

For a second week, the price of gold rose, this time by \$16 (1.3%), while the price of silver fell slightly, down 4 cents (0.3%) for the week, following last week's 2 cent loss. As a result of gold's outperformance, the silver/gold price ratio widened out by nearly a point and a half to 83.5 to 1, very close to multi-decade extremes indicating the relative cheapness of silver compared to gold. The passage of time does not lessen just how cheap silver is compared to gold, but it sure does make it seem normal – something as far from the truth as it possible.

Of course, the big story was gold's rise to 11 week highs, as well as the largest one-day gain (\$34) in more than two years on Thursday. That the sudden move up in gold was quickly attributed to the equally sudden decline in the stock market was understandable. Understandable perhaps, but not accurate. I'm not saying a severe stock market selloff won't give rise to a safe haven rush to precious metals, because I do believe that would be the case. I'm saying this week's stock market swoon had little to do with gold's sudden spurt on Thursday. To back that statement up, I would refer you to Wednesday's articles, published around 3 PM as customary that day, when gold closed at \$1195, down \$11 for the week, while the stock market was on its way to an 831 point drop in the Dow Jones Industrial Average.

The next morning, Thursday, gold was mostly flat in pre-opening trade even while the pre-opening trade in stocks indicated another large drop (400 points in the DJII). It was only after stocks began to recover off the lows that gold began to pick up strength and surged later in the day. To say gold surged due to stock market weakness is contrary what my eyes observed. But in claiming that gold didn't surge due to stock market weakness this time around, I'm required to provide a more compelling explanation. That's easy, since I think I provide the explanation for price movement on a constant basis.

The reason for gold's price surge (and lack of surge in silver) on Thursday was because gold decisively penetrated its key 50 day moving average for the first time in six months, setting off a wave of technical fund buying (new longs and short covering) on the COMEX. For the umpteenth time, I find the prevailing price discovery process which solely sets price to be moronic and illegal, but that's very different from acknowledging it exists. Many tens of thousands of managed money technical fund contracts were suddenly purchased when gold prices ran up through the 50 day moving average (now at \$1204), just as has occurred on countless times in the past and were expected to occur this time.

I'm baffled that more don't see this, but a lot of things baffle me these days. In any event, in a moment I'll get into the positioning changes in the just-reported Commitments of Traders (COT) report which set up Thursday's gold price surge, as well as how much technical fund rocket fuel was expended on that day's rally. First, let me run through some of the other highlights for the week.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this week to 9.65 million oz, one of the highest weekly levels in years. Again, this is purely physical metal in the form of 1000 oz bars, either taken out of the warehouses and put on trucks and carted away or taken off trucks and put into the warehouses. Very little seems to be the very same metal being moved from one warehouse to another. Simple math (multiplying by 52) shows that this week's 9.65 million oz equated to more than 500 million oz on an annualized basis, or 60% of total world annual mine production. No other commodity – I repeat, no other commodity – comes close to such a physical inventory turnover, yet this remains largely only a topic reported on these pages.

This week's extremely large turnover in the COMEX silver warehouses resulted, somewhat perversely, in another slight drop in total inventories of 0.5 million oz to 287.7 million oz, the fifth consecutive weekly decline after hitting all-time record highs. I keep saying it's the motion, not the ocean that truly stands out in COMEX silver warehouse inventories and the motion is indicative of great physical demand. Despite the slight drop in total inventories this week, JPMorgan moved another 2.3 million oz into its own warehouse, bringing the total there to 143.2 million oz. Between last week and this week, JPMorgan has moved in more than 3.7 million oz into its own COMEX warehouse and would still appear to be on track to bring in another 7 million oz should it move in the entire 10.6 million oz it stopped (in its own name) in the September COMEX futures deliveries. This has been its past practice.

While I'm still scratching my head about the previous 6 million oz that JPMorgan removed from its COMEX warehouse before beginning to move in silver the past two weeks, no one should be confused that JPMorgan has been accumulating physical silver. I would contend that the metal in its own COMEX warehouse, while more than either the Hunt Bros or Warren Buffett ever held, is but a fraction of the total amount of physical silver acquired by JPMorgan over the past seven and a half years – an amount I hold to be at least 775 million oz (plus another 20 million oz of physical gold).

I know that many still find it almost unbelievable that JPMorgan could have acquired what is close to \$30 billion worth of physical gold and silver, both from a cash outlay basis and also by being able to hide it from public disclosure, but I continue to claim otherwise. Let me skip over today the non-reporting nature of JPM's gold and silver accumulation by pointing out the impenetrable nature of its balance sheet and talk about its ability to buy \$30 billion worth of gold and silver over nearly 8 years.

