March 25, 2017 – Weekly Review

Gold and silver rose for a second week running, with gold ending up by $16 (1.3%) and silver by 35 cents (2%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in a bit to just over 70 to 1. Considering the very different data circumstances facing each metal, the standout to me is in just how joined at the hip the relative recent price action of gold and silver has been. The whole price process just exudes artificiality.

The big story of the week was the surprising (to me) readings in the latest Commitments of Traders (COT) Report â?? surprisingly bullish, I should add. There was no big buildup in managed money long/commercial short positions in COMEX gold and an actual decrease in such positions in silver. It was like having a deeply underdog home team not only beat a heavily-favored rival, but doing so in a very convincing fashion. A very pleasant surprise indeed.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained relatively subpar for the second week running, as 2.85 million oz were moved and total inventories rose by nearly 2 million oz to 190.2 million oz. This is a fresh 20 year high in total COMEX silver inventories. I still maintain there is not much price consideration attached to total COMEX silver inventories and certainly in the short run that would appear to be the case – as both silver prices and inventories rose over the past fortnight.

Because Iâ??m still convinced that the unusually large turnover has been the big story in COMEX silver inventories over the past six years, I couldnâ??t help but notice that not only has the weekly total turnover cooled over the past two weeks, 7 of the past 10 business days have featured little or no movement at all. I wonâ??t get into it in detail now, but should this recent trend continue and COMEX silver inventory turnover begins to fade, then it could have a big impact on price. And since the price of silver has basically stunk over the six years of frantic COMEX inventory turnover, it would seem reasonable to suggest less frantic turnover might coincide with a higher price environment.

JPMorgan added 0.6 million oz to its own COMEX silver warehouse earlier in the week, bringing the total there to 93.5 million oz, also a new record. Should past patterns play out, it would be expected that JPM would move in around 10 million more oz over the next few weeks. But there is nothing mandatory about that and, at this point, it is not particularly material whether JPM moves more silver into its own warehouse. By now, it should be quite clear to everyone that JPM has a jones for physical silver.

JPMorganâ??s craving for physical silver canâ??t be denied based upon the current March COMEX silver delivery process. Weâ??re down to very little remaining open interest as the last day for delivery is close. While the delivery month played out as suggested earlier in the month, once the scope of JPMorganâ??s intentions became clear; nevertheless, it was a silver delivery month like none other in my experience. Of the 3795 total silver deliveries issued, JPM stopped (took) 3428 contracts, or 90%, – 2689 contracts in its own name and another 739 for clients. Combined, JPM and its client(s) took control of another 17 million oz of physical silver this month in COMEX deliveries.

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

Putting aside the fact that there is a published COMEX delivery limit of no more than 1500 silver contracts for any one trading entity and this is the highest amount, either in total contracts or by percentage of total deliveries I can recall, there is something else. Not only did JPMorgan bust down the door and say â??Gimme thatâ?• loud and clear in terms of physical silver this month, I canâ??t shake the feeling that the shorts who did deliver the physical silver struggled a bit in doing so, particularly as the month progressed. I base that on a variety of factors, like spread differentials, warehouse movements – both in terms of physical inflows and by category changes from eligible to registered.

Having already fully described the March COMEX silver delivery period as being the tightest I can recall, instead of simply repeating that, let me add this â?? I donâ??t think the silver market could handle another delivery month as just witnessed. I am sure JPMorgan could buy and take delivery of another 17 million oz of silver many times over, but I canâ??t see the shorts coming up with such quantities easily or even at all. Yeah â?? Iâ??m thinking about the walking dead.

Only because Iâ??ve followed it regularly in the past, am I mentioning that the new short interest report for stocks indicated a slight rise in the short position for SLV, the big silver ETF and a much larger percentage increase in the short position in GLD, the big gold ETF, both as of March 15. In SLV, the short position rose by 1.4 million shares to nearly 12.4 million shares (ounces). In GLD, the short position rose by 3.6 million shares to more than 8.5 million shares (850,000 oz). Simply put, Iâ??m not sure what price implications I can draw from this, so I wonâ??t pretend to do so.

