A massive selloff on Thursday and Friday ($45 in gold and $1.50 in silver) from what were fresh six-year highs in gold and three-years highs in silver, caused gold to close $15 (1%) lower for the week and silver to close 30 cents (1.6%) lower. The slight relative weakness in silver caused the silver/gold price ratio to widen out a bit for the week to 83.3 to 1, but at the price highs earlier in the week the ratio had dropped below 80 to 1 for the first time in more than a year.

My only reason for pointing that out is as a reminder that where the silver/gold ratio goes is almost exclusively a function of what silver does. Because there's no question in my mind that silver will vastly outperform gold in the long term, that's the same as saying the ratio must come down sharply from current levels. But what about the short term? Ask someone else (although no one really knows). That said, there is a lot to talk about in terms of what might be going on in the overriding factor setting prices – COMEX futures positioning.

There was a trove of information in yesterday's Commitments of Traders (COT) and Bank Participation reports, but what occurred yesterday and Thursday is, of course, at the center of my thoughts. I'll try not to get too deep into the weeds, but what occurred over the past two trading days may be monumental in significance. Analysis comes down to recognizing and acknowledging the facts that can be verified and then applying the most reasonable explanation for what those facts may mean. With that guiding principle in mind, let's look at the facts first.

The sharp selloff that occurred on Thursday and Friday in gold and silver involved the heaviest two day trading volumes on the COMEX (and in SLV) in memory. More than 1.2 million COMEX gold contracts and 430,000 silver contracts were traded (in addition to 120 million shares of SLV). Moreover, because this is not a time that includes heavy rollover volume, the COMEX trading volumes were more “real” and not inflated by spread trading, making the trading volumes beyond extraordinary.

In addition, we know from history that on big price down days, the commercials are always big net buyers and the managed money traders are big net sellers. There’s never been an exception to this pattern in history and no one familiar with the historical record would argue that the last two days featured anything but massive commercial buying and managed money selling. There is some question about which commercials were buying the most and I’ll get to that momentarily.

While most trading (90% or more) in everything, including COMEX gold and silver futures, is day trading that doesn’t involve true (overnight) positioning changes, certainly not all of the recorded trading volumes involved true positioning changes, but most likely 5% to 10% of the volume did involve positioning changes; particularly given the sharp price change. In other words, it’s likely that as many as 60,000 to 120,000 net gold contracts and 20,000 to 40,000 net silver contracts were repositioned the last two trading days. We won’t know that, of course, until next Friday’s COT report (depending on what happens Monday and Tuesday).

Sticking just to the facts (like Sgt Friday in the stone-age TV detective series, Dragnet) we also know that there has been an ongoing drama in the fortunes of the big commercial shorts in COMEX gold and silver. On Wednesday, the open and unrealized losses to the 7 big COMEX shorts in gold and silver reached the astounding level of $5.8 billion, the most by far in history. These unprecedented losses made these big shorts (and others) desperate to turn prices lower, as I’ve pointed out all along.

The 7 big shorts recovered $1.7 billion of their open losses from the Wednesday close (and close to $500 million from last Friday), putting them down $4.1 billion, as of yesterday's close – still out close to $600 million per trader on average.

Based upon the flow of data in the COT reports and price change over the past weeks and months (including this week's report), the big commercials have shied away from adding many new shorts in gold and silver since August 6, even though gold prices had risen by $100 and silver by as much as $3. In the four reporting weeks since Aug 6, the concentrated short position of the 8 largest traders (including JPMorgan) had grown by less than 4000 contracts in gold and less than 3000 contracts in silver.

Therefore, if the 7 big commercial shorts in COMEX gold and silver were heavy buyers over the past two days, based upon their evolving position and at what prices the short positions were established, for the very first time in history, they closed out short positions with very large losses. That would be monumental if true and there are a number of variables, particularly involving JPMorgan, which I'll discuss in a moment.