Late this week, JPMorgan reported its quarterly earnings, which hit a new record of \$8.38 billion. Annualized, that's around \$33 billion in net income and that amount is pure profit – after all expenses have been accounted for. In other words, \$33 billion is what JPMorgan as a company has left over after paying all its 250,000 employees and every other expense for a full year. In very simple terms, JPMorgan has to do something, investment-wise, with \$33 billion this year. I claim that JPMorgan has been picking up around 100 million oz of silver annually, which would currently cost around \$1.5 billion per year and around 2.5 million oz of gold, which would cost around \$3 billion currently, or a total of \$4.5 billion combined for the year.

Let me ask you – if you had \$33 billion that you had to invest in something this year, would you consider investing less than 15% of what you had to invest in physical silver and gold? Given everything that currently exists in the world, I wouldn't be surprised if most would answer that they would invest even more than 15% of current investable assets that needed to be invested into silver and gold. I would further submit that JPMorgan would also invest more than \$4.5 billion this year into actual silver and gold – if it were possible for it to do so without driving prices sharply higher.

The simple fact is that JPMorgan has and has had more than enough money to buy all the silver and gold it wanted to all along – its problem (if you can call it that) is that its buying power vastly exceeds the physical amount of metals it can purchase without driving prices higher. And that's precisely why it has had to resort to excessive and manipulative short selling over the past 8 years to keep prices suppressed while it scooped up as much physical metals as it could.

I said I was not going to mention it since it is not currently a market factor, but let

me mention that the short interest in the big precious metals ETFs, SLV and GLD, is still not important at this time. The short interest in SLV, as a percentage of total shares outstanding, is still less than 2%. I remember a time when it was over 12%, so, by comparison, this is not time for great concern about the short position in SLV.

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

Now, on to the all-important changes in the COT report, both as of the Tuesday cut-off and what transpired after the cutoff. Much more than usual, I sense a direct connection with what transpired in the reporting week ended on Tuesday and what followed afterward, particularly in gold. Let me deal with the reporting week concluded on Tuesday first before getting into the connection I sense. I had expected managed money selling and commercial buying in both silver and gold in yesterday's report and silver's overall numbers were mostly as expected, but the changes in gold were quite a bit better than the numbers I had hoped for.

In COMEX gold futures, the commercials increased their total net long position by a very significant 17,000 contracts to 25,900 contracts. This is the largest commercial net long position in modern gold market history and I continue to feel weird about reporting a commercial net long position after observing nothing but net short positions for decades. Not that I can possibly know for sure, but there is a good chance that this will have been the last commercial net long position in gold for some great time to come. The odds are good that Thursday's price surge erased the commercial net long position or much of it and unless gold prices sink to new lows in the immediate future, commercial net long positions in gold are likely a thing of the past.

The truly outstanding feature in this week's gold COT report was not the very large

amount of commercial buying, but the absolutely shocking amount of managed money selling; which amounted to an almost unbelievable 29,857 net contracts, comprised of the sale and liquidation of 18,453 long contracts and the new short sale of 11,398 contracts. The near 13,000 contract mismatch between what the managed money traders sold and what the commercials bought was neatly explained by selling of that amount by the other large (non-managed money) traders.

Clearly, I'm not the only one who considers the managed money technical funds to be brain dead and palookas to be taken advantage of and this week's COT report indicates that there is intensive competition between the commercials and the other large reporting traders to fleece the nitwit technical funds. And if you think "brain dead" and "nitwit" are overly pejorative on my part, then please suggest what terms would be more appropriate to describe the sale of roughly 30,000 gold contracts on Tuesday and a buyback of that amount of contracts and much more \$35 higher two days later and at net loss of at least \$100 million.

The biggest surprise in the gargantuan number of managed money gold contracts sold thru Tuesday was the 18,453 long contracts liquidated. Admittedly, I have been of the opinion that the number of managed money positions was low and not likely subject to much further liquidation. Clearly, I was wrong and happy to have been incorrect, since the lower the number of managed money longs, the closer we are to the ultimate washout point. Now that we're down to 82,218 long contracts remaining and seeing that is right at the absolute lowest level in 9 years, having been this low only back at the gold price lows of late 2015/early 2016, just as gold was about to embark on a \$300 rally, I wish there was a way to make a separate bet on the number of managed money longs not going any lower from here.

I was less surprised by the additional 11,398 contracts of new shorts put on by the managed money traders which brought their gross short position to 191,672 contracts, making it the second largest gross short position in history and only 6000 contracts less than the peak on August 21. Not to be overlooked, of course, is that on a net basis (gross shorts minus gross longs) the managed money net short position in gold was the largest in history on Tuesday, exceeding 100,000 contracts for the first time ever. How else to describe a net short position larger than ever held in COMEX gold at this time and place and in current circumstances by a select group of traders as other than brain dead?

