March 9, 2019 – Weekly Review

A sharp Friday rally turned what would have been a second weekly loss into moderate gains for both gold and silver; with gold ending $4 (0.3%) higher for the week and with silver finishing 10 cents (0.7%) higher. As a result of silverâ??s slight relative outperformance, the silver/gold price ratio tightened ever so slightly to 84.6 to 1; thus remaining in a state of hard to imagine relative silver undervaluation.

The new Commitments of Traders (COT) and Bank Participation reports, now up to date for the first time since mid-December, both confirmed and exceeded expectations, particularly in silver; and included what I would characterize as a very bullish surprise (if Iâ??m reading it correctly). Iâ??ll get into the details momentarily, but first some general comments about futures market positioning in COMEX/NYMEX metals.

I know there are many factors that should influence the prices of gold, silver, platinum and copper (palladium is a separate story), including all aspects of actual supply and demand. But recent data strongly indicate that the only factor that matters in metals pricing is futures market positioning. On Wednesday, I dug into the extraordinary recent positioning changes in COMEX copper and NYMEX platinum futures which, at least to me, fully explain price movement â?? rendering actual supply/demand factors as not relevant. The private speculative betting game between the managed money traders and their commercial counterparties has become the de facto price setting process to the exclusion of everything else.

Whatâ??s wrong with this is that it sends false signals to the world at large. Over many years, copper had gained the reputation as the metal with a PhD in economics. Changes in the price of Dr. Copper was an important element in forecasting future economic activity. That was because copper is used in so many different important industrial applications and because its production was so widespread that changes in its price sent important signals about present and future economic trends. But that was also when changes in actual copper supply and demand determined prices. But that, as they say, was then and this is now. Now, with speculative futures contract positioning determining prices, changes in actual mining supply and industrial demand no longer matter.

The problem with this new price-setting process is that it is completely separate and apart from the â??oldâ?• way of pricing setting by changes in actual production and consumption â?? the law of supply and demand. Now, moving average penetrations are the only thing that matter to the managed money traders and their opposing speculative commercial counterparties. Â But actual copper miners are interested in present and future production costs and actual copper users are interested in the sustainability of actual supply, not arbitrary price points. Simply put, speculative futures contract positioning is creating false price signals that have rendered Dr. Copper into the Nutty Professor. The same goes for other commodities, particularly silver and gold. Preventing and reversing this should be the US Justice Departmentâ??s prime mission.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to just over 4.7 million oz this week, close to the average weekly turnover of the past 8 years. Of course, that amounts to an annual physical movement of near 250 million oz and a total movement of 2 billion oz over the past 8 years. Pretty remarkable turnover for six depositories in and around the NYC metropolitan area. Yet the commentary on this easily documented

physical movement is virtually non-existent. Go figure.

Total COMEX silver warehouse inventories did finally penetrated the 300 million oz mark, ending the week at 300.2 million oz, up 2.1 million oz on the week. There was a tiny 46,000 oz deposit in the JPMorgan COMEX warehouse, bringing the total there to 147.8 million oz. JPMorgan has been the biggest stopper in the March COMEX silver deliveries, taking nearly half of the 4858 total contracts issued this month, mostly for customers (1877 contracts) , but also 509 contracts (2.5 million oz) in its own name. Therefore, further deposits in the JPMorgan COMEX warehouse wouldnâ??t be surprising. As far as the record COMEX inventories being bearish on price, that wasnâ??t the case this week. Moreover, total world visible silver inventories are closer to six-month lows than highs, but I continue to maintain that total silver inventories is just not where itâ??s at when it comes to silver prices.

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

Most definitely, where silver (and other metal prices) is where itâ??s at is in futures contract positioning changes, and that was clearly reflected in yesterdayâ??s COT report. As a reminder, price action for the reporting week ended Tuesday was classic as far as expecting significant managed money selling and commercial buying in both COMEX gold and silver futures. Â After all, the reporting week featured the sharpest selloff in many months in which gold fell more than $40 and silver more than 70 cents, with every day recording successive new lows (salami slices) and with gold penetrating one of its key moving averages and silver penetrating both its key moving averages. Had the report not indicated significant managed money selling and commercial buying, I think I would have hung it up.

I set minimum expectations of 50,000 net contracts of positioning change in gold and came pretty close, particularly in terms of managed money selling (47,312 contracts). Happily, I was also pretty much way under in my 20,000 net contract positioning change prediction in silver, with managed money net selling coming in at 29,906 contracts. Also as expected, there was both managed money long liquidation and new short selling in both gold and silver.