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

The changes in the COT report were surprising, but pleasantly so for anyone with a bullish take on gold and silver. As a reminder, given the strong price action during the report week, I had expected an increase in managed money buying/commercial selling of between 20,000 to 40,000 contracts in gold and 5000 to 10,000 contracts in silver. The actual data indicated an increase in commercial selling of less than 6000 contracts in gold and an actual decrease of 4,300 contracts in COMEX silver.

I am happy to report that this was one of my biggest misses and Iâ??ll try to explain why in a moment. I would also point out I have no reason to doubt the veracity of the report, since there were no unusual price movements on the cutoff day, which sometimes (but rarely so) causes reporting delays. There was no hint of any delays in this report and the numbers look kosher to me.

In COMEX gold futures, the commercials increased their total net short position by a scant 5700 contracts to 129,000 contracts, on a gold price rally of $42, which nearly wiped out the decline in the price of gold since Feb 28. Even though prices have recovered to former prevailing levels, the total commercial short position is now 50,000 contracts less than what it was on Feb 28. Even more remarkable is that despite close to a $120 rally in gold prices since yearend, the headline commercial net short position is, essentially, unchanged. This is flat out bullish on its face, with the only wonder being how this bullish market structure came to be.

The only slightly negative note to the gold COT was that the big 4 did all the new selling, in adding 13,300 new shorts (about what they covered in the previous week). The two other commercial categories went the other way, as the big 5 thru 8 bought back 2700 short contracts and the raptors (the smaller commercials) added 4900 new longs to a net long position now amounting to 27,400 contracts. I think it safe to say that without the concentrated short selling of the big 4, gold prices would have moved significantly higher than they did.

On the buy side of gold, the managed money traders bought nearly 10,000 net contracts, including 9080 new longs and the buyback of 741short contracts. The standout surprise and question is why the managed money traders bought so few gold contracts this week? After all, in the previous reporting week, when the price of gold fell around $20, the managed money traders sold nearly 44,000 net gold contracts. This reporting week, the price of gold rose more than double what it fell last week, yet less than a quarter of the number of net contracts were bought than were previously sold. What gives?

The best explanation I can come up with is the same explanation I had given recently when I also missed guesses of COT positioning in gold by wide margins. Early in the year, I kept predicting big increases in managed money buying/commercial selling in gold as prices rose; but kept coming up way short, as I did this week. Then and now, the reason the managed money technical funds didnâ??t buy as much as I expected in gold was because the 200 day moving average was never penetrated decisively to the upside. You may recall me referring to the great technical hedge fund trader, Paul Tudor Jones, as never buying anything that was below its 200 day moving average, no matter what. Also as a reminder, I am not a true believer in technical analysis, but I am very much a believer in paying attention to what technical traders do or not do.

At the gold price highs of late February, we kissed, but did not penetrate the 200 day moving average. Accordingly, we had some buildup in managed money long positions, but nowhere close to the previous peaks in managed money long positions over the preceding year. Subsequently, the managed money long positions that were put on, were liquidated on the selloff ended a week or so ago. The reason not many managed money long positions have been added in gold is we havenâ??t kissed or penetrated the 200 day moving average (now at $1263), some $15 or so above current prices.

The explanation for why the managed money traders havenâ??t plowed onto the long side of gold is because the 200 day moving average has yet to be penetrated to the upside. In fact, the 200 day moving average has not been penetrated to the upside in gold for just over a year. This is also the reason why the market structure is so bullish in gold, namely, the 200 day moving average will be penetrated at some point. I have absolutely no reason to believe that the managed money technical funds have permanently abandoned the gold futures market. And I have every reason to believe that as and when the 200 day moving average is decisively penetrated to the upside, such buying will commence in earnest. Thatâ??s what makes the gold market structure extremely bullish.

In COMEX silver futures, the commercials reduced their total net short position by 4300 contracts to 93,700 contracts. While I was genuinely surprised there was any net commercial buying, given the near 65 cent rally over the reporting week, I was also genuinely happy to be wrong. I believe the explanation is as I just described in gold â?? the lack of upside penetration in silverâ??s 200 day moving average (now at $18.07). Yet.

