Weekly Review

For the third week in a row gold and silver prices fell, this week with gold falling more sharply than silver. Gold finished the holiday-shortened trading week down $24 (2%), while silver ended lower by 10 cents (0.6%). Silver's relative outperformance resulted in the silver/gold price ratio tightening in by 1.5 points to 71.5 to 1, after widening out even more the previous week.

Although I mention the weekly change in the silver/gold price ratio because I find silver to be vastly undervalued relative to gold (and everything else), since the relative price, just like the absolute price of each, is artificially set in COMEX paper dealings, short term price changes are close to being undecipherable. As such, it's hard for me to imagine how anyone could even try to figure out or predict short term changes in the silver/gold price ratio. Apparently, I'm not alone.

A month ago, amid great fanfare, the CME Group launched new contracts designed to allow short term traders a simple way to play the silver/gold price ratio, along with a few other precious metals price ratios. With a month gone by since the introduction of the new price ratio contracts, unless I'm reading the data incorrectly, there has yet to be any trading in these contracts, save for a one contract trade in the gold/platinum price ratio. This is not a particularly impressive start for newly introduced contracts.

http://www.cmegroup.com/daily_bulletin/current/Section62_Metals_Futures_Products.pdf

It's not easy introducing successful new futures contracts and, as a result, most new introductions fall by the wayside. And I don't mean to sound overly harsh towards the CME or the COMEX, leaving aside my firm conviction both are cesspools of insider dealings and price manipulation. My point here is that I can't begin to understand how or why anyone would trade the silver/gold price ratio, or any other price ratio, on a short term basis and the near complete void of trading doesn't particularly surprise me. Perhaps I will be wrong and trading will explode in such instruments in the future, but if it does, I will be very surprised.

The standout feature to the week was the sudden price plunge in gold and silver right on the traditional COMEX opening Wednesday, which continued in dealings on Thursday and Friday. In the process, gold set new price lows not seen since

February and silver hit lows not seen since June. Trading volume was enormous, particularly in gold, even after subtracting heavy rollover volume approaching this week's start of the big December delivery period.

There can be no doubt that the commercials rigged prices lower to set off managed money selling and that such selling occurred, with the commercials buying every contract sold. The actual details of how many contracts the managed money traders sold and the commercials bought will be contained in the COT report, although this Monday's report will not include the positioning details from Wednesday on. The important point is to know what took place and then to have it confirmed in official data.

A number of subscribers asked me how prices could be going lower if the managed money traders weren't adding aggressively to short positions, as I recently reported. It's a good question and there are a number of answers. First, there are two types of selling □ the selling of an existing contract (long liquidation) and the selling of a new short position.

Through the last COT report for gold, the managed money traders had sold more than 120,000 long contracts from the summer price and position extremes, but still held long positions around 80,000 contracts larger than at year end. Undoubtedly, a good number of those remaining managed money long positions were sold since the last COT report.

In the last COT silver report (as of Nov 15), managed money long positions had come down by 35,000 contracts since the summer peaks, with no more than 10,000 to 15,000 contracts of long positions remaining open above year end levels. I would imagine the selling of these remaining managed money long positions in gold and silver provided the selling pressure evident in the price decline.

Plus, I didn't rule out new short selling by the managed money traders, I was taken aback by the relative lack of it in the last COT report, particularly in silver, where only 325 new short contracts were sold during the reporting week (in gold, 5419 new managed money shorts were added). I would expect some number of new shorts were added since the last report, but unless the number turns out to be gargantuan, it could still represent a paradigm shift in the relative lack of managed money shorting. Rather than speculate, I'll just wait until Monday's and Friday's reports to see what occurred.

The only thing that would shock me to the point of being speechless, would be to see a major price decline, of the type just witnessed in gold and silver, in which the managed money traders were the buyers and the commercials were the sellers. That would be like a horse taking a man-ride. No matter what the coming breakdown is between long liquidation and new short selling, all the net selling was done by the managed money traders and all the net buying (short covering and new long buying) was done by the commercials.

