

## April 25, 2015 – Weekly Review/Flash, Smash, Crash

### Weekly Review

It was the fourth consecutive weekly decline for silver, while gold ended lower for only the second week in a row. Silver ended 50 cents (3.1%) lower, while gold finished \$23 (1.9%) lower. As a result of silver's continued relative underperformance, the silver/gold price ratio widened out by another full point to 75 to 1. While still contained within the fairly tight trading range of the ratio for past six months, I'm still convinced by the weight of the evidence that not only is silver grossly undervalued relative to gold, it is trading at a fraction of its eventual absolute price value.

Interestingly, we're now back to year end price levels for gold and silver and considering all that has transpired this year in world financial matters, that's kind of remarkable. Even though it's hard for me to believe that I could become more convinced that the primary price driver for gold and silver is futures contract positioning on the COMEX, I have become so convinced of that to now believe it is the sole price driver. I'll review the new COT report in silver that can only be called spectacularly bullish in a moment.

The frantic turnover or physical movement of metal coming into or being taken out from the six COMEX-approved silver warehouses, which hit a record 20 million oz for the two previous weeks, collapsed this week to just 2.15 million oz. Total COMEX silver inventories declined by 0.7 million oz, to 175.2 million oz, with all indications suggesting that there must be some type of magnetic pull around that level since it has held there for longer than a year.

The obvious reason for this week's dramatic cooling off in COMEX silver inventory movement is more straightforward. JPMorgan was finished moving the near 8 million oz it acquired via March futures deliveries to its own COMEX warehouse. Sometimes, I suppose, things work out exactly as anticipated. Next up is what JPM intends for the coming May silver futures delivery period which starts late next week. There's absolutely no way of predicting whether the bank will demand delivery again, although there was a very slight hint it might do so in the April Bank Participation Report. Normally I wouldn't expect JPMorgan to be so blatant in exposing its accumulation of physical silver, but a free get out of jail card might render normal concerns as meaningless.

This week, three separate deposits resulted in nearly 4.3 million oz coming into the big silver ETF, SLV. Considering the dismal price action for silver, it would be an understatement to call these deposits counterintuitive; confounding would be a more appropriate term. One thing the deposits shouldn't be called is bearish. My sense is that the metal deposits were earmarked to reduce the short position in SLV, a long held premise of mine, although not for the short report released yesterday, which covered positions held as of April 15.

<http://www.ishares.com/us/products/239855/ishares-silver-trust-fund?qt=SLV>

There was a reduction in the new short report of over one million shares in SLV to just over 18.5 million shares (oz). I think I recall writing about previous deposits of metal into SLV as being earmarked for reducing the short position for this report, but that is less important than an actual reduction, which is always good news. As far as I'm concerned, no short position should be allowed in SLV (or GLD) but at least the current and prospective level of the short position in SLV is not worrisome at this time, either in terms of the percent it represents of total shares outstanding (5.3%) or total ounces. After all, the number of ounces held short by the eight largest traders on the COMEX is almost 18 times larger than the total short position in SLV.

Since I covered Silver Eagles in Wednesday's article, I'll jump to the changes in the new Commitments of Traders Report (COT) released yesterday. I had anticipated no improvement in the gold COT market structure, as a result of gold finishing above its 50 day moving average every day of the reporting week, and that's exactly what we got — a slight deterioration (1400 contracts). I had expected a big improvement in the silver COT structure (5000 contracts and hopefully more) because the price was below its 50 day moving average every day of the reporting week and we got that improvement in spades — 10,000 net contracts. Needless to say, pronounced price weakness in gold and silver since the Tuesday cutoff has improved the COT structure in each market thru today.

In COMEX gold futures, the total commercial net short position increased by a slight 1400 contracts to 105,000 contracts. With such a small net change, there shouldn't be big changes in the commercial categories, but it was notable that the 4 big shorts did buy back 3000 short contracts, while the raptors sold 2500 long contracts and the big 5 thru 8 added 1900 new shorts. The big 4 gold shorts now hold their smallest net short position since mid-January and that's always a constructive indicator for eventual higher prices.

