

May 6, 2017 – Weekly Review

It was the second straight week of sharp declines in the price of gold and the third for silver. Gold dropped \$40 (3.2%), while silver ended the week down by 90 cents (5.2%). As a result of silver's pronounced relative underperformance, the silver/gold price ratio widened again, this week by another 1.5 points to 75.3 to 1. In the space of three weeks, we have moved by more than 5 full points in the price ratio and now sit closer to the top of a multi-year trading range. The very short term excluded, it appears certain to me that we will look back and marvel at how silver got so cheap relative to gold.

Over the past three weeks, with not a single day of respite, the price of silver fell by \$2.20 (12%), far outpacing the two-week gold drop of \$60 (4.7%). Never have I seen so many (14) days of consistent new price lows. There may have been steeper price declines, but anytime a world commodity falls by 12%, it is natural to look for the cause of the decline. In this case, there's not much doubt as to what caused the silver price smash – COMEX futures positioning – and that is now more understood than ever before. Want proof?

Much to my amazement, not much longer than two hours after the 3:30 EST release of yesterday's COT report, a headline on Bloomberg TV proclaimed the largest speculative selling spree in 12 years had occurred in silver. Clearly, I wasn't amazed that there was a large increase in speculative selling, I was just taken aback by its near instantaneous declaration on TV. Since it would be impossible to come up with any reasonably sounding alternative explanation for silver's sharp price decline, as well as the sharp price declines in gold, copper and crude oil, there can be little doubt that speculative selling of futures contracts is the common denominator.

Most amazing of all, however, is in how few in the established main stream media (Bloomberg, Reuters, CNBC, the Wall Street Journal, etc.) take the next logical step and question the legitimacy of having purely speculative buying and selling of futures contracts set the price of important commodities. Obviously, there is more than a casual connection between record amounts of speculative selling and sharp price declines, particularly considering the lack of any other plausible causes, but that connection is never made. I think the failure to connect the only real cause of current price effect has to do with a subconscious block that doing so would establish price manipulation; a conclusion that many are hesitant to admit. It's the same phenomenon I've observed over the years about the silver manipulation, namely, it's too disturbing to begin to admit it exist and, therefore, it is dismissed out of hand. The problem is that such dismissals look sillier by the day.

It wasn't that the Bloomberg headline was wrong in any way, of course, because yesterday's Commitments of Traders (COT) Report for silver was a humdinger – even better than what I was expecting and hoping for in every important measure. In three short (but painful) weeks, the –either/or– outcome has been largely resolved and a completely different market structure has emerged. Given the significance of this week's COT report and, most importantly, JPMorgan's dominant role, I'll be digging into the details in a moment. Make no mistake, JPMorgan is the silver market in every way possible.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses –cooled off– this week to just over 4.3 million oz from the near frantic turnover of the previous several weeks. Total COMEX silver inventories increased by 0.4 million oz to 197 million

oz, another new two decade high.

Even though this week's physical turnover fell to levels close to the average weekly turnover of the past six years, the total silver turnover in the COMEX warehouses over this time has been nothing short of stupendous and still highly unique and specific to silver. Skimming off silver from this unprecedented physical movement has been a prime source by which JPMorgan amassed a good chunk (around 150 million oz) of its 600 million oz physical silver accumulation. Also for the week, JPMorgan moved another near 840,000 oz to its own COMEX warehouse, bringing that sub-total to just under 98 million oz, another new high. The metal "skimmed" by JPMorgan from the weekly physical turnover in the COMEX warehouses is separate from the holdings in the JPM warehouse, as most of the metal there came from plain vanilla futures deliveries on the COMEX.

The standout feature of the current COMEX May silver delivery month is still the notable absence of JPMorgan as a stopper in its own proprietary account for the first time in a traditional delivery month in two years. I still think that suggests JPM is clearing the decks for a silver price liftoff. But there have now been more than 4100 contracts delivered in May, the most for any month in quite some time, despite JPM's absence (although a customer of JPM delivered more than 800 contracts early on). And while remaining open interest in May is now down to a few hundred contracts, there has also been persistent new contract creation over the first week of delivery. What gives?

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

Best I can tell, the issuers and stoppers in the May deliveries are pretty evenly matched. There have been a lot of redeliveries and it's hard to detect any dominant single player in JPM's absence. Any new May contract creation has been met with almost immediate deliveries, muddying the waters in terms of who has been more aggressive, the new issuers (sellers) or stoppers (buyers). What I sense is something different, namely, the effects of JPMorgan suddenly ceasing its physical silver accumulation via COMEX deliveries and throwing the physical market into a sort of vacuum. I also have the impression that the large number of deliveries in the May contract indicates a tightness in the wholesale physical silver market, not present in any other market.

