There can be little question that there has been a literal explosion in awareness and public commentary focusing on the Commitments of Traders (COT) Report and the analysis of silver and gold (and other markets) in accordance with futures market positioning. No doubt the interest has been generated by the reliability of the COT market structure approach over the long term, but also by the recent extreme and unprecedented massive size of the short positions of the managed money traders in gold and, particularly, in silver. The managed money short position in COMEX silver futures is now nearly 50% larger than it was at the previous record peak in April.

Coincident with the explosion in COT commentary and the unprecedented managed money short positions, there have been a number of questions related to the current efficacy and accuracy of the report. Some have raised questions whether the report is still a valid barometer of past and prospective price change, as well as if the report accurately reflects actual positioning by traders or whether there is deliberate misreporting. These are significant concerns worthy of analysis. After all, if the COT report is no longer valid or trader positions are being misreported, the growing commentary is especially misplaced.

Behind the question of whether the COT report is still valid seems to be the reality that positioning has reached extremes never witnessed in the face of prices yet to reverse. This raises the alarm to some that something has gone haywire and the premise behind market structure analysis no longer works. While understandable, nothing could be further from the truth. Yes, the managed money short positions in silver and gold have reached extremes never before witnessed, but the positioning extremes are completely in synch with price performance.

To be clear, I’m not claiming that the record extreme short positioning by the managed money traders has resulted in the lowest prices ever recorded for silver and gold, as that would clearly be untrue. What I am claiming is that the record short positioning by the managed money traders has resulted in an equally unprecedented pattern of price – there has never been a consecutive weekly decline in the price of silver extending to 14 weeks in history. In other words, the positioning matches the price pattern perfectly; which is exactly what it is supposed to do. Just because no one (certainly including me) predicted we would have record and unprecedented managed money shorting starting on June 12 does it mean the COT report is no longer valid. Many things are beyond prediction.

In fact, the nearly identical pattern of positioning and price change is the clearest proof to date of the validity of the market structure approach based upon the COT report. Far from questioning whether the market structure approach is still valid, there should instead be heightened awareness that the unprecedented short selling by the managed money traders is the sole cause of the unprecedented string of consecutive weeks of lower prices.

I think I understand why some may be questioning if the COT report is still valid, namely, we have yet to rally from what is the most bullish market set up in history. Instead the market structure has continued to get more extremely bullish, as the managed money traders have continued to sell and sell short in COMEX silver futures, while the commercials, particularly JPMorgan, have continued to buy. But the COT report was never about the precise timing of reversals of positions, just that the reversals would come from extreme positions.

Certainly, the current positioning has taken much longer to reverse than anytime previously, but that is little reason to assume a rally of significant proportions will not occur. Besides, I’ve already laid out the case for the market structure approach not working – the managed money technical funds collectively buying back their extreme short positions at a profit. The fact that they continue to add new short positions just delays and accentuates the eventual certain resolution that the short positions must be bought back at some point, so let’s not get impatient. Look, I’m sure we’re all ready for the resolution, but it isn’t up to us; it’s up to the nitwit technical funds and the very crooked JPMorgan.

On Saturday, I mentioned how I thought it was nearly impossible that JPMorgan had managed to buy back its entire silver short position on the COMEX. I’d like to amend that a bit. Over the years, whenever JPMorgan had reduced its silver short position dramatically, I would always get inquiries from readers asking if I thought if JPMorgan could reduce its short position completely and even get net long. While I never explicitly ruled out such an occurrence, I was always very careful to point out that in order for JPMorgan to buy back its short position completely, it would require the managed money traders to then sell and sell short a further prodigious quantity of contracts, something that never occurred. For example, back in April, when the managed money traders sold a then-record 74,000 silver contracts short, the lowest JPMorgan could reduce its short position was down to around 20,000 contracts.

On the current silver price rig job down that began around June 12, the managed money traders have sold short more than 104,000 silver contracts, fully 30,000 contracts more than their previous record in April. While there was no way (that I’m aware of) to predict this outcome in advance, there is also no question that the “extra” 30,000 new managed money shorts is precisely what enabled JPMorgan to buy back its short position completely and get slightly net long for the first time ever. My point is that while not predictable in advance, the explanation for how JPMorgan managed to accomplish the “impossible’ was laid out in advance.

Similarly, there have been recent questions concerning whether the positioning changes reflect accurate reporting by the traders required to report changes in positions. In other words, questions have been raised about whether traders are being truthful in reporting positions; including the possibility of some serious hanky-panky by JPMorgan in holding positions in others’ names. Added to these concerns is the fact that traders, including JPMorgan, have been cited for false reporting violations in the past (although not specifically in COMEX silver to my knowledge).

While the questions are understandable given the recent unprecedented positioning and price patterns and the possibility that false reporting always theoretically exists, I detect no obvious misreporting currently. For starters, the large trader reporting system is pretty tight and relatively easy for the CFTC to administer and enforce, as anyone who has ever filled out a large trader reporting form (CFTC Form 40) will attest.

