

After making fresh daily price lows for 2018 earlier in the week, gold and silver prices recovered, but gold still ended the week down \$8 (0.6%), while silver managed to eke out a 10 cent (0.6%) gain. As a result of silver's relative outperformance, the silver/gold price ratio tightened in to 79.5 to 1; still to my mind a severe relative undervaluation and offering anyone with a willingness to swap gold for silver an opportunity for significant future outperformance.

That's not to say that I don't expect gold to rise in price ahead, just that I expect silver to rise by much greater percentage terms, the true measure of performance. As it turns out, the last two weeks have seen a dramatic improvement in the market structure in COMEX gold futures, pushing that structure into solidly bullish territory for the first time this year. As far as I'm concerned, changes in COMEX futures positioning is the prime, if not sole driver of price. But even here, the market structure in COMEX silver futures is not just bullish, but extremely so.

I'll get to the changes in yesterday's Commitments of Traders (COT) Report which was even more spectacular than the massive improvements I expected, along with some new speculation about what may have transpired on Wednesday, the day after the cutoff of the reporting week. But first let me run through some developments that may tie into my new speculation.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged by the highest level in two months as just over 6.9 million oz were moved. Most of the movement was of the "in" variety, as total inventories rose by a large 5.1 million oz to 266.6 million oz, a fresh multi-decade high. There was no change in the JPMorgan COMEX warehouse this week

again, as inventories there remained at 139.1 million oz.

My sense is that the surge in deposits is related to much higher delivery demands in the active COMEX May delivery period, where more than 5100 contracts (25.5 million oz) have been issued so far and where new May contracts have been added daily. If silver were coming into the COMEX warehouses because there was no other place to put it, I would suppose that would be indicative of a surplus of unwanted material and bearish to price. But if metal is coming in because it is demanded that can hardly be considered bearish.

Concerning the May COMEX deliveries, I still get the impression that JPMorgan has been the principle buyer of new contracts added since the first delivery day and after stopping no deliveries on the first day, it is now up to 640 contracts stopped in its own name (and more for clients). That's "only" 3.2 million oz but I get the feeling it represents a piece of a bigger puzzle where JPM is pulling out all stops to reduce its short positions and increase its physical long positions as if something dramatic is about to occur in silver.

On Wednesday, just over 6 million oz of silver were deposited into the big silver ETF, SLV, followed by another 1.2 million oz deposited yesterday. Both deposits, particularly the Wednesday deposit, seemed highly counterintuitive, in that new price lows were established on Monday and Tuesday on very heavy trading volume. This is generally a sure sign of widespread investor selling (also confirmed in COT data) and such selling should result in metal being liquidated from the trust. The only plausible explanation for the deposits is that they were intended to reduce a short position and I would add, most likely held by JPMorgan. The timing of the deposits indicate that we won't be able to confirm they were designed to reduce the short

position until weeks from now (not the next report on May 9) and I would bet that wasn't accidental. This is another strong clue JPMorgan may be preparing itself for a silver liftoff.

The changes in yesterday's COT report were even more spectacular than I predicted on Wednesday (praise the Lord and pass the ammunition). I took pains to make it clear that the new headline number that matters most is the net change in the managed money category, as opposed to changes in the commercial short position. I'm glad I did, as what the Baby Huey's are up to matters most -after JPMorgan, of course. Even though I predicted some very hefty selling by the managed money traders in both gold (40,000 net contracts) and silver (20,000 net contracts), these traders actually sold 50% more than my estimates in gold and 40% more in silver. I hope you know that I am quite ecstatic to have been so much "under".

In COMEX gold futures, the commercials reduced their total net short position by 29,900 contracts to 131,900 contracts. This is the lowest (most bullish) commercial net short position since Dec 19, also highly expected. By commercial category, it was an evil Three Musketeers effort again, as the 4 largest shorts bought back 14,300 contracts, as did the big 5 thru 8 to the tune of 2800 contracts; with the raptors (the smaller commercials apart from the big 8) adding 12,900 new longs to a net long position now amounting to 91,000 contracts.