The changes in this week's COT report were mostly as expected and profound in silver and much less so in gold; although trading since the Tuesday cutoff suggests that gold joined with silver in significant additional managed money selling and commercial buying over the past three high volume trading days. However, for the just reported trading week, with silver prices falling every day and 75 cents for the week and gold more mixed and down by \$12, the spotlight was on silver.

In COMEX gold futures, the commercials reduced their total net short position by 10,600 contracts to 204,000 contracts, largely as expected. By commercial category, the big 4 bought back 6700 short contracts and the big 5 thru 8 bought back 2900 short contracts as well, with the raptors (the smaller commercials) adding 1000 contracts to a net long position now amounting to 3400 contracts. While the changes over the just-reported trading week weren't particularly significant, what took place over the past three trading days in gold appears to be decidedly more so.

Over the past three trading days, gold dropped more than \$30 in heavy COMEX trading. Most importantly, gold penetrated its 50 day moving average for the first time in two months each day, setting off the ultimate and irresistible sell provocation for the technical funds. Were the COT report calculated as of yesterday's close, it would appear the commercials bought back an additional

30,000 to 40,000 COMEX gold contracts; pushing the overall market structure back to the bullish side and away from neutral.

On the sell side of gold in the current COT report, the managed money traders sold more contracts than the commercials bought, as these traders sold nearly 17,000 net contracts, including the sale and liquidation of 12,063 long contracts and the new short sale of 4706 contracts. If the managed money traders sold another 30,000 to 40,000 contracts over the past three trading days, as I suspect, that would leave some room for additional selling to get back to the levels at yearend or at the gold price lows of mid-March. That's not a prediction, just an observation. The main point is that, in effect, gold positioning is now secondary to silver positioning or is being used to influence silver positioning.

In COMEX silver futures, the commercials reduced their total net short position by buying a record 21,500 contracts, to 86,600 contracts (I was estimating around 15,000 contracts in managed money selling/commercial buying). Please stop for a moment to reflect on this. In five trading days, the commercials, mostly banks, bought the equivalent of 107.5 million ounces of silver on a price drop of 75 cents. We know for sure that this was paper silver and not real silver, because that much real silver could never be bought and sold so quickly. So why are so few able to make the simple connection that paper trading setting prices is contrary to how markets are supposed to work?

By commercial category, it was mostly a case of big 4 and raptor buying, as the four largest shorts bought back 7800 contracts and the raptors bought 12,900 contracts, shifting from a net short position of 3600 contracts to a net long position of 9300 contracts. The big 5 thru 8 bought back only 800 short contracts, leaving them out of the commercial buying party this week and looking even more like potential victims than previously.

Perhaps the most outstanding feature of a silver COT report that included several spotlight features was the buying by JPMorgan, the main silver market manipulator. I'd calculate that JPMorgan bought back 8000 short contracts through the Tuesday cutoff, even more than I hoped for privately, reducing its net short position in silver to 24,000 contracts (and perhaps down to 20,000 contracts were the COT report to be figured through yesterday's close). Yesterday's new monthly Bank Participation Report fully corroborates and confirms JPM's reduced short position.

Through Tuesday, the commercials have purchased 30,000 COMEX silver contracts over the past two reporting weeks and JPMorgan has accounted for an astounding 10,000 contracts of that. The 10,000 short contracts that JPMorgan covered in the last two reporting weeks is the equivalent of 50 million ounces. Simply put, JPMorgan, with the help of the collusive raptors, rigged silver prices lower in order to buy back as many short contracts as possible. This is why silver prices declined over the past three weeks so that JPMorgan could do what is best for itself. This is also the key to understanding the silver market.

The 50 million ounces of silver equivalent that JPMorgan purchased over the past two weeks is the best and only way the bank could buy that much silver so quickly and so cheaply. Certainly, it would have been impossible for JPMorgan or anyone else to buy 50 million ounces of actual silver in two weeks and on a near \$2 decline in price. But CFTC data clearly indicate that JPMorgan purchased 10,000 contracts of COMEX silver futures. You have to look at this through JPMorgan's perspective because that's the only perspective that matters.

By buying back 10,000 short contracts of paper silver, that has the same financial consequence as

buying 50 million actual ounces of silver for JPMorgan. That's because JPMorgan holds 600 million oz of actual silver and two weeks ago was short 34,000 COMEX silver contracts or 170 million oz, making the bank net long 430 million oz. Through Tuesday, JPM is short 24,000 contracts or 120 million oz, making the bank net long by 480 million oz. Through yesterday, I would estimate JPM's silver short position to be down to 20,000 contracts or 100 million oz, leaving this banking crook net long silver to the tune of 500 million oz, the most JPMorgan has been net long to date. It almost goes without saying that silver will move higher when and only when it is most convenient and profitable for JPMorgan.

