

Weekly Review

On the price front, it was a good week for gold and silver, as both ended at nearly five month highs. Gold finished \$21 (1.8%) higher, while silver ended up by 23 cents (1.5%) for the week. As a result of gold's slight relative outperformance, the silver/gold price ratio widened out by a half point to 73.5 to 1; still in the middle of the tight trading range of a year and longer. As tight as the trading range has been, on every metric I look at, silver is still massively undervalued relative to gold.

While the news on the price front may have been good, how those price gains came about was much less than good. In fact, the new readings from the Commitments of Traders (COT) Report, while they explained the current rally completely, were also not at all comforting in regards to future price gains. I wish I could somehow just write about COMEX market structure when it suggested higher prices (as it has for months), but that's not something I can do. I also wish COMEX futures contract positioning wasn't the prime, if not sole price setting force in gold and silver, but it has been all that has mattered to date. I'll get into the new COT report in a moment.

The weekly turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses cooled from the frantic pace of the past two months, but at 4 million oz., this week's movement is still more than 200 million oz annualized, or 25% of world mine production. There was a slight 0.2 million oz increase in total COMEX silver inventories to 163 million oz, but these total inventories are still scraping on two year lows. Turnover this week was 20 times the increase in total inventories, a pattern quite familiar and, I believe, more instructive than changes in total inventories. I also still believe the unusual COMEX silver inventory turnover, now in play for four and a half years, is strongly suggestive of wholesale physical tightness.

More recently, I have noted signs of physical tightness in gold, including a "stickiness" in the current COMEX October gold delivery process and in surging sales of Gold Eagles from the US Mint over the past four months. This week, I detected signs of some easing in those two indicators, although I think it may be attributed to short term maneuverings by JPMorgan. The number of open contracts in the October gold contract have been steadily reduced to only 770 or so, even though the reduction has mostly come as a result of positions being closed out by traders and not by physical delivery.

Only 243 gold contracts have been delivered this month and JPMorgan has

turned out to be the biggest stopper (taker), with the bank taking 131 contracts so far (all for its own account, not for customers). This week, JPM was the sole gold stopper on a number of days. According to how COMEX deliveries are apportioned, it would appear that JPMorgan is and was the largest holder of the remaining open gold contracts. Therefore, I would conclude that the reduction in open positions recently was directly related to JPMorgan voluntarily liquidating some of its open October contracts so as to relieve the developing tightness I've written about. In short, JPMorgan backed off from demanding delivery on its October gold contracts so as not to add to the developing physical tightness in gold.

After four months of sudden and extraordinarily large sales of Gold Eagles from the US Mint, in which monthly sales surged four fold over monthly sales for the preceding four months, sales so far this month have cooled off. I admit one shouldn't normally read too much into sales of Gold Eagles on such a short term basis, but sometimes that's all that's available. Since I have previously identified JPMorgan as most likely being the sudden big buyer behind the recent surge in sales of Gold Eagles (as well as Silver Eagles for years), it is only consistent that I would look to it as being behind any cooling off in demand. Not that buying from the Mint impacts gold or silver prices on a wholesale level, but continuing strong sales of Gold Eagles, might send a signal to the market of strong overall demand. I think that's what JPMorgan was trying to impact.

As it turns out, the strong recent sales of Gold Eagles came in the face of pronounced weakness in overall retail demand for gold. In silver, there was some pickup in retail silver demand when the Mint had to suspend sales some months back, but recent retail demand for either gold or silver has been very weak. I believe this confirms my premise that a big buyer was behind the very strong sales of Silver Eagles for the past 4.5 years and the surge in sales of Gold Eagles over the past four months. The Mint is still selling as many Silver Eagles as it can produce, primarily because the big buyer hasn't stepped aside (yet) as it has in Gold Eagles over the past two weeks.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The bottom line on the COMEX October gold deliveries, Gold Eagle sales and JPMorgan is this □ it appears to me that the bank has backed off on putting upside pressure on price and in tightening further the physical gold market. I can only assume this is related to very recent developments in the COMEX market structure where commercial selling has increased rather dramatically, particularly in silver. In simple terms, JPMorgan and the other COMEX commercial crooks seem to be setting up a selloff.

