May 11, 2019 – Weekly Review

Gold and silver prices continued to part ways, with gold finishing the week $8 (0.6%) higher while silver ended 17 cents (1.1%) lower and at fresh year-to-date weekly price lows. Silver has finished lower in six of the past seven weeks, bringing new meaning to the term salami slicing. As a result of silverâ??s pronounced underperformance, the silver/gold price ratio has widened out to just over 87 to 1, just about the cheapest silver has been relative to gold in more than a quarter century. I was in my 40â??s the last time silver was this undervalued relative to gold.

As for why silver is so cheap (as is gold on an absolute basis), look no further than futures contract positioning on the COMEX. I promise you that will may go mad if you try to find fundamental factors accounting for the extreme low price of silver, because none exist â?? actual silver production is down and demand is up.

What does exist is ironclad proof that speculative positioning on the COMEX is solely responsible for silverâ??s depressed price and the fact that the biggest speculator of all, JPMorgan, has been nothing short of masterful in rigging prices lower for the express purpose of buying as much silver (and gold), in every form possible, than anyone could previously imagine. And while silver price action is enough to make one sick, the positioning responsible for sick price is bullish to the extreme. Iâ??ll get to the details which confirm this statement in a moment.

But the complete control that speculative derivatives positioning has on price has become so glaring so as to become almost irrefutable. Yet shockingly, all seem to see it except those most responsible for doing something about it. Hereâ??s something I would ask you to think about. You hear me going on and on about how the price discovery process is all screwed up because the COMEX futures market in gold and silver is dominated by speculators (in the form of managed money technical funds) on one side versus speculators (in the form of banks) on the other side. So large is this purely speculative paper trade that it sets the price for all gold and silver throughout the world. Because there is little to no actual participation by actual users or producers (miners) in COMEX futures trading, there is little to no legitimate hedging going on â?? which is the prime reason why congress authorized futures trading in the US.

Yet here is a speech just given by the chairman of the CFTC, extolling the virtues of the risk transfer mechanism of futures trading. But I donâ??t know what risk transfer mechanism he is referring to, since there is no legitimate hedging going on by actual gold and silver producers or users on the COMEX. Is he referring to the money consistently taken by the banks from the technical funds as the transfer of risk? Is that what he means by risk transfer? Is he looking at the same markets that I am looking at?

https://www.cftc.gov/PressRoom/SpeechesTestimony/opagiancarlo72?utm_source=govdelivery

This is a really basic point that the CFTC refuses to even address, namely, how can markets completely dominated by speculators on both sides of the market come close to meeting the meaning of why regulated futures trading is allowed? With no real users or producers hedging in COMEX gold and silver, what legitimate risk transfer is occurring? Even though this is hardly a trick question, I doubt any answer will be forthcoming from the chairman or the agency.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 4.1 million oz this week or 213 million oz on an annualized basis, a bit lower than the weekly average over the past 8 years. Still lost in the blizzard of physical silver moving in and out of the COMEX warehouses is the reason the movement exists, namely, to allow JPMorgan the opportunity to skim off a decent chunk of the 2 billion oz so moved over the past 8 years.

Total COMEX silver inventories fell slightly, by 0.2 million oz for the week, to 307.5 million oz, just a titch below last weekâ??s all-time record high. The amount of silver in JPMorganâ??s COMEX warehouse remained unchanged at 150.6 million oz, but Fridayâ??s transfer of 3 million oz from registered to eligible underscores JPMorgan controlling at least an additional 50 million oz (most likely more) in other COMEX warehouses in addition to what it holds in its own warehouse. JPMorgan has been machine-like in its accumulation of physical silver (and gold) and what is most remarkable is how few seem to notice what has to be the most important reason behind the 8 year suppression of price. This also happens to be the most bullish factor for future prices.

Not much new to report as the May COMEX silver deliveries wind down, as JPMorgan has taken a total of 1552 contracts (7.7 million oz) of the 3360 total issuances. Customers of JPM have stopped 914 silver deliveries and the bank has stopped 638 contracts in its own name or 46% of total deliveries.

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

The total open interest in COMEX gold futures has surged over the past few days, by more than 40,000 contracts since Tuesday, and the prime reason would appear to be the initiation of spread positions. Spreads are the simultaneous purchase of one month and sale of another month of the same commodity. As such, any profit or loss on a spread position comes from the change in the difference in price between the months involved and not from whether the price of the commodity moves up or down.

There has been a noticeable pattern in COMEX gold and silver futures of a dramatic buildup in spread transactions (and total open interest) about a month before a traditional delivery monthâ??s first delivery day until the middle of the month and then a complete liquidation and drop in total open interest into first delivery day as spreads are liquidated. That same pattern seems to be behind the buildup in total open interest in COMEX gold futures at this time. Why such massive amounts of spreads are being established and then liquidated escapes me.

Looking at past recent occurrences, I canâ??t detect any real spread differential changes, so I am at a loss for understanding why this is occurring, as I see no real economic justification for these transactions. There was a tax motivation many years ago for such spreads, but that wouldnâ??t appear to be the case today. In any event, it doesnâ??t seem to have any impact on price, but why it is occurring escapes me.

