As has been the case for a number of weeks, gold and silver prices ended mostly flat, with gold exactly unchanged and silver up by a dime (0.6%). The slight relative strength in silver caused the silver/gold price ratio to tighten in by half a point, to 79.7 to 1, essentially another week of historic undervaluation in silver that somehow seems normal due to the passage of time. Normal in this case only because we've grown accustomed to how prices are actually set, not because silver should be valued so cheaply by the available facts.

There seems to be no shortage of market moving news and price volatility in the broader financial markets, but gold and silver seem to be behaving pricewise by a different set of circumstances than most everything else. There is a very good reason for that – the forces determining gold and silver prices have been solely consigned to a relative handful of traders speculating in paper futures contracts on the COMEX. While this circumstance has been creeping into other markets as well, nowhere is it more conspicuous than in gold and, particularly, silver. Nothing else could explain the literal explosion in commentary focusing on the COMEX market structure, as defined by the Commitments of Traders (COT) report.

Of particular recent note is the quite specific near-universal opinion of the silver market set up being extremely bullish, while gold's set up is decidedly less bullishly extreme. Of course, this is as is should be, given the current COT data, but my point has to do with how so many have come to view the market this way. It's getting to be the exception, rather than the rule, where COT market structure conditions are not included in commentary and most often COT conditions are the prime feature. This is a big change from 5 or 10 years ago and certainly earlier.

While I believe this growing awareness of what truly determines gold and silver prices will lead to a good end (with silver exploding in price), I am still struck by the lack of attention paid to some rather glaring aspects of the market structure approach. Yes, COMEX paper positioning sets prices and one would be a fool to ignore it; but what’s really behind the paper positioning? When you pull the curtain back, you uncover a relative handful of large speculators, mostly in the form of trading houses and banks, trading paper derivatives contracts in such large amounts so as to dictate silver prices to the world. Effectively, there are no more than 50 such paper traders on either side of the paper trading equation and, in reality, even less in terms of pricing power.

Silver and gold are world commodities, touching the lives of most of the world’s more than 7 billion inhabitants. It is thought by many that such commodities would be priced by the continuous interaction of many millions of producers, users and consumers on a daily basis. That’s the way it should be, not the way it is. In silver way less than 50 big paper traders dictate and make the price to billions of price takers, actual producers and consumers alike. Leaving aside that this is nuts and not the way it should be, I’d like to make a different point. This is the perfect set up for artificial prices.

It is precisely because so few paper traders are involved in the vast majority of COMEX dealings that artificial prices would result. Artificial prices wouldn’t be possible if great numbers of actual producers and consumers and investors were competing openly, as that’s the definition of a free market. But that’s not the case in silver, where all the world’s producers, consumers and investors alike take whatever price the less than 50 COMEX paper traders make each day. As to why this is the case revolves around many things, not the least of which is the simple status quo.

I raise the point for a different reason, namely, that it is the perfect explanation for why silver prices are artificial and manipulated. Too few participants determine its price. Everyone takes whatever price the COMEX makes because there is no choice. A miner has to sell his production at some price, just as a consumer or investor must buy at some price; they all need a reference price and the COMEX fulfills that role, largely due to its clearing and delivery mechanisms. The problem is too few on the COMEX set the price and those that do set the price aren't interested or connected to silver as a commodity to be produced or consumed. The managed money technical funds and the commercials who feed off them have no real interest in silver (or anything else they trade) – it's just a continuous loop of buying and selling paper contracts. There's no legitimate hedging going on – it's all a paper trading façade that, unfortunately, makes the price that the rest of the world takes.

The whole purpose of this philosophical walk down market lane is to show that silver prices are priced artificially low due to the small number of paper traders on the COMEX setting the price. That more are becoming aware of the importance of COMEX positioning on price suggests to me that, in time, more will come to appreciate how this has resulted in a price way too low and move to aggressively acquire silver. If, of course, JPMorgan doesn't decide to let 'er rip before that.