Most important of all is that a very significant improvement in the market structure of gold and silver has occurred and we are now more bullishly structured for higher prices than at any time since early in the year. Yes, I know it hurts, psychologically and financially, when prices move lower; but I also know that the managed money selling and commercial buying which drives prices lower is the only thing that can improve market structure.

I'm going to skip the usual weekly format on COMEX silver warehouse turnover and Silver and Gold Eagle sales as nothing stood out and they had little to do with price movement (as is usually the case). There were notable further withdrawals in the metal holdings in the big gold and silver ETFs, GLD and SLV, with most signs pointing to continued big buyer accumulation. Even the new short report on stocks was underwhelming, with a further small decline in the short position of SLV and a minor increase in GLD.

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

Certainly, we're much closer to the end of the managed money selling and commercial buying down price cycle in gold and silver and the start of a new price cycle upward. I know it may not feel that way to most precious metals investors and observers, but weak collective sentiment is usually at its nadir at price bottoms (along with account balances). Investors feel good collectively at tops, not at price bottoms. Of course, in gold and silver, the commercials always seem to rig prices lower than what I usually anticipate, but as we get closer to the bottom, I become more focused on what the inevitable upturn will look like.

Although I have always opined that the completion of past COT positioning price bottoms in silver be treated as if they were the start of the big move higher, the subsequent price rallies haven't been the big move higher. While we have yet to see the big move higher in silver, my opinions shouldn't have hurt anyone, as we have had nothing but price moves higher following previous bullish COT setups and plenty of time to react to developing bearish market structures. In the past, whenever the commercials and, particularly, JPMorgan added significant new short positions, the odds of the rally being the big one faded. And I would stipulate in advance that should JPMorgan add aggressively to short positions on the next silver price rally, we'll likely get the same result of getting a rally, but not the big one.

This time feels different for a number of reasons. The biggest reason is that JPMorgan, as a result of continued active accumulation of physical silver and the short covering of its massive COMEX paper short position, holds its biggest net long position ever in silver. This makes it the best positioned the bank has ever been for a silver rally. While it's true that JPMorgan has been positioned favorably for the big silver rally in the past and that rally didn't materialize, it's also true it was never positioned as favorably as it is today. But it's more than just JPMorgan, it has a lot to do with the managed money traders.

Never have these traders taken the large collective positions they have taken this year, not just in COMEX gold and silver, but other markets as well. Previously, I've discussed how the managed money traders hold more investor assets under management than in history, not due to superior performance, but more to do with the overall lack of investment alternatives in a near zero interest rate environment.

Regardless of why the managed money traders hold massive assets under management, there is no question they have taken record large positions of some type, not just in gold and silver, but in any number of commodities this year, including crude oil, copper, sugar, and the grains. The commercials have taken the counterparty opposing positions to whatever the managed money traders have put on. And there is no way to dispute the price influence this positioning has had on all these commodities.

While many (including me, to some extent) await the coming demise of the COMEX-controlled price discovery process in gold and silver, it's much closer to the truth to say that COMEX positioning has never been stronger as a price influence. Truest of all is that the commercials have been the masters of the managed money traders up until this point. I admit to harboring thoughts about whether the commercial shorts would get overrun this summer when their collective open losses in gold and silver ballooned to $4 billion and one big 8 gold short folded. But subsequent events have eliminated any doubts about the mastery of the commercials over the managed money traders to anyone looking at things objectively. Clearly, the commercials have been the bosses of the technical funds, effectively, leading them around by the price nose.

Ironically, one of the reasons I feel the next move up in silver should be the big one is the mastery of the commercials and the new massive amounts of contracts the managed money traders have been taking. The commercials, being crooks but no one's fools, have come to appreciate the new grand scale of positions the managed money traders are capable of putting on. I don't think the commercials fully appreciated the large number of long contracts the managed money traders would come to put on in gold and silver early this year until it was too late and the commercials were staring down the gun barrel of a $4 billion open loss. But as they say — that was then and this is now.