Let me gloss over COMEX silver warehouse physical turnover which came to just under 4.5 million oz this 4 day week, as total inventories fell 0.4 million oz to 311.5 million oz. No change in the JPMorgan COMEX warehouse, still stuck at 153.8 million oz for the tenth straight week. There were several million oz transferred from eligible to registered, most likely needed to make delivery, unlike the very counterintuitive 11 million oz transferred from registered to eligible the week before (most likely due to JPM consolidating its holdings in other COMEX warehouses).

Deliveries in the September COMEX contract sill features continued stopping by JPMorgan for clients and, more importantly, in its house account for both gold and silver. JPM has now stopped 625 gold contracts in its house account, 38% of the total

1640 contracts issued, plus another 396 contracts for customers. In silver, JPMorgan has stopped 1542 silver contracts (7.7 million oz) in its house account out of the 6989 total contracts issued.

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

A funny thing happened while I was awaiting the expected deposit of at least 15 million oz of physical silver into the big silver ETF, SLV, and other leading silver ETFs. The funny thing was that the 120 million shares traded to the downside in SLV on Thursday and Friday appeared to completely offset the need to make the physical deposit. I don't think the selloff was accidental and was, instead, primarily designed fort just that purpose, namely, alleviating the need to make a physical deposit. Moreover, I think the principal player was JPMorgan, which shorted shares of SLV on the run up and bought them all back on the big drop. We may, but more than likely may not get a glimpse of this in the next stock short report on Sep 11, since there appear to be many ways to obscure the short data (dark pools, etc.). Unfortunately, the short data on stocks is nowhere near as reliable as the COT data.

Turning to yesterday's COT report, I passed on specific contract predictions beforehand, although given the silver rally of close to a dollar for the 4 day reporting week, I had expected managed money buying and commercial selling. The good news is that, while we got that buying and selling, it was much less than I feared.

In COMEX gold futures, the commercials increased their total net short position by a scant 3900 contracts, to a multi-year high of 337,700 contracts, I believe the second most extremely bearish position in history (the most bearish position being the 340,200 contract short position of July 5, 2016). It would be hard to come up with a more compelling reason for the selloff in gold since the Tuesday cutoff than the near-record commercial short position and I won't even try. Yet, there are a number of aspects to this week's report that warrant special mention.

For one thing, all the commercial selling seemed to be by JPMorgan, based upon the big selling (more than 10,000 contracts in the Producer/Merchant category) and the very large selling by US banks for the month in the Bank Participation report. The other commercial category in the COT report, the swap dealers, were actually buyers of nearly 6400 contracts this week and for the month, the foreign banks were buyers of around 17,000 gold contracts, while the US banks were net sellers of 25,000 gold contracts.

At first, I was disappointed that JPMorgan was the big COMEX gold short seller for the week and month (the same thing occurred in silver), but upon further reflection I have a much different take. Yes, JPMorgan was solely responsible for the sharp price downdraft on Thursday and Friday and profited mightily again on its added short sales (some things never change), but something else emerges from all the facts as pointed out earlier.

This week's COT report, along with the COT reports since Aug 6 and this month's Bank Participation report, reveal a reluctance by the big commercials to add new shorts on a gold price rally of $100 that JPMorgan has stepped up into and met. While it's true that without JPM's stepping into the short breech, prices would have soared further, it is also true that this put JPMorgan in complete control, a position I've consistently maintained for more than a decade. With the other commercials under extreme financial distress due to their unprecedented large open losses and JPMorgan in the commercial driver's seat, only it could arrange the sharp selloff.

And by arranging the sharp selloff, JPMorgan would have only done so if it were to be the prime beneficiary. What I’m saying is that I believe JPMorgan benefitted the most by the big selloff, buying much more of a share of the total commercial buying that we know had to occur than typically. Since I already stipulated that somewhere between 60,000 and 120,000 net gold contracts and between 20,000 and 40,000 net silver contracts were positioned in Thursday’s and Friday’s epic trading volume, it is possible that JPMorgan completely eliminated its entire COMEX gold and silver short position, leaving it net long the entire 25 million oz of physical gold and 850 million oz of physical silver I believe it holds.

