Gold prices rose for the third straight week, finishing higher by $8 (0.7%), while silver ended barely a penny higher, capping three weeks in which it has managed to finish 5 cents lower, while gold has tacked on $34. As a result, the silver/gold price ratio also widened out for a third week to 84 to 1. If there is any actual silver versus gold trading taking place, prudence would dictate that it would be for the swapping of gold for silver, given silver's extreme relative undervaluation; but I doubt the widening price ratio involves anything more than COMEX paper positioning.

It's important to recognize that while gold has risen by $34 over the past three weeks, all of that gain, effectively, came on just one day – Thursday a week ago, when prices surged more than on any day in more than two years. A reasonable person would seek out the circumstances for such a large and unusual one-day price surge that came, quite literally, out of the blue. Unless that person was intentionally blinding him or herself to the circumstances causing the unusual one day gold price surge, the explanation would be clear, particularly since it was largely telegraphed beforehand.

Of course, the explanation resides solely in the sudden and excessive buying that day by traders identified by the CFTC as managed money speculators on the COMEX, as the key 50 day moving average in gold was decisively penetrated to the upside for the first time in more than six months. Two days after the Thursday gold price surge, in last week's review (and further refined on Wednesday), I even put numbers on the expected amount of managed money buying that day (50,000 contracts). To my knowledge, I am aware of no other numerical estimations of the amount of managed money buying that day.

With the release of yesterday's Commitments of Traders (COT) report, we now know that just over 60,000 net gold contracts were bought by the managed money traders in the reporting week covering the Thursday price surge and I would contend that all those contracts were bought on that one day, not continuous buying throughout the reporting week. (Actually, I think even more gold contracts were bought by the managed money traders that day, as I believe there was subsequent selling in the days after Thursday's surge). Let's stop here for a moment to review what was expected and what was subsequently revealed and try to put what we now know into proper perspective.

We now know that on the day gold prices surged by $34, the largest one-day surge in two years, that one very narrow and specific group of traders bought more than 60,000 net contracts of COMEX gold futures, the equivalent of six million ounces (with a face or notional value of $7.4 billion). This was a one-day purchase, which included new longs, but mostly involving short covering.

We also now know that over the past three months Russia has added more than 3 million ounces of gold to its holdings and that other central banks have added as much as a million ounces or more to official gold holdings (with no central bank sales being reported). Yet I have detected no impact on the gold price as a result of these purchases. I think there's a good reason for why the large physical purchases of gold haven't impacted the price, while the COMEX positioning has – buying 6 million ounces in a day (actually over just a few hours) has more of an effect on price than smaller amounts spread out over months.

Yes, I know the managed money buying on the COMEX is strictly paper or electronic gold, while the central bank purchases by Russia and others involve actual metal – but that goes to everything I contend about how prices are set, namely, highly concentrated paper dealings on the COMEX are setting price in defiance of the law of supply and demand in the real world. So clear and documented has become the control of paper dealings on the COMEX on the price that alternative explanations (like the influence of the Chinese yuan) have become little more than stupid talk. I'll dig into the new COT report in detail in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this week to what I believe is the highest level since I first observed a sudden surge in turnover some seven and a half years ago – just over 14 million ounces. Annualized, that comes to 728 million oz or nearly 90% of total annual world mine production. Huh? Why in God's world would so much silver be physically moving in and out of, basically, 6 warehouses in and around New York City? (Actually, there are nine warehouses in the COMEX system, but the combined silver holdings in the smallest three warehouses hold little more than the one percent of the total holdings).

Despite this week's record turnover, total COMEX silver warehouse holdings rose only 1 million oz to 288.7 million oz, the first increase in five weeks. Thus, my main point over the past nearly 8 years remains intact, namely, the movement is the story, not changes in total holdings. Interestingly, it doesn't appear to me that the exact same metal is being transferred or shuffled among the big six COMEX silver warehouses; metal that is coming in is mostly separate and different from metal being removed, intensifying the mystery behind the movement.

As a reminder, most mystifying of all is that the physical turnover in silver is unique among all commodities, including gold. I say the unprecedented silver turnover indicates highly unusual physical silver wholesale demand, but most unusual of all is the lack of commentary on what is an easily documented circumstance.

Finally, the more than 46 million ounce physical turnover over the past 5 weeks, a weekly average of more than 9 million oz, is the most in history and suggests to me like this movement is so intense so as to almost be going off the rails or reaching some type of climax. JPMorgan has accounted for nearly 11 million of the 46 million oz total turnover (both deposits and withdrawals) and no one should be surprised at JPM's leading role in the record turnover. I would also point out that the physical turnover of 46 million oz over the past five weeks resulted in a 4 million oz drop in total COMEX silver inventories over that time.

