# May 25, 2019 – Weekly Review

Gold and silver prices ended a bit higher this week, with gold finishing $7 (0.6%) higher and silver finishing up by 16 cents (1.1%). The gains were hardly ground shaking, as it was only the second week in the past nine that silver managed to finish higher and only after setting fresh year to date lows earlier in the week. Were it not for the prior weekâ??s close, this week would have been the lowest close for silver since December.

As a result of silverâ??s slight relative outperformance this week, the silver/gold price ratio narrowed in by half a point to 88.25 to 1, from last weekâ??s 25 year record undervaluation of silver to gold. Make no mistake, silver is dirt cheap relative to gold. To put how cheap into proper perspective, while itâ??s always possible for silver to get cheaper still relative to gold, any new lows are likely to be on the order of fractions of a point or a few points on the ratio, compared to the bunches of points (in increments of five and ten points) the ratio tightens as silver gets properly aligned in price with gold.

As always, the explanation for silver and gold price movement, along with the price movement of other markets, like crude oil and copper, resides in positioning changes on the futures exchanges run by the CME Group. I notice more and more mainstream media outfits, like the Wall Street Journal, Bloomberg and Reuters commenting about speculative positioning when it comes to explaining big price moves, but one thing that still remains conspicuously missing in the growing attention is the actual effect of futures market positioning on price.

Whatâ??s missing is the inescapable conclusion that the excessive futures positioning has grown so large, compared to the size of real world production and consumption, that it is impossible that futures positioning is not setting prices. And therein lies the source of my greatest frustration because itâ??s so darn simple. Of course, the larger market – derivate or host physical â?? will set the price to the smaller market and the hard data (from the CFTC) clearly indicates the futures derivatives market has come to be much larger than the host physical market. Â This is particularly true when the managed money technical funds plow into or out of positions in unison when moving averages are penetrated. Itâ??s hard to see why those writing about the big price moves, while mentioning speculative positioning changes, havenâ??t been able to make the direct connection that the poisoning changes are responsible for the price movements.

Take crude oil for instance, the largest and most important commodity in the world. On Wednesday and Thursday, crude oil price suddenly fell by more than $5 a barrel, or 8%, on a remarkable lack of news to account for the decline. Some 100 million barrels of oil are produced by many tens thousands of individual wells and are, in turn, consumed each day by billions of final end users. There was no sudden variation in production or consumption to account for an 8% price move on production and consumption valued at $6 billion daily and $2 trillion annually.

The only plausible (possible) explanation for the sudden price swoon was that the key 50 and 200 day moving averages were rigged to the downside, setting off strong sell signals to the managed money technical funds on the NYMEX and other futures exchanges. Since the COT report is cut off on Tuesday, weâ??ll have to wait until next Friday to see how much technical fund selling was triggered, but NYMEX trading volume on Thursday was the highest in months. Thus the price manipulation that started in COMEX silver more than three decades ago has spread to the most important commodity market of all, crude oil, and the connection has yet to be made even by those commenting on it for a living. Of course, nothing compares with COMEX silver when it comes to artificial pricing, as Iâ??ll get into momentarily.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this week to 7.3 million oz, as total COMEX inventories rose by 0.8 million oz to 306.1 million oz. This is still close to the record highs set a month ago, but the real story, at least to me, is the physical movement. This weekâ??s movement, on an annualized basis, comes to 380 million oz and I am also shell shocked by no one commenting on such incredibly large and unique to silver physical movement. More than 2 billion ounces of physical silver (in 1000 oz bar form) have been moved in and out from the COMEX warehouse over the past 8 years and Iâ??ve yet to read outside commentary trying to explain the movement, or even noting it. Go figure. No change in the JPMorgan COMEX warehouse holdings this week, still stuck at 150.6 million oz.

The changes in yesterdayâ??s Commitments of Traders (COT) report were extremely close to the predictions published on Wednesday on most counts, but also contained a much larger (and highly welcomed) increase than expected in managed money selling in silver. As a reminder, gold prices sold off by close to$25 and silver by nearly 50 cents in the reporting week ended Tuesday. Therefore, it was expected that there would be substantial managed money selling and commercial buying in both markets. I was hoping for an improvement of as close to as possible of the 40,000+ net contract deterioration the prior week in gold and for a further 5000 to 7500 contract improvement in silver.

