

October 7, 2017 – Weekly Review

Despite a sharp rally from fresh new price lows set early yesterday, the price of gold finished lower for the fourth straight week, ending \$6 (0.5%) lower on the week. The sharp concurrent rally in silver yesterday from fresh recent lows was enough to put its price up for the week by 15 cents (0.9%).

As a result of the relative outperformance by silver this week, the silver/gold price ratio tightened in by a full point to just under 76 to 1. The price ratio is still stuck in a tight trading range, with weekly changes in response to paper contract positioning on the COMEX, which has little to do with the actual fundamentals of either metal. Silver still looks dirt cheap relative to gold (and just about every other asset in the world). So what's new?

Sorry to repeat myself, but the key price feature of the week was futures contract positioning on the COMEX, same as is most usually the case, including an embarrassingly wide miss in my predictions for contract changes for yesterday's COT report (after a recent string of fairly accurate predictions). The funny thing is that I was much more uncertain on the accurate calls than I was for this week's miss. Go figure. That will be the meat of today's report, but let me run through a few topics typically covered first.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses snapped back to nearly 4.6 million oz this week, close to the high average weekly levels seen over the past six and a half years. Please keep in mind that while rapid physical inventory movement is now typical and ordinary in silver, it is not at all typical in other commodities. I still ask myself every single day why that is and the best answer I can come up with is that it reflects supply line conditions that must be considered tight.

Also somewhat typically, there wasn't near as much change in total COMEX silver inventories, where inventories fell this week by 0.8 million oz to 219 million oz, still the second highest weekly level of total inventories in more than 20 years. Someone woke up the security guard at the JPMorgan COMEX warehouse to put in 5000 oz of silver (one contract's worth) after no movement in that warehouse for weeks, leaving total inventories there at a record 115.8 million oz.

If there is anything to be gleaned from deliveries in COMEX gold and silver contracts of late, that something still eludes me, so I'll skip it. Likewise, I draw no important conclusions from recent deposits and withdrawals in the big precious metals ETFs, GLD and SLV, so no comment there as well. There are just too many variables that could explain a particular day's changes that it feels foolhardy to speak as if one really knows when one really doesn't know.

It's different with sales of Silver and Gold Eagles from the US Mint, which remain at the lowest levels in years, making it easy to conclude retail demand for precious metals hardly exists. The rank and file of retail investors usually attracted to the coin form of gold and silver are apparently distracted by alternative investment choices and to deny that is to deny reality. That can and will change, but it's important to keep in mind that retail buying or the lack thereof has little short term impact on the wholesale price of gold and silver (which is the price discussed on these pages).

<https://www.usmint.gov/about/production-sales-figures/bullion-sales>

The other conclusion I draw from the collapse in retail demand, particularly for Silver Eagles (and Silver Maple Leafs) is that it underscores just how big a buyer JPMorgan was for these coins over the six years or so before this year. I still consider it a stroke of (criminal) genius that JPM acquired so much physical silver in this manner, accounting for 150 million oz or more of the 650 million oz the bank has acquired in total. One remaining unanswered question is if the US and Royal Canadian Mints realize they were used and discarded like a soiled tissue by JPM?

About the only thing that spared me from total embarrassment in this week's Commitments of Traders (COT) Report was that at least there was commercial buying and managed money selling for the fourth reporting week in a row for both gold and silver. Prices weren't down sharply for the week, but the penetrations of moving averages and the persistent new (salami slice) price lows provided the ideal backdrop for managed money technical fund selling, which we got, but nowhere close to the amount I expected.

In COMEX gold futures, the commercials reduced their total net short position by 9000 contracts to 224,400 contracts (my guess was 35,000 contracts). By commercial category, the big 4 bought back 2300 short contracts, the big 5 thru 8 bought back 4100 short contracts and the raptors (the smaller commercials away from the big 8) added 2600 new long contracts to a net long position now totaling 31,300 contracts.

Clearly, all the commercials were operating from the same buy memo distributed for this reporting week and one reason they weren't able to buy more gold contracts this week is that in addition to the managed money traders not selling enough, there was fairly significant buying competition (9000 contracts worth of short covering) emanating from the other large non-commercials not in the managed money category. I've mentioned recently how the commercials were attracting competition from other traders in skinning the technical funds and this week featured some of these other traders stepping ahead of the commercials to ring the cash register on recently placed short positions.

On the sell side of gold futures, the managed money traders sold more than the commercials bought, but nowhere near my estimate, in selling 16,532 net contracts, including the further sale and liquidation of 14,773 long contracts and the new short sale of 1,759 contracts. One explanation for why there wasn't more managed money selling in gold was because the remaining key 200 day moving average has yet to be penetrated.