By commercial category, all three categories bought in silver this reporting week. The big 4 bought back 800 short contracts, the big 5 thru 8 bought back 400 short contracts and the raptors bought 3100 contracts and flipped a net short position of 400 contracts into a net long position of 2700 contracts.

Iâ??d peg JPMorgan short position to be down to 26,000 contracts, but considering the thousands of contracts the bank has stopped for delivery this month, the effective short position is less and my big move hopes are still intact. As far as my dead men walking premise, the 7 unfortunate ones are still net short 70,000 contracts, no big change for the week.

On the sell side of silver, the managed money traders sold less than the commercials bought, but any selling on such a big up week for price was still unexpected. The managed money traders sold just over 2700 silver contracts, including the sale of 1668 long contracts and the new short sale of 1063 contracts. The managed money long position is now 78,914, not appreciably below a core long position of 80,000 contracts. Again, I was surprised there was any managed money selling.

While the market structures are quite different in COMEX gold and silver, where gold is plain vanilla bullish and silver bearish on conventional interpretation, both look bullish to me, silver for other special reasons, as I hope I have conveyed very recently. But both markets share one potential bullish factor â?? the managed money technical fund buying I expect after the decisive upward penetration of eachâ??s 200 day moving average.

Granted, the potential buying power in gold is much greater in contract terms, given the low current managed money gold long position, than is the potential technical fund buying in silver. After all, the managed money traders would need to add 170,000 long gold contracts to equal their peak position of last summer. Should and as that occurs, it will drive gold prices higher.

At a minimum, the 17,000 silver contracts that were sold by managed money technical fund longs over the past two weeks must reasonably be expected to be repurchased on a decisive upside penetration of silverâ??s 200 day moving average. While the potential buying in contract terms is much greater in gold than it is in silver, there are some very special circumstances in silver that stand out. Among those circumstances is the financial fate of the 7 large shorts, who are collectively short 350 million oz of silver in paper form.

Considering that new managed money technical fund longs would only come into existence at higher prices, the question becomes how much new shorting are the 7 big shorts capable of adding, as well as in absorbing the new margin required to maintain existing short positions. Admittedly, JPMorgan could ride to the rescue of the 7 big shorts in potential jeopardy, by adding aggressively to its own paper short position, same as ever. But please keep in mind that JPMorgan has more physical silver than ever before and its paper short position has been much higher previously, making this an opportune time for JPM to bid adios to its crooked COMEX amigos. In the end, JPMorgan will do whatâ??s good for JPMorgan, all others be damned.

The same bottom line remains â?? bullish on gold for down home COT market structure readings and bullish on silver for a variety of unique factors. At the very least, this weekâ??s surprise readings in the COT report removed much of what would be reason for the commercials to rip prices lower â?? since there was no big buildup in managed money longs, there is no commercial incentive for a big flush out. That doesnâ??t mean the COMEX commercial crooks wonâ??t try to rig prices lower, just that there doesnâ??t appear to be that many contracts to flush.

Finally, in the WTF? Department, I present a Reuters story featuring comments by the recently departed head of the CFTCâ??s Enforcement Division, Aitan Goelman. Mr. Goelman headed the Enforcement Division for years and if memory serves, he was head at the time the five year investigation into silver manipulation was dropped in 2013. In any event, I sent Mr. Goelman every article I wrote during his tenure at the Commission. I never got a reply, but neither did I get an email failure to deliver.

http://www.reuters.com/article/us-cftc-enforcement-goelman-idUSKBN16V1D0

No doubt, Mr. Goelman is correct that much criminal market activity exists that the Commission just canâ??t keep up with due to the lack of capacity to track market data. But the much bigger failure is the lack of enforcement action against illegal market activity where the data is clearly known. Essentially, I base virtually all my allegations of silver market manipulation on the very data that the CFTC publishes weekly and there is no legitimate reason for those at the Commission not to do likewise. To the Commission and staff – stop worrying about what you canâ??t see and start doing something about that which is right in front of you.

Ted Butler

March 25, 2017

Silver – $17.75Â Â Â Â Â Â (200 day ma – $18.07, 50 day ma – $17.53)

Gold – $1245Â Â Â Â Â Â Â Â (200 day ma – $1263, 50 day ma – $1224)

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