

A post-Thanksgiving Friday rally resulted in gold closing \$3 (0.2%) higher for the week, while silver, once again, added a penny for the week. Not much change in the silver/gold price ratio which ended at 86.2 to 1. Even saying it over and over again does not change the absurdity of silver being this cheap compared to gold.

Stepping back a bit for a wider perspective, after the largest gold and silver price rallies in years, which began in June and ended in September and which amounted to nearly \$300 in gold and \$5 in silver, gold prices pulled back by \$100 and silver by as much as \$3. For the past month, both gold and silver have traded in very narrow price ranges.

As previously discussed, the rallies were caused by massive managed money buying in COMEX futures and the subsequent selloffs and price consolidations have resulted in very little managed money selling, even though a whole host of moving averages have been penetrated to the downside. On that basis alone, the price action this year stands out in that it seems incomplete and yet to be resolved.

What needs to be resolved is if the managed money traders will sell en masse on still lower prices (just as they have always done in the past), or if the big concentrated commercial shorts will be forced to buy back shorts at large realized losses (for the first time ever). Let me run through the usual weekly format (minus the typical COT report review which will be delayed until, late Monday) before returning to this topic – including what might be a valuable new insight from a subscriber.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this holiday-shortened week to nearly 6.2 million oz, the largest turnover in six weeks. Most surprising to me was that total inventories fell by 2.8 million oz to 313.4 million oz, the lowest level in more than two

months. Generally speaking, total warehouse inventories tend to increase going into a major COMEX futures delivery as participants prepare for delivery, which was the case this week for the December contracts. There was no change in the JPMorgan COMEX warehouse – still stuck at 161.1 million oz for the past 5 weeks.

There was one typical delivery occurrence on display in both silver and gold this week, namely, some large transfers from the eligible to the registered category for delivery purposes. Yesterday, there were nearly 5.5 million oz of silver and 167,000 oz of gold transferred to registered from eligible and delivered. While there is much about the warehouse movements and delivery statistics that remains in the dark, my general impression is that last minute transfers imply a reluctance of the issuers to part with the metal they are delivering – perhaps in the hopes the buyers will choose not to stand for delivery and sell or roll over at the last moment. This feeling was reinforced by the fact that the category transfers and deliveries occurred on the second day of deliveries this month.

It's not terribly unusual for second delivery day issuances to be larger than the first day's deliveries and that was the case in gold, where the second day's deliveries were nearly four times larger than the first's day (4933 vs. 1320). Since I was surprised by the absence of HSBC issuing any gold or silver contracts in its own name on first notice day, its second day issuances of 4095 gold and 478 silver contracts from its house account were less of a surprise. By far, HSBC has been the largest issuer of gold deliveries this year in its house account, so that's why I was surprised by its no-show on first delivery day.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Speaking of no-shows, JPMorgan has been noticeably absent in gold or silver

issuances or stoppings over the first two days of the delivery month in its house account. I don't want to read too much into JPM's absence in its house account, but perhaps it is intentionally laying low in the event of large price move (so as not to be blamed). I would note that Goldman Sachs and Citicorp have stopped a total of more than 2000 gold contracts so far in their respective house accounts and both have a pattern of redelivering what they've stopped later in the month (I suspect to accommodate you know who).

In addition to the unusual decline in total COMEX silver warehouse holdings this week, there have been some fairly chunky (5 million oz) reductions in the physical holdings of SLV, the big silver ETF. Also, over the past month, more than 5 million oz have come out of the second largest silver ETF, SIVR. Decisive conclusions are not readily apparent, but I do get the sense of overall physical tightness in both silver and gold as a general takeaway from recent statistics.

On Wednesday, I wrote how I saw signs that might foretell a pending sharp upside move in silver and gold. The signs include the nearly nine year physical silver and gold accumulation binge by JPMorgan, it's very recent aggressive buyback of COMEX silver and gold short positions while the other big commercials were adding to short positions and the very curious case of the managed money traders not selling where they had always sold on previous moving average penetrations. I speculated that maybe JPMorgan had whispered in the ears of certain favored hedge fund clients about a pending big upside move.

A long-time and plugged-in subscriber wrote to me, noting and agreeing with my three signs (tells) and offering a fourth. Doug noted that the largest of the silver miners had been acting quite strong of late, in marked contrast to the recent silver

price pullback and consolidation and was possibly a further indication of word being spread about a pending big price move. After all, very few would buy a silver mining company in the absence of an expectation of a higher silver price. I certainly had noticed on a peripheral level the new highs in senior silver miners, but Doug's observation did tie it in with the other signs I had observed. Could they be connected? Buying shares would be natural if you had reason to believe (or been tipped) that silver prices were headed higher.

It is said that timing is everything, but that is more the case when dealing with investment vehicles like options, as opposed to fully paid for and non-expiring positions, like physical metal and stocks. Since there is no expiration date on physical metal or mining stocks (other than our own "personal" expiration dates), the only real task is to be as invested as much as possible before any big move higher, as opposed to afterward.

In that same vein, I'd like to again address the inevitable resolution that must result from the current lopsided COMEX market structure in gold and silver. Either the managed money traders will "win" for the first time and collectively ride big long positions to much higher prices or they won't.

Conversely, either the 7 or so big commercial shorts will again buyback most of their short positions with little realized loss or they will "lose" for the first time. As a result of Friday's fairly sharp rally in gold, the dip below the \$2 billion mark for open and unrealized losses proved temporary and at week's end, the 7 big shorts in gold and silver were out a combined \$2.2 billion.