In COMEX gold futures, the commercials bought and reduced their total net short position by 29,200 contracts to 107,900 contracts, coming close to negating the previous weekâ??s commercial selling. The overall market structure in gold wasnâ??t bad going into this weekâ??s COT report and is now much better through Tuesday. The sharp rally on Thursday may have resulted in some managed money buying and commercial selling, but not to worrisome levels.

Iâ??m a little unsure how many gold short contracts JPMorgan may have bought back (depending on whether the CFTC allows them to be represented in both commercial categories), but either JPM is still short 10,000 contracts or none at all, In any event, JPM would only be short the equivalent of a million oz in the worst case and compared to the 20 to 25 million physical gold oz I believe it holds, JPM is certainly good to go on a strong price rise.

On the sell side of gold, the managed money traders came much closer to my hopes of what they might sell, as these traders sold 36,609 net gold contracts, consisting of the sale and liquidation of 23,481 long contracts and the new sale of 13,128 short contracts. The resulting net long position of the managed money traders is now down to 15,937 contracts (114,986 longs versus 99,049 shorts). While the managed money traders were net short in gold during 2018 by close to 100,000 contracts more than currently, the current small net long position is bullish on historical readings.

In COMEX silver futures, the commercials bought and reduced their total net short position by 7600 contracts to 5200 contracts. This is the lowest (most bullish) level since Nov 13 and among the most bullish readings in COMEX history. Importantly, JPMorgan appeared to buy back the 2000 long contracts it sold in the prior reporting week, bringing its net long position on the COMEX back to 5000 contracts. (Please donâ??t forget the 850 million physical oz it holds).

While I was feeling pretty good about coming so close on my expectations for commercial buying, I was most happily blown away by the 15,234 total net silver contracts sold by the managed money traders, double my most optimistic projection. The managed money traders sold 4578 long contracts and added 10,656 new shorts. The resultant silver net short position of 29,437 contracts (52,557 long contracts and 81,988 short contracts) is now among the largest managed money net short positions in history, exceeded only by a remarkable and fleeting larger level of mid-2018 (around 20,000 contracts larger).

Some observations about the near-incredible data in silver. First is that the remarkable COT positioning data not only fits the absolutely dismal price action, the data are the only thing that comes close to explaining the rotten price action. Letâ??s face it, there has been absolutely no other reasonable explanation for the wicked price action in silver. Actual production is down, not up and actual demand is up, not down. Sure, plenty of wise guys rattle off all sorts of make-believe reasons for why silver prices are down that seem to make sense only because prices are down. But when you look at the COT data and apply a modicum of common sense and logic, it all should become clear.

Since the price top of $16.20 on Feb 26, the price of silver had fallen by close to $2 as of Tuesday ($14.35). Over that exact same time, the managed money technical funds swung from a net long position of 47,762 contracts on Feb 26 to Tuesdayâ??s 29,437 net short position, selling 77,199 net COMEX silver contracts. Thatâ??s the silver equivalent of just under 386 million ounces sold by purely speculative traders in just under three months.

Over the past three months, all the worldâ??s silver mines (including all byproduct mining) produced about 210 million and ounces and all the worldâ??s silver consumers and investors bought 210 million ounces (including around 20 million oz bought by JPMorgan). Thus, all the actual silver produced and consumed in the world over the past 3 months, basically, netted out and itâ??s hard to see how actual silver production and consumption would have much, if any, impact on price.

But here I come along pointing out, via documented US Government data, how a relative handful of large paper speculators on the COMEX sold and sold short nearly twice as much as what the world produced and consumed on an actual basis and I am scratching my head for why not only the regulators, but everyone else in the world doesnâ??t see why silver prices declined.

Further, when you look even closer and see that the only reason the managed money speculators sold as many silver contracts as they did was because another group of large speculators, led by the biggest speculator of all, JPMorgan, duped and tricked them into selling by rigging prices lower, knowing that the managed money speculators only sell as prices move lower. All told, JPMorgan bought 33,000 net silver contracts or more than 42% of the 77,000 contracts sold by the duped managed money traders. This in addition to all the physical silver JPMorgan bought over the past three months (and eight years before that).