Another 2.3 million oz were brought into the JPMorgan COMEX silver warehouse this week, bringing to 6 million oz the total amount brought into that warehouse over the past three weeks. By my back of the envelope calculations, that leaves 4.6 million oz still to be brought in to match the 10.6 million oz JPM stopped in its own name in the September COMEX futures deliveries. I'll say one thing about these crooks – they don't give a damn what anyone thinks or says about their accumulation of physical metal and manipulation of the price. And why would they? After all, they do have the CFTC in their back pocket.

Onto the changes in the COT report, which were mildly disappointing but fully expected. As a reminder, predictions about the changes to be reported are in the category of tossing hand grenades or horseshoes in terms of pinpoint accuracy, particularly in a reporting week where changes in total open interest provide little clue to net positioning changes. All we had to go on this reporting week was the decisive upward penetration of the 50 day moving average in gold and the somewhat less than decisive penetration in silver.

I was hoping to see less managed money buying than was reported, much like I was hoping to win last night's Mega lottery drawing, but I can't say I was surprised by either outcome. While I would have been quite pleased to see less managed money buying than I expected, I would have had to explain to myself as to why I missed. As frustrating as it is waiting out this grand manipulation to come to a conclusion, at least there are enough confirmation points along the way to stay the course, not least of all is the fact that the managed money technical funds are being played like a cheap fiddle and fully in line with strongly-held personal convictions.

In COMEX gold futures, the commercials sold 57,800 contracts, establishing a net short position of 32,000 contracts. While not surprising (I did indicate on Wednesday that commercial net long positions in gold were likely a thing of the past), the heavy commercial selling is not exactly uplifting. In fact, this is the largest commercial net short position since July 31 and "largest" is interchangeable with most bearish. However, some perspective is required.

Prior to the past two to three months, a reading of "only" 32,000 commercial short contracts (and silver's 4800 commercial short position) would have been a bullish set up worthy of great celebration and I'm sure I was extremely bullish back on July 31 about the market structure. But then the brain dead managed money traders decided to go "all in" on the short side, selling and selling short more contracts than ever in history on the final $50 drop in gold (and dollar in silver). I still contend the managed money traders were hoodwinked into the last burst of selling by the commercials, but the simple fact is that the technical funds did sell more than ever before.

At the extreme low prices and maximum managed money selling, newly-added (since June 12) technical fund short positions showed an open and unrealized profit of $950 million combined in gold and silver. Through today, both on a realized and unrealized basis, the entire profit in gold is gone and less than $100 million remains in silver. There is still a massively large gross and net managed money short position remaining and a relatively small managed money gross long position in both gold and silver, so the final disposition is yet to be seen.

I don’t like to talk out of both sides of my mouth when it comes to future price action, but the managed money buying this reporting week does open the possibility for a sharp price take down to bring back onto the sell side as many of the managed money traders which bought as possible. At the same time, the current market structure is still bullish enough to bring about the big move higher that is certain to come. Do we get a temporary jiggle to the downside before lifting off for good, or do we lift off from here straightaway? That’s the question I’m asking myself and to which the answer will be revealed in time. By the way, I detect little, if any additional managed money buying in either gold or silver since the Tuesday cutoff.

On the buy side of gold, the managed money traders bought 60,072 net contracts, comprised of 13,333 new longs and the buy back and covering of 46,957 short contracts. This was at the lower end of the 60,000 to 70,000 contract range I had bracketed as disappointing. The new managed money longs didn’t even make up for the prior week’s still surprising 18,453 contract long liquidation and at 95,333 contracts long, the managed money long position in gold is still extremely low historically and not likely to be subject to heavy liquidation on lower prices from here.

The managed money short position in gold, now down to 144,715 contracts and more than 50,000 contracts lower than the very recent peaks, is still massively large on a historical basis and except for the past two months, is still higher than at any point in history. This means there is tremendous built in buying power of more than 100,000 contracts from this source alone should prices move higher – to say nothing of the potential new long buying of 150,000 contracts or more should the commercials be willing to sell into this potential buying.

Restating what I wrote above in contract terms, should we revert to positioning levels seen earlier this year (not all-time extremes on the buy side), there is room for the managed money traders in gold to buy an astounding 250,000 net contracts on higher prices and to sell not much more than 50,000 contracts on lower gold prices – a 5 to 1 positioning possibility range. On the sell side, that assumes the nitwit technical funds will replicate a short position that they just frittered away $850 million of open profits on the $50 gold rally off the lows. On the buy side, I question whether the commercials will sell that many contracts to the managed money traders as willingly as they sold in the past and if they don't and the managed money traders look to get long big, gold prices will rocket.

