

Prices of gold and silver fell this holiday-shortened trading week, with gold ending late Thursday down \$22 (1.6%) and silver ending down 23 cents (1.4%). As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in by a quarter of a point to 81.1 to 1, still at near record undervaluation levels for silver. If there has ever been a previous time in which more articles have pointed to silver's severe undervaluation to gold and the likelihood that it will go on to outperform gold than presently, that time is not known by me.

What's most remarkable is that the majority of the silver-is-cheap-relative-to-gold commentaries rarely identify the cause of silver's undervaluation – COMEX futures market positioning. Instead, there is wide discussion of everything under the sun, from supply/demand circumstances to future economic developments used to explain why silver is priced so cheaply compared to gold. I've even read how the silver/gold price ratio foretells future economic activity. Once you see this entirely as a COMEX paper positioning production, those other explanations sound silly to the point of being absurd.

As yesterday's Commitments of Traders (COT) report demonstrates, the prices of silver and gold have been solely determined by the paper trading games on the COMEX, centering on the activities of the managed money technical trading funds and those traders continually taking their lunch money and more. That there were no big surprises in yesterday's report is testimony to how the game is played and prices are set. I'll get to the new report in a moment.

The four-day turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 3.3 million oz, as total

inventories rose by 1.5 million oz to 260.5 million oz. This is yet another 20+ year record and is now only 25 million oz shy of the record 285 million oz seen early in the 1990's. I report on this regularly for a number of reasons, but the actual level of COMEX silver inventories has little, if anything to do with price. The physical turnover and JPMorgan's growing physical stockpile of silver have everything to do with the prospective price of silver.

This week, another 0.6 million oz of silver came into the JPM COMEX warehouse, increasing its silver stockpile there to a record 139.7 million oz. Over the past few weeks, JPMorgan has brought in about 4 or 5 million oz into its COMEX warehouse that I wasn't expecting, reinforcing my feeling that it has possibly accumulated many more total physical ounces than the 700 million I allege. I mean, if JPM is still accumulating physical silver in the most transparent means possible, in its own COMEX warehouse, doesn't it stand to reason it is also doing so in means not as transparent, like share to metal conversions in SLV?

The first two delivery days in the traditionally large COMEX April gold futures contract have been somewhat underwhelming in that a relatively low 551 total contracts have been issued and about 2200 adjusted contracts remain open. It is notable, of course, that JPMorgan is the second largest stopper with 188 gold contracts stopped in its house account, just behind HSBC which stopped 234 contracts in its house account. This makes the rest of the delivery month potentially interesting.

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

I know I don't make near as big a deal out of it as I should, but I am convinced that JPMorgan has amassed an enormous amount of physical gold over the past five

years, amounting to 20 million oz or so. In dollar terms this is much more money (\$26 billion) than the \$14 billion JPMorgan has spent on the 700 million oz physical silver ounces it has accumulated; but the real achievement and extraordinary profit potential for JPM is its epic physical silver accumulation. I also fully confess (out of concern for my fellow man) that I don't broadcast JPMorgan's physical gold accumulation for fear of some people's heads exploding.

The changes in yesterday's COT report were largely expected, if a bit larger in gold than I predicted. As a review, the reporting week ended Tuesday feature sharp price rallies of as much as \$45 in gold and 60 cents silver, following a reporting week featuring the finest in salami-slicing to the downside and big improvements (managed money selling), particularly in silver.

I know this is like being close up at a tennis match with heads snapping in direction in order to follow the ball. The ball in this case is the price and lower prices mean managed money selling, while higher prices mean managed money buying. Check that – managed money buying causes higher prices, managed money selling causes lower prices. That's the problem – managed money positioning, as well as the positioning of those traders feeding off the managed money traders is what sets and determines the price. This is not how gold and silver prices should be set, according to US commodity law.

Getting back to this week's report, the sharp rally in gold in the reporting week also penetrated decisively to the upside the one key moving average (the 50 day) that gold had slipped below in the previous week. This just about guaranteed significant managed money net buying which I estimated to be around 40,000 contracts. As it turned out, the managed money traders bought just over 50,000 net contracts, well

within the cone of expectations by the horseshoe and hand grenade tossing standards of accuracy used (although the commercials sold even more than that).

