

October 15, 2016 – Weekly Review/Last Selloff

Weekly Review

Price volatility cooled off this week, as gold and silver prices ended only slightly lower than in recent weeks, with gold off \$6 (0.5%) and silver down by 15 cents (0.9%). While the losses weren't particularly deep, it was the lowest weekly close in each metal in more than four months. As a result of silver's relative underperformance, the silver/gold price ratio widened out by half a point to 72 to 1.

The key feature this week was the large and widely expected rearrangement in COMEX futures contract positions in gold and silver. Over the past two reporting weeks more managed money contracts have been sold and commercial contracts bought than in any two weeks in nearly a year. Then again, the price of gold fell by \$100 and silver by nearly \$2 over this time, also just about the largest two week price drops in years – so how could it be any other way?

For someone who maintains that the sole short term price driver is COMEX positioning, if the large price declines just recorded hadn't been accompanied by massive managed money selling and commercial buying, I probably would have hung it up and terminated this subscription service. And then crawled off in search of the deepest hole I could find. I'm not suggesting everything that I write is always correct; it's something else entirely. It has to do with the premise itself.

If I maintain that COMEX positioning is what determines short term pricing, then that must be true in every case of a significant price move – up or down. Since I'm advancing the premise as mechanical in nature, it must function that way. Exceptions must be rare, to non-existent. Try as I might, I can only remember one real exception – that time two years or so ago, when a few smaller commercial silver longs (raptors) took losses and sold out to some raptors who closed out profitable silver short positions. I'm still wearing the Easter Bunny outfit I promised to wear if that occurred, although I never did get to captain the space shuttle.

Seriously, there can be no doubt that gold and silver prices move in lockstep with the managed money/commercial trading tango. By stepping back and considering that each – price change and positioning change – are inseparable, then a reasonable person must conclude that one must be causing the other to change. There must be a causal relationship. Since price change is the ultimate measurement, then it can't be the agent of change as well, because it takes something else to change price. Because COMEX positioning changes occur in lockstep with gold and silver price changes, these positioning changes cause price changes. It can't be any other way.

Besides, not only do the positioning changes move in lockstep with price, because there is a 3 day delay in reporting weekly changes in the COT report, it's possible to accurately predict positioning changes before the report is published. I do this on a regular basis and mostly come pretty close. The point is not how great it is to accurately predict positioning changes; the point is that it can be done only because the underlying premise is sound and mechanical. And, once you accept the actual mechanism of price change, then you must accept that the whole mechanism is artificial and manipulative – because who the heck ordained the managed money technical traders and their crooked commercial counterparties with the right to manipulate commodity prices? More on this week's very important report in a moment.

The turnover or physical movement of metal brought into and taken from the COMEX-approved silver warehouses remained high this week as 7.6 million ounces were so moved. Total warehouse inventory declined by 1.6 million oz for the first time in weeks, to 173.2 million oz. I'll skip the turnover is the important issue and not the total inventories sermon today and instead note that JPMorgan did take in an additional 2 million ounces this week into its own COMEX warehouse, pushing the JPM total to 79 million oz or nearly half of total inventories.

<http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notice.html>

While I wasn't necessarily expecting JPMorgan to add to its COMEX silver inventories at this time, I can't say it knocked me off my feet either. It certainly does not detract in any way from my key finding that JPMorgan has accumulated more than 500 million ounces of physical silver over the past five and a half years. I've always included JPM's COMEX inventories in my total calculation of what the bank holds and while it only represents 15% of JPM's total silver holdings, the COMEX portion is clearly the most visible and easy to prove. In fact, I find it remarkable that the bank has been so transparent in allowing the world to see even this portion of its silver holdings. And I continue to remain baffled by those who claim not to see it.

I'm going to skip over COMEX gold and silver delivery details since no strong message seems apparent to me. I suppose delivery complications could arise at any time, but until they do, the next important delivery month is December, which begins at the very end of November.

I continue to be impressed with not only the lack of withdrawals of metal from the big ETFs, SLV and GLD, but also with the deposits instead in the face of weak price action. Yesterday, another 124,000 oz of gold came into GLD and more than 1.1 million oz of silver into SLV. The explanation that I find most plausible is accumulation of shares by the same large entity that dominates every other aspect of gold and silver, JPMorgan. And yes, I find this development very bullish, but then again, I find just about every development as being bullish, particularly in silver. The only problem, in case you missed it, is that the one potentially bearish factor – COMEX positioning – has taken center stage, befitting its role as the sole short term price determinant.

It's still too soon to determine if JPMorgan has returned as the big buyer of Silver Eagles after stepping back from that role several months ago, although I think the bank is buying Gold Eagles of late. With two weeks to go until month end, if Silver Eagle sales cross the 4 million (and preferably the 5 million) ounce mark, I'd conclude that the b**ch is back (apologies to Elton John).

