

Gold and silver prices ended lower for a second week, with gold finishing \$6 (0.5%) lower and silver down by 20 cents (1.2%). For gold, it was the lowest weekly close in nearly three months. As a result of silver's relative underperformance, the silver/gold price ratio widened out by more than half a point to 75.7 to 1, still within the trading range of the past few years. Again, relative price changes in gold and silver are a result of the same forces exerted on absolute prices, namely, paper positioning on the COMEX.

There have been telltale signs of “salami slicing” or the rigging of new price lows by the commercials, both day to day and intraday, in COMEX gold and silver over the past two weeks designed to uncover managed money (technical fund) selling. While there has been managed money selling from the top in gold and silver prices in early Sep, a standout feature has been in how light, rather than how heavy has been that selling. On the \$75 drop in gold prices since then, the managed money traders have sold 80,000 contracts of the 220,000+ net contracts they bought on the rally to \$1350. True, gold has yet to penetrate its 200 day moving average to the downside, but the lack of more managed money selling to this point does stand out to me.

In silver, this feature stands out even more, with the managed money traders having sold less than 20,000 net contracts out of the 83,000 net contracts they bought on the rally to \$18.25 in early Sep. The \$1.50 drop in silver prices since then has decisively penetrated all the important moving averages to the downside, so the question is what are the managed money traders waiting for? This has been the key question for some time and I'll get into it more a bit later on.

One observation I'd like to make is that trading volume in COMEX gold and silver

futures has picked up very recently, with daily trading volumes exceeding 80,000 contracts in silver and 300,000 contracts in gold. At the same time, we have been going through a stretch of basically unchanged positioning in the COT reports (at least through the latest report). If daily trading volumes have increased but overall positions haven't changed much, the only plausible conclusion is that there has been a sharp increase in day trading, otherwise there would be more pronounced changes in the COT report. Undoubtedly, this increased day trading is of the HFT computer variety, along with scam within the scam short term snookering of the managed money traders by the commercials. One thing you can be sure of is that none of the increased day trading is being done by real world producers or consumers of silver or gold, just by paper jockeys on the COMEX. As such, it's hard for me to see how any of this day trading can be considered economically legitimate.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses accelerated this week to 7.4 million oz, the highest since April. Total COMEX silver warehouse inventories rose to another multi-decade high of 224.6 million oz, up 2.7 million oz for the week (despite a large 2 million oz withdrawal yesterday). The turnover standout was the nearly 4 million oz deposit earlier in the week. Once again, the JPMorgan COMEX warehouse remained an island in a storm, as its 115.8 million oz were undisturbed.

As to what caused this week's spike in physical movement in the COMEX silver warehouses, we can only eliminate what it wasn't, namely, a sudden surplus of newly-mined metal with no other place to go. After all, the world produces around 2.3 million oz a day (850 million oz annually) from many hundreds of mines and it would be impossible for a mining surplus to account for such short term physical flows. The most plausible explanation for the movement this week was a

rearrangement of existing holdings for any number of unknown reasons. If I had to guess, I would suspect this week's COMEX movement and inflow might be related to the large 4.5 million oz withdrawal from SLV, the big silver ETF, the prior week (under the assumption that some of it was shipped by sea). Additionally, over the past month or so, COMEX silver warehouse inventories have increased by the same 6.5 million oz that have been withdrawn from SLV.

Having followed COMEX silver inventories for decades, as well as the physical holdings in SLV since its introduction in 2006, I can assure you that there are more questions than answers concerning each, to the point of making one almost insane if you try to read too much into short term developments. Then again, these are the two largest visible silver bullion stockpiles on earth, making up nearly 550 million oz or more than 50% of all the visible silver in the world; so how can a silver analyst not look at them? I suppose the lesson is to consider them, but not to obsess over the inventories. Certainly, I've been looking at them for a long time and have yet to uncover any direct and immediate link to price movement.

I have nothing new to report this week in terms of ETF holdings, COMEX deliveries or the continued-low sales of Silver or Gold Eagles, so I'll jump to the new Commitments of Traders (COT) Report released yesterday. I had no strong expectations for the report and took a pass on predictions, given the rather narrow price range into Tuesday's close. However, there were a number of salami price slices to the downside and trading volume was elevated in both gold and silver, so I was prepared to be surprised. No such surprise was forthcoming in yesterday's report, save for the relative lack of managed money selling to date, already mentioned above.

