November 2, 2019 – Weekly Review

A late Friday rally enabled gold to close at six week closing highs and eight week highs for silver, although gold was stronger than silver this week. Gold ended $9 (0.6%) higher for the week, while silver added 5 cents (0.3%). As a result of goldâ??s slight relative outperformance, the silver/gold price ratio widened out a bit to 83.8 to 1.

Highlights for the week included what looks to me to be a rare reporting error in yesterdayâ??s Commitments of Traders (COT) report for the four precious metals traded on the COMEX/NYMEX, which muddles some, but not all of the data. I did notify the CFTC of the error, but given the time the report is published (late on a Friday afternoon), I didnâ??t get a response, nor were the errors corrected. That said, there is enough in the report to comment on, although big increases in total open interest since the Tuesday cutoff are more problematic.

Even allowing for much of the big increases in total open interest since the Tuesday cutoff (40,000 contracts in gold and 7500 contracts in silver) to be the result of new spread positioning, it is troublesome that the concentrated short position of the 4 and 8 largest traders in COMEX gold is likely to be at new recent highs. Why I consider it troublesome, of course, is that it sets up for extreme price volatility as either the large managed money long position or large commercial short position gets resolved on either a severe price decline or a more severe price advance. Simply put, the regulators have been negligent in allowing such a large derivatives position to have developed in both COMEX gold and silver. Talk about the tail wagging the dog â?? the futures market tail now weighs 20 lbs., while the cash market dog is the equivalent of 10 lbs.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses â??cooled offâ?• a bit this week as just under 4 million oz were moved. This amount is slightly below the weekly average of the past 8.5 years, but still amounts to 200 million oz on an annual basis and which continues to blow the doors off the movement in any other commodity. Total COMEX silver inventories fell a slight 0.1 million oz this week to 314.9 million oz and there was no change, after three weeks of big additions, to the JPMorgan COMEX silver warehouse, which stood at 161.1 million oz.

Iâ??ve gotten a decent number of possible explanations for my open solicitation for why others think so much silver (and only silver) has been moved into and out from the COMEX warehouses. Thanks to all for taking the time to think about this and for responding. The one common theme to every response Iâ??ve received is that the movement is occurring for illegitimate reasons (although specifics did vary). I find it fascinating that not one explanation described the movement in terms that could be described as occurring for legitimate economic reasons. For sure, this would be an ideal time for the regulators (the CFTC, DOJ, or CME Group) to step up to the plate and explain why so much silver is being physically moved on the COMEX. Just donâ??t hold your breath.

Since weâ??re in between major delivery months on the COMEX and there havenâ??t been extremely unusual developments in ETF flows, Iâ??m going to jump to the new COT report, which as Iâ??ve indicated, appears to contain some rare (thankfully) reporting errors. While many are suspect of government data reports in general, such as the monthly employment report, Iâ??ve always found the COT reports to be highly accurate. At lot of that has to do with the information being covered and the methodology employed in deriving the data.

For instance, yesterdayâ??s employment report indicated sharp revisions to previous recent reports of 50,000 and 100,000 in the number of US workers employed. But you must keep in mind that whatâ??s covered is the change in monthly job status of workers in a country with a total population well in excess of 300 million. Itâ??s unrealistic to think such a report would feature pinpoint accuracy.

On the other hand, the COT report covers changes in positions involving no more than 360 large traders in gold and 216 traders in silver (currently), all of which must report electronically any change in positions on a daily basis. Plus the positions must balance, given the reality that each open contract involves both a long and short holder, offering another layer of mathematical protection for accuracy. Thatâ??s why errors and revisions in COT reports are so rare, namely, the reporting base is low, computer driven and must balance. All that said, there does appear to be some serious reporting errors in this weekâ??s report.

Specifically, the errors are related to unusually large increases in the short positions of the non-reporting traders in NYMEX palladium and platinum, but especially in COMEX gold and silver. (The non-reporting numbers are derived by subtracting all the large reporting traders from total open interest). The increases in the short positions of the non-reporting (small) traders looked to be impossibly large and transposed with the commercial traders in the producer/merchant category.

The reporting errors donâ??t invalidate the entire report, but it does invalidate a number of key metrics, such as the headline number of total commercial shorts. For instance, this weekâ??s report indicated a decrease in the total net short position of the commercials in silver of 4000 contracts when an increase of roughly that amount would have been in order. In gold, it was reported that the commercials increased their net short position by 5900 contracts, when the actual increase was closer to 15,000 contracts or more. Therefore, Iâ??m going to skip reporting the commercial headline number changes this week.

But since the reporting error seemed to involve only the non-reporting and producer/merchant categories, I didnâ??t see anything wrong with other categories, including the swap dealer, managed money and other large reporting trader categories, as well as with the concentration data, both short and long. So Iâ??ll confine my remarks to the changes that appear valid. If, as and when the CFTC corrects this report, I probably wonâ??t review it further, since I am more concerned with how much more managed money buying and commercial selling has occurred since the Tuesday cutoff.