Of course, the direct proof that the record gold short position was held by traders that must be considered brain dead has already been subsequently shown by the resultant sharp rally that ensued but two days after the short position was established. And this brings me to the direct connection between the reporting week ended Tuesday and what followed. The sharp gold (and silver) price takedown that occurred on Monday October 8, and just before the Tuesday cutoff was a coordinated and collusive effort by the commercials and other counterparties to induce as much managed money selling as was possible in advance of the sharp rally that was planned for Thursday as prices penetrated the 50 day moving average for the first time in 6 months. Yeah, you can call me conspiratorial if you want, but to believe otherwise is simply naïve.

In COMEX silver futures, the commercials flipped back to a total net long position of 3,600 contracts, as they bought a pretty hefty 4600 net contracts. JPMorgan still looks to be flat, neither net long or short in purely COMEX terms, although that means it is net long well over a billion ounces on a physical and OTC derivatives basis.

On the sell side of silver, the managed money traders sold nearly 5200 net contracts, about what I was expecting in terms of net contracts following last week's purchase of 6613 net contracts. However, the composition of this week's sale caught me by surprise in that only 107 new shorts were added and a very hefty 5087 long contracts were sold and liquidated, including at least another 3700 contracts sold by the big concentrated longs I've been writing about for months. All told, of the 30,000 net long contracts added by 4 or less traders from April to June, barely 3000 to 4000 contracts remain. Not only does this position seem completely liquidated, it cost these very few big silver longs close to \$400 million in now realized losses. I don't think these traders were as brain dead as the technical funds, but their results sure are similar. They just got cheated and hoodwinked in a different manner.

The managed money silver long position, now down to 45,587 contracts, is lower by more than 38,000 contracts (190 million oz) from the price highs of June 12 and wouldn't appear to be in position for massive further liquidation ahead (I guess I'll just keep saying that until I'm proven to be correct). Likewise, the current managed money short position, now at 86,851 contracts (as of Tuesday), is more than 43,000 contracts (215 million oz) more than it was on June 12, meaning it isn't likely to grow much. All told, the silver managed money traders have sold more than 81,000 net contracts (405 million oz) since the \$17.25 price top of June. That's about half the annual world mine production of silver that was sold in only four months and is the sole cause for the price drop in silver.

Now that the price drop and outrageously excessive managed money selling is already accomplished, unless even more selling comes into the market, it is more reasonable to imagine the flip side, namely, of managed money buying and price gains to come. The fact that gold jumped first and silver didn't has absolutely no

bearing on market structure considerations. On Monday, at the depths of the gold price drop and absolutely massive amount of managed money selling, few would have predicted a sharp turnaround two days later, but the data are clear that is exactly what occurred. What next?

While the explanation for sharp price moves is always contained in the COT data, predictions are much less reliable. But to try to foresee the future, one must appreciate the past. The sharp price rally in gold on Thursday used up at least 50,000 net contracts of managed money buying. Normally, such a large amount of buying opens the possibility of ensuing selling and lower prices at some point. While that is possible now, the amount of managed money selling in this week's gold COT report greatly moderates the amount of buying on Thursday.

Since April's price highs (\$1350) more than 250,000 net gold contracts (25 million oz) have been sold by the managed money traders, pushing the price of gold lower by more than \$150. If around 50,000 net contracts were bought on Thursday, as I believe to be the case that means that we've used up about 20% of the latent buying power that existed as a result of the extreme prior selling. Therefore, while the price of gold remains highly manipulated by paper positioning on the COMEX and is subject to sudden selloffs on the whim of the commercials, the data suggest a greater likelihood of prices moving much higher than they could move lower.

Similarly, silver has yet to decisively penetrate its key 50 day moving average and has, therefore, neither experienced a price jump nor any serious market structure deterioration. In other words, despite the possibility of sudden and deliberate selloffs at any time, silver is still locked and loaded to the upside and should be treated as such.

In terms of the running money scoreboard for the newly added technical fund short positions since June 12, the sudden price rally on Thursday cost the technical funds at least \$100 million in closed out losses, since we know they bought at the price highs that day and had sold at the price lows of Monday. Hey, it's just what these nitwits do. On yesterday's close and considering the beating they took on closing out short positions on gold's sharp rally on Thursday, I'd peg the technical fund's remaining open and unrealized profit to be no more than \$250 million, down from last week's \$580 million open profit and down sharply from the \$950 million open combined profit of nearly two months ago. While I can't know the short term direction of price and how the technical funds' open profits will fluctuate in near term, I am still convinced it is virtually impossible for them to walk away from their historic short bets on gold and silver without large realized losses in the end.

Ted Butler

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Silver - \$14.64 (200 day ma - \$16.03, 50 day ma - \$14.63)

Gold - \$1222 (200 day ma - \$1281, 50 day ma - \$1204)