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## November 18, 2017 – Weekly Review

Another late-Friday price jolt, this time up, explained gold's \$18 (1.4%) weekly gain and silver ending 42 cents (2.5%) higher. These were the highest weekly closes in five weeks. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by three-quarters of a point to 74.8 to 1, still stuck in a tight trading range that seems at times as existing since the dawn of civilization. Of course, it's not how long the tight trading range has lasted, but the lack of any apparent explanation why these two metals would be so joined at the hip. I mean away from their mutual artificial price setting mechanism of COMEX futures positioning.

I remember a past period of volatile Friday price activity in gold and silver, but the last two Fridays broke the usual pattern of sharp movement at the opening of the day session of COMEX trading, when other markets (London) were still open. And there was always some convenient cover story to explain the early Friday price volatility, such as the monthly employment report. The past two Fridays had late day price moves, yesterday's up, the previous Friday down. Since there are no other world markets open late Friday, other than the COMEX, it is axiomatic that something on the COMEX caused gold and silver prices to move like they did.

My point is that the timing of the last two Friday price moves proves conclusively that COMEX futures positioning was the cause of those moves and not anything else. As an analyst, I'm always looking for the most plausible explanation to back up what has occurred and, as you know, I contend that COMEX positioning best explains price change, whenever that price change occurs. But sometimes, "most plausible" becomes the "only possible" explanation and that's the case with late-Friday price jolts.

Moreover, we know, from weekly published positioning data (COT reports) that the traders almost exclusively accounting for total positioning changes are pure speculators, namely, the managed money traders and their commercial counterparties. In other words, there is little real hedging taking place or any connection to actual world supply and demand, making the COMEX a purely speculative arena. Therefore, the best possible approach is to view the gold and silver markets with an eye towards best explaining what has and is likely to occur price wise, is to focus on what the managed money and commercial traders are up to. I'll get into what they were up to in the reporting week ended Tuesday (not much) and speculate what they were up to in yesterday's trading in a moment.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained close to the weekly average over the past six and a half years, at 4.6 million oz. Total COMEX silver warehouse inventories increased by 1.4 million oz to 231.4 million oz, another multi-decade record. No change this week in JPMorgan's COMEX silver holdings, which remained at 116.4 million oz.

It has become customary for me to report the weekly movements in COMEX silver warehouse inventories and that regularity may have contributed to a feeling that this inventory movement is somehow normal. It is not. No other commodity has experienced the frantic turnover seen in COMEX silver inventories. That makes it a standout feature and one in which one would think would result in

widespread discussion. Yet, I can count on one hand (with fingers to spare), the number of observers who have commented on it. My common sense tells me that you don't move stuff around frantically if there's more of it than needed. If you have a surplus, let it sit where it is.

I'm going to skip over COMEX deliveries, ETF flows and Silver and Gold Eagle sales, as nothing much changed or caught my attention. I did see one ETF story that I would like to comment on, the reports that Bridgewater Associates, the largest hedge fund in the world, added aggressively to its holdings in GLD, the big gold ETF in the third quarter. All told, Bridgewater added around 400,000 oz, worth almost \$500 million, mostly in shares of GLD. You'll remember that I recently featured an article on Ray Dalio, founder and head of Bridgewater, titled "Thoughtful Disagreement" and in which I sought to attract his attention to the silver market, particularly since Dalio was such a strong proponent of gold.

At a minimum, Dalio backed up his favorable public opinion on gold with Bridgewater's recent sizable purchase. At the same time, the announcement helped explain the otherwise counterintuitive deposits into GLD a few months ago, when price action didn't fully explain why so much gold was being deposited into the trust. I suppose it's always better to learn the meaning behind otherwise unexplainable events, even if it takes some time. However, the actual numbers involved cause me to double down on my main premise – the stark money disparities between gold and silver.

The \$500 million worth of gold that Bridgewater purchased represented about 1.5% of the 27 million oz held by the trust and as you know, the smallest fraction of all the billions of ounces of gold in the world. Still, half a billion dollars is not exactly chump change (and what the most expensive painting in the world just sold for). Clearly, \$500 million transactions occur regularly in many different markets, as has just been confirmed in gold by Bridgewater. Therefore, I can't help but wonder what the impact on price would have been had Dalio decided to buy \$500 million worth of SLV, the big silver ETF, instead of or (or in addition to) the purchase of GLD. That's the good thing about numbers; they allow objective and meaningful comparisons.