Once any trader passes the threshold of being qualified as a large trader (200 or more contracts in COMEX gold and 150 contracts or more in COMEX silver) that trader is required to answer a series of penetrating questions certifying ownership and trading authority designed to uncover just who is responsible for the reportable positions. The whole purpose of the Form 40 and subsequent reports of changes in positions is designed to ferret out precisely the type of misreporting thought by many to exist. Lying on these reports is fairly easy to detect and when it is uncovered it is usually dealt with harshly by the CFTC (one of the few things it does well, in my opinion). Please take a moment to review the form and see if it leaves out any questions you would include.

https://www.cftc.gov/sites/default/files/idc/groups/public/@forms/documents/file/cftcform40.pdf

But it is not just the fact that it is fairly easy for the CFTC to uncover the false reporting of positions that persuades me that little actual misreporting is occurring currently; it is more the fact that the current reporting of positions proves conclusively that silver and gold are being manipulated in price and, further, that JPMorgan is the prime manipulator. Why lie and falsely report when you can report truthfully and openly manipulate? Moreover, my allegations of manipulation by JPMorgan are derived directly from positioning data published by the CFTC.

CFTC data show that JPMorgan has been the single largest buyer of COMEX silver and gold contracts on the unprecedented downturn in price, making it the single biggest beneficiary of the downward price manipulation. I don't know it it's possible to state the case in more precise terms. If the single biggest beneficiary of a manipulative downturn in price is not the prime manipulator, then who is?

I know full-well that it has been the managed money hedge funds that have been the biggest actual sellers, but I also know that JPMorgan has been greasing the skids and inducing these traders to sell by rigging prices lower and lower. All that proves is that JPMorgan is a sophisticated financial crook, the most sophisticated in existence and not some petty criminal punk out to mug an old lady and snatch her purse. Why would JPMorgan involve itself in false reporting to the CFTC when it can manipulate and file accurately with no consequences?

In summary, I understand the concerns about the COT market structure premise no longer being valid and about the false reporting of positions, but I just don't agree with them for the reasons stated above. Having described and fully-stipulated as to what would constitute a failure of the COT market structure premise, namely, the collective covering of the managed money short position at a profit, there is little I can do except report on continuing developments and await the eventual outcome – however and whenever it comes.

As far as price developments since the review on Saturday, yesterday silver sold off to fresh multi-year lows before recovering to mostly unchanged later in the day. Gold sold off as well during the day before recovering, but even at its lows held more than $20 above the price lows made a month ago. Since yesterday was the cutoff for this week's COT report, looking at gold's price performance over the reporting week, it would appear that not much transpired in gold as far as any dramatic positioning changes.

Gold prices were largely unchanged over the reporting week, trading volumes were on the subdued side and total open interest declined by less than 4000 contracts, so it would appear that not much occurred in way of positioning changes. Of course, that's not to say that the market structure in gold is anything but extremely bullish and very likely to remain that way in Friday's report.

Silver's price action during the reporting week was largely subdued until yesterday's intraday slide to new lows, so it would be reasonable to conclude some managed money selling occurred yesterday, but total open interest changes for the week (down around 3500 contracts) were also subdued, which raises questions about there being excessive managed money selling again. More than anything, regardless of whatever is reported on Friday, silver remains in an extremely bullish locked and loaded mode. In essence, I have no strong disposition as to what Friday's report will indicate in gold or silver, other than we will still be in an extremely bullish market structure.

There was some interesting commentary this morning on CNBC concerning the possibility that JPMorgan's CEO, Jamie Dimon, might run for US president. Remarks attributed to Dimon suggested that he thought he was smarter than the current president and would do a better job. Later, Dimon disavowed any interest in running for office. As regular readers know, I avoid discussing politics like trying to avoid the black plague, but there's sure to be a reaction from President Trump, who would argue that he was smarter than even Albert Einstein. This may sound surprising to many, but truth be told, I think Dimon would make a good president and I would prefer him over the current president. I would also prefer, of course, that JPMorgan get this silver show on the road and let silver prices rise already.

Finally, while it remains to be seen if today's rally is the start of something bigger, it certainly has had some influence on the money scoreboard regarding the financial standing of the newly-added managed money technical fund shorts since June 12. Prices at the time of publication indicate an erosion in the open and unrealized profits of the new technical fund shorts from Friday's $775 million to an open profit of $580 million, down nearly $200 million. Interestingly, for the first time since I began the tally a few weeks ago, the open profit of the technical funds in gold (just over $260 million) is now less than their open profit in silver (around $320 million). Also of interest is that today's closing price of gold is now less than $7 below the key 50 day moving average. I continue to maintain that when the dust fully settles on this added technical fund short position and the positions are collectively closed out, realized losses will fully replace open profits.

Best wishes and good fortune for all in the path of what looks like a very serious hurricane about to hit the Carolinas.

Ted Butler

September 12, 2018

Silver – $14.30 (200 day ma – $16.24, 50 day ma – $15.19)

Gold – $1213 (200 day ma – $1289, 50 day ma – $1220)