

## May 19, 2018 – Weekly Review

The price of gold fell to its lowest level of the year, ending the week down \$27 (2%) and putting gold negative for the first time in 2018. Silver ended the week lower as well, down 25 cents (1.5%), but that hardly registered since it's been down for so long it sort of felt like up. Silver's relative strength was reflected in the silver/gold price ratio, which tightened in by another half point to 78.5 to 1, close to silver's highest valuation in a few months.

As you know, silver generally performs much worse than gold in sharp price take downs, so one can't help but notice that wasn't the case this week. While I'm still quite cautious about reading too much significance into short term price movements, it's hard for me not to opine that silver's extremely bullish market structure going into this week's decline and its pronounced undervaluation to gold for quite some time are the principle agents for cushioning silver's fall this week. It was three weeks ago when I resurrected my â??dimes to the downside, dollars to the upsideâ?? refrain from long ago and after an immediate 4 dime blast to the downside, silver is back to where it closed when I first re-uttered that phrase.

The price smash in gold on Tuesday, as I reported mid-week, was just what the doctor ordered in terms of providing the one missing link to that point – a decisive penetration of gold's 200 day moving average to the downside. If there was one shoe waiting to drop in gold in 2018 it was a decisive downside penetration of its 200 day moving average. That wait is over. Now it's simply a question of how many COMEX contracts the commercials can persuade the idiot managed money traders to sell from this point, including further long liquidation and new short sales. The new Commitments of Traders (COT) report came fairly close to expectations and suggests the managed money selling is near exhaustion. More in a moment.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled off dramatically this week, as only a bit more than 1.5 million oz were moved, about a third of the average annual weekly movement over the past seven years. Total COMEX silver inventories fell for the first time in weeks, ending down 0.9 million oz to 267.6 million oz, still the second highest weekly total in nearly 25 years. As recently predicted, metal began to flow into the JPMorgan COMEX silver warehouse after a period of inactivity as a result of the bank stopping some 4.2 million oz in the nearly concluded May futures delivery period. Some 300,000 oz came in this week, pushing the JPM warehouse total to 139.4 million oz. If past patterns play out again, we could see as many as another 4 million oz come into the JPM silver warehouse.

Based upon recent delivery statistics, it looks as if JPMorgan may be done taking delivery of additional physical silver contracts this month, having stopped at 851 contracts in its own name. New contracts have continued to be added to the May futures contract on a daily basis, but it doesn't appear that JPMorgan is behind the newly added contracts, either for itself or clients. With more than 6100 contracts delivered in May so far, there is no doubt this has been a heavy delivery month, indicating higher demand than typically. The fact that JPMorgan came into the month after first notice day and now has let up, suggests to me that it took as much as it could without goosing prices; mostly due to demand from others.

There have been some decent deposits and withdrawals from the big silver ETF, SLV, this week which suggests physical demand as well, but it was yesterday's quite large 3.6 million oz withdrawal from SIVR, the world's second largest silver ETF, that stood out. Since this ETF is less than a third the size of SLV, yesterday's withdrawal in SIVR, were there to be a percentage withdrawal in proportion in SLV, it would be well in excess of 10 million oz. There just seems to be a lot of physical silver changing hands or being moved around and it isn't due to weak demand.

Let me jump to the changes in the new COT report which were pretty much as expected in gold and a bit off my expectations in silver, although I was uncertain enough in silver to have refrained from actual contract number predictions. My uncertainty in silver was due to this being another bifurcated reporting week, featuring an early upside test of silver's 200 day moving average, before the decisive downside re-penetration of its 50 day moving average on the Tuesday cutoff .

Gold, on the other hand, had no similar early reporting week upside test and the key feature was the decisive downside blast of its 200 day moving average on the cutoff day. I did put a number on the extent of expected managed money net selling of 30,000 contracts or more, but was quick to add I wouldn't be terribly surprised if it came in less than that for two reasons - either a delay in reporting or due to the managed money traders reaching selling exhaustion. The new report indicated that the managed money traders sold just over 22,600 net gold contracts, well within expectations. We will never know if there was a delay in compiling the numbers, but through yesterday there should have been continued managed money selling on trading since the cutoff.

In COMEX gold futures, the commercials reduced their total net short position by 16,900 contracts to 118,100 contracts (please note that I handicapped the managed money traders and not the commercial headline number, due to the expected buying by the other reportable traders). This was the lowest (most bullish) total commercial net short position since last July, when gold was coming off a price low of close to \$1200 and embarking on two-month rally that would take it to over \$1350.

Likewise, all three commercial categories hit bullish extremes not seen since last July. The 4 biggest shorts bought back 7800 short contracts and raptors bought 9000 new longs, increasing their net long position to 96,100 contracts. The big 5 thru 8 only bought back 100 short contracts, but the resultant short position of the big 4 and big 8 were lower than any time since last July. The lower the concentrated short position, the more bullish it is. The larger the raptor long position, the more bullish that is as well.