In COMEX silver futures, the commercials sold 8400 contracts in reestablishing a 4800 contract total net short position. This was more than the 5000 contracts I estimated the managed money traders would buy, although the managed money traders bought a little less than what the commercials sold. Based upon changes in the Producer/Merchant category, I'd estimate that the crooks at JPMorgan sold short at least 3000 contracts, giving them a short position of that amount. This is not excessively large by any stretch, but is as comforting as a Dear John letter or a pending root canal. One can never be sure what these crooks intend, and I've often thought JPM might sell a bit to get other traders to misread its real intentions, but if we do sell off, no one will have to look far to understand why.

On the buy side of silver, the managed money traders bought 7865 net contracts including buying only 205 new longs and the buy back and covering of 7660 short contracts. As was the case in gold, the remaining gross managed money long position in silver looks low and sold out at 45,792 contracts and not likely subject to excessive liquidation from here on lower prices.

The remaining short position of the managed money traders, at 79,191 contracts, is now down 25,000 contracts from the all-time peaks of two months ago, but is still larger than the then-all time extreme of around 76,000 contracts last April. So the question in silver (same as with gold) is if the managed money traders can be hoodwinked into adding significant numbers of new shorts on lower prices? They've already demonstrated that they were dumb enough to add record shorts in a price hole with the same expected crummy results, so the real question is just how dumb are these nitwits?

To be fair, I also think how dumb can I be by throwing good money after bad on out of the money call options that continuously expire worthless? (Plenty dumb according to my wife). But at least I have a chance of great profit should I get lucky and if JPMorgan decides it is time to take prices uptown. I don't see that the technical funds have any chance of anything but the temporary illusion of profit in shorting gold or silver, since JPMorgan would have to cave in and go short into a steep price decline, something that has never and I would say could never occur. Bottom line – I think the technical funds are dumber than me since, at least, I have a chance and they don't.

Therefore, the big risk of a downside slide in price is the commercials' ability to get the technical funds to add aggressively to shorts, since long liquidation looks limited in both gold and silver. And should that downside be realized and accompanied by new dumb technical fund short selling, it would once again set up a spectacularly bullish market structure; even more bullish than the set up currently existing. And slightly away from COMEX positioning, which continues to rule as the sole price driver in force, I would be remiss not to mention other things that seem to be falling into place, such as the previously mentioned central bank buying in gold and highly intensified physical movement in the already unprecedented COMEX silver warehouse inventory turnover.

Here I'm referring to what looks like a shaky stock market and the prospects for US budget deficits for as far as the eye can see; only this time the deficits are in the trillion dollar annual range and not the hundred billion dollar range of yesteryear. It looks like silver and gold are about to emerge as safe havens before too much longer, so any temporary selloff from here promises to be just that and not one, in my opinion, to remain anything but fully invested.

I'll close with what I feel is a timely email from Charlie, a long time subscriber, as well as my response –

Is it possible that the bad guys would rather take us down than risk the spotlight of a huge win? Would it be better for them to sit still or take a loss just to prove us wrong about their scheme? They certainly don't love you and what better way to bring you down and thereby make your accusations suspect than to cause financial disaster to us the silent group I call the Mangled Money and the Bread and Butlers? I know how much I have invested in my basement, 12/18 $18 SLV options and assorted miners and etfs, well into 7 figures, and if you multiply that by all your subscribers I would think there might be a substantial amount of metal and shares they would like to see liquidated. Sometimes crooked logic flies in the face of common sense and we end up holding an empty silver bag!

Charlie,

I suppose any and everything is possible, by definition, but I believe it comes down to what's good for JPM, not what's bad for everyone else (us). The losses and depression felt by silver investors as a result of JPM manipulating prices to achieve massive paper profits and the accumulation of physical metal on the cheap may seem personal to us, but I can't imagine JPM giving a rat's ass about our situation. It's all about them and, paradoxically, that's the best reason to imagine a huge rally ahead.

Every day delayed is torture for us, but to JPM's benefit, as they've continued to add metal. I know it seems that logic may not work, but it is all we have. You have to constantly put this on fast/forward and try to see where it ends. These crooks at JPM haven't bought all this metal to let prices languish forever. Our job is to stay solvent and alive until these crooks decide when time's up.

Ted Butler

October 20, 2018

Silver – $14.65 (200 day ma – $15.96, 50 day ma – $14.52)

Gold – $1230 (200 day ma – $1279, 50 day ma -$1205)