

## Back to the Count

With gold and silver hovering around their important 200 day moving averages and with significant changes already and about to be reported in market structure, let's consider where we are and some of the future possibilities.

The year started with gold and silver at their lowest price levels in years, with an extremely bullish COMEX market structure in place, marked by record large managed money short positions in each. Befitting the bullish setup, the best rally in history quickly emerged in gold in the New Year, with prices jumping higher by \$200 by February and then by another \$100 into July. Silver started the year slower to the upside, but had caught up and exceeded gold's gain by the summer, rising more than \$6 at its peak.

In round numbers , what drove the gold and silver rally was the net buying of 300,000 COMEX gold contracts (30 million ounces) and the buying of 90,000 silver contracts (450 million oz) by the managed money traders (which the commercials sold and sold short into).

Since hitting the price highs of summer, gold prices have retreated by \$100 and still remain \$200 higher from year end, while silver has given up \$3, leaving it up around \$3.50 for the year. Most of the gold and silver price decline has come in the past couple of weeks. Based upon last week's COT report and also including my guesstimates for this week's report, somewhere around 90,000 gold and 20,000 COMEX silver contracts have been sold by managed money traders over the past two reporting weeks.

Measured from the peak in positioning extremes at the price highs of summer, the managed money traders have sold close to 100,000 net gold contracts and maybe 30,000 silver contracts. Normally, such large managed money selling could leave us set up for a rally, but while such a rally is possible, the selling doesn't look as large when compared to the amount of buying that preceded it. Only around one-third of the previous managed money buying would appear to have been sold. Should the commercials succeed in engineering the managed money traders to sell additional large quantities of gold and silver contracts from this point, only a fool would deny the impact that such selling could have on prices.

October 12, 2016 - Back to the Count

The commercials have completely erased record unrealized losses in gold and silver short positions, turning what was a near \$4 billion loss in July into realized and unrealized gains of close to \$1 billion currently. Accordingly, it must be concluded that at this point the commercials appear to be in control, certainly compared to a few months ago. I feel no joy in saying that, but the alternative is to misrepresent the data. Now the question is if the commercials can induce sufficient additional managed money selling to provide the means by which the commercials can buy and close out short contracts and book even bigger profits.

My hunch is that the commercials will succeed on this go-around since they have the recent momentum, although the short term price roadmap is unknown to me and could include sharp rallies. The only other alternative is for a commercial overrun to the upside, something that looked plausible at the price highs (given the amount they were underwater), but decidedly less so today. Unless the commercials fail for the first time, price rallies from here are likely to do little more than delay the eventual resolution and provide scam within a scam trading opportunities for the commercial crooks.

If we do experience a forceful resolution to the downside that cleans out the managed money longs and gets the commercials off the hook, it will create

October 12, 2016 - Back to the Count

another great buying opportunity (perhaps the last great silver buying opportunity). The only problem is that the resultant lower prices will likely cause much weeping and gnashing of teeth for silver investors, as price selloffs always involve pain. I wish there was some way around that, but it appears to be a market fact of life. No pain, no gain and all that.

I've come to realize how complicated all this sounds to someone not fully versed in the real goings-on in COMEX dealings, but all I can do is try to explain it as clearly as possible. It all still revolves around JPMorgan, which has accumulated more than 500 million oz of physical silver over the past five and a half years. Just this morning I was asked why wouldn't JPMorgan work to create higher prices considering its large actual silver holdings? That's a great question and one day soon, JPMorgan will undoubtedly press silver prices higher.

But right now JPMorgan is also short around 25,000 COMEX silver futures contracts, the equivalent of 125 million oz and lower prices will enable the bank to buy back many of those short contracts profitably. You could say JPMorgan is playing both sides of the street. But it's more than that, in my opinion, because it is a lot easier for JPMorgan to buy back paper short positions than it is for the bank to buy additional ounces of actual silver.

For example, over the past two reporting weeks, JPMorgan may have bought back 8,000 paper silver short contracts (depending on this Friday's report), the equivalent of 40 million oz. There is no way in the world that any entity could buy 40 million oz of actual silver in two weeks without causing prices to explode. Yet the commercials bought 50 million oz of paper silver in the past reporting week alone on sharply lower prices. That's the difference between paper and physical — what can be done in the COMEX paper market bears no resemblance at times to what can be done in the physical realm.

