

## September 1, 2018 – Weekly Review

Gold and silver prices finished lower this week, with silver, essentially, ending lower for an unprecedented 13<sup>th</sup> consecutive week and at lows extending back to early 2016. Gold ended \$6 (0.5%) lower, while silver closed the week down 33 cents (2.2%). As a result of silver's pronounced relative underperformance, the silver/gold price ratio widened out to 83 to 1, the most undervalued silver has been relative to gold, also since early 2016. Should the 85 to 1 level be violated, then we'll be talking multi-decade extremes being hit.

Unprecedented is the magic word this week when it comes to silver and it starts with the new Commitments of Traders (COT) report, which indicated for the first time in history a commercial net long position. Undoubtedly, there will be widespread commentary about this unprecedented development and what it may foretell for the future price of silver and I'll dig into the details momentarily. But first I'd ask you to stop and reflect on something not likely to be widely reported on. Sometimes it's important to think about the deeper meaning behind the numbers and data and I believe this is one of those times.

What a commercial net long position in COMEX silver means is just that, namely, by a slim margin, the trading entities classified as commercials are more long than short in their futures positions. Further, as I've chronicled on these pages, since June 12, the commercials have been on an unprecedented and documented buying spree of nearly 70,000 net silver contracts, or the equivalent of 350 million ounces, as the price of silver plunged by nearly \$3 or nearly 17%. One commercial entity, JPMorgan, accounted for 35,000 contracts or 50% of the total commercial buying.

Based on this easy to document data, a number of questions should arise. First should be that if the commercials bought so many silver contracts, how could silver drop so much in price? The alternative question is who the heck was selling as the commercials bought so much? The answer, of course, is that the managed money technical funds were the big sellers, also as I and others have reported all along. Therefore, if you are looking for an explanation for why the price of silver dropped by close to \$3 in less than three months, you'd have to be incapable of reason or vision not to see it was due to managed money selling (mostly new short selling).

Here's the problem – regulated futures markets in the U.S. exist for the purpose of allowing legitimated hedging. If the traders identified as legitimate hedgers, the commercials, are not selling, but instead buying, then it means that the traders identified as speculators are responsible for the big price drop in silver. Quite simply, that's against U.S. commodity law. Let's face it – any legitimate potential silver hedger, say a silver mining company, would have to have its head examined if it were to sell and lock in these low prices and, in fact, none are. This can be seen in the commercials holding a net long position for the very first time.

The COT report data is significant for what the unprecedented commercial net long position in COMEX silver really means, namely, that it proves excessive futures market speculation is setting the price that the rest of the world must take. That we have a federal agency, the CFTC, that sits by and permits this to occur, all while dutifully documenting exactly what is transpiring, is even more outrageous than the fact that it is happening. This is the true meaning of the very first commercial net long position in silver. On to other developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged this week to 6.2 million oz, as total COMEX silver inventories rose by a further 2.3 million oz to 294.2 million oz. Since early July, COMEX silver warehouse inventory totals have risen by roughly 14 million oz to new all-time records. There was no change in the JPMorgan COMEX silver warehouse, but that should change in the future if the past pattern of the bank moving in silver it has taken delivery on in its own name holds true, based upon the first two days of delivery on the September COMEX contract.

Last week, I speculated that the recent increases in total COMEX inventories might be due to developing delivery demands for the COMEX September delivery month, a traditional delivery month for silver. After the first two days of delivery, that would appear to be the case as 4075 total silver contracts (20.4 million oz) have been issued. I believe the big recent metal deposits into the COMEX silver warehouses suggest that the metal already on deposit was not available for delivery, necessitating new silver being brought in. As with anything, just because you can see something exists, does it mean it is available for sale.

Most importantly, JPMorgan has emerged as the big silver taker in the September deliveries, having stopped 1410 contracts (7 million oz) or nearly 35% of total deliveries so far — all in its own proprietary or house account. As regular readers know, what JPM does in its own account is always the main feature for me. While still early in the delivery month, this is the most silver JPMorgan has stopped in its own name since December and based upon the usual COMEX delivery protocols, it would appear JPM is slated to stop another 600 contracts or so before month's end.

My sense is that after — laying low — for some time in stopping COMEX silver deliveries, JPMorgan has shrugged off any appearance of hiding its aggressive physical silver accumulation. Sometimes I marvel about how — in your face — this crooked bank has been in its silver dealings. Other notable stoppers over the first two days of silver deliveries have been HSBC (947 contracts) and Goldman Sachs (939 contracts), both in their house accounts. All told, JPM, HSBC and Goldman have stopped more than 80% of total silver contracts issued.

