

Weekly Review

Gold and silver prices fell for the second week, with gold down \$20 (1.6%) and silver down a much sharper 80 cents (4.6%). As a result of silver's pronounced relative weakness, the silver/gold price ratio widened out by nearly 2.5 points to just under 73 to 1. The two week price decline has been sharp, with nearly a \$100 drop in gold and close to a \$2 decline in silver, pushing gold to an eight month low and silver to a five month low.

I'm going to run through the normal weekly format quickly, in order to consider the new COT report, which was fascinating, to say the least. To say the most, this week's report may be the most significant ever.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses amounted to 4.4 million oz this week, as total inventories rose by 2.9 million oz to 178.3 million oz. That's a new high in total COMEX silver inventories going back more than a year and, by itself, continues to have no relevance to price as far as I can tell. The movement? Yes. The totals? No. No changes in JPMorgan's COMEX warehouse this week.

There were withdrawals yesterday in the big gold and silver ETFs, with a 170,000 oz withdrawal from GLD and a very hefty 6 million oz withdrawal from SLV. While it's feasible that there should be metal withdrawals on net investor liquidation on lower prices, the possibility also exists shares are being exchanged for metal to avoid SEC share ownership reporting requirements. These exchanges or conversions provide the perfectly legal solution to amassing silver and gold anonymously. I can't prove it, but I am convinced the entity with the greatest need for anonymity is JPMorgan.

There are reports that the US Mint has ended new production of Silver Eagles for the year, as occurs every year at this time. I don't see anything unusual about the Mint's switch to producing coins for 2017, but there is still a lingering question in my mind why JPMorgan "held back" in buying Silver Eagles as aggressively as they did up until the past several months. My best answers are that the bank didn't choose to buy up until the very last moment (before a price liftoff) so that the connection I had been making would remain largely unknown and because the bank was able to get metal in 1000 oz bar form.

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

There are a good number of physical metal developments that I feel could be very important that I don't have time to discuss at this point. Those developments range from COMEX gold deliveries and warehouse movements, to foreign gold demand from Russia and China and elsewhere, to the unusual and unprecedented monetary developments in India. Let me summarize my take on all these and other developments – they all appear to be extremely bullish for the price of precious metals. In fact, the strain between the physical world of gold and silver and the paper price world that exists on the COMEX has never seemed as stretched as it is now.

Because the strain is so stretched at this point and because market structure considerations on the COMEX are the main source of the strain – as in being the only negative price factor – yesterday's Commitments of Traders (COT) Report was eagerly awaited by everyone who follows the report. Moreover, this would be the report that covered one of the most volatile price periods in gold and silver, starting just as US presidential election results were becoming known and which ushered in, first, an upside penetration of key moving averages, immediately followed by a price reversal in gold (later in silver). And all on the highest weekly trading volume in history.

I just knew there would be reductions in the total commercial net short positions

in both gold and silver of record or near record amounts and put numbers on them – a reduction in the headline number of gold of 75,000 contracts and 25,000 contracts in silver. And I truly thought I was being conservative and that the numbers would be larger. So you can imagine my shock, disappointment and initial embarrassment when the reduction in gold commercial shorts was only 45,000 contracts and in silver the reduction was less than 4,000 contracts. I didn't know which was worse; never having been so wide of the mark before or my second initial reaction, namely, that there's a lot more commercial short covering to come on lower prices.

It may turn out that there are lower prices to come in market structure terms, but as I dug through the report and had a chance to sleep on it, a very different picture emerged. There was so much in this new report under the hood that it qualifies, in my eyes, as the most important COT report ever, despite coming in so wide of my expectations. Let me run through the highlights briefly before getting into why I believe this report is so important.

In COMEX gold futures, the commercials reduced their total net short position by 45,600 contracts to 200,000 contracts. This is the lowest (least bearish) total since March 22, but must be considered still very large in terms prior to this year. By commercial category, the big 4 bought back 22,100 short contracts,

while the raptors (smaller commercials) bought back 19,300 shorts and the big 5 thru 8 bought back 4200 shorts.