On the sell side of gold, the managed money traders sold 22,641 net contracts, consisting of 6252 contracts of long liquidation and the new short sale of 16,389 contracts. As anticipated, the resultant managed money net long position of 18,998 contracts (103, 256 gross longs and 84,258 gross shorts)

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is the lowest net long position since late 2015/early 2016 when gold was coming off a price low of \$1050 and on its way to \$1375 six months later.

Accordingly, such a low managed money net long position must be considered extremely bullish. Price action since the cutoff, as well as potential adjustments from delayed reporting (which the CFTC will never admit) suggest the net managed money long position is lower still through yesterday. Can this position get even lower in the days ahead? Sure, but I wouldn't expect by much (if any).

One question you might be asking yourself is how is it that the total commercial net short position in gold, as well as all three commercial categories can be at bullish extremes not seen since last July, yet the managed money net long position is at bullish extremes not seen in nearly two and a half years? After all, if the COMEX positioning game is as I've long contended, namely, an exclusive contest between the commercials and the managed money traders — then why aren't both groups at their previous bullish extremes of either last July or two and a half years ago?

The simple answer is because other traders have entered into the positioning contest against the managed money technical funds and are now competing with the commercials for a share of the managed money honey pot. As I have been writing for some time, it's not just the explosion of commentary referencing the influence of COT positioning that shows how widely followed futures positioning has become as a price influence; the behavior of the managed money traders is so predictable that other traders are rushing to get a piece of the managed money action. In other words, the commercials no longer have a lock on skinning the clueless managed money traders. Not only can this be seen this reporting week in gold, it can be seen as the explanation for why previous extreme bullish extremes between the commercials and managed money traders no longer coincide.

This week, the commercials bought nearly 17,000 net gold contracts while the managed money traders sold more than 22,600 net gold contracts. In the past, there would have been a much closer contract matchup. But as I pointed out recently, the new "headline" COT number is what the managed money traders do, because traders away from the commercials are increasingly taking on the managed money traders. This week, the other large non-commercial traders bought around 7500 net gold contracts. Clearly, these other traders have joined and are competing with the commercials against the managed money traders.

This is also the explanation for why the managed money net long position is at two and half year bullish extremes, while the commercial net short position is "only" at bullish extremes dating back to last July. And because we're talking in mathematical terms, it's fairly easy to express this in numbers. Back in late 2015/early 2016, the commercials were less net short by close to 80,000 net contracts than they are now, even though the managed money traders are now holding much closer to what they held back then. How to account for the discrepancy?

As the historical data indicate, the other large non-commercial reporting traders hold close to 35,000 more net longs now than they did back then and the smaller non-reporting traders also hold close to 35,000 net gold contracts more now than they did in late 2015/early 2016. The undeniable explanation for all this is that other traders, away from the commercials are picking up whatever the managed money traders are putting down. I would contend that the bottom in gold prices, therefore, will occur whenever the managed money traders have finished selling.

While I believe that to be a completely objective statement that goes to the core of the futures

positioning premise that most determines price, it is necessarily subjective to predict in advance when the last managed money contract will be sold. Subjectively, I think weâ??re there or nearly so, based upon past historical extremes and recent price action. I will admit to being wrong should the managed money traders sell many more gold (or silver) contracts or if the other traders abruptly change what they have been doing. But even in that case any significantly lower price low will only be that much more bullish, so unless one is operating on extreme margin and will lose positions on lower prices, no big problem. And if anyone is operating on extreme margin, they are not doing so at my urging.

In COMEX silver futures, the commercials increased their total net short position by 1000 contracts to 18,100 contracts (I was expecting some small amount of managed money selling and commercial buying and my expectations, while wrong, were not particularly meaningful). More meaningful, however, were the changes by commercial category. The truly big surprise of the silver report was an increase in selling by the 4 largest shorts of 3000 contracts. By contrast, the raptors only sold off 700 longs (reducing their net long position to 64,500 contracts), while the big 5 thru 8 bought back 2700 short contracts (clearly managed money, as opposed to commercial buying).

Based upon an increase of similar proportions of the producer, merchant category of the disaggregated report, I would attribute the entire 3000 contract increase in the big 4 category to JPMorgan. There was also an increase of 3000 contracts in the prior weekâ??s report that I had attributed to JPMorgan; so over the past two reporting weeks, the stone-cold crooks at JPM added 6000 new shorts to a short position now estimated to be 27,000 contracts (135 million oz). That means JPMorgan is still net long 565 million oz when netted out against its 700 million oz physical ownership of silver, but over the past two reporting weeks, it has sold short the equivalent of 30 million oz of silver in the form of COMEX paper contracts.