[https://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

The changes in this week's COT report for gold and silver were largely anticipated in general direction, but not in magnitude. The increase in the price of gold during the reporting week ended Tuesday suggested managed money buying and commercial selling for the first time in many weeks, while the continued rotten price action in silver suggested no such managed money buying. I did indicate on Wednesday that the large drop in total open interest in silver suggested the possibility of a surprise in the report, although it looked to me that spread liquidation was likely responsible for the drop in total open interest. Ironically, there was a large drop in spread open interest (more than 14,000 contracts), but the big surprise was an even much larger net positioning change; so much so that at

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first glance, I thought the silver report was in error.

In COMEX gold futures, the commercials increased their total net short position by 6600 contracts to 8300 contracts. This is still a very low (bullish) level of commercial shorts and since the gold price hit a high point early in the day on the Tuesday cutoff, it wouldn't appear there was much commercial selling since the cutoff. I may be reading it wrong, but the increase in commercial selling during the reporting week, as well as the larger increase in managed money buying, might indicate we've seen the peak in managed money selling and commercial buying for the downward price move. This was also true in copper and palladium in terms of managed money short covering. But the increase in managed money selling in silver may mean more managed money selling lies ahead for gold, copper and palladium as well. How's that for wishy washy?

By big trader categories in gold, the big 4 added 3800 new shorts, the big 5 thru 8 added 1000 new shorts and the raptors (the smaller commercials), sold off 1800 longs, leaving a near record raptor 154,200 contract net long position. I did get the distinct impression when studying the reports this week, that JPMorgan shorted a few thousand gold contracts in order to temporarily cap gold prices so that it could buy back an even larger number of its silver short contracts. This is the reverse, on a smaller scale, of what this crooked bank did a number of months back, when it added aggressively to its silver short position (by 20,000 contracts) to contain prices so that it could buy back much larger quantities of gold shorts (the big double cross). If you get the impression that I consider JPMorgan to be the maestro of a highly-complicated world class price manipulation you would be correct.

On the buy side of gold, the managed money traders bought 14,256 net contracts, comprised of the sale and liquidation of 1172 long contracts and the buyback and covering of 15,428 short contracts. In some sense, it was more surprising that there was any long liquidation on the slight increase in gold prices, but at 105,971 contracts of remaining managed money longs, the biggest takeaway is still that there doesn't appear to be much long liquidation probable; the same as it has been for some time.

I guess one could term the 15,428 contracts of short covering by the managed money traders as somewhat disappointing in that such a large amount of buying didn't result in more upward price pressure. After all, managed money short positions are in the "rocket fuel" category of potential buying, in that they are always bought back with little regard to price. Then again, some 150,000 contracts of managed money gold shorts have been added since June 12, meaning that only 10% have been bought back thru Tuesday and there still remains 181,743 managed money shorts open. In only the two previous reporting weeks has there ever been a larger managed money short position than there was as of Tuesday.

The reason there was much more managed money buying in gold than there was commercial selling (14,256 vs. 6600 contracts) was because there was pretty heavy net selling (8609 contracts) by the other large non-managed money traders. This other selling made JPMorgan's job easier in it only having to sell a few thousand gold contracts short to cap prices so it could buy back silver contracts. I can't prove it from the COT data alone, but my sense is that JPM somehow had a hand in the other large trader gold selling this reporting week.

While I'll provide an update on my recent money scoreboard tally for the newly-added managed money short positions since June 12, I'd like to comment on the financial consequences of the managed money shorts buying back 15,000 gold short contracts in the reporting week. Not only does it change the calculation for future price movements, it also raises the matter of how to record the partial

close out of the technical fund short position. Should this week's buyback be considered to be at a profit to the technical funds since the close out could be attributed to short sales made at earlier higher prices or at a loss, being attributed to more recent short sales at lower prices? After all, gold is up from recent lows and we do know that the technical funds sold short into those new lows.

With your indulgence and in order to keep a more accurate tally on the money scoreboard, I'm going to blend both possibilities and build them into the running tally. I do know this – those commercials and other large traders selling long positions to the technical funds buying back short positions were most likely selling long positions bought lower and at profits. A case can be made either way, but I'll do my best to most accurately reflect the tally as correctly as possible; recognizing full well this is a very rough format in terms of pinpoint precision.

The big COT surprise was in COMEX silver futures, where the commercials bought back a hefty 8800 short contracts, eliminating their net short position completely for the first time ever and leaving them 1400 contracts net long. By big trader categories, the big 4 bought back 400 short contracts, while the raptors added a very hefty 8700 new longs to a net long position now amounting to 86,000 contracts, the highest in history. The big 5 thru 8 shorts actually added 300 new shorts, but the most plausible explanation was a category change by a former big 4 short to the big 5 thru 8 category, most likely JPMorgan. It is also quite possible that JPMorgan has dropped out of the big 8 short trader category completely; an event so noteworthy I can't even come up with a clever enough analogy to describe it.