Importantly, this is the lowest (most bullish) concentrated short position of the big 4 and big 8 of 2018, as well as the largest (also most bullish) raptor net long position since last July, as gold was rallying off a low of near \$1200 and on its way to \$1360. As important as it is seeing the concentrated short position in gold as low as it is currently and the raptor long position as large as it is; what's most remarkable is

that both would be even more bullish if it weren't for the steep competition the commercials have attracted in gold (and silver) from the other large non-commercial traders.

As I have pointed out recently, the COMEX positioning changes have not only attracted much more commentary than ever before, these changes have attracted unquestioned competition for a piece of the nitwit managed money Baby Huey's. That's the ultimate proof that COMEX positioning changes are what drive gold and silver prices – not because I say so, but because that's what big traders (commercial and non-commercial alike) are increasingly betting on. You won't find clearer proof of this than in this week's COT report.

On the sell side of gold, the managed money traders sold an incredibly large 60,344 net contracts (the equivalent of 6 million oz), comprised of long liquidation of 24,194 contracts and the new short sale of 36,150 contracts. Yeah, these are only paper contracts, but six million oz is an enormous amount of gold (nearly \$8 billion) and the sale of these contracts was what caused gold to drop \$25 over the reporting week. And yes, the Baby Huey principle applies in gold and other markets, not just silver (although it is most striking in silver).

You should be asking, if the managed money traders sold more than 60,000 net gold contracts and the commercials bought just under 30,000 net contracts, who bought the other 30,000 gold contracts? The answer is the other non-commercial reporting traders, as is borne out in the COT report. Had these other traders not bought so many gold contracts, the commercials would have bought all 60,000 contracts sold by the managed money traders. It should come as no surprise that the net long position of the other large traders is now at 5 year highs. That's my point and the

proof that there is now fierce competition to get a piece of the managed money traders' action. That fierce competition is also a key factor in my new speculation (which, like the Fourth of July and Christmas, is coming).

The managed money net long position is now down to less than 40,000 contracts, the lowest (most bullish) in gold since last July. I suppose it's always possible for there to be additional managed money selling, since we're only \$10 or \$15 above the critical 200 day moving average and new price lows, but when I factor in all the things I consider important, I'm becoming less certain about much more downside.

In COMEX silver futures, the commercials reduced their total net short position by 19,600 contracts to 12,000 contracts. This was the largest weekly reduction since mid-December and although we're not quite at the lowest levels of the commercial short position of a month ago, this is fully in line with expectations given on Wednesday. By commercial category and similar to what occurred in gold, the big 4 reduced their short position by 4100 contracts, the big 5 thru 8 by 2900 contracts and the raptors added 12,600 new longs to a net long position totaling 65,500 contracts. These may not be records, but are so bullish as to almost defy description.

I'd peg JPMorgan's short position to be back down to 21,000 contracts and this is mostly confirmed in the companion Bank Participation Report issued yesterday. Most remarkable, there were few surprises in the recalibration of JPM's short position, given some pretty wide swings over the month to Tuesday. In a moment, however, I'll get into my new speculation which concerns what may have happened on Wednesday, just after the cutoff for the COT and Bank Participation Reports.

The managed money traders sold a very hefty 28,086 net silver contracts, comprised of the sale and liquidation of 3153 long contracts and the new short sale of an

astounding 24,933 contracts. The sale of 28,000 managed money contracts is the equivalent of 140 million ounces of silver, or two full months of world mine production and the wonder is why the price didn't fall more than the 65 cents it did fall. Baby Huey's indeed.

As of Tuesday, the managed money traders were long 43,295 contracts and short 67,181 contracts or a net short position of close to 24,000 contracts. Interestingly, there was a sharp jump in the number of managed money traders on the short side to 48 from 33 two weeks ago, the most I can ever recall. So while I keep wondering how these technical funds could be so stupid as to sell short silver in a price hole, more have come onto the short side. Go figure.

As was the case in gold, with the managed money traders selling 28,000 net silver contracts and the commercials buying around 19,500 net contracts, the difference was made up by the other non-commercial reporting traders buying around 8900 net silver contracts this week. Obviously, it's not just me who has noticed how easy it is to snooker the managed money traders. But where I just write about it, these other traders are putting their own capital at risk to get a share of the managed money pie.