In COMEX silver futures, the commercials reduced their total net short position by 3500 contracts to 68,700 contracts (I had guessed 10,000 contracts). By commercial category, the big 4 bought back 1200 short contracts, the big 5 thru 8 added 400 new shorts and the raptors added 2700 new longs to a net long position now amounting to 25,600 contracts.

With yesterday's release of the monthly Bank Participation Report, I would peg JPMorgan's net short position to be 33,000 contracts. That's down 3000 contracts from what I estimated last week, but JPM didn't buy that many contracts during the reporting week ended Tuesday, probably close to a thousand contracts or so. The new short amount for JPM is strictly due to recalibration with the Bank Participation Report and, coincidentally, JPM's silver short position is also down 3000 contracts over the reporting month. For those of you (like me) who plot what JPMorgan is up to, it added 23,000 new short contracts on the price rally from the COT report of July 18 to the top on the report of Sep 12 and through last Tuesday has bought back (of course, profitably) 5000 short contracts.

On the sell side of silver futures, the managed money traders sold only 2419 net contracts, including the sale and liquidation of 1141 long contracts and the new short sale of 1278 contracts. Both numbers were surprisingly low given the persistent salami slicing and clear moving average penetration during the reporting week.

The just over 68,000 contracts that the managed money traders hold long are only 12,000 contracts or so above the 56,000 contract level that has proven so far to be the drop dead low level over the past two years. This implies only 12,000 long contracts worth of potential selling on lower prices should we go back to the extreme lows. Of course, there could be even greater liquidation, but keep in mind there's no guarantee the 12,000 contracts will be liquidated either. My point is that the key feature is not the amount of potential managed money long liquidation remaining, because we're not talking about massive numbers of potential contracts in the total scheme of things.

The wild card in silver is still potential managed money new shorting from here. With just under 13,000 contracts held short thru Tuesday, the managed money technical funds hold almost 53,000 contracts less short than the near 66,000 contracts they held short on July 18, not that long ago. Tell me how many (if any) new short contracts the managed money traders will sell from this point and I think I could give you a pretty good blueprint for prices. I suppose you would then have to kill me, but regardless, that's one of the key variables.

As to what lies ahead positioning wise is the great unknown that no one can possibly know for sure in advance, so before speculating about what may come, let me speak in certainty about what has occurred to this point. First the facts, then the speculation. To make it simple, I'll use the net change of the managed money traders in gold and silver since the July 18 COT report and price bottom and the subsequent positioning since the price top as indicated in the COT report of Sept 12 thru this past Tuesday. I'm using the managed money headline numbers instead of the usual headline number of the commercials, because other traders have been encroaching on the former commercial stranglehold of being the sole counterparty to the managed money traders.

In gold, the managed money traders bought 225,000 net contracts from July 18 to the top on Sept 12 (both in new longs and short covering). That's the equivalent of 22.5 million oz of gold, the largest amount of gold changing hands in any world venue over that time and the sole reason why the price of gold rose more than \$150. Since Sep 12, the managed money traders have sold 73,000 net gold contracts, the equivalent of 7.3 million oz and also the largest amount of gold sold in any world venue and the sole explanation for why gold prices fell \$75 from the Sep 12 top. While gold prices are down by about 50% of the \$150 gain made thru Sept 12, only about a third of the previous managed money buying has been unwound to date.

In silver, the facts show that the roughly \$2.75 rally from the COT report of July 18 to Sep 12 was caused by the 83,000 contracts of net buying by managed money traders, the equivalent of 415 million oz of silver. This amount of silver is truly enormous by any measure and there can't be any doubt that it was this buying that drove silver prices higher. From the top of the Sep 12 COT report, 21,000 net contracts have been sold by the managed money traders, the equivalent of 105 million oz. This was, by far, the largest amount of silver sold in any world venue since Sep 12 and fully explained the \$1.50 price decline from the top. However, the erasure of more than half of the previous price gain occurred as only 25% of the previous managed money buying was unwound.

Those are the facts that matter and which are confirmed by COT data and recorded price change and clearly indicate how much managed money buying it took to cause the price rally from July 18 to Sep 12 and the subsequent price decline since then. But here's where the facts end and the speculation begins. What will the managed money technical funds do from here? Let's look at the possibilities.

The first possibility is continued managed money selling until most or more of the previous buying is unwound. I would call this the highest probable outcome based upon how things have always turned out in the past. That will involve lower prices, including of the salami slicing variety. Particularly in silver, the unwinding of most of the previous managed money buying must involve aggressive new short selling and as I've mentioned previously, sometimes the managed money traders add shorts aggressively, other times not and I don't know how to handicap whether they will or won't on this go-around. I am surprised they haven't added more shorts through the latest report.