The changes in this week's COT report do not appear conducive for higher gold or silver prices, unless one were convinced the commercials were about to get overrun to the upside. I can't rule that out and as many of you know, this is the setup for Izzy's Full Pants Down Premise – the commercials getting caught with a full and large short position. I'll run through the possible and probable price scenarios from here in a moment, but first let me discuss the current COT report as well as likely changes since the Tuesday cut off.

In COMEX gold futures, the total commercial net short position increased by an even 30,000 contracts to 118,500 contracts. (I just realized this was the increase I expected last week and was way off on. Perhaps last week's report wasn't completely timely). This is the largest (least bullish) headline number since May 19 (when all the metals topped out). By commercial category, the bulk of the 30,000 contracts of commercial selling came from the raptors (the smaller commercials away from the big 8), which sold off 19,800 long contracts. The 4 biggest shorts added around 3700 new shorts and the big 5 thru 8 added 6500 new shorts. Not coincidentally, the gold raptors also now hold their lowest net long position since May 19.

Unlike last week, when the managed money traders bought many fewer gold contracts than the commercials sold, this week the managed money traders accounted for more than the 30,000 commercial contracts sold, at 31,375 contracts, including new longs of 12,936 contracts and 18,439 contracts of short covering. Even before factoring in the additional managed money technical fund buying that occurred after the Tuesday cutoff, the managed money net long position is the largest it has been since the May 19 price top (although still below the peak in the managed money net long position of January, when gold briefly topped \$1300).

In COMEX silver futures, the headline number of the total commercial net short position increased by another significant 9,100 contracts, to 58,600 contracts, following last week's nearly 20,000 contract increase. The two week net increase in commercial selling (nearly 145 million oz) is equal to two full months of world silver mine production and I can just about guarantee you that not one ounce was related to legitimate hedging – this was strictly about JPMorgan and other COMEX commercials selling speculatively into managed money speculative buying. Nothing could be more manipulative or explain better why silver prices are artificially and illegally set on the COMEX (gold, too). Their motto should be – the COMEX, we're all about speculating and have nothing to do with legitimate hedging.

By commercial category in silver, the raptors accounted for almost half of the commercial selling in selling off 4400 long contracts, while the big 4 (read JPMorgan) added just over 2800 new shorts and the big 5 thru 8 added 1900 new shorts to complete the collusive commercial price capping during the reporting week.

I'd peg JPMorgan's net short position on the COMEX to be up to 23,000 contracts (115 million oz), the largest in years. JPMorgan is still long 400 million oz (80,000 contracts) of physical silver, so the bank is still decidedly net long and as such would benefit from higher silver prices. And JPM will still be long 400 million oz of physical silver should it help rig silver prices lower; in addition to pocketing whatever profits it can in buying back newly added short contracts on any successfully rigged price decline.

For all intents and purposes, the concentrated commercial net short position of 80,834 contracts may be a record in the history of the silver market. Let me keep this as simple as I can □ 8 traders, either US or foreign banks and financial organizations (not a one them a miner or producer of actual metal), are net short more than 400 million oz of silver, or 50% of world annual production. That comes out to an average short holding of 50 million oz for each of these 8 traders. That's more per trader than the largest silver mine in the world can

produce in a year.

Sharp-eyed readers might point out that the concentrated short position of the 8 largest traders was more than 80,834 contracts for a few weeks into mid-July, but that was when one or more managed money traders entered into the ranks of the big 8 on the short side. What I'm referring to is the all-commercial concentrated short position which only grows to cap rising silver prices, the single most manipulative action in the silver market.

At \$16 silver, 8 crooked commercials, led by JPMorgan, have sold short the equivalent of 50% of the world's annual mine production of silver, more than these crooked commercials have ever sold short. Any discussion about the price of silver □ where is it, where it's been or where it's going that leaves out this critical and verifiable fact is a clown's discussion. Mathematically, if these 8 traders were not short 400 million oz in paper COMEX contracts, the price of silver would be many dollars higher and maybe many tens of dollars higher.

Once again, it was the managed money traders in silver buying all (and then some) of what the commercials sold. Managed money technical funds bought

13,821 contracts, including adding 6791 new longs and buying back 7030 short contracts. Over the past two reporting weeks, managed money traders have purchased more than 32,000 net contracts or the equivalent of 160 million oz of silver. By CFTC classification, these traders are pure speculators and it is a fundamental regulatory failure that such quantities of equivalent silver (roughly equal to total COMEX warehouse silver inventories) can be allowed to be bought by 20 or 30 traders based upon the same wacky computer program gone mad.