To argue that JPMorgan wasn’t the dominant buyer on Thursday and Friday one must argue that the other commercials were instead the big or very big buyers. But that would mean these other big commercials aggressively bought back short positions at huge realized losses for the very first time in history. While it’s true that gold (and silver) came down dramatically from the price highs made earlier in the week, we already know that these other commercials weren’t selling aggressively at those price highs – only JPMorgan was. That’s what the data in the COT reports indicate.

Finishing up on the gold COT report, the managed money traders bought a little less than 5000 net contracts, consisting of the new purchase of 6906 long contracts as well as the new short sale of 1996 short contracts. The resultant managed money net long position was 231,626 contracts (265,175 longs versus 33,549 shorts). This is still very bearish on a conventional historical basis, but it still remains that if these managed money traders were selling aggressively on Thursday and Friday, any longs liquidated were liquidated at big profits. While down from the price highs earlier in the week, big realized managed money profits (just like big commercial realized losses) are man bites dog stuff.

Turning to COMEX silver futures, the commercials increased their total net short position by a not very large 3000 contracts to 84,700 contracts. While this is the largest (most bearish) commercial short position in two years, it is not much larger than the commercial short position on July 30, five reporting weeks ago, when silver was around $16.50 – $2.75 cheaper than the close on the Tuesday cutoff this week. For silver to have advanced by nearly $3 on no big net increase in commercial selling is quite remarkable.

As was the case in gold, if there was heavy commercial buying in silver on the big price drop, as id extremely probable, the fact that that buying took place at prices well above where those contracts were originally sold short, means the commercial buyers booked heavy realized losses for the very first time.

Also as was the case in gold, JPMorgan looked to be the sole silver short seller this week, adding at least 5000 new shorts to a short position now pegged at around 25,000 contracts as of Tuesday's cutoff. This week, only the Producer/Merchant category sold, with the commercials in the swap dealer category net buyers on a full dollar increase in the price. I can't shake off the feeling that JPMorgan was the sole short seller and capper of prices for the sole intent of then smashing prices lower and being the sole or near sole buyer on those lower prices. Yes, I'm admittedly partial to the JPM double cross of the other commercials premise, but partial or not, that seems to be staring me in the face.

Finishing up on the silver COT, the managed money traders were net buyers of 5094 contracts, consisting of new longs of 1897 contracts and the short covering of 3197 contracts. The resultant managed money net long position of 60,882 (86,540 longs versus 25,658 shorts) is just under the level it was at back on July 30 and must be considered bearish in a conventional sense, although it is still less than the all-time extremes of 2016 and 2017 by around 40,000 contracts, leaving ample room for more managed money buying. But that was before the massive selling on Thursday and Friday.

As I indicated earlier, it is reasonable to estimate a net reduction in the managed money long position (and a reduction in the commercial net short position) on the order of 20,000 to 40,000 contracts as a result of the 430,000 contract trading volume on Thursday and Friday. Yes, I know the key moving averages have not been penetrated to the downside, but at the same time there has been a noticeable indication that the managed money traders have not fully embraced the silver rally through Tuesday with the same reckless abandon on the buy side than in previous silver rallies. The managed money traders have been, relatively, more timid on the long side and more aggressive on the short side than in previous silver rallies.

I do think the managed money traders sold out long positions and added new short positions on the two day price smash in silver; my biggest question is the composition of the commercials which bought. Despite trying to block out my firm predisposition that everything in silver (and gold) revolves around JPMorgan, I continue to come back to it pulling off a masterstroke this week and eliminating completely or close enough its entire COMEX short position in silver and gold. Of course, the final verdict won't be in until next Friday's COT report, but that's an eternity away. Augmenting the speculation that JPMorgan was the biggest commercial buyer on Thursday and Friday is the fact that if other commercials were aggressive buyers, they were aggressively booking giant realized losses, based upon positioning data and price movement.