In COMEX gold futures, the commercials did reduce their total net short position by 11,000 contracts, to 210,700 contracts. Yes, that is the lowest commercial net short position in two months, normally a somewhat bullish development, but other considerations tend to minimize the reduction, including changes by commercial category and the lack of commensurate managed money selling.

By commercial category in gold, the big 4 actually increased its net short position by selling 1400 more contracts short, while both the big 5 thru 8 and the raptors (the smaller commercials apart from the big 8) bought; with the big 5 thru 8 buying back 3500 short contracts and the raptors adding a rather hefty 8900 new longs (now 41,100 net long). The most troubling feature in the gold market structure is still the large concentrated short positions of both the big 4 and big 8, a feature even more troubling in silver. Important past price bottoms have featured concentrated short positions much less than now exist in both COMEX gold and silver.

On the sell side of gold this reporting week, the managed money traders sold 1147 net contracts (only about a tenth of the 11,000 contracts bought by the commercials), including the sale and liquidation of 3854 long contracts and the buyback of 2707 short contracts. The other large speculative reporting (non-managed money) traders accounted for nearly 8200 contracts of net selling.

In COMEX silver futures, the commercials increased their total net short position by 1600 contracts to 76,500 contracts, their largest net short position in five weeks. Still, it is closer to the truth to remark on how little of a change there has been in the commercial headline number in silver over the past seven or eight weeks than anything else.

By commercial category, the big 4 added 700 new short contracts and the big 5 thru

8 added 1500 new short contracts as well; leaving the raptors as buyers of 600 new longs which increased their net long position to 23,200 contracts. I'd peg JPMorgan's net short position to be 36,500 contracts as of the Tuesday cut-off date, up 500 contracts for the week and close to its largest short position of the year of 38,000 contracts on Sep 12. We're still two weeks away from the next Bank Participation Report and the recalibration that comes with that report.

On the buy side of silver this reporting week, the managed money traders came close to matching what the commercials sold, as these traders bought 1238 net contracts, including the purchase of 1024 new longs and the buyback of 214 short contracts. With nearly 75,000 contracts of managed money longs as of Tuesday, there is room for 19,000 contracts of long liquidation on lower prices should the core non-technical fund long position hold at 56,000 contracts. With less than 11,000 short contracts held by the managed money traders, there is much more room for new shorting, perhaps more than 50,000 contracts worth, should these traders be induced into selling as many contracts as they held short at the record in July.

One key question has been will they or won't they sell that many longs and add as many new shorts as the managed money traders held in July, just a few short months ago; because if they do or did, that would mean 70,000 net silver contracts will be sold. But time may be running out and it stands out that even with the decisive penetrations of the key moving averages in silver, there has been as little managed money selling as reported so far.

Ominously (although I'm not quite sure for who it is ominous), I am taken aback by the current large size of the concentrated short position in COMEX silver, not only for JPMorgan, but for the big 4 and big 8 overall. The concentrated short positions of

the big 4 (69,416 contracts) and of the big 8 (99,664 contracts) are now the largest they have been since April (and an \$18+ silver price).

Eight crooked traders, not one of them engaged in legitimate hedging and not one of them representing a mining company are net short 500 million oz of silver, nearly 60% of world silver mine production. That's 12,500 contracts (62.5 million oz) each that the eight traders hold short in COMEX silver on average, according to the current COT report. Even if you net out JPM's 36,500 contract net short position, that still leaves the 7 remaining shorts holding 45 million oz each short on average.

If I have had a single signature issue, then it is the concentrated short position in COMEX silver. This is the issue that the CFTC has tried, quite unsuccessfully, to address in the past on several occasions, although not for the past nine years. This is a black letter legal issue for the agency, seeing how they publish the data on which I report. Like the skit on Seinfeld about the car rental agency being able to take the reservation, just not keep it; the CFTC regularly reports an almost otherworldly short concentration in silver, but doesn't do anything about it. The Seinfeld skit was funny, the CFTC's clown routine is decidedly tragic for the silver market.