The second possibility is that the commercials engineer a price rally, up through the moving averages in both gold and silver and induce the managed money traders to reestablish long positions sold since Sep 12, in order to flush them out at lower prices later. This would extend and delay any final flush out to the downside.

Finally, the last possibility would be that not much additional managed money selling or shorting will come and instead we begin the big push higher. This would have to entail short covering to the upside by some number of the 8 largest shorts in gold and silver for the very first time in history and would mark the end of the silver manipulation. I would remind you that JPMorgan is ideally positioned for a silver price explosion by virtue of its physical position of 650 million oz, despite holding a still-large paper short position.

I've spoken in the past about a JPM double cross of its fellow big commercial shorts in silver and God-forbid if the recent high level talk of a coming storm after the calm involves military action and the possibility of a nuclear exchange, all hell could break loose in markets beyond anyone's imagination. I'm a COT, just the facts type man, considering the most plausible and highest probability outcomes, but I'm fairly certain that if anything can cause COT considerations to be dashed aside like they never mattered in the first place, it would be an outbreak of a nuclear weapons exchange. Not at all comforting is that JPM would seem to be positioned in silver even for that.

For a variety of reasons I would never be net short of silver in any circumstance and while there appears to be more tension and turmoil in the world in my memory and that many financial markets are extended and ripe for adjustment, it is still my speculative feeling that gold and silver are still most likely to experience additional managed money selling ahead and that can only occur on lower prices. That's not an invitation to sell long term silver holdings, just an attempt to accurately portray current

short term considerations.

The slight decline in gold prices this week shaved another \$100 million or thereabouts from the open and unrealized loss of the big 8 shorts in gold and silver combined. That open loss stands at about \$100 million as of yesterday's close, down from \$2.7 billion four weeks ago. There has been some big 8 short covering on the price drop of the past four weeks, but at this point that short covering is nowhere near as large as the price drop and unrealized loss recovery have been. I don't mean to sound wishy washy in claiming not to know how successful the commercials will be in inducing managed money selling, particularly of the new shorting variety, but I don't pretend to be a prophet, just an analyst. I do know that the key variable will be how much managed selling lies ahead.

A number of you asked that I comment on a recent piece by Keith Weiner, which took issue with my recent article about "Thoughtful Disagreement" when it comes to JPMorgan and the silver manipulation. I think Weiner took issue in principle with my premise, because I couldn't find actual disagreement by him with anything I wrote. It was more him advancing a completely different premise for how the gold and silver markets operate. It had something to do with arbitrage and "basis and co-basis".

<http://silverseek.com/article/thoughtful-disagreement-ted-butler-16885>

First, I would like to thank Weiner for the non-personal nature of his presentation. Too often nowadays, disagreement takes on personal and emotional tones. I try to avoid getting personal in any debate about silver. Nevertheless, I must say his basic premise is incorrect. Here's why.

JPMorgan and the eight largest shorts have never taken a loss on added paper short positions based upon the concentration data published by the CFTC. Paper contracts were added at higher prices than they were bought back, pure and simple. There is no physical or other arbitrage trading involved in the data. I'm not saying the big commercials don't deal in physical arbitrage, but none of that is recorded in COT data which deal exclusively in paper contract positioning on the COMEX.

Further, the amounts of physical material required to match up on an arbitrage basis to equate to the documented paper contract changes makes it impossible that such equivalent amounts of physical are changing hands. I just wrote how some 415 million oz of paper silver were bought by the managed money traders in the eight reporting weeks from July 18 to Sep 12, much of which was sold by the commercials. To assume this involved that much physical silver as well would be absurd. We're talking about 25% or more of all the physical silver in the form of 1000 oz bars in the world; it is not possible for such a large percentage of the world inventory of any commodity to change hands in two months.

I think the problem is that Weiner has no hands-on professional futures market experience (perhaps no more than trading a few contracts for himself). He's using terms, like basis, which is a legitimate term in commodities but in a way not in keeping with the usual meaning of the word in my experience. As far as "co-basis" I'm not familiar with that term.

Weiner has been trying to advance his basis and co-basis arbitrage premise for a few years. He also is insisting that the COT market structure positioning premise that I advance is bogus. Despite this, more analysts and commentators are jumping on the COT bandwagon almost daily. The growing popularity of considering the COT premise is strictly dependent on the incredibly reliable pattern of positioning

and price, as well as the reliability of US Government reporting. There is no similar enthusiasm for Weiner's obtuse theory.

Ted Butler

October 7, 2017

Silver – \$16.85 (200 day ma – \$17.12, 50 day ma \$17.12)

Gold – \$1277 (200 day ma – \$1251, 50 day ma – \$1299)

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