If what I'm suggesting is close to being accurate, then JPMorgan might have pulled off its crowning achievement in my double cross premise and prices, particularly in silver may soon rocket higher. Looking at where I might be wrong, two things come to mind. One is that perhaps just two days of a selloff is not sufficient for JPM to have covered, effectively, its entire paper short position, despite the record trading volume. Maybe some short additional period of time might be required for JPM to complete its masterstroke.

The other possibility is that this is just the start of the price takedown and the managed money positioning flush out and it's just a matter of time before the commercials collectively succeed in inducing the managed money traders to sell every possible long and add every possible new short before prices truly bottom – same as it ever was. I'm not at all inclined to believe that will be the case, but I don't possess a crystal ball and can't rule it out. As unnerving as this two day selloff might have been, the flow of data has me more encouraged than discouraged about the prospects of a silver price explosion.

While there is no doubt in my mind that COMEX positioning is what sets price and that was shown to be the case again this week, the macroeconomic backdrop still points to much higher silver prices, whether the selloff is over, nearly over or will be over in a time period longer than that. We live in the strangest of times but despite the strangeness, certain outcomes and realities must come to the forefront at some point, short term timing aside. The latest worldwide push to lower interest rates may be a case in point. One obvious result of the new push for monetary ease is the push for corporations to float bond issues at ultra-low and even negative interest rates in Europe. Who could resist the urge to issue bonds where the bond buyers pay interest to the bond issuers?

In this country, we haven’t achieved negative interest rates, but interest rates are low enough to encourage companies that don’t need to borrow to borrow anyway to take advantage of the low rates. It’s a case of taking advantage of the low rates now and figuring out what to do with the money raised later. It’s full circle from the old “buy now, pay later” to “borrow now, spend later.”

Apple Computer is a prime example. This week, the company issued $7 billion in a bond offering at less than 3% annual interest, despite having more than $200 billion in cash already on hand ($100 billion more than existing debt). Clearly, the company was taking advantage of what it perceived to be a low interest rate window of opportunity and is securing the cash now and will worry about what to do with the proceeds later.

This is one company, very large to be sure, but hardly alone in its decision to borrow now while the borrowing is good and worry about what to do with the proceeds later. It’s easy to conceive that we could be talking about hundreds of billions of dollars being raised this way in the corporate sector, to say nothing of the trillions of dollars collectively and cumulatively raised (and spent) by world governments and central banks. Where does all this money go? It goes into stocks, (other) bonds, real estate, collectables and various stuff. And in the case of governments into general and deficit spending.

Thus there is a vast wall of money looking to be spent on everything under the sun. After all, the whole purpose of money is as a medium of exchange and an eventual conversion into something else (purchasing power). While all sorts of investments are sought out by the growing wall of new money being created by borrowing, those assets considered to be particularly undervalued almost always get investment attention in time. Despite the recent increase in price (prior to this week), silver is among the most undervalued of all assets, if not the most undervalued. As such, I couldn't help noticing that the $7 billion raised by Apple this week is the exact same amount that all the silver (386 million oz) in the SLV, the world's largest know stockpile of silver in the world, would cost.

I'm not suggesting (I guess I would if it asked) that Apple buy the largest known stockpile of silver with the 3.5% increase in cash reserves that its bond issue raised, but how could it go wrong? Of course, anyone trying to buy 386 million oz of silver would send prices to the moon and that's my real point, namely, such a purchase could not be effected without causing prices to soar. So here we have rapidly growing purchasing power being added to what already is the world's largest collective buying power in history and that is and will be on the hunt for attractive assets. There is nothing more attractive than silver and it's inevitable some small portion of the growing immense wall of money will meet up with the very limited amount of physical silver available for purchase.

Ted Butler

September 7, 2019

Silver – $18.18 (200 day ma – $15.50, 50 day ma – $16.55)

Gold – $1515 (200 day ma – $1339, 50 day ma – $1469)