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

The changes in this week's Commitments of Traders (COT) Report came in as close to expectations as is humanly possible in a game only as precise as tossing hand grenades and horseshoes. Again, accurate predictions are not the point – the methodology behind the predictions is what matters. Managed money selling causes prices to decline, managed money buying causes prices to rise.

The key to deciding when to buy or sell using the brand of market structure analysis I subscribe to is when the managed money traders are about to switch in a major way from selling to buying or vice versa. The COT reports over the past two weeks are pointing to such a prospective sea change ahead.

In COMEX gold futures, the commercials reduced their total net short position by an even 50,000 contracts, to 221,200 contracts (I had predicted 45,000 contracts or more). This is the lowest commercial net short position since the price bottom around May 31 and is down by more than 93,000 contracts (9.3 million oz) over the past two weeks. After such a large price takedown and a successful commercial drawdown of short positions, sharp price rallies can't be ruled out, particularly considering the deeply over-sold technical position of the market. While acknowledging the possibility of a rally, I'll get into more of what I would expect later.

By commercial categories, the 4 largest gold shorts bought back a highly disproportionate (and highly encouraging) 30,900 short contracts, while the big 5 thru 8 bought back 5600 short contracts and the raptors bought back 13,500 shorts. A typical "all for one" commercial collusive effort. It was only a few weeks ago that I mentioned the big 4 short position as being the key feature within the key feature of commercial short covering in gold and silver and I am highly encouraged at how things have played out since.

Not only have the commercials behaved in the only manner that could alter the extremely bearish market structure in place over much of this year, the very largest shorts have taken the lead. Not to beat around the bush "the equivalent of two more weeks like the past two reporting weeks would likely turn me into an unabashed bull in COT terms. The key question is if that will occur.

On the sell side in gold, it was all the managed money traders and then some (as it usually is) as these traders sold more than 51,000 net contracts, including the liquidation of 41,732 long contracts and the new short sale of 9,591 contracts. Just so no one misses it, the only trading categories that matter in the COT reports are the managed money traders and the commercials "that and the action of the largest commercial shorts, most notably JPMorgan. To this day, I am flabbergasted by those COT commentators that don't zero in on the 4 and 8 largest commercial traders.

In COMEX silver futures, the commercials reduced their total net short position by 13,300 contracts to 77,600 contracts (I had predicted a decrease of 10,000 contracts or more). This was the lowest commercial net short position since June 7 and, as was the case in gold, led to the \$4 rally into the summer. More than 23,000 net commercial contracts were bought over the past two weeks, the equivalent of 115 million oz. That's more than ten percent of all the known physical silver bullion in existence and more than three times all the real silver produced and consumed in the world over the same time. Not an ounce of the 115 million oz positioned on the COMEX was traded by real producers and consumers "just by speculating hedge funds and their speculative bank counterparts. How is it possible that such non-economic paper trading has not created an artificial price environment? And is there any real difference between artificial and manipulation?

The big news in the silver COT report, as was the case in gold, was the degree of covering by the 4 largest commercial shorts, or in other words, JPMorgan. The 4 big commercial silver shorts bought back 5300 contracts, the big 5 thru 8 bought back 2000 short contracts and the raptors added 6000 new longs to a net long position amounting to 16,100 contracts (I may have misstated the raptor position by 1000 contracts last week). I would peg JPMorgan's silver short position to be down to 23,000 contracts, down by nearly 10,000 contracts over the past two reporting weeks. And I would expect there were additional managed money silver and gold contracts sold along with commercial buying since the cutoff, just not at the same intense pace of the prior two weeks.

I've identified JPMorgan as the key player in gold and silver for years (since late 2008), with repeated specific reference to its concentrated COMEX short position as being the key feature in silver. Just weeks ago, I was hoping to see JPM's silver short position, then around 33,000 contracts come down to 20,000 contracts or so. I suppose it's possible that could be as good as it gets, seeing how the 10,000 short contracts that JPMorgan bought back is the equivalent of 50 million oz.

I believe I explained how COMEX short covering was the most efficient means for JPMorgan to improve or make more bullish its massively large physical silver holdings. No one in this world could possibly believe that 50 million ounces of real silver could have been purchased over the past two weeks by a single entity without sending prices north of \$20 or \$25 for openers. The only way JPMorgan could buy 50 million ounces, albeit only in paper form, was if low enough prices could be rigged to set off managed money selling. And that is exactly what happened.

The difference between paper and physical silver and gold is that one can deal in COMEX paper metal equivalent in much larger quantities than one can deal in physical metal. JPMorgan knows this better than anyone and for proof of that statement just consider what the bank just did over the past two reporting weeks.

