Gold and silver prices rose for a second week, with gold ending $27 (2.2%) higher and with silver up by 40 cents (2.4%). As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in a bit to 74.5 to 1. With gold having penetrated its key moving averages to the upside and silver not even coming close, it sure didn't feel like silver outperformed gold this week, but just like dead men tell no tales, the numbers don't lie.

Not to beat around the bush, the standout feature in silver (and gold) this week was another spectacularly bullish Commitments of Traders (COT Report. The numbers are simply astonishing, especially to someone who "cut his teeth" on COT analysis nearly 4 decades ago (soybeans first, silver later). While both silver and gold featured impressive improvements (managed money selling and commercial buying), gold was more of a surprise, even if the results in silver were more stunning.

Since I spent quite some time on Wednesday, very much deeply in the weeds, speculating about a potential large increase in managed money short selling in silver and that is exactly what occurred, I can't call the new silver COT report surprising. But in no way do the results make the new report any less stunning. Since I'm doing this report on the run, you might want to review Wednesday's comments on a potential increase in managed money shorting.

I'll run through this week's turnover or movement of physical metal brought into or taken out from the COMEX-approved silver warehouses briefly. This week, 3.8 million oz were physically moved, mostly in, as total COMEX silver warehouse inventories rose to another 20 year high, up by 2.8 million oz to 201.3 million oz. While I would expect some attention will be placed on the increasing total inventories, I would submit the totals mean next to nothing and the movement everything

The real story on the COMEX silver inventories over the past six years has been the incredibly high weekly turnover and JPMorgan's hogging of physical silver via COMEX deliveries. While no silver has moved into its COMEX warehouse over the past two weeks, JPM still holds more than half the total inventories, or nearly 108 million oz. Not to jump ahead, but this week's COT report suggests that JPM's paper short position is only 15,000 contracts or 75 million oz, making the bank more net long silver than ever – on COMEX warehouse holdings alone. (75 million paper oz short versus 108 million physical oz long).

It is simply stunning how this stone cold market crook and manipulator could get big net long on COMEX inventories alone, right in front of our eyes. You can forget completely my contention that JPMorgan has accumulated another 500 million oz of physical silver apart from its COMEX holdings (a total of 600 million oz) for the purpose of seeing that the bank has nothing to fear on exploding silver prices. But if you do leave out the more than half a billion oz JPM has acquired over the past six years, you would be missing the key feature in silver today.

On to the COT Report. I wasn't sure what the gold report would show, since prices rose every day in the reporting week ended Tuesday, although they remained below key upside moving average penetrations. Plus total open interest only rose by 2000 contracts over the reporting week. Therefore it was a bit of a surprise that the managed money traders sold and the commercials bought as heavily as they did.

The total commercials reduced their net short position in COMEX gold futures by 21,600 contracts to 142,900 contracts. This is the lowest (most bullish) commercial short position since March 21. By commercial categories, the big 4 bought back

12,000 short contracts, the big 5 thru 8 shorts bought back 5600 short contracts and the raptors added 4000 new longs to a net long position now amounting to 16,300 contracts. Over the past three reporting weeks, the big 4 bought back 36,000 gold shorts, always a bullish sign.

On the sell side of gold, the managed money traders sold a hefty 30,000 net contracts, including the long liquidation of 19,325 contracts and the new short sale of 10,769 contracts. This was the standout surprise of this week's gold report, since the technical funds generally don't sell on rising prices. That they did this time seems undoubtedly related to the discussion on silver where I speculated that technical funds were selling as long as prices remained below the moving averages, which was the case through Tuesday's cutoff.

Since gold prices did penetrated the moving averages starting Wednesday, I would expect there has been technical fund buying in the new reporting week, although not to the 60,000 contract estimate I opined on Wednesday. Bottom line – as a result of the bullish results in yesterday's report, even allowing for a deterioration since the cutoff in gold, as of yesterday's close, I would imagine the market structure in gold is more bullish than neutral, but certainly not bearish.

In COMEX silver futures, the commercials reduced their total net short position by a hefty 11,900 contracts, to 57,300 contracts. This is the lowest (most bullish) reading in more than a year – back to Feb 2, 2016. From the largest (most bearish) commercial silver short position in history, barely 4 weeks ago, silver's market structure is now the most bullish in almost a year and a half. Simply stunning – never has there been such a turnaround in history and only the most naïve would think this was coincidental or free market derived in any way.

