Weekly Review

Gold and silver prices got crushed this week, with gold falling $77 (5.9%) and silver ending down by $1.05 (5.7%). With silver falling slightly less than gold in percentage terms, the silver/gold price ratio tightened by almost half a point to 70.5 to 1, although this week, that's a meaningless footnote.

It was a tumultuous week for most markets with the volatility generally associated with the surprise US presidential election. However, at least for the markets I follow I would take strong exception to that conclusion. I suppose I should wait until the market data associated with the sharp declines in gold and silver are published, but I'm convinced the takedown was due to the same reason as every sharp price takedown before it □ COMEX futures positioning.

Gold and silver closed at the lowest weekly prices in months, but there was a marked difference between the two during the bulk of the week. Gold finished lower every day, after spiking upward on the night of the Tuesday election; while silver was steady and even slightly higher through the close on Thursday, only to get slammed on Friday. At the Thursday close, the silver/gold price ratio closed at 68 to 1, down more than 3 full points for the week to that point, just before the price carnage on Friday.

I'm relying on my memory, but this week had to be the heaviest volume week for COMEX gold and silver (and copper) in history, as the important moving averages were penetrated and, in the case of gold, in both directions. I'm already reading accounts how some evil doers dumped enormous tonnages of paper gold, but the simple fact is that the real bad guys (the commercials led by JPMorgan) bought the snot out of gold and silver this week. I suppose this distinction is just too difficult for many to make and I do admit that it sounds better to blame the bullion banks for the selling.

But the data will show, just as they have always shown that the managed money traders were the big sellers and the commercials were the big buyers. The commercials certainly rig prices lower through the magic of spoofing and other sundry computer scams, but they do so only to generate managed money selling, so that the commercials can then buy. And this week, the managed money traders sold in COMEX gold and silver in droves, while the commercials bought every contract sold. That's the game.

With record trading volume to the downside, it is reasonable to assume there has been record managed money selling and record commercial buying, although the data won't be available until next Friday. No matter what that data may reveal, this past week was among the best financially for the commercials and worst for the managed money traders ever in gold and silver. Including the extraordinary turnaround on Tuesday evening into Wednesday, I'd estimate that the commercials made, in realized and unrealized profits, more than $3 billion in gold and silver this week and that the managed money traders lost the same amount.

That's a far cry from the near $4 billion the commercials were in the hole for financially at the summer price highs. This is the core money game that drives gold and silver prices. It certainly doesn't please me to see the commercials prevail again, just as they have on almost every past occasion of extreme market structures, but neither can I say I was completely surprised.

I can rattle off the bullish factors in gold and particularly in silver as well as anyone; but I have also been clear (I hope) about the one darn bearish factor — the extremely bearish market structure that has existed on the COMEX since quite early in the year. The good news is that as a result of this week's price debacle, the market structure is nowhere near as bearish as it was for most of this year. Is it all better? I can't say that for sure, but we have taken a large step towards getting there. I'll return to this in a moment, including some new thoughts on why this selloff, whenever it is finished, may be the final selloff.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses picked up this week, as nearly 7.7 million oz were moved and total inventories rose 1.1 million oz to 175.3 million oz. Thus, the same story continues □ very big movement versus small changes in total inventories. That continues to equate to wholesale physical tightness as no one moves anything unless there's a good reason. The good reason to me is that the tightness is driving the movement. There was also another near 0.4 million oz deposited in the COMEX warehouse of the big silver kahuna, JPMorgan.

A key feature of the week was the overall high trading volume in the big silver ETF, SLV, including yesterday's massive 50 million share trading day. I don't recall a daily trading volume that high, but even if there were such high volume days, you could count them on one hand. Given the price crash though the 200 day moving average in SLV, the sellers were largely momentum traders and investors seeking to limit losses, while the buyers were □ do I really have to tell you? There's no question JPMorgan added impressively to its physical silver stash by many millions of ounces via yesterday's SLV trading. Is there any limit to the amount of silver JPMorgan would buy? Under $20 (its average cost), the only limit I could visualize is the amount the rest of the world would sell to the bank.

The declines in holdings in SLV and GLD, the big gold ETF, the past two days look normal, regardless of future changes. The latest report on stock short selling indicated another hefty decrease in the short position in SLV by nearly 1.8 million shares to just under 9.5 million shares (ounces). The lower, the better. The short position in GLD rose fractionally.

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

Sales of Silver Eagles continue to look punkish, while sales of Gold Eagles continue to run strong. Best I can tell, JPMorgan is scarfing up enough physical silver in the form of 1000 oz bars that it doesn't need to bother with buying Silver Eagles and melting them into industry standard bars.

https://competition.usmint.gov/bullion-sales/

I forgot the COT report would be delayed until Monday due to yesterday's Veteran's Day holiday, I guess because of all the market hoopla. Sadder was that in all the excitement this week, I forgot about Veteran's Day, a most important holiday and observation. Here's a tip of the hat and grateful thanks for all who served. I'll probably have some brief comments late Monday after the COT report is published, but based upon what occurred this week after the Tuesday cutoff, Monday's report is already older than the hills.