I also should mention that the managed money traders added an impressive number of new short positions in NYMEX platinum this week and are now close to record short positions in that market as well, always a bullish sign. And while the managed money short position in NYMEX palladium is small, so is the long position, setting up a very bullish set up in that market as well. As a matter of fact, all five major CME Group metals (COMEX gold, silver and copper and NYMEX platinum and palladium) look good to go to the upside on a market structure basis, although none quite as good as silver. On to my new speculation.

I awoke on Wednesday night from a nightmare about a margin call on silver because I couldn't find the order ticket on which I bought protective put options. It was all a dream because I've never held silver on margin and get my leverage strictly from plain vanilla call options (of the kamikaze variety) and a margin call is, therefore, impossible. Unable to fall back to sleep quickly, I started to think about that day's trading activity which, because it was a report day for me, I didn't have much time to closely consider.

I did mention in Wednesday's article how my market antennae were aroused by the relative outperformance of silver that day and as I lay awake contemplating that day's trading action, it dawned on me what may have occurred. First, the facts of that day – silver prices opened and remained higher all day, despite hitting a six month low the day before. Prices rose further and then fell back after the Fed's statements late in the day, but still ended 25 cents higher.

Prices briefly touched the 50 day moving average before falling back, but remained well below the 200 day moving average. Finally, COMEX trading volume was extraordinarily large on Wednesday, much larger in fact, than it was on Monday and Tuesday, which was highly unusual given that no new price lows or upside penetrations of the moving averages occurred.

Using that set of trading facts, I then tried to imagine who were the likely buyers and sellers that day. Generally, the managed money traders buy to the upside, but there have been any number of recent occasions of them adding to shorts on rallies up to but not penetrating the moving averages. Wednesday's silver rally certainly fit that profile, so I'm more inclined to imagine net managed money selling on Wednesday than buying.

Next, I considered the likely behavior of the raptors, the smaller commercials which were still heavily net long, as well as the traders in the other reportable category which have been joining in with the commercials in taking the other side of the managed money traders. There was little doubt in my mind that on the 30 to 40 cent rally on Wednesday, the raptors would have been sellers, along with the other reporting traders.

Therefore, in replaying who the likely buyers and sellers were on Wednesday, I was only coming up with likely sellers and no obvious buyers. Then it dawned on me – this would have been a perfect time for JPMorgan to have been a big buyer; buying into selling from the managed money traders, the raptors and the other reportable traders. With so much potential selling, a very decent number of net contracts could be bought, perhaps as many as 10,000 or so, given the high trading volume. Throw in the fact that all this occurred on a Wednesday, meaning the full extent of big potential buying by JPM wouldn't be known until the following COT report a week or so away and you have the makings of a very bullish speculation. I even started to think that it would have been foolish for JPMorgan not to have been a big buyer that day and of all the things I think about JPM, foolish isn't one of them.

Admittedly, this is pure speculation, but it is speculation based upon facts and what has occurred recently. The most remarkable thing is that it conforms perfectly to all the other facts and clues up until this point. I just described above the growing competition between the commercials and the newly arrived other non-commercial traders in getting a piece of the managed money pie. It is important to recognize that JPMorgan has been subjected to this competition as well.

What this means is when prices sell off due to managed money selling, the

commercials, including JPMorgan, must compete with each other and now with the other reporting traders to get their share of what the managed money traders sell. This reporting week was a perfect example – the managed money traders sold 28,000 net silver contracts and the commercials bought 19,600 contracts (of which JPMorgan got 4000 contracts), while the other traders bought 8900 contracts. As much as all these buyers would like to take a bigger share of what the managed money traders are selling, they must be patient and not reach to buy too aggressively because that would keep prices from falling and necessarily curtail managed money selling.

The only way for JPMorgan to buyback a much bigger share than it usually gets is to somehow break the typical pattern. And that's what I think happened on Wednesday. On silver's somewhat unusual 30 to 40 cent rally that day, the only buyer would be someone going against the grain of selling from the raptors, the other non-commercial traders and even the managed money traders who were likely selling as long as the moving averages weren't penetrated. Maybe I'm giving JPMorgan too much credit for doing what I think it did, but a bigger mistake would be underestimating this particular master of the universe.