Through the Tuesday cutoff, managed money longs in silver are up to more than 56,000 contracts, some 16,000 contracts above my supposed 40,000 contract core long position (leaving that much room for liquidation to the downside). Managed money shorts are down to 14,400 contracts and considering what likely occurred since the cutoff, there are now only fumes remaining in the rocket fuel buying tank of technical fund short covering.

Even before extrapolating for additional managed money buying in COMEX silver since the cutoff, the net long position of the managed money technical funds has rarely been higher than in the current reporting week. After adjusting for what likely occurred in gold and silver since the Tuesday cutoff, it's hard not to imagine an additional increase in the headline number of the total commercial net short position by amounts similar to what was just reported

(30,000 contracts in gold and close to 10,000 in silver). I base this on the large increases in total open interest reported since the cutoff.

Should these extrapolations be accurate, that would put the total commercial net short position (and corresponding managed money net long position) at the two previous price high points for silver in 2015; the top in January at \$18.50 and the top in May of \$17.50. In the case of gold, should my extrapolation be correct, the headline number in gold likely equals what we saw at the top in May at \$1230, but still shy of the more than 200,000 contracts that the commercials held at the \$1300 top in gold in January. I suppose that might mean there is more room in gold for additional managed money buying than there is in silver, using only the experiences of 2015 to go on.

Most importantly, because we are much closer to price and positioning extremes that have indicated previous market tops and are far away, at least in terms of positioning, from recent price bottoms, it is more reasonable to conclude that we are setting up for a top, if not already there. In addition, now that we've witnessed a significant increase in silver short selling by the big concentrated shorts and JPMorgan, the one previously announced sign mentioned by me continuously as the key, I don't have much room for equivocation. I hope you know I enjoy writing this almost as much as jabbing

myself in the head with an ice pick.

So how's it likely to play out from here? First, I could be all wet in worrying about the increased commercial selling and managed money buying and forces away from COMEX positioning (i.e., the physical market) could overpower the commercials, ala Izzy's theory. Or, we could still move higher, led by gold, as more managed money buying occurs. However, even if more managed money buying power is exerted which causes prices to rise further, if there is no eventual physical kicker, prices are likely to slide from higher levels.

The last possibility, or probability, is that the commercials soon rig prices lower to flush out newly minted managed money longs and lure these mechanical traders back onto the short side. This, of course, can only occur on lower prices; specifically at least below whatever the key moving averages happen to be at the time. The most critical moving average (not to me, but to the technical funds) has been the 50 day moving average.

Currently, the 50 day moving average is about one dollar below where silver closed on Friday and \$45 lower from where gold finished the day, with the

average increasing daily (to reflect the recent rally). Any eventual flush out of the managed money traders would only occur on the downside if the 50 day moving average was penetrated. If the commercials set out to rig prices lower in the very near future, it would take at least a one dollar decline in silver and \$45 decline in gold to get the managed money traders in full out sell mode. If price grind higher or stagnate for some time, then the 50 day moving average will rise and the trigger point to sell would also rise.

Not for a moment should you take anything I've said as a definitive statement as to what is going to occur, as no one knows the future. But I've seen this movie often enough to reasonably guess how it might end and that includes any surprise ending (Izzy's theory). At this point, there is no doubt in my mind as to what caused the recent (disappointing) rally in gold and silver, namely, the net technical fund buying of close to 50,000 silver contracts (250 million oz) and 100,000 contracts of gold (10 million oz) in little more than a month (including extrapolations since the cutoff). If we move lower, I also know in advance that any serious decline must come from managed money selling.

Accordingly, my fear of a selloff is now commensurate with my fear of missing the big rally to come and I have and will adjust positions. To keep it in proper perspective, there is so much more room to the upside in the price of silver in

the long run than anything that may be seen to the downside temporarily, that long term silver positions should not be disturbed. Riding out any potential decline will be infinitely less painful than missing the big move ahead.

Ted Butler

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Silver - \$16.03 (50 day moving average - \$15.06)

Gold - \$1177 (50 day moving average - \$1132)