A quick word on predicting COT changes. I notice that more are doing it, although not to the point of precise contract predictions. This is understandable, given the basic premise that the managed money traders buy as prices climb and sell as prices fall. Therefore, the methodology is logical and itâ??s not that difficult to predict in sharp price falls that penetrate key moving averages that there was significant managed money selling. And after doing this for years, if experience doesnâ??t give you a finer sense of the actual quantities changing hands, then youâ??re probably missing something.

Now compare this with the predictions made before yesterdayâ??s monthly employment report. Of the six separate predictions made on CNBC minutes before the report was released, all six were tightly confined to slightly above and below the 200,000 number for job creation. The report came in at 20,000, meaning all six predictions were off by a factor of ten-fold. Iâ??m not at all implying that all six predictors know not of what they speak (although, I suppose thatâ??s possible). What I am saying is that the methodology that goes into the prediction of the monthly employment report is nowhere near as precise as that of predicting the COT report.

Iâ??m not suggesting that I have always been on target in every COT prediction, but I am stating if I regularly missed by a factor of ten, I would have given up such predictions long ago. My point is that the generally accurate predictions are due to the methodology and reasoning behind price movements, not any special predictive skills. And that the generally accurate predictions are a confirmation of what

really sets the price.

In COMEX gold futures, the commercials reduced their total net short position by 45,800 contracts to 114,000 contracts. This is the lowest (most bullish) total commercial net short position in six weeks, since Jan 22. Normally, I wouldnâ??t imagine that a one-week improvement, even as significant as this weekâ??s improvement, would be sufficient enough to completely resolve nearly four months of the market structure deterioration witnessed since the mid-November price lows. But there are aspects to this weekâ??s improvement that has me thinking such thoughts in gold (and even more so in silver).

On Wednesday, I mentioned that in the (last delayed) COT report, released on Tuesday for positions held as of Feb 26, how it was particularly notable that the big concentrated shorts in gold had been large buyers in a disproportionate manner. In that report, the 8 big shorts bought more than 15,500 short contracts back versus overall commercial buying of 6600 contracts, suggesting to me that there was quite a bit of urgency to the short covering of the biggest and most concentrated shorts. Since manipulation is only possible at the hands of large concentrated holders, I sat up and took notice. After yesterdayâ??s report, Iâ??m sitting up even straighter.

Of the 45,800 commercial contracts bought through Tuesday, the 4 biggest shorts accounted for just over 23,000 contracts, an unusually large share of the total commercial buying. And while I just mentioned that the total commercial net short position is the lowest it has been in six weeks, the concentrated short position of the 4 largest shorts is now the lowest it has been in 12 weeks, since Dec 11 (before that is less meaningful because the managed money traders were included in the concentrated short data). My conclusion is that the biggest commercial shorts (think JPMorgan) have made a beeline out of gold short positions, with the most plausible reason being they (it) expect higher gold prices soon.

On the sell side of gold, the managed money traders took center stage by selling the aforementioned 47,312 net contracts, comprised of the sale and liquidation of 28,314 long contracts and the new short sale of 18, 998 contracts. The resultant net long position of the managed money traders, at 31,000 contracts, leaves twice as much room for additional buying as it does for further net selling, based upon recent historical extremes.

In COMEX silver futures, the commercials reduced their total net short position by a resounding 26,000 contracts, to 52,200 contracts, one of the largest one-week reductions on record. But what has me most excited was the change in the concentered short position of the 4 largest shorts, the realm of JPMorgan. While I was delighted to see that the total commercial net short position dropped much more than I predicted, I was absolutely ecstatic at the concentration data, which exceeded even my private and unspoken hopes.

Full confession â?? I go into every COT report, not only with mostly published overall predictions, but also with the private hopes of uncovering something unexpected about JPMorgan, which Iâ??m convinced is the big silver manipulator. Quite frankly, this is why I pay close attention to the concentration data. Very rarely do I uncover something special about JPMorgan, but some past occasions have included its double cross of other commercials in gold last spring and its unusual short covering in silver in the week after the Nov 6 announcement from the DOJ. Unless Iâ??m reading things wrong, this weekâ??s COT report is every bit as consequential.

In addition to the notable short covering in the big 4 gold short position, this weekâ??s concentration

data revealed an even more pronounced short covering by the 4 biggest silver shorts of nearly 17,000 contracts of the 26,000 total commercial shorts covered. I am inclined to attribute the entire big 4 short covering to JPMorgan which would reduce its net short position to the 11 to 12,000 contract range.