The positioning changes in this weekâ??s Commitments of Traders (COT) and Bank Participation reports were highly insightful and quite bullish in both gold and silver when looking through the prism of what JPMorgan did. I didnâ??t have any contract predictions, because while prices ended the reporting week largely where they started, there was first a serious dip in gold and silver price over the first two days of the reporting week, followed by a sharp advance last Friday. I knew there was heavy managed money selling early and managed money buying afterwards.

So while the gold COT report featured net managed money buying of close to 9500 contracts, for instance, I sensed many more contracts were sold on Wednesday and Thursday of the reporting week and then bought on Friday and afterward. In other words, while the net change for the week, both in price and positioning change were relatively minor in the end, there were much bigger changes intra-week. The COT report is, after all, a snapshot of positioning as of Tuesdayâ??s close.

Trying to guess what the positioning would look like once the dust settled was too difficult to predict, particularly when considering the recent tendency of the managed money traders to buy and sell much larger positions on smaller price change than usually. I was, as always, keenly sensitive to what JPMorgan was up to and on that score was not disappointed.

In COMEX gold futures, the commercials increased their total net short position by 8000 contracts to 96,400 contracts. While up from lower (more bullish) levels of the past few weeks, a total commercial net short position of around 100,000 contracts is more bullish than anything else on a historical basis. Much more importantly, it appears that JPMorgan worked overtime to buy back gold short positions in the reporting week, even as other commercials sold, in classic double cross fashion. This was borne out both in the disaggregated COT report in the Producer/Merchant category and in the monthly Bank Participation report issued yesterday.

The release of the Bank Participation report is when I recalibrate my estimates of what JPMorgan holds and based upon that recalibration, I must adjust my estimate to what JPMorgan holds net long in COMEX gold futures to 5000 to 6000 net contracts, and not the 15,000 to 20,000 contracts I had been putting out. Simply put, with only a little over 6000 contracts held gross long for US banks, it would be mathematically impossible for JPM to hold more than that by itself (assuming it reports its position accurately, which I do).

Further, the data indicate this past week was when JPMorgan first established its net long position in gold, so my recent conclusions of JPMorgan being net long in COMEX gold futures were premature, even if they turned out to be largely correct as of now (who wouldnâ??t rather be lucky?). I wouldnâ??t fret at all that JPM is â??onlyâ?• 6000 contracts long of COMEX gold futures and not more, the fact that it is long at all is monumental.

Remember, JPMorgan holds at least 20 million oz of physical gold and maybe a lot more. Thatâ??s the equivalent of being long at least 200,000 net COMEX contracts. In either event, futures or physicals, that equates to $20 million for every dollar move in gold and $2 billion for every $100 move in gold. Most emphatically, JPMorgan has positioned itself for higher gold prices.

On the buy side of gold, the managed money traders bought 9471 net contracts, consisting of 7816 contracts of new longs and the buyback of 1655 short contracts. The resultant net long position of 9547 contracts (102,975 longs versus 93,428 shorts), while not as bullish as a net short position, is far from bearish. Moreover, the gold market structure is remarkably bullish, particularly when one considers just how small of a price advance from Fridayâ??s close it would take to flash full-blown buy signals to the managed money technical funds. The 50 day moving average is only $5 above Fridayâ??s close and the 100 day moving average (the last remaining popular moving average) is only $8 higher than Fridayâ??s close.

In COMEX silver futures, the commercials reduced their total net short position by 4700 contracts to 16,700 contracts. This is the lowest (most bullish) level since early December. The reason the commercials increased their total short position in gold, while reducing it in silver is precisely because gold price action was â??betterâ?• than silverâ??s. In the somewhat perverse world of positioning and price, the worse prices behave, the more technical fund selling occurs (or vice versa).

Since price bottoms are defined as when the technical funds have sold as much as they can, it is most bullish when this occurs. It feels absolutely horrid right up until that precise moment, in terms of what it does to price, but once the last technical fund contract is sold, the market structure is at its most bullish. This precise moment is impossible to predict in advance but real easy to observe afterwards.

Of course, itâ??s not just what the managed money technical funds do, but particularly in gold and silver, what JPMorgan does. This reporting week, JPMorgan accounted for all the commercial buying and then some, a truly remarkable achievement. Not only was there net buying of 5464 contracts in the Producer/Merchant (JPMâ??s) category, meaning to me that other commercials actually sold more than 750 silver contracts, the monthly Bank Participation report indicated a reduction in the US bankâ??s net short position of close to 10,000- contracts from the prior month, to the lowest level in nearly 5 years.

When first reviewing the COT and Bank Participation report data, I quickly concluded that JPMorgan may have increased it net long position in COMEX silver futures to 10,000 contracts, but as was the case in gold, I had to adjust JPMâ??s net long position to 5000 contracts, since that was the gross long position of the US banks in the Bank Participation report. So as it turns out, I was bit premature to label JPMorgan as being net long 5000 silver contracts before the new reports published yesterday, but it now appears certain that is JPMâ??s position as of Tuesday.

