Weekly Review

While a late Friday afternoon rally moderated the week's losses, gold and silver prices fell for the week, ending silver's longest string of consecutive weekly gains at nine. For the week, gold ended $23 (1.8%) lower, while silver finished down by 35 cents (1.9%). Therefore, the math dictates that the silver/gold price ratio remain close to unchanged at just over 68.5 to 1, but that seems somewhat remarkable to me given the price pattern this week.

The standout price pattern, of course, was the sudden waterfall silver price decline around noon EST on Thursday, when silver plunged more than 60 cents in the relative blink of an eye. Don't laugh, but I can't help thinking that without those relative few minutes of highly deliberate price setting, the price of silver would have finished at another new high for this move. Yeah, I know – if my late Mom had been Queen Elizabeth, I'd be you know who.

Try looking at it this way a time period that was only a fraction of 1% of the total trading time for the week (no more than one hour out of the 5.5 days of 24 hour COMEX trading) resulted in silver finishing lower, instead of higher for the week. Somehow, that just typifies the whole artificial price-setting flavor of the COMEX.

Fortunately, the dramatic price plunge on Thursday (which came without the slightest hint of fundamental justification) did generate widespread commentary as being another instance of COMEX price monkey-hammering — which it was. But I have to tell you — I'm still scratching my head that none of the stories that I read had one word about who was doing the buying and selling; all were focused on the gazillion contracts dumped on the COMEX all at once. Unfortunately, I believe that because all the stories emphasize the great quantities of contracts suddenly sold, most reading the stories are left with the opinion that the dastardly COMEX commercials (the banks) were the big sellers. That is flat out wrong.

Yes, the dastardly banks did cause Thursday's sudden decline (and every COMEX decline in history), but these sons of guns were the big net buyers, not sellers. The commercial crooks did rig prices lower, through computer price rigging tricks, but strictly for the purpose of setting off technical fund selling (which the commercials then buy). That's the scam, in a nutshell. Because it is always technical fund selling and commercial buying on big down days for price, such down days always improve the market structure, not make it more bearish. I know, I know □ too many of these improving market structure down days and we'll all be broke. Still, it's important to try and understand what's really going on.

While I certainly didn't predict Thursday's sharp selloff, I can't help but be convinced that it sharpened the focus of the new premise I wrote about on Wednesday □ the question about whether the managed money technical funds have wised up to the fact that they have been the pawns in a chess game run by the commercials on the COMEX. A more vulgar, if more modern term for the funds is if they woke up to the fact that they were the banks' b*****s (rhymes with riches). This is the central issue and I'll dig into it later.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses snapped back this week as more than 7.3 million oz were moved, mostly in as total inventories jumped by 4.2 million oz to 188.3 million oz, a fresh 20-year high. There was also new highs hit in the JPMorgan COMEX silver warehouse, as 0.8 million oz were added, making the total silver in that warehouse at 91.5 million oz.

I mentioned on Wednesday that I wasn't surprised to see new metal brought in to COMEX warehouses for delivery purposes and how that indicated tightness to me and not ample availability. In addition to more silver being brought in since then, there has been a paper transfer of 2.5 million oz from the eligible category to the registered category (in the Bank of Nova Scotia warehouse). As you know, I generally dismiss changes in the inventory categories as being meaningful, because no physical movement is involved. But the most plausible conclusion at this time is that the category shifts this week were to make delivery. Given that the actual metal deposits and category shifts appear to be directly related to the current March delivery process and seemed to occur quite late in the process, this COMEX March silver process has taken on an aura of tightness that I alluded to in the past two articles.

In fact, let me go a bit further □ this current March COMEX silver delivery is starting to look like the tightest delivery period I can recall. Remaining open interest in the March (fully-diluted for Monday's deliveries) is still more than 2000 contracts, even after 1763 deliveries have been made over the first 5 delivery days. JPMorgan has stopped (taken) 1092 deliveries for its own account (62% of total silver deliveries), plus another 387 contracts on behalf of a customer(s). Together with its customer(s), JPMorgan has taken nearly 84% of total COMEX silver deliveries this month. Over the past two days, the combined percentage taken by JPM and its client(s) has approached 98% of total silver deliveries.

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

Based upon the way the COMEX assigns deliveries, it would appear that JPMorgan and/or its client(s) holds the lion's share of the remaining 2000+ open March silver futures open interest. Should JPMorgan and its client(s) continue to stop contracts at the rate indicated so far, it will end up with many more than the 1500 contracts supposedly allowed under COMEX deliver rules. You'll remember that JPMorgan first breeched the 1500 silver contract delivery limit in December, when it took in 1550 deliveries for its own account. I suppose that could have been a trial run to see what would happen if it went over the limit and the answer, apparently, was not much. That trial run over, why shouldn't JPMorgan press for even more? After all, aren't rules only for the little people?

