A choppy price week led to mixed narrow finishes for gold and silver prices, with gold ending $3 (0.2%) higher and silver ending down by 6 cents (0.4%). As a result of gold's outperformance, the silver/gold price ratio widened out by half a point to 85.1 to 1.

About that sharp selloff on Thursday, when gold fell by as much as $20 and silver by more than 30 cents. Aside from a possible personal rebuke of what I would term my bullish comments on Wednesday, the sharp selloff was mostly unexpected except in the sense that who doesn't know by now that the controlling commercials, led by JPMorgan, can do whatever they want, whenever they want. Notwithstanding the personal slap in the face, Thursday's sudden downdraft had everything but noticeable spoofing at play.

The two key elements in the price take down included the appearance of the "night moves" strategy late Wednesday evening into very early Thursday in which prices were deliberately set lower at the most illiquid trading time of the 24 hour electronic trading day –the easiest time for such maneuverings. Generally, night moves can't be used that often less they become too obvious. The real purpose behind them is not to achieve great positioning changes in the middle of the night (since most market participants are sleeping), but to set the stage and tone for greater positioning changes in the coming day session.

At that point the next phase kicked in on the Thursday traditional opening, namely, a steady and unrelenting series of "salami slices" in which new price lows were established in gold and silver designed to set off managed money selling (which the commercials would buy into). The new salami slice price lows continued to just before noon (all NY time) and then prices flat-lined throughout the rest of the trading day, as the commercials used their last dirty trading trick of collusively agreeing not to reach for the final round of managed money selling that had to come as a result of gold and silver prices now being below key moving averages. It's not that often you get to see such manipulative artistry in action in one trading day ("Not often" being the same as never for the do-nothing regulators at the CFTC and CME).

While watching the manipulative artistry play out, I can't say on a personal or emotional level that I didn't find it highly upsetting, but I also knew that the worse it felt, the more it strengthened what I had just the day before had termed a rapidly improving market structure. (Yeah, I know – enough of this improvement already). But the fact is that on big down days, the commercials always buy big and the managed money traders always sell big – that's the manipulative game in a nutshell. Therefore, as rotten as Thursday's price smash felt, it did further improve the COMEX market structure.

In fact, I thought there would be a further follow through to the downside on Friday, but was pleasantly surprised to be wrong. Does this mean we've seen the bottom? No one can know on a day to day basis, but I think I know the key determinant will be when JPMorgan has decided it has bought back enough silver shorts. And on that score we must be close based upon the recent data, including the surprisingly bullish new COT report which covered action before Thursday's deliberate price smash. More on that in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses turned in a slightly below average weekly performance of the past 8 years. This week, 4 million oz were physically moved as total COMEX inventories rose by 1.2 million oz to just above 301.4 million oz, another new all-time record. Of course, “slightly below’ still means an annual rate of 200 million oz – an extraordinarily large amount of silver and an amount no other commodity comes close to replicating in terms of physical inventory movement. No movement in the JPM COMEX warehouse this week, which stood pat at 147.8 million oz.

If I felt that any of the other developments in the world of gold or silver or in the world in general were having any current influence on prices, I would mention them. After all, I’m not bound by what I can or can’t say. But the truth is that only COMEX futures contract positioning determines prices in the here and now and I feel I would be wasting your time by focusing on anything else. So let me jump to the new Commitments of Traders (COT) report, in which I’m happy to report that my predictions were off by quite a bit. In reading the new report yesterday, I had the vision that if I was on the TV game show, “Deal or No Deal” and was offered the results of yesterday’s report first with the option of choosing other results, I would have taken yesterday’s report no questions asked.

Remember, this was a difficult reporting week to handicap in that we did have fresh new lows in gold and silver over the first two days of the reporting week, followed by higher prices over the last three days and in which gold prices did end $13 and silver 30 cents higher for the week ended March 12. As a reminder, I was expecting some slight deterioration, or managed money buying/commercial selling of a few thousand contracts in both gold and silver as a result of price rally into the cutoff. Often times, after a COT report surprises me, I can go back and review the price action and come to understand the results better. Not this time, which doesn’t change my surprise or lessen my delight.

In COMEX gold futures, the commercials reduced their total net short position by 5500 contracts to 108,500 contracts. This is the lowest (most bullish) commercial net short position since Jan 22, when the price of gold had sold off to the $1275 level before ultimately rebounding to $1350 a month later. One thing I did get correct was that there was no increase in the concentrated short position of the 4 largest shorts, which nudged down by a few hundred contracts to levels not seen since Dec 4 when gold was near $1235. Importantly, where I was of the opinion that JPMorgan was no longer short in COMEX gold futures, I now believe they may be slightly long.

One other thing I got correct was that the huge increase in total gold open interest over the reporting week, close to 59,000 contracts, was completely spread related and as such had nothing to do with actual net positioning. Further, if past is prologue, I would expect an even sharper decrease in total gold open interest going into first deliver day for the approaching COMEX April contract as all the spreads just established are liquidated. As to why all these spreads are being put on and taken off, I'm not sure – but I see no effect on absolute price levels. I was distressed, however, to read a commentary this week which stated that the big increase in total gold open interest was due to heavy commercial short selling and that portended a big decline in gold prices. I suppose gold prices could decline, but if they do, it sure won't be due to heavy new commercial short selling, as can be seen in yesterday's COT report. The reason for my distress is that I dislike reading commentary that I know to be wrong.