I would peg JPMorgan's short position in silver to be no more than 7000 contracts to possibly 5000 contracts or less. And if it was not holding such a small short position as of Tuesday, it would appear to be since the cutoff. While I await the release next week of the monthly Bank Participation report, let me at least provide some substantiation for my claims about JPMorgan's silver short position.

Back on the June 12 COT report, I had estimated JPMorgan held a net silver short position of 40,000 contracts (up nearly 20,000 contracts from May 1). The Producer/Merchant category (where JPM is included) of the disaggregated COT report of June 12 indicated a net short position of nearly 54,000 contracts, of which JPM accounted for 40,000 contracts. In this week's COT report of August 28, the net short position of the Producer/Merchant category is down to 19,000 contracts, 35,000 contracts less than on June 12. You can take it to the bank (no pun intended) that this was purely the handiwork of JPMorgan.

Please remember that JPMorgan has spent the last 7.5 years methodically and almost maniacally accumulating 750 million oz of physical silver and if was down to being only short 5000 contracts (25 million oz) as of Tuesday, it was net long 725 million oz overall, the most it has ever been net long in history. To be sure, if it has done anything since the Tuesday cutoff, it has been buying back even more of its short positions and may, in fact, be net long at this time on the COMEX .

On the sell side of silver, it was nearly an exclusive managed money affair, as these traders sold 7988 net contracts consisting of the sale and liquidation of 2780 long contracts and the new short sale of 5208 contracts. The managed money long position was 60,430 contracts as of Tuesday and roughly half of the 2780 long contracts sold were by the concentrated longs I have been writing about recently, or 1362 contracts.

To recap the unusual concentrated long position in silver from early April thru June, a few large

managed money traders (definitely not technical funds) added around 30,000 new silver long contracts at an average price of around \$16.50. This was the largest concentrated net long silver position in history and appeared to have been established by knowledgeable and well-financed entities. Very resilient at first to the silver price decline that commenced on June 12 from \$17.25, the newly added concentrated longs started to liquidate in July as the price of silver fell to \$15.50, selling off more than 8000 of the newly added 30,000 long contracts. Then the position stabilized and even grew by a few thousand contracts, until the past two reporting weeks on silver's price plunge to \$14.50; when it fell back to 54,559 contracts or retaining about 21,000 of the 30,000 contracts added from April thru June. These big concentrated longs, both on a closed out and realized basis and on a still open and unrealized basis are out an excess of \$300 million and that's divided by just 4 or less traders

Will more of this recently-added concentrated long position be liquidated ahead on lower prices? Is JPMorgan gunning to target further liquidation or is this another slick and highly corrupt pre-planned maneuver by the sultans of sleaze? I don't and can't know the answers to these questions, as I've indicated all along. All I can do is closely monitor and report as the data are revealed. I can say that the 8000 or 9000 contracts of concentrated long liquidation is much smaller than the amount of new short selling that the managed money shorts have added, both since June 12 and this week.

The 5208 new short contracts sold by the managed money traders this reporting week brings to 96,135 the total number of short contracts held by the managed money technical funds, the equivalent of more than 480 million oz of silver. Held by 55 traders in total, this is such a large amount of silver to be held short that it is nothing less than stupefying. Since June 12, managed money traders have added just over 53,000 new short contracts. What in God's world could ever justify the assumption of such a recklessly dangerous position except an unawareness that is far beyond being merely clueless and out of touch?

The coming resolution is potentially epic since it pits what has to be single most clueless group of traders on the short side against what is, hands down, the most powerful, connected and ruthless trader ever to exist, JPMorgan. Based upon what has transpired to this point, I can't help but be somewhat tentative when it comes to declaring how many more silver contracts JPMorgan can possibly buy by inducing even more selling by the managed money traders, both from long liquidation and new short selling on lower prices. It's not that we haven't already passed the point of ridiculously low prices and incredibly large amounts of managed money short selling to this point it is precisely because we have already passed both metrics by such wide margins that it raises the question if anything is impossible.

When the then-previous all-time record managed money short position of 73,832 contracts was established this past April 3, AS silver prices fell to just above the \$16 mark, it was reasonable to assume such a low price and high short position watermark would not be exceeded for quite some time. Yet here we are, close to \$2 lower and more than 22,000 contracts higher than those historic extremes. To my mind, this is just a testament to the power and treachery of JPMorgan, master of market manipulation. Regardless, the current extreme new record means, mathematically, we are much closer to the ultimate record and the potential of a reversal to the upside in price of monumental proportions all because that is what will benefit JPMorgan the most.

