

May 27, 2017 – Weekly Review

Gold and silver prices rose for a third week, with gold finishing \$13 (1.0%) higher and with silver ending up by 50 cents (3.0%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly 1.5 points to just over 73 to 1. Although this is the most fully-valued silver has been relative to gold in three weeks, the ratio just hasn't changed much over the past couple of years; itself an oddity considering these are two precious metals with important differences. And yes, silver still appears to be crazy cheap compared to gold.

The standout feature for gold and silver this week, as is usually the case most weeks, was the positioning changes on the COMEX, as depicted in the new Commitments of Traders (COT) Report released yesterday. This week, the positioning changes were very much in line with expectations, but contained the typical surprise or two. More than ever, the positioning changes in COMEX futures contracts fully-account for price movement and that's why I've become near myopic in discussing them. But just to assure you that I try to keep an eye on other developments, even if I can detect no serious price influence from them, let me run through a few.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses amounted to just over 4.8 million oz this week, which seems to roughly equate to the average weekly turnover over the past six years. But it would be a mistake to assume such a weekly physical movement, despite being so darn consistent over this time, was in any way normal when compared to other commodities, because it isn't. The fact is that the physical turnover in COMEX silver inventories is one of the great marvels of our time. I say the persistent and frantic physical silver movement derived from the plans of JPMorgan to begin accumulating physical silver starting in April 2011, so that the bank could "skim off" metal for itself. I'm not aware of alternative explanations.

Total COMEX silver inventories declined by 0.3 million oz to 201 million oz this week, still close to 20 year highs. However, this week's average movement and average change in total inventories highlights the pattern of the past six years – lots of movement and not much change in totals. There was a 619,000 oz deposit in the JPM COMEX warehouse, followed by a 336,000 oz withdrawal from that same warehouse, so JPMorgan's total COMEX silver holdings now amount to 108.1 million oz. Six years ago, there were no silver holdings in this warehouse.

<http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notice.html>

Deliveries against the expiring May COMEX silver futures contract featured the highest number of total deliveries (4667 contracts), as well as the distinct pattern of more new futures contracts being added (and delivered against) during the delivery month than at any time in memory. That would seem to make the May silver delivery special.

On the other hand, there were no particular standout issuers or stoppers and JPMorgan continued to stand aside in its proprietary or house trading account. Up until this month, JPM was always the biggest stopper for traditional month COMEX silver deliveries for 2 or 3 years running. Aside from speculating that this means that JPM has acquired most of the physical silver it wants, I am hard-pressed to come up with deeper meanings on the May COMEX silver delivery.

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

The new report on short positions for stocks indicated only a slight reduction in the short position of the big silver ETF, SLV, for positions as of May 15. The short position in SLV fell 438,000 shares to just under 13.5 million shares (ounces). I was expecting a much larger reduction, given big and otherwise unexplainable deposits of metal over the reporting period, but predicting changes in upcoming short reports is among the most difficult of undertakings. Putting all this into perspective does continue to suggest that the total short position in SLV is not particularly significant to the price at this time as the total short position in SLV is the equivalent of 2700 COMEX contracts. The short position in GLD, the big gold ETF, fell a bit more, by one million shares to just under 8.1 million shares (800,000 oz), the equivalent of 8000 COMEX gold contracts.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

Sales of Silver Eagles have picked up this month to 2,155,000 coins (with two days remaining), the most since January, but still far below the average monthly level of the prior six years. I would imagine some pick up in retail demand, but I detect no signs that JPMorgan has returned to buying Silver Eagles. Unless and until they do (not something I expect), it's hard for me to imagine a genuine resurgence in sales of Silver Eagles. That said, sales of Silver Eagles are not necessary for silver prices to rise.