In silver, I was hoping for a slight improvement or no increase in managed money buying because the silver price rally hit, but did not decisively penetrate its key moving averages before falling back into the cutoff day. As it turned out, there was slight managed money buying of less than 1600 net contracts, with the commercials selling a bit more than that. In essence, we got a significant deterioration in gold and not much change in silver, very much along the lines of what was expected.

In COMEX gold futures, the commercials increased their total short position by 59,100 contracts to 226,400 contracts. This is the largest (least bullish) total commercial net short position in two months and the subsequent selloff in gold since the Tuesday cutoff is clearly the result of the deterioration in market structure in the current report. Anyone seriously interested in what moves gold (and silver) prices not focusing on the changes in the COT report is seriously misinformed.

By commercial category in gold, the four largest commercial shorts added a hefty 24,100 short contracts and the raptors (the smaller commercials away from the 8 largest traders) sold off an even heftier 35,500 long contracts, reducing the raptors' net long position to 26,300 contracts. The big 5 thru 8 bought back 500 short contracts to round off the commercial net selling equation. It's rarely a bullish sign when the biggest shorts add to short positions and that became obvious before this trading week came to an early end.

On the buy side of gold, the managed money traders bought 50,348 net contracts, comprised of 34,928 new longs and the short covering of 15,428 contracts. In addition, there was a notable increase in the number of managed money traders (21)

moving onto the long side and abandoning the short side (10), all likely incentivized by the upward moving average penetration. Undoubtedly, many of these trades were reversed on the downward penetration of gold's 50 day moving average on Wednesday and Thursday, but it's hard for me to imagine all this week's managed money buying has been reversed into Thursday's close. Accordingly, the market structure in gold must be considered to be no better than neutral through Thursday's close and leaning towards the bearish side.

In COMEX silver futures, the commercials increased their total net short position by 3600 contracts to 7,400 contracts. Despite the increase in total commercial selling, this is still among the lowest (most bullish) commercial short positions in history. And were we to get a COT report as of today, based upon trading since the Tuesday cutoff, I would expect that report to be the most bullish in silver ever. Therefore, the stark dichotomy between the somewhat bearish market structure in gold and the stunningly bullish structure in silver continues.

By commercial category in silver, the big four only increased their net short position by less than 300 contracts, while the big 5 thru 8 added 800 shorts and the raptors sold off 2500 long contracts, reducing their net long position to a still near-record high 70,700 contracts. I'd continue to peg JPMorgan's short position to be 21,000 net contracts or close to the lowest it has been in some time. I'm looking forward to next Friday's Bank Participation Report in the hopes of calibrating JPM's short position more precisely.

Make no mistake, the combination of JPMorgan's low COMEX paper short position and massive physical long position leaves the crooked bank the most exposed it has ever been on a true net long basis (to the tune of 600 million net ounces). What this

means in practical terms is that it has never been better for JPMorgan to let silver rip to the upside. Whether JPM permits the price of silver to rise or decides, once again, to cap any rally with new and highly manipulative additional short sales remains to be seen. In a nutshell, that's all one needs to know about silver at this point – the entire game, set and match.

The managed money traders bought a fairly inconsequential 1569 net contracts of silver, consisting of the sale and liquidation of a further 611 long contracts as well as the buyback of 2180 short contracts. This pushed what remains of the core non-technical fund managed money long position down to just under 32,000 contracts, yet another bullish new low. The managed money short position of 66,252 contracts as of Tuesday is second only to the previous week's all-time largest and most bullish short position ever.

As was the case in gold, a significant number of managed money traders (11) fell off the short side, having entered onto the short side the previous week. I can't help but conclude that the managed money trader who entered into the ranks of the big four shorts is still holding as short as it has been, also nothing but bullish in my eyes.

There was some unusual net buying by the smaller non-reportable traders in silver this week of nearly 4800 contracts that may be attributed to the growing awareness of just how extremely bullish has become the silver market structure and smaller traders' reaction to it. However, I'm not inclined to place high importance on what the smaller traders do, as this is still very much a managed money/commercial affair.

In trading since the Tuesday cutoff, it's hard for me to see how we are not at new all-time bullish extremes in the silver market structure, based mainly on the sharp

selloff on Wednesday and fresh new intraday price lows on Thursday. Perhaps it's not saying much new at this point, but the real story remains the absolutely, positively extremely bullish market structure in silver and a market structure in gold far from bullish. That's been the story for months and there's an easy explanation for why silver's structure is very different than gold's.