By commercial category, the big 4 bought back 3300 short contracts which reduced the most concentrated short position to its lowest level in more than a year. The raptors were the biggest buyers as they added 12,000 new longs to a net long position now amounting to 31,300 contracts, the most since Jan 2016. The big 5 thru 8 added 3400 new shorts, but it looks clear that it would be wrong to classify the new big 5 thru 8 traders as commercials, as at least two managed money traders are large enough short to enter the big 5 thru 8. The point here is that the true concentrated net short position of the big 8 is much less commercial than it usually is. This is also bullish.

I would peg JPMorgan's paper COMEX short position to have dropped by 3000 contracts to 15,000 contracts, close to the lowest level the bank has held since taking over Bear Stearns nine years ago. Like everything else about the silver market structure, this is wildly bullish and perhaps the most bullish factor of all. Over the past 4 reporting weeks, JPM has reduced its silver short position by 19,000 contracts, an amount equal to 95 million oz. I would submit that if there was one single explanation for the silver price drop over the past 4 weeks, it was due to the desire and ability of JPM to reduce its paper short position by as much as it did.

On the sell side of silver, it was all managed money shorting, as these traders added an incredible 16,158 new short contracts. The total managed money short position is now 51,020 contracts, exceeded only once before (in 2015). In terms of bullish buying fuel to come, think nitroglycerin. The long position of the managed money traders increase slightly, by 904 contracts to just under 69,000 contracts. As such, there is no need for me to revise the core non-technical fund long position lower than the 68,000 contracts offered recently.

The most astounding feature of the past 4 reporting weeks is that the managed money traders have sold more than 78,000 net contracts over this time, including long liquidation and new short selling, the equivalent of 390 million ounces or 45% of world annual silver mine production. I would submit that no other market could possibly experience a sale of similar proportions. Rather than offer example after example, let me narrow the field down to one other commodity; the commodity most compared to silver, gold.

With world annual gold mine production at the 100 million oz level, should anyone attempt to sell the equivalent of 45% of that amount in 4 weeks on the COMEX, it would amount to 450,000 COMEX gold contracts. This happens to be close to the total open interest in COMEX gold futures and for any one trading category to sell that many net gold contracts in 4 weeks would be impossible. Should such a sale take place, I would estimate gold would fall many hundreds of dollars in short order.

Yet that is exactly what took place in silver over the past 4 reporting weeks and the wonder is – why didn't silver fall much more under those circumstances than the $2.50 or so it did fall? The answer is simple – because there were strong buyers scooping up every managed money silver contract that was sold. And as I've explained recently, the COT data show that the commercials have bought most, but not all of what the managed money traders have sold in silver.

Of the more than 78,000 COMEX silver contracts sold by the managed money traders over the past 4 reporting weeks, the commercials have purchased just under 60,000 contracts, with JPMorgan accounting for 19,000 contracts of that total. More than 18,000 contracts were purchased by other non-commercials, mostly the large non-managed money reporting traders and the small non-reporting traders. In fact, the latest COT report indicates that the large reporting traders (the non-managed money type) now hold their largest net and gross long position in history.

Why are so many traders, commercial and non-commercial alike, buying so many COMEX silver contracts? This is no trick question, as the obvious answer is that the buyers think they will make a buck and perhaps a very large buck at that. The only real question is why in God’s world would the managed money traders sell silver so aggressively at this time? I claim it has been a world-class snookering. I don’t know what took place behind the scenes between the commercials and the technical funds that resulted in the record selling of silver futures over the past month, but it surely wasn’t a case of the technical fund sellers outwitting the commercials or the other aggressive silver buyers

After all, someone is going to come out a big winner and a big loser as a result of the record positioning in silver over the past 4 weeks and if the technical fund sellers outwit the buyers, including JPMorgan, then the world will have truly gone mad. We can argue about whether JPMorgan will add to silver short positions on the next rally, but no one would advance that JPMorgan is about to lose big on a drop in silver prices in which JPM turns tail and begins to sell at lower prices. JPMorgan has never lost on the short side; losing on the long side is out of the question. The technical funds short silver have no chance of buying back all their shorts at a profit unless JPMorgan begins to short silver at lower prices, something it has never done.

The crazy thing about my crazy premise of the big silver move being at hand is that it becomes less crazy with every new COT report. I can’t be more bullish on silver than I’ve become very recently, without hyperventilating and getting the shakes.
Hopefully you get the message.

Ted Butler

May 20, 2017

Silver – $16.85 (200 day ma – $17.76, 50 day ma – $17.44)

Gold – $1255 (200 day ma – $1250, 50 day ma – $1250)