I understand the most popularly-held opinion is that the managed money traders will sell at lower prices in the end – same as always – and fully stipulate that this is one of

only two outcomes. This is the outcome I've learned to expect from countless observations over the decades. On the other hand, at similar junctions of extreme market structures in the past, I've always admitted to the possibility of different kind - the Full Pants Down premise of my dear departed friend and silver mentor Izzy Friedman. Izzy's premise was always that the silver shorts would get overrun and consumed to the upside.

Therein lies the quandary, namely, something that has always worked like clockwork (the fleecing of the managed money traders by the commercials) must suddenly stop working with the perennial losers turning into the ultimate winners. Now it appears to me that Izzy's vision, or at least an amended version of it, might be at hand. To be sure, I can't know how things will turn out at this time, but there are enough signs or tells to reasonably speculate an ending along the lines of what Izzy long expected.

Thanks to the emergence of JPMorgan as the gold and silver kingpin when it took over Bear Stearns nearly 12 years ago and specifically as a result of its physical metal acquisition binge since 2011, the most basic ground rules in place when Izzy formulated his premise have been radically altered. In other words, it's no longer the managed money technical funds pitted against the big commercial shorts. Now it is the managed money traders AND JPMorgan pitted against the big commercial shorts. That's a matchup of an entirely different nature and one that I don't believe Izzy ever contemplated.

The most essential key in the managed money alignment with JPMorgan was JPM's epic accumulation of physical metal over the past nearly nine years. Ironically, JPMorgan, along with its commercial compatriots, played the managed money traders like a fiddle over this time and it was the combined commercial manipulation

of the managed money traders that enabled JPM and the other big commercial shorts to never take a loss. It also allowed JPMorgan to accumulate massive quantities of physical metal cheaply along the way (the only commercial to do so, in my opinion).

But now that JPMorgan has massive amounts of physical gold and silver and has whittled its COMEX paper short positions down to negligible levels, the basic equation has been radically altered. No longer is it JPMorgan and the commercials against the managed money traders, it is JPM and the managed money traders against the commercials. Or more correctly stated, this is the new lineup if JPMorgan decides it is the new lineup.

One of the very first observations I made when I discovered the COMEX price manipulation nearly 35 years ago was that if the situation was somehow reversed and it was the commercials (banks) which were long and the speculators (managed money traders) which were short – we would be marveling at how high the price of silver had gone, instead of lamenting how low it was and would remain. Of course, getting the speculators to be massively net short back then (in the midst of a genuine structural physical deficit) would have been impossible.

Much later, it did turn out that the managed money traders would get massively short and the commercials not quite big net long, but at least neutral, on a number of occasions, including earlier this year in silver and last year in gold. On all those previous occasions when the managed money traders got to be big net short, I know I got quite bullish and rallies always unfolded – although I fully admit not the “big” one. In fact, the regularity of price rallies when the managed money traders were short and price declines when they were long is what has given rise to the extreme popularity of the COT market structure premise.

In hindsight, it was the unknowable before the rallies behavior of JPMorgan that doomed all past gold and silver price rallies. And, quite frankly, it is JPM's future behavior that will determine whether the next rally is the big one or not. If JPMorgan adds aggressively to COMEX gold and silver shorts, the odds shoot up that the rally won't be the big one. That's what makes the current signs all the more interesting.

Yes, JPMorgan has been in position to let her rip to the upside by virtue of its massive physical metal holdings and chose not to let prices rip higher by adding many new short positions on every price rally. Then again, JPMorgan has never owned as much physical metal as it holds now and that increases the odds of the let her rip outcome. And yes, JPMorgan has aggressively bought back COMEX silver and gold short positions in the past, only to add to shorts on the inevitable rallies – thus dooming those rallies. Then again, JPMorgan has never been quite as well positioned (long physical minus paper short positions) as it is currently.

That makes the sign about the managed money traders not selling to date all the more curious, as well as Doug's observation of stealth silver mining company buying. While I still acknowledge the managed money traders could end up capitulating yet again and selling on lower prices, the fact that they haven't to date raises the question of what happens, quite contrary to popular expectations, if instead of further salami price slices to the downside, we find that prices have penetrated the key moving averages to the upside?

Thanks to the flattening of gold and silver prices over the past month or so, all the key moving averages have necessarily moved lower. On top of that, the switch from December to February in gold and March in silver (upon the arrival of first delivery day in December) brings a complete upside penetration of all the moving averages

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within striking distance. Right now, all the moving averages in question (the 100, 50, 30, 20 day, etc.) are only \$20 (or less) higher in gold and 40 cents (or less) higher in silver.

This means that the managed money traders which did sell (and others that didn't sell) on the recent moving average penetrations to the downside will most likely be looking to buy on a \$20 up move in gold and 40 cent rally in silver. This will exacerbate the financial plight of the 7 big shorts and force them to sell short even more to contain prices. I can't know whether JPMorgan will, once again, join in with the commercial shorting, but if it doesn't the other shorts could be in real trouble.

This is the essence for a revision of Izzy's Full Pants Down premise – which side will JPMorgan choose to join? Will JPM choose to side with the commercials, adding even more time to the wait for the big one or will it choose to now ring the cash register loudly and make a fortune to the upside? More signs seem to point to the latter than to the former.

(In housekeeping notes, I will have comments on Monday's new Commitments of Traders report, most likely around 6 PM EST that day. Also as mentioned above, starting today, I am switching to the February contract for gold and March for silver from December for closing price purposes. This has the effect of adding around \$6 to the price of gold and around 14 cents to silver) and brings a potential upside penetration of several moving averages that much closer.

Ted Butler

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Silver – \$17.10 (200 day ma – \$16.20, 50 day ma – \$17.50)

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Gold - \$1471 (200 day ma - \$1403, 50 day ma - \$1490)