\$500 million worth of silver would come to roughly 30 million oz, close to ten percent of the 318 million oz in the SLV. I would submit that had Bridgewater (or anyone else) decided to buy nearly 10% of SLV in the same time it bought 1.5% of GLD, the price reaction in silver would have been profoundly stronger than was the price reaction in gold. This can be seen beyond just the differences in the holdings of SLV and GLD. With little more than \$30 billion worth of industry standard bars in the world, versus \$7.5 trillion (\$7500 billion) worth of gold in the world, it's easy to see why \$500 million transactions would be much more impactful to the price of silver than gold. With such amounts changing hands in gold (and for a painting), it's hard for me to see how this occurrence won't also come to silver, what with the many billions and trillions of dollars sloshing around the world.

I'm not going to spend too much time on yesterday's Commitments of Traders (COT) Report because the changes were so minor. Of much more importance is what transpired, COMEX positioning-wise, in yesterday's trading. Still, it isn't surprising there was little real change in positioning for the latest reporting week, given the choppy, but relatively subdued overall price change and lack of key moving average penetration through Tuesday.

In COMEX gold futures, the commercials increased their total net short position by a mere 500 contracts to 215,800 contracts. This continued the two month trading range and positioning standoff that may have ended yesterday. With such a small overall change, big changes by commercial

category were not likely. The big 4 bought back 200 short contracts and the raptors (the smaller commercials) added 1400 new longs to a net long position now amounting to 37,900 contracts. The big 5 thru 8 went the other way in adding 2100 new shorts, making the big 8 concentrated short position 253,201 contracts or 25.3 million oz (used in money scoreboard calculations).

The managed money traders bought nearly 5400 net gold contracts, including 2875 new longs and the buyback and covering of 2511 short contracts. The explanation for the larger positioning change by the managed money traders versus the commercials is that the other reportable traders appeared to match up against the managed money traders this week, not the commercials as is most usual. That adds a nuance and complexity to what may have transpired yesterday.

The managed money long gold position of 190,657 contracts does leave as many as 100,000 additional long contracts to be potentially added should the managed money traders put on as many new gold longs as they held in the summer of 2016 (minus what was added yesterday). Then again, it also leaves that much and more of potential long liquidation on lower prices. The managed money gold short position is so low, at 14,559 contracts, that there is little to no remaining short covering possible and a mountain of potential new short selling should the managed money traders be tricked into going short heavily on lower prices. Nothing new here at all.

In COMEX silver futures, the commercials reduced their total net short position by a scant 1200 contracts to 80,400 contracts. This week, the big 4 accounted for all the reduction and the big 5 thru 8 and the raptors stood pat. I would peg JPMorgan's short position to be 38,000 contracts and the concentrated short position of the 8 largest traders to be 101,149 contracts (more than 505 million oz).

The managed money traders in silver bought 2562 net contracts, including 1092 new longs and the buyback of 1342 short contracts. With a long position of 78,464 contracts, that leaves room for 22,000 contracts of long liquidation should the 56,000 contract core non-technical fund long position prevail on any major price selloff. On the upside, there is room for more than 35,000 potential new managed money longs should the record levels of April be revisited (minus what was added yesterday). As was the case in gold, there is not much potential short covering left in silver with a managed money short position of 10,274 contracts and miles of potential new short selling if these traders can be induced into selling aggressively on lower prices.

Turning to yesterday's unusual price action, the big question is what likely occurred in terms of COMEX positioning, particularly considering that we know the price surge was exclusively a COMEX positioning affair. One standout feature of yesterday's advance was the upward penetration of the 50 day moving average in gold for the first time in more than a month, as well as the upward penetration of both the 50 and 200 day moving averages in silver. Until yesterday, gold had come closer to downwardly penetrating its 200 day moving average, although had not done so in months. Now the tables are turned and upside penetrations are the order of the day.

As to who was doing the buying and selling yesterday, aside from price action and trading volume (which was heavy), one of the few data points we can rely on is the preliminary total open interest changes reported by the CME Group. This is not a perfect indicator in that it is subject to revision once the final open interest data is reported late Monday morning, but considering it is the only open interest indicator available, data beggars can't be choosy.

The preliminary open interest data for yesterday's trading indicated an increase of total open

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interest in COMEX gold futures of 30,000 contracts and an increase of nearly 5000 contracts in silver. Should these numbers prove to be in line with the final numbers published on Monday, the most plausible conclusion is that there was massive managed money buying in both gold and silver and counterparty commercial selling. An increase in total open interest means, mathematically, that both new long and short contracts were established yesterday.

Not to get too technical, it's also possible many new spread positions were established yesterday in gold and silver, which would render the increases in total open interest as much less meaningful. With that caveat, let's assume there wasn't big spread initiation and the large increases in total open interest represent non-spread new buying and selling. All which will eventually come out in the COT reporting wash, but the next COT report to include yesterday's trading activity will be a week from Monday when the next report will be published (due to the Thanksgiving holiday). That's a long time to wait to see what occurred yesterday.