On the sell side of COMEX silver futures, it was managed money selling and then some, as these traders sold an astounding near 26,000 net contracts, including the long liquidation of 21,306 contracts and the new short sale of 4529 contracts. The new short sales increased the managed money short position to nearly 24,000 contracts, close to the previous peak in December and what I see as icing on the bullish cake and as a bonus as rocket fuel type buying whenever prices turn upward.

As it turned out, there was significant spread contract liquidation of some 9,000 contracts during the reporting week, as I suspected into the first delivery day for the May contract. However, instead of the spread liquidation causing the net managed money selling to be less than the 25,000 contract reduction in total open interest over the reporting week, it had no effect at all.

But it was the decline in the managed money long position to 78,203 contracts that was a standout feature to me. To be perfectly candid, it places my estimate of an 80,000 contract core non-technical fund long position in jeopardy, although it hasn't negated my premise completely yet. The good thing is that even if the core long position is significantly less than 80,000 contracts, considering the managed money selling through Tuesday, it longer matters. We'll likely find out what the core long position is in the next COT report, or the one after that and whatever the managed money long position drops to, that will be the core long position. In other words, even if the core non-technical fund managed money long position drops back to 60,000 contracts that is likely already baked into the price cake.

With this week's selling, all of the 35,000 new long contracts added by the managed money traders on the rally to \$18.50 since the mid-March price lows have now been fully liquidated. Any further managed money long liquidation necessarily reduces the amount of potential long liquidation remaining, as we will measure the core amount remaining longs only after silver prices turn higher. Whatever that number turns out to be, that will likely be the core non-technical fund long position for some extended time. I did note with interest that the number of traders long in the managed money category dropped to 42, down from 53 in the prior week's report. Since I thought 53 was low, the drop to 42 traders suggest stronger hands remain.

Up to three weeks ago, the market structure in silver was extremely bearish, but outside factors also suggested a higher likelihood than normal of a commercial overrun or in Izzy Friedman's words, the full pants down. Therefore, it was very much an either/or setup. Given all the factors away from the bearish COMEX futures market structure, there was too much risk for me to lighten up, although many prepared for the normal downward resolution, according to subscriber feedback. I congratulate all who sidestepped the vicious and deliberate price decline and I am thrilled to have provided any input, even if I openly chose to skip it personally this time around.

Now, however, it is no longer an either/or potential outcome as the amount of technical fund selling and

commercial buying has largely eliminated or nearly eliminated the big selloff potential. Only a fool would try to pinpoint the day of the turn upward in silver and considering the manipulative roll the commercials and JPMorgan play, one can't completely ignore the possibility of further new price declines. After all, COMEX silver is the most manipulated market in the world and no one ever got it right when underestimating the power of the commercial crooks.

As much as I always have agreed that a commercial overrun to the upside was possible, I have always felt more strongly that the big move up in silver would be preceded not by a commercial overrun, but by a slam down in price of epic proportions. The downward move we've witnessed over the past three weeks now qualifies for being that epic slam down, even if it carries further, by virtue of the persistency of the decline and the resultant re-positioning of COMEX futures contracts.

The data indicate that JPMorgan has been working overtime to take care of business and it has been remarkably successful in doing so. Just three weeks ago the silver market structure was extremely bearish, the most bearish it had been in history. Today, JPMorgan is in its best position ever for a silver price moonshot. Perhaps the crooks at JPMorgan and the CME Group can manipulate silver prices even lower to reduce JPM's paper short position even more, but it seems like we are at the point of picking up nickels and dimes in front of a steamroller in waiting out the eventual silver price explosion.

And make no mistake, this mostly concerns silver, with gold and other commodities playing a secondary role. I only detect JPMorgan's massive presence in silver. If the bank holds significant physical long or paper short positions in other commodities, it doesn't show up in the data I monitor at least, nowhere near as clearly as it shows up in silver.

At some point and hopefully very soon, JPMorgan will likely morph from being the great silver price suppressor to the great silver price booster. Remarkably, JPM has already accomplished the hard part of coming to buy and own 500 million net silver oz (600 million physical oz minus 100 million oz of paper shorts) over the past six years. All it has to do to cause the price to rocket higher and benefit itself more than anyone else is, quite literally, nothing. JPMorgan not adding to paper short positions on the next rally will allow silver prices to float and soar higher without limitation. And even though JPMorgan has always added to silver short positions in the past, considering just how advantageous a big rally would be to the bank at this time, the only sane bet is that JPM will let silver fly.

Ted Butler

May 6, 2017

Silver – \$16.30 (200 day ma – \$17.94, 50 day ma – \$17.72)

Gold – \$1228 (200 day ma – \$1255, 50 day ma – \$1250)

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