The price action was so unusual in silver relative to gold until Friday morning that I forgot one of my main rules of thumb – don't focus on price action, but stick to the hard data on market structure. Friday reminded me that the commercials can do whatever they please whenever they please.

The question of the day after this week's engineered price smash is how much improvement in market structure has occurred and how much more is required until the all clear signal is sounded? The answer is always only known in hindsight, but that's hardly sufficient when the fur is flying, as it is currently. There was always a chance, given how extreme the commercials got on the short side of COMEX gold and silver that the cleanout, whenever it came, would be dramatic.

Given the price and trading drama this week, it's possible, although far from certain, most of the downside price damage is behind us. But if it's not completely finished that is not due to a lack of drama. Oftentimes, the commercials are patient and methodical in slicing thin slices of price salami until they get the desired amount of managed money selling. Other times, like this week, the commercials whack huge chunks of price and there seems to be an urgency in getting the job done.

Not only is this selloff of the huge price chunk variety, implying urgency in getting it finished, there are some other factors that make me contemplate that when the selloff is done, it is likely to be the final selloff in silver. JPMorgan is in the best position for a silver blastoff than it has ever been, particularly after this week, with its largest physical position ever and a sharply reduced paper short position (the whole point of the selloff).

But something new has occurred to me. I have been baffled that more don't see the price impact that the managed money traders have had on a wide variety of markets. The truth is that I have resigned myself that that is likely to remain the case, despite this being the main price driver. Further, I even accept that the managed money traders may be oblivious to the impact they have on prices or at least overlook it. But there is one group of traders that know better than anyone the influence of the managed money traders □ the commercials.

It is impossible that the commercials aren't tuned into the managed money traders' behavior, especially considering how few in number are the largest commercials. This year alone, the commercials have been in the hole to the tune of $4 billion in gold and silver, only to have made that back and $3 billion more over decline into the past week. These are money stakes guaranteed to garner anyone's attention. I still believe the commercials miscalculated in allowing themselves to sell short to the managed money longs at too low gold and silver prices earlier in the year.

I further believe the reason for the commercials to have miscalculated is that they misjudged the large extent to which the managed money traders attracted investor money. It was the large investor inflows that created the much larger positions the managed money traders put on this year, not only in gold and silver, but all commodities □ crude oil, copper, sugar, grains, everything. But once you stare down the gun barrel of a $4 billion loss, you quickly appreciate and learn how you got into that predicament.

Better than anyone else, the commercials and in particular JPMorgan now fully appreciate the tremendous buying and selling power that the managed money traders possess. Armed with this knowledge, the commercials will never sell as aggressively at low prices when the prospects are for much more managed money buying to come. It will be to the commercials' advantage to lay back and hold off when the managed money traders begin to buy, rather than rush to sell too soon as was the case earlier this year in gold and silver. This is in addition to and separate from my premise of a silver market explosion following the final selloff, as JPMorgan refuses to add to short positions on a rally.

This can easily apply to gold (or any market) in that if it looks like the managed money traders are in position to add hundreds of thousands of long contracts (as they did earlier this year in gold), it would benefit the commercials to hold off in selling aggressively. This would result in much sharper price moves than we've witnessed to date.

In fact, I think this may be behind the huge price moves in copper, namely, the commercials laid back a bit in selling into the aggressive managed money buying that emerged. Also of interest is that while the managed money traders are largely the same entities operating in all the US futures markets, that's not the case on the commercial side. For instance, while the banks are largely the big shorts in COMEX gold and silver, that is not the case in COMEX copper. According to Bank Participation data, the banks are long copper and that may account for the historic surge in price. In copper, the commercial shorts are most likely large trading entities, like Glencore.

I heard a lot of stories this week as to why gold and silver fell so sharply, but hardly any reference to the real reason – an avalanche of selling by managed money traders on the COMEX and equally massive buying by JPMorgan and the other commercials. There is, of course, a limit to that managed money selling and at the pace it advanced this week we are much closer to that limit. But just when you think the selling is over, more can emerge. Without getting into the actual contract count as of yesterday's close, I will note, however, that the market structures in COMEX gold and silver now appear to me to be as good as they have been since February. The improvements, of course, come only through the pain of lower prices; but that's just the way it is.

Finally, in addition to being on the road, I must have hit some wrong key or something and the format of how I usually write these reports is completely different and I haven't a clue what to do about it. I'm just hoping this posting gets to you in legible form. Now that prices of gold and silver are closer to the 200 day moving average (thanks to Friday's shellacking in silver), I'm listing those moving averages.

Ted Butler

November 12, 2016

Silver – $17.40   (200 day moving average – $17.57)

Gold – $1228   (200 day moving average – $1280)