<https://www.usmint.gov/bullion-sales>

As indicated above, the changes in this week's COT report were largely expected. As way of review, whenever I predict expected positioning changes, implicit in the predictions is that there are two headline numbers – the total commercial net short position and the net change in the managed money position. That's because one is essentially the reciprocal of the other. The other trading categories have and do impact positioning changes in the headline numbers, but the whole COMEX scam has largely evolved into a commercial/managed money contest.

When I make a prediction, as I did this week, of a 40,000 contract increase in the total net commercial short position in gold or a 10,000 contract increase in silver, I am also saying I expect net buying of similar amounts by the managed money category. Since it's much harder (near impossible) to predict what the traders in other categories might do, the measure I try to hold myself to is to come as close to what the blended headline numbers show. The most accurate predictions, by my personal measurements, are the ones coming closest to both headline numbers. The best prediction possible is if I can be under on one headline number and over on the other, splitting the difference as it were. Not that there are any awards for COT predictions, but that splitting largely occurred this week.

In COMEX gold futures, the total commercial net short position increased by 31,400 contracts to 174,300 contracts. The increase was expected since gold prices not only rose for the reporting week by as much as \$30, they ended each trading day above the important 50 and 200 day moving averages. Had the commercials reduced their net short position under these price circumstances, it would have been a man bites dog headline.

By commercial category, the 4 big shorts increased their net short position by a very hefty 19,200

contracts, while the big 5 thru 8 shorts added 3400 new shorts. The raptors (the smaller commercials away from the big 8) sold 8800 long contracts, reducing their net long position to 7500 contracts. As always, big increases in the short positions of the biggest shorts is not conducive to a runaway bull market.

On the buy side of gold, the managed money traders bought a very hefty 45,180 net contracts (thus splitting my 40,000 contract prediction that was under in terms of commercial selling). The managed money traders bought an additional 29,799 long contracts and bought back 15,381 short contracts. This puts the market structure in COMEX gold into the neutral zone, but still far from bearish. I can easily envision a continued rally in gold to the \$1300 level or (much) higher, depending on how many additional short contracts the commercials plan to sell.

In COMEX silver futures, the commercials increased their total net short position by 6700 contracts to 64,000 contracts (under my 10,000 contract estimate). Despite the increase, the total commercial net short position in silver is the lowest (most bullish) in a year, save for last week's level. As such, my price explosion premise is still intact, with one potential dark cloud on the horizon. By commercial categories, the big 4 added 3700 new shorts and the raptors sold off 5000 long contracts, reducing their net long position to 26,300 contracts. The big 5 thru 8 bought back 2000 short contracts, but those buyers were clearly managed money traders and not commercials.

The potential dark cloud is the increase in big 4 shorting and, accordingly, I would now peg JPMorgan's short position to be 18,000 contracts, up 3000 contracts in the reporting week and reversing the prior week's reduction. I had quite a few specific expectations for this week's report, including raptor selling, managed money short covering and no increase in the managed money long position, all of which came to fruition. But I was expecting (hoping) for no increase in big 4 shorting.

Not to sugarcoat it, but it is possible that JPMorgan did not account for the increase in big 4 shorting, as I won't be able to calibrate that until the next Bank Participation Report, which, unfortunately, won't be published until two weeks from yesterday. And even if JPM did go short, it is still net long based upon its COMEX physical holdings alone (18,000 contracts equals 90 million oz compared to 108 million in COMEX inventories). I'll get to one remaining thought on this in a moment.

On the buy side of silver, the managed money traders bought just over 12,000 net contracts. As was the case in gold, my prediction of a 10,000 contract increase in the headline number came under in commercial terms, but over in managed money terms, thus splitting the goal posts. Almost all of the managed money buying was short covering, as 12,403 short contracts were bought back and 390 long contracts were sold. Thus, the core non-technical fund long position in the managed money category (68,477 contracts) is looking more and more like no big liquidation lies ahead.