As was the case in gold, with no COMEX short position, a rarity of notable significance, JPMorganâ??s holdings of physical silver, estimated by me to be at least 850 million oz, its fully exposed to the upside. That means a one dollar move in silver means $850 million to JPM, with a ten dollar move equal to $8.5 billion. As the late Senator Everett Dirksen would say, pretty soon youâ??re talking about real money, even for JPMorgan.

On the sell side of silver, the managed money traders were not the big net sellers to the buyers at JPMorgan, other large speculators and non-reporting traders were the big sellers on the surface, as the managed money traders only sold 401 net contracts. But those net sales were comprised of new longs of 3951 contracts, as well as new short sales of 4352 contracts. The new longs confirm we had reached a washed-out level for those traders motivated by technical considerations, strongly suggesting the new longs were established by non-technically oriented traders interested in value.

The substantial new short selling by the technically-motivated managed money traders was particularly encouraging. Even though the net short position of the managed money traders didnâ??t change much at 14,139 contracts (56,211 longs versus 70,350 shorts), in reality it was just as good as if increased by the 4352 new shorts with no increase in longs. Between the disproportionate buying by JPMorgan, the new gross short selling by the managed money traders was everything I had wished for. These traders have been short more at times (never winning) but the thought that anyone would hold 350 million oz of silver short below $15 boggles the mind.

Of course, the monumental accumulation of physical silver and gold by JPMorgan over the past 8 years is both the explanation for why JPM has suppressed prices and set itself up for the most massive financial score in silver and gold in history. Letâ??s face it â?? something had to account for why gold and, particularly, silver prices have been so rotten in the face of historical price rallies in every other conceivable asset â?? particularly when what drove all other assets higher, money creation, has long been considered the prime driver of precious metals.

I understand that the world of futures and derivatives is incomprehensible to most folks, but it shouldnâ??t be beyond the understanding of the CFTC (and now the Justice Department) â?? particularly when I rely, principally, on evidence from the agency to make the case. Iâ??m not going to re-litigate the case today, but it is nothing short of shameful that the regulators do everything possible to avoid answering simple questions.

Instead, the focus must be on what comes next, now that JPMorgan has positioned itself so masterfully. The question, as always, is whether JPMorgan will sell and sell short in COMEX futures on the next rally, whenever that rally commences. More precisely, will JPMorgan sell in sufficient quantities to cap the next rally, as itâ??s always possible for the bank to sell a little in order to dispel the accusations I make. Selling some, but not truly sufficient quantities of futures contracts to cap a rally might give JPM some cover against such accusations. Itâ??s hard to think like a criminal if youâ??re not one yourself.

But itâ??s easy to marvel at what JPMorgan has achieved in silver and gold, even though it used highly criminal means to do so. Who could have ever imagined that anyone would be so audacious as to be the largest paper short on the largest silver and gold exchange in the world in order to amass the largest physical quantities of each metal in history? Incredibly, even when the criminal achievement has been documented and explained, many, including regulators and law enforcement officials, look away. No one could possibly fabricate such a story, as it, admittedly, defies belief. Yet there is absolutely no plausible alternative explanation that even comes close.

We have to be close to a rally, knowing how close we are to a breakout in gold and silver and the positioning of the managed money traders and JPMorgan. I never would or could rule out further manipulative price jabs to the downside as long as the managed money traders have any selling capacity left. It is a given that JPMorgan will buy as many silver and gold contracts as would be offered for sale. And seeing how JPMorgan is currently holding its largest net long position in silver and gold ever, itâ??s reasonable to contemplate what things will look like on the other side.

Thereâ??s no question we are at an extremely low price in silver as measured by objective relative and absolute metrics. Aside from the near record relative undervaluation compared to gold, as well as the near-universal lack of profits for the primary silver miners, we have just reached the second lowest level of silverâ??s daily 200 day moving average in nearly a decade. Only back in early 2016, did the 200 day moving average get below $15 and when that moving average was penetrated a short while later it unleashed a rally to over $21. By contrast, the 200 day moving average in gold today is $130 higher than it was in early 2016, highlighting just how depressed silver is in price. Finally, the managed money technical funds are more short today than they were in silver back then.

Therefore, all eyes are on JPMorgan and what it will do on the next rally. We know with a high degree of certainty that the technical funds will buy on moving average breakouts in gold and silver and that the commercials will sell into the technical fund buying. What remains to be seen is if the crooks at JPMorgan will join in on the general commercial selling, as sufficient sales from JPM will be needed to cap any price rallies. If JPM sells as it has in the past, weâ??ll get a rally but likely not the big one. If JPMorgan doesnâ??t sell sufficiently, then weâ??re talking about something different entirely.

(On a housekeeping note, Iâ??m embarking on my seasonal return to Maine over the next few days, so there will be no report on Wednesday. Repeat, no article this Wednesday; the next report will be next weekâ??s review on Saturday).

Ted Butler

May 11, 2019

Silver = $14.78Â Â Â Â Â Â (200 day ma – $14.98, 50 day ma – $15.09)

Gold – $1288Â Â Â Â Â Â Â Â (200 day ma – $1256, 50 day ma – $1293)

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