

September 23, 2017 – Weekly Review

After two months of consistent weekly gains, prices of gold and silver fell for a second week; with gold ending \$25 (1.9%) lower and with silver lower by 65 cents (3.7%). As a result of silver's underperformance, the silver/gold price ratio widened out by a full point and a half to 76.5 to 1. While this is the most undervalued silver has been relative to gold in nearly two months, the price ratio is still very much contained in a tight trading range for nearly two years. It should go without saying that this week's change as well as the longer term lack of change in the silver/gold price ratio has nothing to do with the real world fundamentals of the two metals and everything to do with paper positioning on the COMEX, but I'm sure you knew that.

After closing at one-year price highs in gold and multi-month highs in silver two weeks ago, gold has now retreated by \$50 and silver by \$1 over the past fortnight. The decline represents about a third of the gain in gold over the prior eight weeks and a bit more than that in silver. Try as I might to come up with any coherent explanation for both the two-month price advance and two-week decline, away from COMEX futures market positioning, absolutely no such explanation comes to mind. While I'll keep searching, there is now so much commentary and analysis on the COT report, it is now relatively rare where any precious metals commentary fails to at least mention the COT report. It has gotten to the point where any commentary that fails to at least mention futures market positioning and the report convinces me that the author is generally uninformed.

Therefore, it will be no surprise that I would consider the key development for gold and silver this week to, once again, be related to the reported and prospective changes in the Commitments of Traders Report. • In this case, I would define as having the most important influence on price. I hope you understand that I take it as a responsibility to devote most of my commentary to that which has the most direct influence on price or might in the future; all based upon facts and data that can be substantiated. I'm not interested in stories based upon secret and high-placed unknown sources, mainly because I have no such sources (I guess I run in a different social circuit). Besides, why in the world would anyone with access to such deep sources ever publicly reveal secret information pertaining to the market?

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses bounced back a bit to 3.8 million oz this week, a bit below the weekly average over the past six and a half years, but still unusually high relative to all other commodities. Total COMEX silver inventories remained unchanged at 218.2 million oz. Even though this is still a multi-decade high, the biggest takeaway for me is the physical turnover, which still implies overall physical tightness (why move something frantically not in great demand?). Holdings in the JPMorgan COMEX warehouse remained unchanged for a third week at 115.8 million oz, the highest ever.

Deliveries against COMEX silver futures remained high, with total deliveries exceeding 6300 contracts, the most for any month in years. But I still detect no apparent rhyme or rhythm to the deliveries, away from a customer(s) of JPMorgan stopping (taking) 1880 contracts, well over the alleged 1500 contract limit for deliveries in any one month. Aside from the JPM customer deliveries, the rest seem not particularly related to silver, but more connected with something else, like an interest rate arbitrage or

something similar.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

A recent string of deposits into GLD, the big gold ETF, has garnered attention because they have come just as gold has turned down in price. As you know, metal usually gets to be deposited into GLD and SLV, the big silver ETF, when prices are rising and there is new net investment demand; while physical metal tends to get redeemed on lower prices and net investment selling. Therefore, it is counterintuitive for metal to come into these ETFs on price declines. There are countless examples of such counterintuitive deposits and withdrawals in SLV over the past six years, but less so in GLD, as is the case now. Possible explanations include deposits to reduce a share short position, but the new short report next week will only cover short positions as of Sep 15, meaning most of the recent gold deposits came in after that date, making it already inconclusive. Aside from concluding that the recent deposits into GLD are counterintuitive, I haven't detected any price influence, particularly when compared to paper COMEX positioning, but I'll continue to monitor the situation.

I keep looking for an explanation, like they are radioactive or something similar, to explain the near complete collapse of retail demand for Silver Eagles (with demand for Gold Eagles, not that far behind). It would be an understatement of historic proportions to report that JPMorgan has stopped buying Silver Eagles.

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

The changes in this week's Commitments of Traders (COT) Report were definitely of the expected variety, as my guesses came in somewhat over in silver and couldn't be closer in gold. On a dual headline number basis, my 10,000 contract guess in silver was over (commercial buying was 6300 contracts, while managed money selling was just under 8400 contracts), while my 20,000 contract guess in gold came in just under in terms of actual commercial buying of 19,100 contracts and just over in managed money selling of 20,100 net contracts.