There is another new thought I'd like to share with you. Sometimes, I wonder how it is that this silver manipulation and fraud could last as long as it has, in the face of growing attention to and awareness of it. Then I have to remind myself that I, along with all of you, live in a world where the vast percentage of investors (say 99% or so) have no clue whatsoever about the real silver story.

What makes me say this is that here I am, explaining data about COMEX silver deliveries, including providing a public link that shows, incontrovertibly, that JPMorgan is taking, essentially, all the silver it can get its hands on — this month and for every traditional COMEX delivery month for the past 2 to 3 years — and these facts are hardly commented on, even in the world of silver.

However, even more than that, I am struck by the fact that there appears to be no one other than JPMorgan (or its customers) interested in taking silver deliveries — even among those who might compete with the bank, namely, all the other important COMEX traders and clearing firms. The delivery data clearly indicate to me that none of the other COMEX commercials have a clue as to what JPM is up to. If those at the highest levels of the COMEX don't appear to see what's going on, is it any surprise the real story is unknown to those not in the business? And if that doesn't increase the possibility of a double cross, I don't know what could.

I'm going to run through other developments quickly, in order to get to the new COT report and my crazy premise about the technical funds possibly awakening. There were sizable withdrawals from both the big precious metals ETFs yesterday, no doubt related to the sharp, high volume selloff on Thursday. Metal holdings in GLD, the big gold ETF, fell by more than 150,000 oz and by more than 2.3 million oz in SLV, the big silver ETF. Regardless of whether the reductions were due to plain vanilla investor liquidation or as a conversion of shares to metal to evade reporting requirements or some combination of the two, the net result to me seems clear – JPMorgan ended up owning more metal as a result.

The short report for the period ended Feb 28, indicated a sharp increase in the short position of SLV, but along the dimensions of the decrease in the preceding report. This time, the short position in SLV increased by more than 2.8 million shares to 12.7 million shares (ounces) and increased by nearly 800,000 shares in GLD to 6.4 million shares (640,000 oz). In the overall scheme of things, this is not particularly significant at this time and I'm just including it as a matter of reporting continuity.

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

No sales reported yet for March in Silver or Gold Eagles from the US Mint – can't get stinkier than that. The only question is why has JPMorgan backed off from acquiring Silver Eagles, while remaining pedal to the metal In COMEX silver deliveries and SLV conversions? As is usually the case, I can think of a few reasons which would be bullish for the price ahead and none that would be bearish, but I can only judge JPMorgan by its actions, not by what it may be thinking.

https://competition.usmint.gov/bullion-sales/

The changes in this week's Commitments of Traders (COT) Report were along expected lines, given the increase in price during the reporting week, but somewhat on the high side, particularly in gold. Truth is, I had expected much bigger increases in managed money buying/commercial selling in gold before this week, only to be surprised when the deterioration in market structure never materialized. I think it fair to say I may have become a little gun shy in previously predicting much bigger increases in net positioning in gold than occurred, but that hasn't mattered much in the overall scheme of things.

In COMEX gold futures, the commercials increased their total net short position by a hefty 40,300 contracts, to 179,900 contracts. This is the largest total commercial net short position since late November and the largest weekly increase since June. While I believe there has been commercial buying on the gold price decline since the Tuesday cutoff, it's still hard to call the market structure in gold as just reported as bearish; since the commercials are still more than 160,000 net contracts below the high point of their total short position of the summer, as well as only up 60,000 net contracts from recent lows.

By commercial category (and it now appears certain that the largest short traders are all commercials), the 4 largest shorts added 7500 new short contracts, the big 5 thru 8 added 7200 new shorts and the raptors sold a very hefty 25,600 net contracts, putting them back on the net short side for the first time since late November (to the tune of 5900 contracts). What I'd like to know most is whether the biggest shorts were the most aggressive gold buyers on the Thursday and Friday selloff in gold, although not as much as I'd wish I knew in silver.

On the buy side in gold, the managed money traders bought nearly as much as the commercials sold, in buying more than 36,000 net gold contracts, including new longs to the tune of 23,798 contracts and the buyback of 12,406 short contracts. Not to belabor the point, but when gold or silver prices go up, it's always because the technical funds are buying and the commercials are selling, with the opposite occurring when prices fall (as they did after the cutoff). The only question is by how much.

In COMEX silver futures, the commercials increased their total net short position by 5800 contracts to 108,000 contracts. Only on one other week in COMEX history has there been a larger total commercial headline number larger than this week and that was in the COT report for last August 2, when the short position hit 109,100 contracts. Only a mad man would deny the extremely bearish implications of such a large commercial short position, all things being equal. Either that, or that man (mad or otherwise) would have to have a darn good reason for why it may play out other than with silver prices collapsing (as they always have in the past).

By commercial category, the big 4 added 2000 new shorts, the big 5 thru 8 added 700 new short contracts and the raptors (the smaller commercials) added 3100 contracts to a net short position now amounting to 4800 contracts, just under the peaks of last summer. I'd peg JPMorgan's short position to be 30,000 contracts and hope to pin this down in next week's Bank Participation Report. If there is one single factor that concerns me most, from all the remarkable things that have occurred over the past month and a half, it is the 12,000 contract increase in JPM's silver short position. Had JPMorgan not sold the additional 12,000 silver contracts short, silver would have added at least a few dollars more on this rally.