There were very minor changes in the managed money category (of the disaggregated COT report) in gold, as technical fund longs sold around 2200 contracts and technical fund shorts bought back nearly the same amount. It doesn't get more unchanged than that. Since the cutoff, however, I would estimate as many as 20,000 net commercial contracts have been bought with a like amount of managed money net contracts being sold. I'll further refine my expectations on Wednesday.

In contrast to the flat gold report, the changes reported in silver were very significant. The total commercial net short position in COMEX silver futures declined by a remarkable 10,000 contracts, to 33,800 contracts. The one week change is the equivalent of 50 million ounces. That's much more than any of the world's largest silver mines can produce in a year and highlights (since few if any actual silver producers trade on the COMEX) just how absurd the speculative price setting has become.

By commercial category, the big 4 bought back 2300 short contracts, while the big 5 thru 8 shorts actually added 2000 new shorts. The raptors (the smaller commercials away from the big 8) added a remarkable 9800 new longs to a net long position now totaling 30,500 contracts. This is the largest raptor net long position since mid-November, shortly after the raptor debacle in which around 8 to 10 smaller commercial longs were knocked out of the game in the silver price collapse at the time. It's natural to think that might occur again, but COT trader count indicates those traders haven't returned, meaning the current raptor long position is held by survivors of that former price collapse. My sense is that the outsized raptor long position is held by battle-hardened veterans. (Veteran crooks, not veterans of a more noble kind).

I'd peg JPMorgan's short position at 15,000 net contracts, down 2000 for the week. If my estimate is close that means the crooked bank is close to 300 million oz net long overall (including physical holdings) and could, if it so chose, let silver prices rip higher whenever it wants. Remember, all that would be required would be for JPM to do nothing on the next silver rally — just not sell additional contracts short. I'm also intrigued by the increase in the short position of the big 5 thru 8 during such a big week of commercial buying, as it hints at discord in the commercial ranks. Kind of like ISIS, al Qaeda and the Taliban turning on one another.

As remarkable as was the amount of net commercial buying in COMEX silver, the selling by traders in the managed money category was even greater. The technical funds actually sold nearly 11,800 silver contracts, including the liquidation of nearly 2900 long contracts and a stunning addition of 8900 contracts of new shorts. While I'm tickled pink at the certain eventual bullish implications of the managed money selling in COMEX silver this week, we should all be deeply disturbed that here is prima facie evidence of price manipulation.

Not one ounce of the 59 million equivalent ounces sold by the speculators in the managed money category this week was remotely connected to legitimate hedging; yet the sale was the indisputable sole price influence. That silver prices only declined by around 30 cents in the reporting week proves that the commercial buyers were more interested in buying the 59 million ounces from the managed money traders than they were in driving prices even lower. What this proves is that silver prices are being set on the COMEX with no regard to the actual world of silver production or consumption.

The managed money long side is down to less than 42,500 contracts and is undoubtedly less than that since the cutoff and near the 40,000 contract non-technical fund core long position I have long postulated. Unless I'm off by a country mile (always possible), significant additional managed money long liquidation is not likely.

The short position of the technical funds, at 32,283 contracts in the current report is already larger than the peak in January and higher, admittedly, than I thought it would be at this point. And it must be higher still since the cutoff. Simply put, the rocket fuel tanks appear to have been topped off in silver.

On Wednesday, I estimated that perhaps 75% of the 20,000 net contracts (100 million oz) sold by the commercials on the feeble \$1.50 rally in silver were reversed thru Wednesday's price decline. As it turned out, 80% of the 20,000 commercial contracts were bought back thru Tuesday, even before the big commercial buying of Wednesday and yesterday. Thus, we've made the full round trip — the \$1.50 price rally was reversed as well as all 20,000 contracts (and then some) the commercials sold.