I am impressed with the large share of big 4 short covering relative to total commercial short covering this week and over the month or so. I'm sensitive to this because if a price manipulation exists, it has to be due to a few large traders, not many. Therefore, it's good news when the largest shorts abandon the short side.

On the sell side in gold, the managed money traders sold nearly 39,000 net contracts, including the liquidation of 33,538 longs and the short sale of 5419 contracts. The standout here was the very small number of contracts added by the managed money shorts. This was particularly true in silver this week and is the single reason my predictions were so off.

In COMEX silver futures, the commercials reduced their total net short position by a paltry 3700 contracts, to 78,500 contracts, a far cry from my 25,000 contract prediction. (A monkey who had been drinking and blindfolded throwing darts at number tables would have come closer than I did). By commercial

category, the big 4 (read JPM) bought back 3900 shorts and the big 5 thru 8 bought back 1800 shorts. The raptors went the other way and were sellers, having sold 2000 long contracts.

The big 4 and big 8 silver shorts now hold their lowest net short positions since June and I would peg JPMorgan as having whittled down its silver short position by 4000 contracts to 20,000 contracts. This is among the lowest short holdings by JPM since early in the year and like the concentrated short covering in gold, is a standout feature. This also establishes a new record for net holdings of silver by JPMorgan.

The 100 million oz COMEX short position (as of the Tuesday cutoff) subtracted from the 550 million physical silver ounces I believe the bank to hold leaves JPM net long to the tune of 450 million oz, the most for the bank ever. This puts JPM as better off for a sharp silver price rally now than ever before and in its best position of double crossing other commercials ever.

On the sell side of silver, the managed money traders sold nearly 8300 net contracts, including the sale of 7973 long contracts and the sale of a

remarkably small 325 new short contracts. I haven't mentioned it in a while, but with managed money gross long positions down to 64,000 contracts, if there is a core non-technical fund long position of 60,000 contracts (as last estimated), there is no much room for managed money long liquidation. But again, it was the failure of the managed money traders to add aggressively to short positions in both COMEX gold and silver that caused me to miss by a country mile and it was this development that makes this COT report so potentially profound.

Actually, the two absolute standouts to this report was the failure of the managed money traders to add to shorts, plus the aggressive short covering by the biggest shorts in gold and silver, namely, JPMorgan. Far from coincidental, I believe these two factors are joined at the hip and are instrumental to what will develop price wise. Let me deal with the managed money traders first.

Upfront, should the managed money traders add aggressively to short positions from here in COMEX gold and silver, then, unquestionably, prices are headed lower until these traders are done adding short positions. That's the sole bearish case for price. Will these traders add to shorts on lower prices? That's the only question that matters. Unfortunately, I can only answer that question with another question, namely, why the heck haven't they sold more aggressively by now?

There is no question, by past historical measures, that the managed money traders should have sold short aggressively by now in gold and silver. After all, both gold and silver plunged in price during this reporting week, shattering all the important moving averages to the downside on the heaviest volume ever. As an invitation to sell short by a managed money technical fund, this is the equivalent of taunting and waving a red flag in front of an agitated bull times ten. That raises another question □ under the most conducive circumstances for aggressive technical fund short selling, why didn't these traders sell short? And if they haven't sold short by now, why would they go short on still lower prices?

For years, I have been asked by many of you as to why the managed money technical funds persist in doing what they do, namely, serving as the financial ragdolls that the commercials throw so easily around. Maybe, just maybe have the managed money technical funds wised up a bit and made a conscious and overriding decision not to go short gold and silver as they have in the past. Yes, there was a time a couple of years ago when some managed money traders made out great on a short silver position (I still have the Easter Bunny costume) and similarly, some managed money shorts did fine on the big gold and silver price takedown in 2013. But more recently, big gold and silver shorts by the managed money traders have ended miserably for them, as seen at the start of this year.

Whatever the reason (including maybe they finally read my stuff), the possibility exists that perhaps the technical funds may have stopped shorting gold and silver in the price hole. Please note that I can't say if they will or they won't, just that they haven't up until now on the price decline through last Tuesday. I can tell you, however, that whether the managed money traders add to shorts is all that matters for short term pricing. If they do add to shorts, we will go down in price. If they don't, why would we go down in price?