But since I'm convinced there was commercial buying and managed money selling on Thursday's price smash, I'm hopeful JPM got more than its fair share. Also, something that I don't think I've mentioned is the possibility of JPMorgan sidestepping the risks associated with adding to COMEX silver shorts should prices rally strongly, by laying off that risk in OTC markets. If anyone has the skill and ability to buy protection in the form of long OTC derivatives transactions, then surely that would include the market masters at JPM. Hey □ have I ever mentioned that I think that JPM is the big silver crook?

On the buy side of COMEX silver, it was, as to be expected, all managed money buying and then some, as these traders bought more that 7400 net contracts, including new longs of 6323 contracts and the short covering of 1090 contracts. Managed money longs numbered 96,033 contracts as of Tuesday, up 39,000 contracts from the low point of late December (I had estimated at least 35,000 long contracts were added in Wednesday's report).

I think there was managed money long liquidation on Thursday's price smash (it was the reason for the smash), so the question is how much, as well as the all-important corollary question □ how much more managed money long liquidation lies ahead? Will the newly-added managed money longs fold like a cheap cardboard suitcase in the rain and sell on lower prices engineered by the banks (as they always have in the past), or will they hold most of what they just added because they now realize what schmucks they've been up until now? Time will tell, but according to everything I see, that is the only equation that matters.

I have tried to be as objective and accurate as possible in both laying out the premise, as well as fully stating upfront that it could go either way — either the newly-added longs would mostly get liquidated amid silver prices falling fairly sharply (say $2 or more); or not that many longs would end up being sold and prices would soon turn higher. Certainly, no one knows which it will be and that includes me. That said, if I thought there was no merit in the premise that some technical funds may have wised up, I never would have brought it up in the first place.

One thing I didn't mention when I introduced the premise on Wednesday, is that it is not, necessarily, an all or nothing premise. That is, it isn't a case that all 39,000 added longs would be sold or that none of those contracts would be sold. Some of the added contracts could be sold and some not sold. The question, as always, is how much is "some"? I didn't suggest that every managed money technical fund was in on the great awakening and any technical fund not awoken would have no reason not to sell on lower prices. But after those funds sold — then what? I'll tell you what — after all the technical funds that did sell have sold, then there is no reason for prices not to turn quickly higher.

I never said (or would ever say) that silver prices aren't subject to sudden deliberate selloffs, as it will be on those selloffs that we will get to see which it will be a collective technical fund fold or a collective hold. That's why Thursday's price smash is so important. For sure, there was managed money technical fund selling and commercial buying, but how much and, by extension, how much is left to go? If 5000 to 10,000 silver contracts were sold by the technical funds (a reasonable guess at this point), that might mean there are another near 30,000 contracts to go, in which case silver investors will be in for some suffering. If, however, there are few remaining contracts to be sold (because the remaining holders have awoken), then it might be dancing days ahead for silver investors.

All we can do is observe and position ourselves as we see fit. For me, that means sticking it out. Normally and as recently as this past summer, I would be and was frightened out of positions as a result of a COMEX silver market structure every bit as bearish as the current structure. I'd be lying to you if I said I was completely unconcerned about a selloff now, because it concerns me deeply. However, the possibility that the technical funds might collectively hold instead of fold creates a greater personal fear of missing you know what.

I went ahead and made most of Wednesday's article public, as many of you suggested. I was afraid that it might be too technical for non-subscribers, but felt its publication would serve the greater good in spreading the one specific equation in silver that matters most. However, in the large number of comments about the article, there was nary a word of disagreement or questions about the mechanics and specifics of the premise as I presented it. Instead, there seemed to be universal disagreement about my opinion that the silver manipulation was privately run, rather than it being a totally government-run operation.

http://silverseek.com/commentary/has-worm-turned-16375

Human nature being as I perceive it to be, I suppose that means that most subscribers would probably agree with the majority of the commentators on my article that the government(s) are behind the scam and would disagree with me on this. That's fine. Even though I didn't come to my opinion haphazardly, I suppose I could be wrong and acknowledged that up front. But the beautiful thing is that it matters little if you think it's a government run operation or not either a lot more technical funds are going to sell or they are not going to sell and that will determine silver prices ahead.

Finally, I wish to emphasize again that the current tight conditions in the COMEX March silver delivery process, as I perceive them, are separate and distinct from whether the newly-added technical fund long positions stay or go. The two could become intricately connected should the March deliveries fully reflect physical silver conditions elsewhere, but at this point they are remarkable in that they appear to have risen independent of one another.

Ted Butler

March 4, 2017

Silver – $17.99   (200 day ma – $18.00, 50 day ma – $17.22)

Gold – $1235