In case you haven't noticed, I've gotten incredibly specific in my analysis of silver (and gold) over the years. I don't talk much about the dollar, the stock market, cryptocurrencies, interest rates, the state of the political world, the actual supply/demand data or the man in the moon. All of that stuff is peripheral and secondary to two things – COMEX positioning and what JPMorgan is up to. How can I possibly think otherwise when I firmly believe that JPM has acquired 700 million ounces of physical silver and 20 million ounces of physical gold?

Every silver rally over the past ten years has eventually been snuffed out due to JPMorgan adding to its COMEX short position. The next silver rally that JPMorgan does not short into, therefore, is bound to be the big one in which the price explodes. Certainly, if JPMorgan has bought back the number of short contracts I have speculated on Wednesday, it is in position to add to its short positions on the next rally, same as always. But should it decide not to add to short positions on higher prices, it is also in its best position ever not to do so. Being far from foolish, JPMorgan may recognize the absolutely ideal position it is in for a sharp upward move in silver.

The last move up in silver, two weeks ago, required JPMorgan to short close to 20% of the 60,000 net contracts bought by the managed money traders into the price highs of Thursday April 19. (Remember, the COT report is a snapshot of what exists on Tuesdays and I'm speaking about what occurred on a Thursday). This was a disproportionately large number of contracts for JPM and unless it is prepared to do so again and in even larger amounts, it would be an ideal time for JPMorgan to throw in the towel on the silver manipulation and for it to make some really big money on the upside, thanks to its massive physical position. Time, and maybe not much of it, will tell.

Based upon all the factors I consider important, like COMEX deliveries and warehouse statistics, the unusual deposits in SLV and, most importantly, the obvious growing competition for an ever bigger share of the managed money pie of COMEX futures positioning, the time has never been better for JPMorgan to refrain from adding new short positions on the next rally. Should JPM, in fact, refrain from adding shorts, I can't see how the manipulation won't then end and the price will explode.

Yes, for sure, there will be massive raptor and other non-commercial selling as the managed money traders buy massive amounts of contracts when the moving averages are penetrated to the upside; but without the guiding hand of new short selling by JPMorgan to control prices at the margin, the silver manipulation gig will be up. One must be extremely circumspect before stating “this is it” or any other sentiment implying certainty about the future. No mere mortal can ever know for sure what the future holds.

On the other hand, it is not possible for me to feel more strongly that we are at a critical inflection point based upon all the facts and reasoned speculation I have just detailed. It wouldn't be proper for me not to share such strong feelings. For me, that means dipping into reserves to add the appropriate number of kamikaze call options of the type that have consistently expired worthless over the past six months (and longer than that) and knowing full well that might occur again. There are things we come to regret in life that include what we've done and not done. Considering the facts as I think I know them to be in silver, not loading up on otherwise ill-advised short-dated and out of the money call options at this particular time would be a regret I'm not prepared to live with.

Lastly, I discovered this week that the big case that the CFTC brought months ago against MONEX was dismissed, a crushing legal defeat for the agency. You may recall back in September when the suit alleging that MONEX had cheated leveraged clients out of \$290 million was brought I applauded the agency for finally stepping up to the plate in an action that should have been brought long ago. I had anticipated that as much time (years) and effort that the CFTC put into the suit would bring to an end to practices by MONEX I have long abhorred. This was believed and was certainly advanced by the agency to be the most important case brought in years. So

much for my anticipation.

Three of the four charges were dismissed at the end of March, with the last remaining charge dismissed this week. Two points. Even though the first three charges were dismissed a month before the now infamous podcast by the CFTC's Enforcement Director, James McDonald, extolling all the great things the agency had accomplished in the area of precious metals, there was no mention of this crushing legal defeat. The other point is more positive. I've had some fears over the years that the agency, never stepping in to prevent JPMorgan from manipulating silver (and gold) prices to the downside; just might step in and move against JPM when prices shot higher. You'll pardon the pun, but the silver lining to the CFTC's defeat by MONEX is that it allays any fears of the agency ever prevailing against JPMorgan. After the agency's showing against MONEX, a couple of summer interns in JPM's legal department could probably thwart any action against the bank.

Ted Butler

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Silver - \$16.55 (200 day ma - \$16.80, 50 day ma - \$16.53)

Gold - \$1316 (200 day ma - \$1305, 50 day ma - \$1330)