JPMorgan is capable, of course, of double crossing the other commercial shorts and allowing silver prices to rise because it holds so much physical silver. But I don't know how to predict that beforehand. The most plausible path is for JPM to buy back as many short paper contracts as possible before allowing the price to rise in earnest. That buy back must occur with lower prices accompanied by aggressive managed money selling. This brings us back to the count — trying to calculate how many commercial contracts have been bought and how many more remain to be bought. I hope to be able to accurately convey that on these pages. We're moving in the right direction, even if that direction involves the pain of loss on existing positions. But on the usual metrics, we're still early in the count process.

A few developments since Saturday's review. The new short report for securities indicated as of September 30, a slight reduction in the short position of SLV, the big silver ETF and another larger reduction in the short position in GLD, the big gold ETF. The short position in SLV fell by nearly 200,000 shares to just under 11.75 million shares (ounces). The short interest in GLD fell by 1.6 million shares to 7.3 million shares (730,000 oz).

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

Thus, the short positions in each are historically low and, quite frankly, not of immediate concern. I still believe there shouldn't be any shorting allowed in these two highly unique securities, but as long as the short position is on the low side, it is not of any particular concern. Should that change, I'll deal with it accordingly. In the meantime, the short position in these ETFs, like just about every traditional indicator, takes a back seat to COMEX positioning.

Over the first two days of the week, there continued to be no big withdrawals from either GLD or SLV, as might be expected by the decline in prices. In fact, there was a deposit of 850,000 ounces into SLV on Monday. Best as I can

October 12, 2016 - Back to the Count

determine, this indicates serious accumulation by what is most likely a large buyer, with JPMorgan the leading candidate.

Also on Saturday, I mentioned a recent uptick in sales of Silver Eagles from the tepid pace of the past few months. I did mention reports from the front lines of some pickup in retail demand, but another report of large sales on Monday forces me to rely more on the suspicion that JPMorgan has reemerged as the big buyer of Silver Eagles. I had some doubts that JPM might not be so brazen to repeat a scam this crooked bank has utilized before, namely ceasing to buy Silver Eagles when it was about to depress the price of silver, but brazen is as brazen does and no one does brazen like JPMorgan.

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

The possible return of JPMorgan in buying Silver Eagles, as well as the presence of a big buyer in SLV, are potentially bullish signs for higher prices and indicate JPMorgan is still accumulating physical silver. And there are no signs that JPMorgan is selling silver in any form, paper or physical. Still, as bullish as these signs may be, I must remind you that over the past week or so, while JPMorgan may have picked up a few million ounces of silver between Silver Eagles and in SLV, it bought back 20 million ounces in paper COMEX contracts in the last

reporting week alone and maybe that much in this Friday's report. Therefore, the big dollar impact for JPMorgan remains in how well it controls COMEX positioning in the near future. Buying back as many of its COMEX paper short positions is the most important thing for JPMorgan, at least as far as I can tell.

As far as what Friday's COT report may indicate as of yesterday's cutoff date, I would anticipate reductions in the total commercial net short positions in COMEX gold and silver by amounts equal to or greater than the actual reductions recorded last week. In actual numbers, I would expect at least 10,000 or more contracts in silver and more than 45,000 contracts in gold and possibly a lot more, particularly in gold if there were any reporting delays in last week's report. Most of the reductions in the commercial short positions in gold and silver likely occurred in trading thru Friday, with some additional reduction taking place on Monday and Tuesday.

There have been a sufficient number of commercial short contracts already covered in gold and silver to allow for a countertrend rally, but absent a JPMorgan double cross, there doesn't appear to be enough managed money selling to pronounce a bottom in traditional COT terms. But we do seem to be moving in that direction. If the commercials are still in control (as they appear to be), then by definition they control the timing. If they lose control, all will see



October 12, 2016 - Back to the Count

that in the price.

Ted Butler

October 12, 2016

Silver - \$17.60      (200 day moving average - \$17.13)

Gold - \$1256      (200 day moving average - \$1259)