On the sell side of gold, the managed money traders sold more than twice as many contracts as the commercials bought, as these traders sold 13,840 net contracts, consisting of the sale and liquidation of 2610 long contracts and the new short sale of 11,230 contracts. I suppose the numbers seemed much larger to me because I was expecting managed money buying. The net long position of the managed money traders in gold is now under 17,500 contracts (123,293 longs and 105,886 shorts), leaving twice as much room for potential buying on higher prices as potential selling on lower prices. As to why the managed money traders sold so much in this reporting week, I'm not sure, but I'm sure glad they did sell.

In COMEX silver futures, the commercials reduced their total net short position by a rather hefty 6000 contracts to 46,300 contracts. This is the lowest (most bullish) commercial net short position since Dec 24, when silver was priced around $14.70 and before it rose to $16.20 in late Jan and again in mid-Feb. From the COT report of February 26 (2 reporting weeks ago), silver has fallen in price by more than a dollar (peak to trough) as the commercial net short position was reduced by 32,000 contracts, the equivalent of 160 million oz.

Importantly, over the same two reporting weeks, JPMorgan's COMEX silver short position has been reduced from 28,000 contracts to 10,000 contracts. If my calculations are correct, that means that over the past two reporting weeks, JPMorgan has accounted for 18,000 contracts (90 million oz) of the 32,000 total commercial contracts bought, a remarkable 56%. I don't recall a similar period of time when more silver short contracts have been bought by JPMorgan, either on an absolute basis or as a percentage of total commercial contracts bought. Since I'm convinced that JPMorgan dictates what transpires in the silver (and gold) market, I have to be particularly impressed by what has occurred over the past two reporting weeks.

Can JPMorgan buy back many more silver short positions, even perhaps getting net long? Perhaps, but it strikes me that it may have already bought back more shorts, as a result of that wickedly deliberate Thursday price swoon. In any event, it appears to me that the most likely manner at this point by which JPMorgan can buy back additional short positions is by engineering lower silver prices than the lows already established to date. While I can't rule that out, such a move to fresh new lows would undoubtedly entail strong buying competition from other commercials, as well as mandatory strong additional selling pressure from the managed money traders. Over the past two weeks, JPMorgan hasn't had much buying competition from the other commercials, almost to the point of it double crossing the other commercials.

While fresh managed money selling is always possible, it's also important to recognize just how much selling has occurred over the past two weeks. This week, the managed money traders sold 8365 net silver contracts (more than the commercials bought), consisting of the sale and liquidation of 3654 long contracts and the new short sale of 4715 contracts. As was the case in gold, the potential buying capacity of the managed money traders on higher silver prices is now substantially greater than potential additional selling on lower prices.

Over the past two reporting weeks, the managed money traders have sold 38,275 net silver contracts, the equivalent of 191 million silver oz and 6000 contracts more than the commercials bought. Such a large amount of managed money selling in such a short period of time raises questions about how much more potential selling exists in current market conditions and circumstances (including an ongoing Justice Department investigation). While no one can rule out fresh new price lows ahead in silver and gold, neither can anyone argue against this being the first serious price takedown since the Nov 6 announcement that the DOJ was investigating COMEX precious metals manipulation. In other words, while this is far from the first manipulative price takedown in COMEX gold and silver for any of us, it is the very first real time takedown under the announced watch of the Justice Department. Please think about this.

Maybe I got it all wrong, but the Justice Department is not an entity one openly taunts – at least not this someone. You just don’t do that with an entity that can put in jail. Yet this intentional price takedown can hardly be interpreted as anything but a slap in the face or the middle finger to the DOJ – a flat out dare to bust up a well-oiled criminal enterprise profit machine. It does make it easy for me, in the sense that if the commercial crooks on the COMEX get away with telling the Justice Department, in effect, to drop dead, then a lifetime of looking up to the DOJ and FBI will end for me. The world as we know it will go on, of course, but with a markedly different take from me. The good or bad news is that we should know in the relative near term.

Whether the DOJ gets it right or wrong, I’m still convinced that JPMorgan will get it right, by hook or by crook. That may or may not include JPM rigging still-lower prices to buy back even more of the very few remaining shorts it may hold; but as mentioned above, that will trigger additional buying competition from other commercials as well as an exhaustion of managed money selling at some point. So the real question is how much further JPMorgan will choose to press prices lower to buy back an ever-diminishing supply of contracts to be bought. Because the supply available to JPMorgan seems so limited, the most reasonable approach seems to be to play it as if prices could turn up in a heartbeat.

Ted Butler

March 16, 2019

Silver – $15.30 (200 day ma – $15.20, 50 day ma – $15.62)

Gold – $1302 (200 day ma – $1251, 50 day ma – $1305)