While mostly fully expected, the 12,403 contracts of managed money shorts bought back were let off the hook in rather gentle price terms, a bit concerning. With 38,617 managed money short contracts still open as of the Tuesday cutoff, there remained close to 25,000 contracts of near-guaranteed buying power from this source whenever the key moving averages are penetrated to the upside. This, of course, is in addition to the expected buying of new long contracts by the managed money traders on the same upside moving average penetration.

Should the managed money long position climb to the record level of April 11, as might be reasonably

expected on higher prices and as existed a mere six weeks ago, some 45,000 contracts of new longs would need to be purchased. This is in addition to the expected 25,000 contracts of managed money short covering on higher prices. That's a total of 70,000 net contracts (350 million oz) of managed money buying, practically baked into the cake.

I'm not talking about some pie-in-the-sky imaginary conspiracy theory about the financial world coming to an end and people everywhere suddenly clamoring for silver. I doubt that will happen. I'm talking about returning to a very real and documented circumstance that existed a month and a half ago when the price of silver topped out around \$18.50 and which seems unavoidable again in time given how the technical funds behave. In fact, this is an important component of my silver price explosion premise.

Since there is no doubt that on the eventual upside penetration of the key moving averages in silver at some point that there will be aggressive technical fund buying, the question becomes how aggressive the commercials and, most particularly JPMorgan, will be in selling to the almost certain coming technical fund buying. I say that one of these days and most likely quite soon, the commercials will not sell aggressively into the near-certain technical fund buying. That's the essence of the price explosion premise. No aggressive commercial selling equals silver prices exploding.

But what about the increase in short selling by JPMorgan this past reporting week? Assuming it was JPM selling short around 3000 contracts, there may be an explanation that I just can't shake. The explanation is quite speculative, but very much in keeping with recent price action. The biggest difference between gold and silver at this point is that gold has decisively broken above its key moving averages amid clear indications of heavy technical fund buying and commercial selling, while silver has yet to do so. That setup won't last for long. Sooner or later, silver will penetrate its key moving averages as well and the technical funds will buy or try to buy aggressively, same as they've just done in gold and on countless past occasions in silver.

I can't help but think that the apparent new short sales by JPMorgan were primarily intended to keep silver below its key 50 and 200 day moving averages. At yesterday's close, silver prices are closer to the 50 day moving average (\$17.45) and the 200 day moving average (\$17.69) than at any time in the past month. But if I am correct about JPM's short selling, it is a short term ploy at best, merely buying some time before silver does penetrate these moving averages. And that might be JPM's intent, namely, temporarily delaying that penetration so that when the inevitable penetration does occur, it occurs more spectacularly than otherwise.

Let's face it - what will determine how dramatically (or not) silver penetrates its moving averages is a function of the degree of aggressiveness in commercial selling, not the aggressiveness of technical fund buying which is already baked into the cake. I think it possible that JPMorgan or whoever in the big 4 that sold may have been delaying the inevitable burst of technical fund buying in order to control the timing of the buying burst in order to make it more dramatic.

The commercials don't appear to be very worried about selling into technical fund buying in gold and that's evident in the fact that gold has closed above its 50 and 200 day moving averages for eight straight trading days. In contrast, I have the sense there is some type of hidden hand temporarily holding silver back and thus delaying the commercials' response to what must be aggressive technical fund buying as and when the moving averages are penetrated. Perhaps I'm imaging things to be along the lines of my silver price explosion premise, but by openly admitting my possible

prejudice I hope to remain as objective as practical.

The good news, of course, is that if it becomes obvious that the big commercials, particularly including JPMorgan, do decide to sell aggressively on the inevitable aggressive technical fund buying to come, that will only occur at silver prices higher than current prices and in time to react to a deteriorating market structure. For the time being, it does no harm to assume a silver price explosion and that's still what I'm assuming.

Ted Butler

May 27, 2017

Silver – \$17.35 (200 day ma – \$17.69, 50 day ma – \$17.45)

Gold – \$1268 (200 day ma – \$1247, 50 day ma – \$1255)

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