Going into this report I did predict â??more than decentâ?• increases in managed money buying and commercial selling based upon price changes and changes in total open interest. As it turned out, the managed money traders did buy more than 4500 net silver contracts and just over 14,000 net contracts of COMEX gold futures, with the vast majority of the net new buying being new long positions as opposed to short covering.

Of particular concern in the gold report was the very large increase in the concentrated short positionof the 4 largest traders, which increased by more than 23,000 contracts (which kind of proves theposted increase of 5900 contracts in the total commercial short position was bogus). The concentratedshort position of the 4 largest gold traders was 184,668 contracts as of Tuesday, only about 1000contracts less than the recent peak on Sep 24, when the price of gold was $50 higher than on thisweekâ??s cutoff.

Itâ??s hard to imagine on the gold rally that occurred after Tuesday in which gold added $25 and closed above its 50 day moving average that there wasnâ??t significant managed money buying and commercial selling, particularly of the concentrated variety. That would put the concentrated short selling of the 4 largest traders at new and dangerous extremes. By â??dangerousâ?• I mean in terms of price volatility. I canâ??t tell you which way prices will break, but I can tell you the move will be exaggerated by the excessive concentrated short position. It is truly a shame and scandal that the regulators are not doing a darn thing about this (less of a shame, of course, if it leads to a price explosion).

Perhaps the only good news in gold is that maybe JPMorgan hasnâ??t increased its short position in greater proportion to the increase in big 4 shorting, but I might be premature in that speculation. I will say that there didnâ??t appear to be any big increase in big 4 shorting in silver, although the big 4 short position did increase by around 500 contracts. Accordingly, I would peg JPMâ??s silver short as somewhere between 20,000 and 21,000 contracts. I found it interesting that despite the slight increase in big 4 shorting in silver, the 5 thru 8 next largest traders reduced their net short position by more than 2000 contracts, perhaps indicating a slight breaking in the solidarity of the 8 big shorts (this also occurred in gold)

Switching to the concentrated positions of the 4 largest traders on the long side, these positions increased in both gold and silver; gold by 4300 contracts to 131,262 contracts and silver by more than 1200 contracts to 54,018. This keeps my recent speculation about an emerging whale in silver (and gold) alive. Over the six past reporting weeks the concentrated long position in silver has increased by just under 9200 contracts, or 46 million oz or close to half of the 100 million oz bought back in June. Again, I donâ??t see any particular reason to cast aside the concentration data in this report, as it would seem unrelated and unaffected by the category errors I detected.

Also as indicated, the big concern is not only the increase in the concentrated short position in gold in the reporting week ended Tuesday, but the likely further big increase since then. This is the big scandal, namely, that some very small number of traders (banks) are single-handedly capping the price rally in full view. Aside from the obvious manipulative effect it has on prices, it adds to what is an extremely dangerous market structure.

If the 4 or 8 largest shorts run into more serious financial trouble than they appear to be in currently, there could be explosive upside price action ahead. Alternatively, if the big shorts succeed, gold and silver prices will get crushed. This is no way a market should be configured and the reason we have commodity laws and a federal commodities regulator is to prevent this exact circumstance. As it stands, the CFTC wonâ??t even openly address the matter.

The snapback in prices since Wednesday means the 7 big commercial shorts in gold and silver (sans JPMorgan) ended the week $200 million more in the hole than last weekâ??s $3.7 billion. The $3.9

billion that the 7 big shorts were out on yesterdayâ??s late close comes to more than $550 million per trader. Yes, the big shorts have clawed back some the open losses along the way by short term trading, but I have tried to include those offsets as theyâ??ve occurred. The fact is that the 7 big shorts have been more than $3 billion in the hole for the past three months running and are now upping their big short bet to more absurd levels. It would be nice if the regulators would take the time to address this issue.

It will be interesting to see how quickly the CFTC reacts to the errors in this weekâ??s COT report, but itâ??s far more important for it to address the real underlying issue of the big concentrated shorts openly manipulating the price of silver, gold and other precious metals, thus creating a dangerous market situation that will affect all. This is the real problem with the regulatory indifference that amounts to malfeasance â?? a few big short sellers, left unchecked and unregulated have created artificially low prices that wouldnâ??t exist if the concentrated short positions didnâ??t exist.

I did an interview with Reluctant Preppers last Sunday in which some very good questions were asked (and, hopefully, not answered poorly).

https://www.youtube.com/watch?v=6B699kyhZ3M&feature=youtu.be

Ted Butler

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Silver – $18.10Â Â Â Â (200 day ma – $16.07, 50 day ma – $17.93)

Gold – $1516 Â Â Â Â Â Â Â (200 day ma – $1388, 50 day ma – $1511)

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