The turnover or physical movement of metal brought into or taken from the COMEX-approved silver warehouses cooled of this week to less than 2.2 million oz, as total inventories rose by 0.3 million oz to 252.3 million oz. One explanation for the drop in turnover is that this was the first week in many (eight) that there was no change in the JPMorgan COMEX warehouse, which still stands at 135.6 million oz. You'll recall that JPM moved in 16 million oz following its large stopping of deliveries in the December futures contract. It would appear the movement into its own warehouse for the December deliveries in now complete, with it remaining to be seen if JPM will mover the 2 million + oz if stopped earlier this month into its own warehouse in the weeks ahead.

JPMorgan stopped taking deliveries in its own name and account after its first delivery day taking of 447 contracts in the current March delivery month and that still remains the key highlight to date in my mind. I’m still of the opinion that JPM “backed down” going into first delivery day and had closed out and liquidated many more futures contracts that it had originally intended to take delivery on because it feared (that’s not the right word because these guys don’t fear anything) it would cause silver prices to erupt. For reasons known only to JPMorgan, it obviously felt this was not the time it chose to let silver fly.

In JPMorgan’s absence from taking delivery after first delivery day, Goldman Sachs has taken the mantle as the big silver stopper in March, having taken 2333 contracts in its own name out of the 4828 total deliveries issued to date, or just over 48%. It looks like Goldman could stop as many as 2500 silver contracts (12.5 million oz) by month’s end, based upon recent delivery data. So much for the alleged 1500 contract limit. Goldman took a large number of deliveries (1683) early in the December delivery, but re-delivered 1104 contracts later that month.

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

Having grown accustomed to JPMorgan being the main, if not sole silver stopper over the past few years, the emergence of Goldman Sachs as a big stopper is food for thought. There is not enough evidence to conclude much at this point, but some have raised the question about why other big traders haven’t caught on to JPMorgan’s epic accumulation of physical silver and sought to join in. Goldman’s recent actions would seem to suggest that it has caught the silver scent. It's too soon to say, of course, but nobody ever accused Goldman as being slow on the uptake. I'm just trying to figure what took them so long if they have stumbled upon the fact that silver is artificially priced too low?

The new short report on stocks as of Feb 28 was a non-event and lived up to its reputation for difficulty in predicting (at least for me). The recent big deposits of metal into the SLV, the big silver ETF, hinted at a reduction in the short position, but it didn't materialize. The short position in SLV, declined ever so slightly, by less than 60,000 shares to just under 11.4 million shares (11.4 million oz), while the short position in GLD dropped by an equally scant 300,000 shares to 14.4 million shares (1.4 million gold oz). Not the largest of reductions, but better than an increase.

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

The changes in the new COT report broke any string of fairly accurate predictions I may have had recently, but I'll live with humiliation. I knew it was a tricky reporting week to begin with, what with all the positioning changes occurring on the Tuesday cutoff day, when gold and silver prices jumped sharply after a fairly nothing 4 prior trading days in the reporting week. But just like a batter trying to decipher the pitch that just struck him out for the next time he's up at bat, there was a lot to take in on yesterday's report and none of it was really bad.

In COMEX gold futures, the commercials increased their total net short position by 5100 contracts to 204,900 contracts (I was guessing 20,000 contracts the other way). My wide miss aside, the increase in the commercial short position was not the result of any increase in commercial short selling per se, but rather the mathematical result of commercial long liquidation by the raptors (the smaller commercials apart from the big 8). This was also the case in silver and is an important distinction. This is not something that could be seen unless you looked at the 8 largest shorts in COMEX gold and silver as being separate from the rest of the commercial traders – which is how my raptor analogy originated.

By commercial categories in gold, the raptors did all the selling, in liquidating 12,900 long contracts, reducing their net long position to 29,800 contracts. That meant that the bigger commercials were buyers, with the big 4 buying back 4600 short contracts and the big 5 thru 8 buying back 3200 short contracts. This reporting week's configuration, while not unprecedented is rare and encouraging for anyone like me who believes price manipulation is made possible by concentrated short selling. When the biggest concentrated shorts buy back shorts that's always constructive for price eventually, particularly when other smaller commercials are selling longs, as it suggests possible discord in commercial manipulation land.