In little more than 5 weeks (from March 17), 100 million oz of COMEX silver futures were first bought by managed money traders and sold by commercial speculators and then 100 million oz were reversed — a total of 200 million oz. This is insane. I'm not talking about phony daily trading volume on the COMEX, 95% of which is mindless HFT day trading — I'm talking about the actual overnight position changes between traders in the managed money category and the speculators we call commercials — all according to the COT reports. The 200 million oz of actual position changes on the COMEX over 5 weeks compares to the 80 million actual silver ounces produced by all the world's silver mines over that time. How can the inept CFTC and crooked CME not see this? I mean, besides being inept and crooked?

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The bottom line is that the COT structure in silver is now strongly bullish and gold is only slightly behind. Does this mean we can't go lower, even temporarily? You should know in a crooked market anything can happen. But whether we get further temporary weakness is secondary to the certainty of higher prices — all thanks to a remarkable change in the COT structure.

### Flash, Smash, Crash

A year ago, I wrote an article, "Smash Boys" (in the archives, April 2, 2014) which was titled after the then-new book by Michael Lewis, "Flash Boys," the groundbreaking expose' on High Frequency Trading (HFT). Basically, the only difference between what Lewis and I wrote was that his concern was the impact HFT was having on the stock market, where I was more concerned with its effect on silver (and gold). Specifically, I identified JPMorgan and the CME Group as the Smash Boys in COMEX silver.

Now Mr. Lewis has published an important new opinion piece, "Crash Boys," in reaction to the civil and criminal charges just brought against the London trader for his actions in the May 6, 2010 stock market crash. I believe Lewis has touched on some significant issues in this remarkably brief article. I have to say that I consider this to be one of the best articles I've run across and it has given me an insight that was formerly slightly beyond my understanding. <http://www.bloombergview.com/articles/2015-04-24/michael-lewis-has-questions-about-flash-crash>

My takeaway from the article is that the CFTC is way over its head when it comes to the basics of regulation. The agency is not capable of regulating the markets it is charged with regulating. Mr. Lewis suggests as much in regards to the flash crash of May 6, 2010, by pointing out that no mention of spoofing was contained in the joint report with the SEC in September of that year. The entire focus of the supposedly high level report was on actual transactions on the day of the crash and not on the trades that were entered and not executed and designed to manipulate stock prices.

This despite the agency being made aware of the existence of spoofing before the report was published and afterward. It also explains why it took nearly five years for the CFTC to assemble the just-filed charges. Even when given valuable information in advance, the agency turned out to be incapable of grasping the significance of the information it was given (This particularly hit home for me). Mr. Lewis also included specific reference to the CME Group on whose trading platform years of improper spoofing occurred.

What resounds most for me is this business of the CFTC not knowing how to process important information it runs across. It even invited Eric Hunsader, of data firm Nanex (mentioned in Wednesday's article), to meet personally with Commission staff in June 2010 about spoofing matters and then sent an agency programmer to review data at Nanex's office. Even this wasn't enough to educate or motivate the CFTC.

This really hit home to me. Even after expressing interest in the data related to spoofing, the agency proved incapable of absorbing and properly applying the data. In an instant, it occurred to me that if the agency could so screw up after reaching out and attempting to educate itself Â? what would it do with data that pointed to a serious market crime that the agency wanted no part of?

Of course, I'm referring to all the data, largely generated by the agency itself, that point to an ongoing manipulation in COMEX silver Â? the unprecedented concentration on the short side, the unprecedented and historic price declines, the undeniable price movement caused by speculators, and the conflicts of interest in the largest short seller taking delivery of the maximum amount of physical material allowed Â? all set against a backdrop of denials by the agency that anything is wrong and the dropping of a formal investigation with no real explanation.

Let's face it Â? the agency can't regulate even when it intends to regulate, as is evident in the stock market flash crash. What are the chances it will regulate the silver market, where it has done everything it can to look the other way as JPMorgan and the CME continue to manipulate the market? There was a time when I actually thought that if I could only sit down and discuss the circumstances in silver face to face with the agency that they would come to understand the situation. After reading Lewis's article, I'm convinced the CFTC couldn't grasp the silver manipulation even if it tried. And that's likely to be the case even after the manipulation has been ended.

Ted Butler

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Silver – \$15.75

Gold – \$1180

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