A quick glance at any simple chart will show that silver has traded consistently below both of its key moving averages (the 50 and 200 day) for two months now, while gold has just as consistently traded above its key moving averages for more than three months. In a somewhat sane world, this wouldn't seem to matter much for world commodities, as the margin of price differences by which silver has traded below and which gold has traded above their respective moving averages couldn't possibly be considered earth shaking. Again, that would be the case in a somewhat sane world.

But in the world which we do live in today, trading slightly above or below the inescapable and completely mechanical moving averages is all that matters in silver and gold and many other commodities and financial markets. That's because the managed money technical funds consider mechanical moving average levels and penetrations to be the most important factor in deciding whether to be buyers or sellers. Further, because the COMEX managed money traders have evolved into being the single most influential trading category of all, what's important to them is all that matters. And that includes whatever the actual supply/demand fundamentals or any other factor away from the moving averages may be. Finally, it is because outside general investors have flooded the managed money traders with hundreds of billions of dollars with which to trade that such large price-setting positions are reflected in the COT report. However, the story doesn't end, but only starts at this

point.

The true masters of the financial universe, including JPMorgan and other banks and financial institutions, are more well-versed and knowledgeable of how the managed money traders operate than any of us can hope to be, as it is what they do for a living. JPMorgan and the other commercials know what it takes to get the managed money traders to buy or sell and what it takes is pushing prices above or below the key moving averages that the managed money traders worship. So whenever the commercials wish to sell in large quantities, they know they must push prices above the key moving averages and set off managed money buying. The same applies when the commercials wish to buy large quantities of silver and gold contracts, only in reverse – first pushing prices below the moving averages.

The commercials and JPMorgan in particular, have wanted to buy large quantities of COMEX silver contracts and they have done just that by making sure silver prices have stayed below the moving averages which has prompted managed money selling in record amounts, as documented in COT reports. Now that the commercials have bought and the managed money traders have sold record amounts of COMEX silver contracts, the game is not close to being over, rather it is just about to begin.

Sooner or later, the last silver contracts that could possibly be sold by the managed money traders will be sold and at that point silver prices will begin to move higher. The whole purpose behind noting when record historical positions have been bought or sold by the managed money traders is the likelihood that the price tide is about to reverse and move the other way. That's where we are right now in silver. It is the record managed money short position in silver that means the price tide is about to turn upward because once the technical funds are done selling, all they can do is

buy. At that precise and certain point, once the technical funds start to buy, a special dynamic may kick in, the same dynamic I have referenced frequently in the past and which has yet to occur.

The dynamic of which I speak is whether JPMorgan, specifically, chooses to add new short positions on the next silver rally. Although this extremely corrupt financial institution has always chosen to add to its COMEX short positions on every stinking and failed silver rally over the past ten years, past is not always prologue. One of these days, the crooks at JPMorgan may not add to its COMEX paper short position and the resulting silver rally will be unlike any rally any of us has experienced.

Admittedly, I have foretold this story on countless times in the past, only to see the crooks at JPMorgan add to its COMEX short positions and kill every subsequent rally. Yet I also know that the time has never been better than it is now for JPM to abandon its old and crooked ways. By virtue of its massive and never larger physical silver position and its relative very small COMEX paper short position, JPMorgan stands to make the most ever should it decide not to sell aggressively short on the next silver rally. And, who knows, maybe it is just possible that JPM is getting tired of being called, openly and unabashedly by me, crooked in its silver dealings. How about I promise to stop calling JPMorgan crooked if they stop being crooked?

While there is always room for even more managed money selling in silver on still lower price slices to the downside, there can't be great room to the downside. Gold has much more potential room for managed money selling, but considering the massive amount of managed money selling in silver to this point, I'm not sure if a sharp drop in the price of gold could persuade many more managed money traders to sell in silver. The silver market structure is now beyond being white hot bullish,

although I'm not sure which color that would be.

On a housekeeping note, I've switched over to the June COMEX gold contract for closing price purposes, which adds about \$5 to the price. A blessed Easter and Passover to all.

Ted Butler

March 31, 2108

Silver - \$16.35 (200 day ma - \$16.77, 50 day ma - \$16.65)

Gold - \$1330 (200 day ma - \$1294, 50 day ma - \$1332)