It's also ironic that back in April, I took the occasion of the then-record large concentrated short position in COMEX silver to write to the new Enforcement Director, James McDonald. Six months later, one must conclude either he doesn't understand the issue or doesn't give a damn about it. In either event, that may not be the end of the world, as I indicated last week. It's starting to appear that there may be a market resolution ahead for silver, even as the chance for a regulatory resolution fades.

Joining with the existing standout question of whether the managed money traders

can be tricked into selling out many longs and adding many more shorts in COMEX silver is now the question of the very large concentrated short position of the 4 and 8 largest traders; market crooks every last one. While the managed money traders have sold short aggressively in COMEX silver on both the \$2.50 price drop into May and on the similarly sized price decline into July, there is scant evidence, to this point, that they will do so this go-around.

You'll remember there have been times, such as the \$3 price drop following last year's US presidential election and on the \$2 price drop into March, when the managed money traders added hardly any new silver shorts. This despite decisive moving average penetrations to the downside and ample salami slicing. Silver prices rallied after both of those price declines, underscoring the importance of the will they or won't they proposition currently.

Compounding the significance of what the managed money traders will or won't do in terms of adding to silver (and gold) shorts, is the contingent question of how will the 8 big concentrated shorts be able to reduce their obscenely large and manipulative short position without aggressive managed money shorting? Particularly since the raptors and other large reporting traders have been so aggressive in buying on price declines to date. I'm sorry, but I don't have the answer at this point (hey -at least I'm asking what I believe are the right questions). There are a number of possibilities.

One, the 8 big short crooks don't end up covering a significant number of short contracts because of some combination of more aggressive buying by the raptors and the other reporting traders and relatively little additional managed money selling from here. Embedded in this is the universally-asked question of will the managed

money technical funds ever wise up to the fact that they are sucker at the poker table?

At the point that managed money selling is complete, the concentrated short position of the big 8 becomes more problematic and obvious, particularly now that a big short, ScotiaMocatta, looks like it wants to quit the silver manipulation game. Once the managed money traders are done selling, whenever that may be, and begin to buy, the 8 big shorts will likely have to increase shorts again (from a much higher base). At some point, someone (other than me) is bound to ask what these crooks are up to and what the price of silver would be without 500 million oz of illegitimate shorting?

Another possibility is that the 8 big shorts continue to slice prices lower, hoping that lower prices will eventually trip off enough managed money selling to allow for some covering of their short position, despite intense competition from the raptors and other non-managed money traders. In other words, a continuation of recent activity until all the managed money trader that can be induced to sell have sold.

A final possibility is that the 8 big shorts, recognizing that their actions are leaving elephant-sized foot tracks through the jungle, decide to go all-out and rig prices sharply lower in order to induce panic selling, not only by the managed money traders, but also by some of the recent competitive buyers, including the raptors. You may forget that this happened a few years ago, but I still have the Easter Bunny suit to remind me, although I never did get to captain the Space Shuttle.

On the other hand, perhaps all this talk about the manner we might go lower might turn out to be dead wrong and we explode in price instead. Regardless, I remain convinced that it will be a matter of how the market structure on the COMEX



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changes that will determine price. I suppose that makes me a dyed-in-the-wool market structure guy, but I'm not telling you anything you don't already know. Someday, other things may influence silver (and gold) prices, but that day hasn't arrived yet. Therefore, the probabilities still favor more of a downside resolution, but probabilities aren't certainties.

This week's price declines in gold and silver brought added relief to the 8 largest shorts in the big money scoreboard I've taken to keeping. The \$6 drop in gold, eliminated \$150 million of open and unrealized losses (on the 25 million oz short position and the 20 cent drop in silver brought another \$100 million of relief (on the 100 million oz concentrated short position). The \$250 million combined relief to the 8 big traders offset completely any open loss and the big 8 have now recouped the entire \$2.7 billion they were out at the price highs nearly two months ago. The question, as I'm sure you've surmised, is how many short contracts can these crooks now close out?

Ted Butler

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Silver - \$16.85 (200 day ma - \$17.18, 50 day ma - \$17.22)

Gold - \$1275 (200 day ma - \$1260, 50 day ma - \$1302)