The managed money traders ended up buying a scant 687 net gold contracts, consisting of the sale of 4983 contracts of long liquidation and the buyback and short covering of 5670 contracts. As of the cutoff date, the remaining 21,786 contacts of managed money shorts still looks very much on the low side and the remaining long position of more than 172,000 contracts still is on the high side and results in no better than a neutral to bearish overall market structure, quite expected almost no matter what yesterday's report indicated.

In COMEX silver futures, the commercials increased their total net short position by 7,300 contracts to 21,800 contracts (I was looking for 5000 the other way). As was the case in gold, there was no new commercial short selling, just raptor long liquidation and big 8 buying back of short positions. The raptors sold a very hefty

10,400 net long contracts, reducing their net long position to a still-large 59,600 contracts, but down sharply from last week's record level of 70,000 net long contracts.

The big 4 shorts in silver bought back 1100 short contracts and while that may have been due to some slight short covering by the big managed money trader now in the big 4 short category, even if it was, it wouldn't have indicated new short selling by you know who. The big 5 thru 8 bought back 2000 short contracts and now hold the lowest share of the big 8 concentrated short position in quite some time. If you take out the short position of the big managed money trader in the big 4 and maybe another possible managed money trader in the big 8 universe, the true concentrated net short position of the commercials would appear to be quite low by historical standards. Needless to say, that's also quite bullish.

The release of the Bank Participation Report causes me to leave JPMorgan's silver short position at 28,000 contracts, somewhat disappointing compared to my hopes for a reduction surprise; but otherwise closely in line to what I've been pegging JPM's short position at all along. The key takeaway here is that JPMorgan has yet to meaningfully increase its paper silver short position and until it does, it leaves open and alive the prospect that this price takedown in silver could be you know what.

https://www.youtube.com/watch?v=eM2b9CcH1KM

The aggressive raptor selling in both gold and silver this week epitomized the qualities I attributed to them when naming them after the smaller, faster and ever so vicious velociraptors in the dinosaur book and movie, "Jurassic Park". Individually, these smaller commercials are no match for the T. Rexes, like JPMorgan; but they can be a powerful collective (collusive) force. The silver and gold raptors are interested in quick kills and plenty of them as compared to the JPM T. rexes whose kills are bigger, more methodical and less frequent. At least, that's my impression over time and certainly this past reporting week.

On one day, essentially, the silver raptors sold 10,400 contracts of silver (52 million oz), the same 52 million oz they bought in the two previous reporting weeks for a 30 cent net profit or a collective $15 million profit that gets divvied up by 30 or so raptors. On a day to day basis, the raptors seem to be calling the price shots. Don't misunderstand me – for sure, JPMorgan is the price manipulator at the margin and has used the last seven years to keep prices artificially depressed as it went about accumulating 700 million oz – but the day to day movements are much more the work of the raptors tricking, catching and eating the plant eating technical funds which keep reproducing in remarkable quantities.

The managed money traders in silver bought 5357 net contracts, including 4389 new long contracts and the buyback and short covering of 968 contracts. Almost directly opposite to the situation in gold, the managed money long position of 41,036 contracts is still quite low and not much above the 36,000 assumed non-technical fund core long position; while the managed money short position is still quite high at just over 52,000 contracts. This is what makes the silver market structure extremely bullish and the gold market structure bearish to neutral.

The sharp price takedown on Wednesday and continuing into yesterday suggests to me that much or all of the deterioration in this week's report may have been reversed, particularly in silver. Therefore, it's still a question if gold's market structure is yet to be resolved to the downside and lower gold prices will drag down silver, making silver's market structure even more extremely bullish. Or whether silver may be able to withstand selling off sympathetically with gold or even help propel gold higher.

Trying to quantify the question in contract terms, using recent historical extremes in managed money positioning as potential targets; in gold there is room for at least a hundred thousand net contracts that could be bought on higher prices or sold on lower prices. In silver, there is room for maybe 10,000 to 15,000 managed money contracts to be sold on lower prices and at least 100,000 net contracts that could be bought by the managed money traders on higher prices. In a nutshell, that's the current difference between gold and silver.

Ted Butler

March 10, 2018

Silver – $16.60   (200 day ma – $16.83, 50 day ma – $16.83)

Gold – $1323   (200 day ma – $1290, 50 day ma – $1329)