Once again, hitting or missing on COT report contract predictions matters little and I'm not looking for a cookie or gold star, as neither should be awarded. The whole purpose is to test myself to see if I am clued in enough to make predictions that won't embarrass and may indicate a general understanding of what is occurring. We just witnessed 8 straight reporting weeks of increased managed money buying and commercial selling as gold and silver prices rose and now one reporting week of lower prices, as the managed money traders sold and the commercials bought. Since the Tuesday cutoff, it's reasonable to conclude, based upon price action, that the managed money traders have continued to sell and the commercials have continued to buy.

So strong is the connection between gold and silver prices rising with managed money buying/commercial selling and vice versa that only the willfully blind could miss it. What establishes that it is COMEX paper positioning setting prices is the amount of paper positioning involved. Until they started selling in the just-reported COT report, the managed money trades had purchased 225,000 net contracts of gold, the equivalent of 22.5 million oz on the 8 week rally of \$150 and 83,000 contracts of silver, the equivalent of 415 million oz, on the \$2.50+ rally in silver. Since no other trading venue, away from the COMEX, featured anywhere near such large metal equivalent changes in ownership, only the mathematically impaired would not conclude that this is what drove prices higher (and now threatens to send prices lower).

In COMEX gold futures, the commercial reduced their total net short position by 19,100 contracts to 253,000 contracts, the first such reduction in two months. By commercial category, all three categories got the Three Musketeers's office memo to buy (as was also the case in silver). The big 4 bought back 5800 short contracts, the big 5 thru 8 bought back 3200 shorts and the raptors (the smaller commercials apart from the big 8) added 10,100 new longs to a net long position now amounting to 21,800 contracts.

On the sell side of gold, it was entirely a managed money affair as these traders sold 20,135 net contracts, including the sale and liquidation of 18,678 long contracts and the new short sale of 1457 contracts.

In COMEX silver futures, the commercials reduced their total net short position by 6,300 contracts to 78,400 contracts. By commercial category, the big 4 bought back 1500 short contracts, as did the big 5 thru 8 to the tune of 800 contracts, while the raptors added 4000 new longs to a net long position now amounting to 18,300 contracts. I'd peg JPMorgan's net short position to have shrunk by 1000 contracts to 37,000 contracts, still dangerously and manipulatively high.

On the sell side of silver, the managed money traders sold the previously-mentioned nearly 8400 net contracts, consisting of the sale and liquidation of 3748 long contracts and the new short sale of 4607 contracts. You'll recall that the short position of the managed money traders had shrink to unusually low levels in both gold and silver prior to this week's report and there is still a long way to go before it approaches the record levels seen two months ago.

Looking for highlights in a report that was very close to predicted levels of change, one thing that stands out to me is that the raptors in both gold and silver were relatively very aggressive buyers, even before the key moving averages (the 50 and 200 day ma's) were penetrated to the downside, which later occurred in silver, but not in gold (yet).

I interpret this to mean that the raptors are now set to buy aggressively into further price weakness and managed money selling, since they are starting to buy so soon. I think I know why the raptors are buying COMEX gold and silver contracts so aggressively and so soon, as they just sold massive quantities of long contracts in each on the two-month rally, netting close to \$1 billion in realized profits in gold and silver combined. The raptors should be anxious to replicate a trade that just made them a billion bucks in two months.

As such, it would appear that this potential buying by the raptors will serve as stiff competition to the buying back of short positions by JPMorgan and the other members of the big 8. The only way for all

the commercial buying (new raptor longs and big 8 short buybacks) to be accommodated is by equally aggressive managed money selling (long liquidation plus new short sales). Without aggressive managed money selling going forward, the commercials won't be able to buy as many contracts as they desire. This is the irrefutable market formula of the moment — no big managed money selling, no big commercial buying.

Therefore, the stage is set for the commercials, all of them — raptors and big 8 shorts alike — to do what they can to induce the managed money technical funds to sell and sell short in prodigious amounts. The only known way the commercials can induce the technical funds to sell is by — slicing the salami —, the term coined by Izzy Friedman to indicate a series of new price lows solely designed to generate technical fund selling. The commercials first rig prices lower through computer maneuverings on the COMEX in order to set off managed money selling which the commercials then use to buy; the raptors to establish new longs and the big 8 to buy back shorts.

