading volume. I found it especially noteworthy that total open interest dropped sharply in silver that day, by 8600 contracts and I canâ??t shake the feeling that a stubborn managed money long or two might have succumbed to the pain of lower prices and pitched a losing position (similar to what occurred this week in gold).

Another feeling I have is that if this is what occurred, I can almost smell the role of JPMorgan in the forced liquidation. And if it was JPMâ??s handiwork, it could have covered nearly all of the 20,000 silver shorts it recently added, all while buying back more than 50,000 contracts of gold shorts. Certainly, if this is what occurred in silver on Thursday, it greatly enhances the market structure in silver and my double cross premise.

A few brief comments on the other metals, COT-wise. The managed money traders are now (as of Tuesday) more net and gross short platinum than at any time in history, meaning this is the most bullish market structure ever. The managed money traders are close to their lowest net long position ever in palladium (theyâ??ve never been net short), so that market structure is extremely bullish as well.

In copper, the managed money traders have sold 58,000 net contracts in just two reporting weeks (and likely more since the cutoff), the equivalent of 725,000 tons of metal, the equivalent of two weeks of world mine production. Is it any wonder the price of copper dropped by ten percent over that time? Ask the dingbats (or crooks) at the CFTC and theyâ??ll tell you it was a fairly average move and the large quantities of paper contracts sold by speculators is no big deal. Thatâ??s the problem â?? I donâ??t think these guys care to see the obvious. In any event the market structure in copper is quite bullish, but one can never say it wonâ??t get even more bullish. Still, world commodity prices should not be set by paper traders speculating excessively.

The one common denominator among all the metals and the varying degrees of bullish market structures that should surprise no one (whoâ??s been paying attention) is that current prices in every one are below the key 50 and 200 day moving averages in each. It is absolutely ludicrous and insane that so many tens of thousands and hundreds of thousands of collective contracts would be sold and sold short by a relative handful of managed money paper traders which have been tricked into selling by their idiotic technical â??systemsâ?• that could have been designed by a mediocre middle schooler. But thatâ??s the reason for the current low prices. The flip side, of course, is that the rudimentary and inane systems will flash buy at some point.

The perfect double cross that I believe JPMorgan has pulled off in gold and now likely in silver and other metals as well, still dominates my thinking. Iâ??m expecting (and hoping) to see further confirmation of this in the next COT and Bank Participation Reports, but there is a scheduled delay for the July 4th holiday and these reports wonâ??t be published until the following Monday, July 9. I do have a tendency to get prematurely bullish or bearish on COT readings and it often takes longer for the price turn in either direction to occur, but if Iâ??m close to accurately analyzing what JPMorgan has accomplished, the next move up in the metals should be one for the ages.

(On a housekeeping note, Iâ??m switching over to the September COMEX contract from July for closing price purposes in silver and still sticking to August for gold. This does add about 9 cents to the price of silver).

Ted Butler

June 30, 2018

Silver – $16.15Â Â Â Â (200 day ma – $16.70, 50 day ma – $16.52)

Gold – $1254Â Â Â Â Â Â Â Â (200 day ma – $1306, 50 day ma – $1299)

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