For someone who had recently speculated (quite incorrectly, I might add) that JPMorgan may have bought back and covered many of its COMEX short silver contracts on that unusual Wednesday rally a number of weeks back, the increase in short selling by JPM over the past two weeks was surprising for a reason apart from my prior expectations. Almost always, JPMorgan has functioned as the silver short seller of last resort; meaning that it adds new short positions after or as other traders are also selling silver, including the raptors and more recently the other traders playing against the managed money traders.

In the past, this has allowed JPMorgan to add short positions after silver prices have rallied enough to penetrate key moving averages to the upside and as the managed money technical funds were buying aggressively. By waiting until other commercials and now other non-commercial traders had sold into managed money buying, JPMorgan has been able to add shorts at the fairly high prices created by the aggressive managed money buying to that point. This has gone a long way to having enabled JPMorgan to achieve and maintain its impossibly perfect trading record over the past ten years (\$400 million worth in silver over the past year alone).

But JPMorgan appears to have broken its very reliable trading profile over the past two reporting weeks by selling additional short silver contracts before the managed money traders bought back aggressively or the other commercials have sold into that managed money buying; with the net result being that JPM has added silver short positions at prices not only below the key 200 day moving average, but also at prices that can hardly be considered high by any stretch of the imagination. What gives?

I'm not sure, but it sure seems strange to me. Please don't take this the wrong way, but I believe JPMorgan is ten steps ahead of everyone else in silver. Having focused intensely and almost exclusively on this crooked bank for nearly ten years, I believe they are still nine steps ahead of me, despite my close scrutiny of the bank. Certainly, I have uncovered not the slightest hint along the way that ever made me question if JPMorgan wasn't the supreme silver crook I purport it to be. Clearly, there is a reason JPMorgan added new silver shorts on the very mediocre rally in silver to date, much earlier and at lower prices it has achieved in the past. Since it is unlikely it will openly announce that reason, I am forced to speculate.

I suppose it's possible that JPMorgan thinks it will be able to drive prices lower still and set off much more managed money or other trader selling, but the already extremely bullish market structure would seem to argue strongly against that likelihood. Plus, even if JPMorgan single-handedly arranged for a sharp selloff in silver, there is no guarantee it would have an unfettered buying opportunity on any managed money or other selling it might generate. The raptors have been even more successful, collectively, than JPMorgan has been in snookering the managed money traders and loaded with large realized profits would be looking to buy as many new longs as would be offered for sale. Then what the heck could JPMorgan be up to?

The most plausible explanation I can conceive is of the somewhat non-economic variety, an area I try to avoid normally. Perhaps JPM has had motive to keep silver much lower than it would have been with its additional silver shorts so that it can buy in other venues, like in OTC dealings or even other commodities, like gold. There's no doubt JPMorgan is massively long physical gold and there is also no doubt that it has reduced its COMEX short position in gold substantially over this time. Silver not exploding would aid in those endeavors. Finally, by adding new shorts in silver, JPMorgan could always claim, should the highly negligent and corrupt regulators ever question why silver suddenly exploded in price, that if it knew in advance that the price would explode, why would it add short positions? As I said, JPMorgan is nine steps ahead of me, but the one step I do know is that it is the big silver crook.

Finishing up on the silver COT report, the managed money traders bought (I was hoping they would have sold) 2870 net contracts, including new longs of 1122 contracts and the short covering of 1748 contracts. The net short position of the managed money traders of 16,613 contracts (49,041 gross longs and 65,654 gross shorts) is still very much extremely bullish, save for some even more extreme readings over the past month or so. Were it not for the recent off-the-chart readings, the current readings in silver are so extreme so as to defy description.

Whereas it could be argued that the managed money net long position in gold has some slight room before it hits the all-time extreme levels of late 2015/early 2016 that preceded the \$300+ rally over the following six months; the managed money net short position in silver is much better now than it was then and that previous setup led to a \$6+ rally in silver back then. Silver's been locked and loaded for a rally of historic proportions for some time; now that gold has joined in on the extremely bullish

market structure bandwagon, I can see no obvious reason for an impending joint rally not to begin forthwith. And I would also add platinum as well as palladium and copper to the pending rally, based upon COT positioning.

On a housekeeping note, I plan to take my seasonal trek back to Maine tomorrow and am anticipating a slow and wet slog judging by the weather forecasts. Therefore, I can see no way that Wednesday's report will be published by the normal 3 PM EST time usually sent, or perhaps not even later that day. I will get something out by Thursday at the latest.

Ted Butler

May 19, 2018

Silver – \$16.45 (200 day ma – \$16.80, 50 day ma – \$16.53)

Gold – \$1292 (200 day ma – \$1308, 50 day ma – \$1326)

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