Under the walk, talk and look like a duck means it's likely a duck premise, there was every reason to expect managed money technical fund buying yesterday, precisely because of the important upward penetrations in key moving averages. In fact, it would be much more surprising if it turns out the managed money traders weren't big buyers yesterday. And considering the very low level of the managed money short positions in both gold and silver (as just discussed), it would be real hard to imagine big increases in managed money short positions, especially considering price action. Unless there is a surprising spread explanation, it's safe to assume the managed money traders were big buyers on new longs yesterday, probably to the levels indicated by the increases in total open interest. And if the managed money traders added many new longs, it would seem that the commercials had to add new shorts to counter the buying.

Further, since the smaller commercial, the raptors, were net long and most likely were sellers into yesterday's rally, such long liquidation would result in no increase or lower total open interest, not in any way resulting in an increase in total open interest. The ugly remaining conclusion is that (in the absence of big spreads being newly established) the concentrated short position of the 4 and 8 largest short traders had to increase substantially. This is a concern I raised recently. The gold and especially the silver market needs a sharp increase in uneconomic concentrated short selling like they need a hole in the head.

Yet, from the evidence at hand to this point, the most probable explanation for the big increase in preliminary total open interest is due to new managed money buying and new commercial short selling. Of course, I will observe and report how this plays out as new data becomes available, but let me opine on the data to date. The best description is that the table stakes and total pot in this latest version of the COMEX poker game just got a lot bigger. The longs, the managed money traders, and the shorts (the big 8) just increased their bets meaningfully, just about guaranteeing that the resolution to the current extreme market structure will be more of a doozy than I thought before yesterday's positioning.

I am also convinced that anyone who claims to know how it will turn out can't possibly know. We're deep into potential full pants down territory, Izzy Friedman's term for a commercial failure. Up until now, the big commercial shorts have never bought back short positions on higher (and losing) prices, but that day is coming, if not at hand. Of course, there are extenuating circumstances present, not the least of which is the dichotomy of there being a bearish market structure in place at the same

time more traditional price patterns indicate we just may be starting to break out to the upside. Also overhanging the unusual market structure to price circumstance is the ever-present circumstance that the biggest paper short seller, JPMorgan, is also the largest physical silver owner in history and will make a fortune should it double cross its fellow big commercial short comrades and criminals.

Could we explode in price from here? Heck yes. Is it also possible that the managed money traders are nearing exhaustion of buying power or soon will be at somewhat higher prices? Again, heck yes. I do know that silver is as cheap as dirt compared to every other investable asset in the world and will end up much higher than most can imagine today. I just don't know if the march to those near-guaranteed higher prices began yesterday. As always, it's important to be emotionally and financially prepared for whatever lies ahead. Do we have one more down ahead, or is it up, up and away from here?

Finally and along the lines of Bridgewater buying gold above in terms of fitting the pieces of the ongoing puzzle as they become known; another piece of data has apparently confirmed a recent speculation of mine. Again, the point of analysis is to best fit the documented facts to one's findings. If the flow of facts strongly undermines one's stated premise, it is the premise that must change, since we can't and shouldn't change the facts under any circumstance.

Very recently (a week or two ago), I speculated that the CFTC bringing and simultaneously settling a \$10 million case against Cargill was puzzling to me at first because it represented a sophistication and level of complexity that I hadn't detected in the agency in the past. Then, it quickly dawned on me that it had to be as a result of an inside whistleblower presenting the case to the CFTC on (pardon the pun) a silver platter for the purpose of the whistleblower getting a giant payday for coming forward. In the short time since me raising the issue, clear proof has emerged that my speculation was on the money, as the CFTC just declared that the Cargill case was the result of a whistleblower complaint. The way the CFTC's whistleblower system works, it is not possible that the case would have emerged any other way.

[https://www.whistleblower.gov/notices/details.aspx?id=2017-027&utm\\_medium=email&utm\\_source=govdelivery](https://www.whistleblower.gov/notices/details.aspx?id=2017-027&utm_medium=email&utm_source=govdelivery)

In terms of the ongoing overall money scoreboard involving the 8 largest shorts in gold and silver, this week's price gains resulted in a combined \$750 million mark to market loss for the big 8. Since they were close to even at last week's close (as I recall), that's a pretty big one week unrealized loss, although these big traders are still about \$2 billion better off than they were at the price peaks of September.

Ted Butler

November 18, 2017

Silver – \$17.30 (200 day ma – \$17.17, 50 day ma – \$17.11)

Gold – \$1294 (200 day ma – \$1265, 50 day ma – \$1291)

**Date Created**

2017/11/18