Now that the commercials fully appreciate how many long contracts the managed money traders can add in gold and silver, it is reasonable to assume the commercials will do what it takes to sell to the managed money traders in a manner that won't replicate their near-disastrous $4 billion experience this summer. There is only one way the commercials can sell the required amount of contracts that the managed money traders could buy without coming to the financial brink again — by not selling short at prices as low as previously.

The next time prices penetrate the moving averages to the upside and the managed money traders are given buy signals (by the commercials), it is reasonable to assume the commercials will demand much higher than usual prices to sell short to the technical funds. In other words, for the commercials to make the managed money traders pay way up to buy contracts. This is a new twist on an old theme of mine, namely, a coming void in commercial shorting in silver at some point which by itself would create an explosion in price. The new twist is that the ability of the managed money traders to buy more contracts than ever before adds to the likelihood that the commercials will demand much higher prices before shorting. It's downright amazing to me how so many long held premises can still be considered to be in play.

And should gold and silver prices turn upward soon and penetrate the moving averages in the near future, this will automatically add to the rally's explosiveness, considering how far prices are below the moving averages. During much of the summer, gold and silver prices were very much above their key moving averages, which turned out to be magnets eventually pulling prices lower. Now, for the first time in nearly a year, gold and silver prices are substantially below their important moving averages and the price magnet effect should be to the upside.

Finally, in case you haven't noticed, at the exact time gold and silver prices have come under downward pressure (since the US presidential election), prices of base metals have soared, not just in copper, but also in zinc and lead, which are hitting multi-year highs. Regardless of what you may hear, the actual supply/demand fundamentals of these metals hasn't (and couldn't) suddenly changed. Instead, the common denominator for the base metals price surge has been speculative buying.

I've talked about the record surge of buying in COMEX copper futures by the managed money traders and there has been even more speculative buying on the LME and in China in copper. In lead and zinc, COMEX trading amounts to nothing and it's all London and Chinese speculative buying driving prices. My point is that speculative buying has driven prices higher, with that yet to occur in silver and gold. But no market is more appealing to speculators than gold and silver and it is only a matter of time before the speculative fever descends like a swarm of locusts on these metals. It is said that there is no fever like gold fever, but that will change when the speculative fever comes to silver, considering how little of it exists.

In fact, I believe it is the surge in speculation in the base metals that sped up the commercials' timetable for getting the managed money traders to sell as many COMEX gold and silver contracts as possible over the past three weeks. The data show and will show that the commercials have been buying the price decline, with the managed money traders as the sellers. History has shown that it's wise to buy when the commercials buy and wise to be cautious when the commercials are heavily short (like this summer). Unless, of course, one feels that the managed money traders are the masters of the commercials and JPMorgan and not vice versa.

In my opinion, now is the time to be fully positioned in silver or in being close to fully positioned. New salami price slices to the downside are always possible and it's impossible to know the exact price bottom in advance. The main antidote against further price declines is not to hold positions on a margin basis or in any manner where still lower prices would cause you to lose positions. I can't foresee any future price scenario that doesn't feature silver being sharply higher than current levels, even as I acknowledge the possibility of lower prices in the very short term.

It's important to remember that under my COMEX market structure approach, once the structure turns bullish (as it appears to me now), lower prices only strengthen and intensify the bullishness. I suppose it's possible or even likely that, having waited so long for the market structure to turn bullish, I may be jumping the gun a bit and forgetting that the commercials always seem to have one final trick up their sleeves to the downside. Then again, it's just as likely we may have seen the price bottom. But timing and pricing the exact bottom should prove much less important than the extent of the inevitable coming rally.

I will publish commentary on Monday's COT report around 6 PM EST, although I'm thinking more about what transpired since the Tuesday cut-off.

Ted Butler

November 26, 2016

Silver – $16.50 (200 day ma – $17.65, 50 day ma – $17.99)

Gold – $1184 (200 day ma – $1281, 50 day ma – $1272)