It is also at times when historical extremes have been shattered and re-shattered that sound and basic premises can come to be doubted. While this is normal, it is more imperative than ever to stick to

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bedrock common sense and not get swept away with irrational thoughts. I don't mean to unnecessarily lengthen today's report, but I feel I need to comment on a recent challenge to the basic market structure premise.

It's always important to test and retest one's basic premises, lest you miss something that invalidates even the strongest-held beliefs. In my case, no premise is more strongly held than the conviction that futures contract positioning on the COMEX is the main, if not sole driver of price for silver and gold. Therefore, I would like to discuss a recent challenge to the now widespread acceptance that current positioning is uber-bullish because the managed money technical funds are holding massive and unprecedented short positions.

The challenge does not dispute the record short position of the managed money traders but seems to be based on some type of contrarian interpretation that holds that because so many are trumpeting the extreme positioning as a reason to be bullish, the bullish consensus works against an imminent price rally. I'm sensitive to not misstating others' take on the market, so please judge for yourself if I have described the challenge accurately.

<https://www.schaeffersresearch.com/content/bgs/2018/08/28/the-signal-thats-turned-everyone-into-a-gold-contrarian>

First, there is no question that more are following the COT report than ever before, an assertion I've made repeatedly; always adding that the growing collective attention was for very good reason. Second, I've never held that the COT market structure is an accurate short term timing indicator, but rather an excellent explainer of past price moves and an extremely reliable general indicator of future moves. So, if the challenge is questioning the timing efficacy of the market structure approach, then there's no argument.

But if the challenge concerns the overall validity of the market structure approach that is an entirely different matter because I don't believe the contrarian approach even applies. I would define the contrarian approach as betting against a collective opinion that is widely held and in which actual positions have been collectively taken — betting against the crowd, as it were. In the interest of full disclosure, I consider myself a card-carrying contrarian and in no way am I opposed to the contrarian approach. However, I would contend that the contrarian approach is not applicable to the market structure approach and, if anything, more in line with it than opposed.

The reason the contrarian approach is not applicable to the market structure approach is the nature of the market. Gold and silver prices are set and determined by the highly-exclusive private paper betting game on the COMEX between no more than 50 or so large traders on either side of the market, namely, the managed money technical funds and those traders who are their counterparties, mostly commercials. Prices are made by this private betting game and the rest of the world — miners, industrial users and investors — then takes whatever prices are made on the COMEX. It's beyond insane and illegal to my mind that this is the way gold and silver prices are made and taken, but that doesn't change the equation.

What it does mean is that because so few traders are responsible for making (setting) the price, the collective opinion of those observing the price setting process has little to no bearing on the process itself. It makes no difference what the collective opinion of outsiders might be since no one except the very few actual COMEX entities in the private betting game sets the price. The contrarian approach

involves going against collective position taking and that doesn't apply in gold and silver. What matters is who is zooming who in managed money versus commercial circles, not what those on the outside, like myself, might conclude from observation. Either the technical fund shorts will or won't prevail in the end, regardless of what observers may feel.

Moving on, it seems that I have given more audio interviews over the past few months than in the years preceding. I think that has more to do with the highly unusual current circumstances in place than anything else, certainly including the record large short position of the managed money traders and the record low short position of JPMorgan, which when combined with its unprecedented physical long position in both silver and gold sets it up to make the bundle of bundles as and when metal prices soar. I still don't particularly care for the sound of my own voice, the main reason I've done so few interviews in the past.

<https://www.youtube.com/watch?v=8Dg4BmIOi4U>

Finally, this week's price and positioning changes leads me to calculate the money scoreboard of the newly added (and closed) managed money technical fund short positions as these positions being ahead by a combined \$140 million in gold and silver since Wednesday's close, or roughly \$675 million from when I first started this running calculation two and a half weeks ago (when the tech fund shorts were ahead \$950 million). For those wishing to follow between my report dates, I'm now using 135,000 gold contracts and 53,000 silver short contracts, average shorting price still \$1233 in gold and now \$15.50 in silver.

How much lower, if at all, JPMorgan can maneuver prices remains to be seen, but we have long passed the point where silver and gold prices must move substantially higher than current levels in time and not much time at that. We are in an unprecedented and monumental set up not likely to be seen ever again once the price reversal to the upside takes hold.

(On a housekeeping note, I've now switched to December in silver for closing pricing purposes, joining with the switch having been made in gold some weeks back).

Ted Butler

September 1, 2018

Silver -\$14.55 (200 day ma – \$16.33, 50 day ma – \$15.43)

Gold – \$1206 (200 day ma – \$1291, 50 day ma – \$1227)

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