Hereâ??s another observation. Youâ??ve seen me, fairly consistently and reliably, predict prospective changes in upcoming COT reports. Iâ??m not aware of anyone else who does so, even though more study the COT reports than ever. Iâ??m also quick to point out that Iâ??m not really predicting anything in the sense of pondering the future, but only estimating the extent of positioning that has already occurred – a very big distinction. All this points to understanding just what moves prices. If the nitwit managed money technical funds werenâ??t so rigid and mechanical in buying and selling whenmoving averages were penetrated, no COT predictions would be possible â?? Iâ??m an analyst, not a soothsayer.

Moreover, weâ??ve witnessed enough changes in market structure, price and ongoing COT reports over the years to understand that it is the commercials, led by JPMorgan, which are zooming the managed money traders and not the other way around. Therefore, I think itâ??s time to call it as it is as to whatâ??s behind the phony and artificial price setting on the COMEX. This is a clear case of JPMorgan and other banks ripping off the brain dead technical funds for great profit to the banks and great losses to the technical funds, not some elaborate plot by the US Government, a cartel of central banks or the Bank for International Settlement (BIS) to rig silver or gold prices to protect the dollar or some such reason.

Yes, the US Government, in the form of the CFTC, has been negligent as all get out in allowing the COMEX rip off and manipulation to continue because to admit it exists now would result in the agency being legislated out of existence. But thatâ??s a far cry from the dead beat bureaucrats dreaming up the manipulation in the first place and carrying it out all these years. Besides, it has been the nitwit managed money traders which have been the big sellers over the past three months, so unless someone can make the contention that the USG or BIS is backstopping and funding the managed money traders, an officially run manipulation rings hollow, at least to me

The upside to all this, of course, is that the managed money traders always seem to lose in the end whenever they take extreme collective positions, most particularly when they put on extremely large short positions, as is currently the case in COMEX silver (gold as well). One never knows when the last nitwit managed money trader contract will be sold, but itâ??s fairly certain whenever that last contract is sold, it will be bought back at higher prices and at a loss (in the case of short sales). Even if JPMorgan and the other commercials succeed in rigging lower prices and dupe the managed money traders into selling and selling short even more in COMEX silver and gold, it is only a matter of time before the managed money traders rush to buy on higher prices and maybe not much time at that.

For sure and in time, much of the near 82,000 gross silver short contracts held by the managed money traders as of Tuesday will be bought back at some point, at least to the tune of the 57,000 short contracts added since Feb 26. This is the â??rocket fuelâ?• type buying already baked into the equation. In addition, some 20,000 new technical fund longs seem destined to be bought if only to replace the same amount sold and liquidated since Feb 26. Of course, itâ??s also possible for more than the 77,000 net silver contracts sold over the last three months to be bought or attempted to be bought by the managed money traders on higher silver prices.

Thatâ??s why the real question is not how many silver contracts the managed money traders are capable of buying, but how many contracts the commercials and, most particularly, JPMorgan are willing to sell and sell short on a rally. The traders I refer to as the raptors, namely, the commercials apart from JPMorgan and the other few large commercials appear to be capable of selling out the roughly 70,000 net long contracts they hold without having to resort to shorting, something they havenâ??t done in years. But the raptors are generally more interested in getting the highest price on their sales, so even if they do sell big quantities of long contracts, the last contracts to be sold will be at very high prices for silver â?? certainly dollars higher than we are now.

Therefore, we are back to the same old equation of what silver will do is dependent on what JPMorgan does or doesnâ??t do on the next rally. If these crooks donâ??t sell short aggressively enough, silver will fly and if they do sell short aggressively enough, the price will, once again, be capped and the rally will likely fail. Barring Justice Department intervention, all I can do is risk a potential legal hassle with JPMorgan over calling it out as crooked. Iâ??m less worried about a legal blowback now than I was when I first started calling JPMorgan crooked years earlier, but, like you, Iâ??d much prefer JPMorgan cease its crooked ways and not short silver (or gold) aggressively on the next rally. We all should be able to judge which it will be, hopefully in the near future.

Hereâ??s a heartfelt nod of gratitude to all those (and their survivors) who made the ultimate sacrifice in the defense of our country on a most solemn holiday.

Ted Butler

May 25, 2019

Silver – $14.55Â Â  (200 day ma – $14.93, 50 day ma – $14.96)

Gold – $1284Â Â Â Â Â Â  (200 day ma – $1259, 50 day ma – $1291)

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