This conclusion is highly supported by yesterdayâ??s Bank Participation Report which indicated a reduction in the US bank net short position of nearly 15,000 contracts and no reduction in the non-US bank category over the month to March 5. Please know that the reduction took place strictly in the last reporting week. So unless JPMorgan teamed up with another large US bank short to buy back short contracts to, effectively, double cross the other commercials, JPMorgan acted alone. Iâ??m certainly not speaking from any type of personal experience, but it seems to me that the whole concept of the double cross is to act alone.

The only thing standing in the way of my contention that JPMorgan did all the short covering in the big 4 category is the fact that in the disaggregated COT report, the Producer/Merchant category only indicated a bit less than 7800 contracts of net short covering, while there was net short covering of just under 18,200 contracts in the Swap Dealers category. Heretofore, I had always maintained that JPMorgan was carried in the Producer/Merchant category. However, I am more persuaded by the explicit data in the big 4 short position and the Bank Participation report to conclude that JPMorgan was included in both the Producer/Merchant and Swap Dealer category to reflect the full scope of its commercial activities. An example is the current (and past) COMEX silver delivery period where both JPM and its customer(s) are featured stoppers.

The whole point is that if my conclusion is accurate that JPMorgan truly went out of its way to buy back so many silver (and gold) shorts as indicated in yesterdayâ??s reports, it is hard for me to imagine a more bullish set up. In one reporting week (plus two further trading days on Wednesday and Thursday of lower price lows), JPMorgan may have bought back more short positions in a shorter period of time than I can recall. To be sure, every stinking short contract that these crooks bought back was at lower prices than sold short at, thereby preserving their impossibly perfect trading record established over the past 11 years. Iâ??m waiting for someone (at the CFTC or the DOJ) to contest my observation.

I should point out that while the net short position of the 5 thru 8 largest traders in silver did not change and even increased by a few thousand contracts in gold that may have been due to managed money traders in each selling short enough to enter into the ranks of the big 5 thru 8 shorts. However, this would have no bearing on what the 4 big shorts accomplished this reporting week.

On the sell side of silver, the 29,906 net contracts sold by the managed money traders consisted of the sale and liquidation of 17,762 long contracts and the new sale of 12,144 short contracts. (I actually typed out managed monkey traders initially). As was the case in gold, the less than 18,000 contracts of net managed money longs leaves roughly twice as much potential buying as it does potential selling.

While itâ??s hard to call a 52,200 contract commercial net short position in silver bullish by historical standards, itâ??s easy to call a JPMorgan short position of perhaps 12,000 contracts and one that was more than cut in half in one week as pretty bullish. The equivalent of a 60 million oz paper short position versus a long physical position of 800 million oz still leaves close to three-quarters of a billion ounces as net long. Similarly, the 114,000 commercial net short position in gold doesnâ??t look bearish at all on an historical basis, particularly when considering JPMorgan isnâ??t short any paper gold and holds at least 20 million ounces of physical gold.

The only question is if JPMorgan and the other commercials can buy even more silver and gold contracts. History suggests that if such commercial buying lies ahead, it must occur on lower prices which will induce the managed monkey, no I mean money traders to sell more. Thatâ??s what stands out about yesterdayâ??s sharp rally, namely, that it increases the amount that prices must fall until we get into new price low salami slicing mode again. If the commercials (no, read JPM) intended new low prices, then why the urgency in buying as aggressively as it did over the reporting week?

Plus, I found it interesting that gold was held just slightly below its 50 day moving average yesterday, suggestive of an intent to preserve and postpone more aggressive managed money buying that would have kicked in had the moving average been decisively penetrated. Finally, Iâ??m intrigued and somewhat bewildered by the huge jump in goldâ??s total open interest the past two days, particularly for Thursdayâ??s trading, when total open interest jumped by nearly 22,000 contracts on new price lows (although it could have been due to spread trading).

One of these days (as in â??Alice, one of these days, it will be to the moonâ?•), the phony price setting process will end and JPMorgan will no longer suppress silver or gold prices. While that day is unknowable in advance as far as its timing, it cannot be a gradual occurrence, but must occur violently, and likely without great forewarning. Thatâ??s the reason for close attention to possible advanced tipoffs of the more subtle variety. After silver takes off, weâ??ll all see it clearly.

Ted Butler

March 9, 2019

Silver – $15.36Â Â Â Â Â Â (200 day ma – $15.23, 50 day ma – $15.63)

Gold – $1299Â Â Â Â Â Â Â (200 day ma – $1251, 50 day ma – $1303)

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