The only suckers appear to be the managed money technical funds, which are largely trading other peoples' money anyway. It is by this time-honored process that the commercials always profit, the raptors by booking gains when selling out long positions and JPMorgan and the big 8 by buying back short positions at lower prices than originally sold short at.

One of the most important lessons taught to me by Izzy Friedman was to — think like a criminal — if you are involved in a game run by criminals. There can be no doubt that COMEX silver and gold prices are set by commercial criminals led by JPMorgan for their own selfish benefit and by employing Izzy's advice to think like them, the probabilities strongly suggest that the criminals will benefit from a further price decline and aggressive managed money selling.

I can't guarantee that gold and silver prices will move lower in the short term and if I did, you should reject such a guarantee from me or anyone else. But COMEX positioning data show clearly that the commercials will benefit and massively so, should prices decline further amid heavy technical fund selling. By default, that becomes the high probability bet. High probabilities don't rule out rallies in the interim, but do suggest eventual lower prices ahead, under the assumption that the criminal commercials are in control over the managed money technical funds and not vice versa.

Two weeks ago (in the Weekly Review of Sep 9), I indicated that the combined open and unrealized loss of the eight largest shorts in COMEX gold and silver had hit \$2.7 billion, the most since the near open loss of \$4 billion in the summer of 2016. To my mind, this was developing into a circumstance of concern for the commercials (not that I am concerned in the least by the plight of the commercial crooks). I wrote, at that time, that this both increased the urgency for a price smash, as well as the chance that the commercial could lose control.

The subsequent \$51 drop in gold and \$1 drop in silver through yesterday's close has erased more than \$1.9 billion from the big 8's open losses, leaving them with less than \$800 million in open losses. Two or three billion dollars may not be all that much money in terms of government or global spending or debt or money supply or the total amount of derivatives, where amounts run into the trillions of dollars (and even higher). But in terms of big doings on the COMEX money wise, two or three billion dollars is the big enchilada — the top of the COMEX money game.

Probably no more than 50 traders on each side, long and short, of COMEX gold and silver futures account for 90% of the entire money game, so on a per trader basis, the money numbers are definitely

high stakes. Since we know the COMEX game is largely an exclusive positioning matchup between the commercials and the managed money traders, we know both the number and specific type of large trader involved for 90% of all the money at stake on the COMEX. Finally, by virtue of the concentration data in every COT report, we know that the big 8 have never bought back short positions to the upside (at a loss) and have always only bought back shorts at lower prices than sold at, always taking profits. This is particularly true of the largest silver (and likely gold) short, JPMorgan, thanks to additional data in the monthly Bank Participation Report. This means the super high stakes poker game is a rigged game as well.

All this defines the big picture COMEX money game and is what makes my running money scorecard an accurate representation for what's really going on. In terms of gold and silver pricing, there is no higher or controlling angle in play than the ongoing poker game between a few large commercials and managed money counterparties. Based upon a variety of factors, such as the market structure in gold and silver and copper and platinum, very recent price action and where the key moving averages are positioned, if the commercials are in the same control that they always been in, it would seem that this would be an ideal time for the commercial crooks to kick the price ball down the stairs.

How the price process plays out will be in full view and remains to be seen, but under the probabilities that the commercial criminals will win yet again and succeed in rigging prices lower and buying the massive number of gold and silver contracts they seek to buy, please let me proclaim in advance that should that occur, that will be the buy point of all time, especially in silver. Clearly, we're not there yet and the only way to get there is by the salami-slicing of new price lows; a painful, but heretofore necessary component for previous drop-dead buy points. If the commercial crooks are going to succeed again, my only wish is for them is to do so quickly, rather than unnecessarily drag out the process. What I really wish for is that this sick game of manipulation and control to be over soon and forever. But I still think it's better to know what's really going on than to miss the basics.

Ted Butler

September 23, 2017

Silver – \$17.00 (200 day ma – \$17.12, 50 day ma – \$17.03)

Gold – \$1300 (200 day ma – \$1244, 50 day ma – \$1291)

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