I haven't mentioned it in a while, so please let me remind you of an observation I made quite some time ago, namely, that the big 4 and JPMorgan specifically had never ever taken a loss on any COMEX silver (or gold) short positions added on rising prices. No matter how long the short positions were held or how high the price would rise in the interim, always, always, always was JPMorgan able to buy back those added short positions at a profit, or at a lower price than where originally sold short. (Did I say always? Because I really mean always).

There may have been some question as to whether that would hold true earlier in the year when the commercials were deeply underwater financially; but that's no longer the case after these past two COT reports. JPMorgan's impeccably crooked and successful trading record remains intact and with it confirming proof of manipulation, as it is impossible to never lose in a free market. Maybe the incompetents at the CFTC might ponder that for a while.

On the sell side of COMEX silver futures, it was – no surprise – strictly a managed money affair, as these traders sold a massive 18,961 net contracts, consisting of 16,336 contracts of long liquidation and new short sales of 2625 contracts. Now that the gross long position of the managed money silver traders is down to 72,000 contracts, if there is a core non-technical fund long component of as much as 50,000 or 60,000 contracts, the potential amount of additional long liquidation may be limited to 12,000 to 22,000 contracts. We may get to observe that together, but my real point is that any substantial potential managed money selling from here lies on freshly added short positions as opposed to massive long liquidation.

It comes down to a question of whether JPMorgan can induce the managed money technical funds into plowing heavily onto the short side of COMEX gold and silver, like it did late last year. I don't have the answer, but I know that's the only question that matters.

The Last Selloff?

Since we're at an important juncture for the – count – the number of COMEX gold and silver futures contracts repositioned so far and prospectively – I thought it might be appropriate to tie in what I think has occurred to date and get into some speculation about what may lie ahead. As always, I ask that you reflect more on the reasoning and the data backing my future expectations, rather than simply accepting or rejecting the conclusions.

For many years, but particularly from the early part of this year, I felt that once the COMEX market structure turns bullish (meaning as large a managed money short and small a commercial short position as possible), the inevitable price rally that followed should be treated as the big move up in silver, not to be sold into. My premise was based upon the COMEX commercial traders, particularly JPMorgan, refraining from adding new short positions on a future price rally, thereby creating a void or vacuum of selling pressure that caused silver prices to explode.

Admittedly, I have suggested treating all past bullish setups in this manner and to date, the big move up has yet to take hold. That's because the commercials and JPMorgan have always sold short into all past silver price rallies. Fortunately, since there has always been a rally of some significance following past bullish market structure setups, accompanied by evidence of additional short selling by JPMorgan, even though the big rally never materialized, there was ample developing warning that the big move was not at hand after all. In no way did the additional short selling by JPMorgan on past price rallies negate my basic premise; it just got postponed.

The last bullish market structure setup occurred at the very end of last year and was the sole reason gold and silver prices rallied strongly this year. In fact, not only was the setup extremely bullish at the end of 2015, effectively, it was the most bullish ever, courtesy of the largest managed money short position in COMEX gold and silver in history. But while the resultant price rally was robust, there was ample evidence that JPMorgan and the other big commercials on the COMEX sold heavily short into the rally and by the summer, the yearend setup completely reversed and the commercials came to hold record short positions in both gold and silver. Never was there such a sharp swing in market structure as what occurred this past year.

So extreme was the market structure repositioning this year and so large did the commercial net short position grow, that the price rally to over \$1360 in gold and over \$20 in silver into this summer put the commercials underwater by nearly \$4 billion in unrealized losses, the most by far in history. One result of the recent \$100 price decline in gold and \$3+ decline in silver is that the commercials' \$4 billion open loss has been completely eliminated and they are ahead by close to \$1 billion at this point and have succeeded in closing out significant numbers of open short positions.

But I don't care who you are, if you suddenly find yourself in a loss position larger by many times than any loss you have ever faced before, it gets your full and undivided attention. And this was exactly the position that the COMEX commercials found themselves in at the price highs this summer. In fact, the commercials' predicament was exacerbated by the failure of one large gold commercial which was forced to buy back shorts at great loss, forcing JPMorgan and other big commercials to step in and add more shorts to replace the big short that covered.

We may never know how close the commercial shorts (ex Â? JPM) in COMEX gold and silver came to being undone this summer, but on the raw numbers alone, they were deeper in the hole than ever before, as I have harped on for months. Also as I have commented previously, no one puts himself into the deepest financial hole ever experienced on purpose, particularly with short positions that have unlimited potential additional losses. Therefore, it seems inescapable to me to conclude that the commercials as a whole badly miscalculated in selling so aggressively to the managed money traders so early in this year's rally.

While it would appear that the commercials should know better than almost anyone else about the potential size of the positions the managed money traders were capable of establishing, pe

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