Actually it's more than that and brings in the connection to the impressive short covering by the largest shorts in gold and silver, aka, JPMorgan in the latest COT report. It's actually quite remarkable that JPMorgan covered as many shorts, particularly in silver, as it did with so little additional short selling by the managed money traders in the current report. Talk about squeezing blood from a stone.

Let me state this as simply as I can ☐ if the managed money traders don't add to short positions from here on out, there is little for the commercials to buy and little reason for prices to fall. The managed money traders are the food supply for the commercials. When I first fashioned the trading pattern on the COMEX in

Jurassic Park terms years ago, it was based on the biggest 4 and 8 traders as T rexes and the smaller commercials as velociraptors preying on the plant eating technical funds. Incredibly, the technical funds rarely disappointed in behaving as reliable prey. But if that has changed, as suggested by this week's COT report, it could be that the commercials' food supply is or has dried up on this downswing in price.

No big managed money shorting equals no big commercial buying. That's a potential game changer in the gold and silver price manipulation on a par with the actual extinction of the dinosaurs. I realize that I analyze the silver and gold markets differently from others. Yes, more are following the COT reports currently than ever before, but certainly not in terms of what the biggest and most concentrated traders are doing (aside from Ed Steer, who is a devout student of my work) or the significance that the managed money traders may have changed their ways. Simply because I have been looking for and expecting some change in the trading pattern, I can't help but note what took place in the current COT report.

I have long expected JPMorgan to get aggressive on the buy side at the expense of the other large commercial shorts and the raptors and that was apparent in the current report. I have always expected price bottoms to have coincided with

a maximum of managed money short selling and I am open to the idea that the maximum in managed money short selling this time around may have occurred well before the “expected” amount of technical fund short sales were put on. In other words, if the managed money traders have decided not to add significant numbers of new gold and silver shorts for whatever reason, isn't that the same as them maxing out short positions?

A friend (Jim Cook) called me just after the COT report was issued yesterday and when I briefly gave him the results, all he heard was that the overall commercial short covering was much less in silver than I had expected and understandably tuned out the various qualifiers I was evaluating in real time. I told him to let me sleep on it and when he called me (earlier than usual) this morning, he expected to hear bad news. Instead, after I highlighted the two standout features of the report, JPMorgan's buying and the lack of short selling by the technical funds, it's safe to say he came away with a different take than he held yesterday.

I can't promise you that the managed money traders won't add big new short positions from here, but I can tell you, barring a massive reporting error by the CFTC (which I don't see), that they haven't so far and so far includes a near \$70 downward penetration of the 200 day moving average in gold and close to a \$1

penetration in silver during the current reporting week. These facts and common sense suggests they might not short on even lower prices from here.

I also can't promise you that JPMorgan is taking the final steps I long envisioned as the precursor to a price liftoff, namely, buying as many COMEX contracts as possible with the intent of not selling aggressively on the next rally. There's no way I can know what JPMorgan will do in advance, but, simply because I am looking at the data likely to reveal that, I think I have a pretty good handle on what they have done. Therefore, it's hard for me not to be excited by what I see in the current COT report, after wincing when first seeing the small changes in the headline numbers.

And while only a fool or a charlatan would profess to know what will happen in the very short term, I have long expected, due strictly to mechanical market factors, that when the big move up commences in silver, the move will shock all with its intensity. The two key developments in this week's COT report, disproportionate JPM short covering and the lack of managed money new shorting have deeply impressed me.

These developments come against a very recent backdrop of generally large and unexpected moves in other markets and I can't help but believe that the backdrop adds to the equation of a sharp up move in silver and gold shortly. To be frank, I'm still unsure why gold and silver prices declined so sharply in the current news environment; away, of course, from COMEX positioning.

Accordingly, I would treat further prices declines from here, particularly if the two key factors □ buying by JPM and little shorting by managed money traders continues – as extraordinary buying opportunities.

Ted Butler

November 19, 2016

Silver – \$16.60 (200 day ma – \$17.63, 50 day ma – \$18.19)

Gold – \$1208 (200 day ma – \$1281, 50 day ma – \$1282)