April 28, 2012 – Weekly Review

Weekly Review

Last week's pattern of silver outperformance was reversed and gold outperformed silver this week by a fairly wide margin. For the week, gold was up $20 (1.2%), while silver declined by 40 cents (1.2%). This resulted in the gold/silver ratio widening out to over 53 to 1, close to where the ratio stood at the beginning of the year. Since I highlighted my reasons for favoring silver over gold on Wednesday, I won't revisit the issue now, except to note that silver came back relative to gold over the past two days in what was a volatile week price-wise.

Conditions in the wholesale physical market for silver still continue to be tight according to my principle indicator of turnover in the COMEX-approved warehouse inventories. Total inventory levels climbed to a new ten-year high by the end of the week to nearly 142 million ounces, up more than 3 million ounces on the week. I still believe that the key takeaway is the unusual movement into and out from the warehouses which has continued unabated and not the total levels. Quite frankly, I am still amazed by the unprecedented movement.

While wholesale silver demand appears robust, retail demand appears particularly subdued according to data from the US Mint. Sales for US Silver Eagles look headed for the slowest month in years, with the only positive feature being that Silver Eagle sales are still proportionately super-strong compared to US Gold Eagle sales. All things considered, this looks like a particularly opportune time to invest in silver and it is unfortunate that retail demand is not stronger. If I were king of the world, I would decree that folks buy more silver.

There was a significant although a not unexpected improvement in this week's Commitment of Traders Reports (COT) for gold and silver, given the sell-off during the reporting week. In gold, the total commercial net short position declined by almost 9000 contracts to 167,200 contracts. All three categories of commercials bought back short positions (big 4, 5 thru 8 and the raptors) fairly evenly on the price weakness undoubtedly induced and rigged by the commercials themselves. As always, I am at a loss to explain the uniform behavior in other than collusive terms.

One standout feature to this week's gold COT report was that the big 4, once again, reduced their net short position to a new low level not seen in years. This category of commercials is, therefore, well situated for a significant gold price rally. The big question is how aggressive they will be in selling short when that rally develops. While I would continue to label the gold COT structure as very bullish, the only thing that bothers me a bit is that the gold raptors are still net short 10,200 contracts. Most often, at past price bottoms, these raptors would be holding a net long position by now. This opens up the possibility that these gold raptors will still be gunning for lower prices to create more speculative selling. It also opens up the possibility that the gold raptors will have their heads handed to them, as happened last August. I'll leave it to you to guess which I am rooting for.

In silver, there was a very significant reduction of 4100 contracts in the total commercial net short position to 22,400 contracts, as prices hit new lows into the Tuesday cut-off. As was the case in gold, all three commercial categories in silver participated in buying what the speculative investors were coerced or induced into selling. The big 4 (read JPMorgan) bought back an impressive 1800 short contracts, and the raptors added the same quantity to their net long position, which now totals 18,300 contracts.

I would calculate JPMorgan's concentrated net short position at the Tuesday cut-off to be 16,000 contracts, down from my most recent guess of 18,000. Since we sold off sharply in silver on Wednesday (after the cut-off) and JPMorgan has tendered 653 silver contracts for the first delivery day from their house account, I would peg JPMorgan to be short perhaps just 14,000 contracts at of this moment. This is down 10,000 contracts (50 million oz) from the 24,000 contracts they held Feb 28. This is just about at their lowest level of being short silver since the lows of December and at any time since they took over Bear Stearns in 2008. Taking out spreads from the total COMEX silver futures open interest, JPMorgan is probably down to close to just 15% or so of total open interest or half what their percentage of net concentration was in the past. Still 15% is still way to large and, therefore, manipulative. There's no telling what may occur on Monday and Tuesday into the cut-off of the next COT, but Tuesday will also be the cut-off for the May Bank Participation Report, to be released next Friday. I'll be sure to comment on this more in next Wednesday's article once the next cut-off has passed.

I was happy (and relieved) that my comments this past Wednesday were largely on the mark. The key component I was looking (and hoping) for was to see the gross short position in the managed money category of the disaggregated version of the COT report rise. It struck me that the engineered silver price decline was expressly designed and executed by the collusive commercials to lure the technical trading funds into going short heavier than normal (as occurred in December). I was hoping and expecting for this rise in managed money short selling as that can often signal the price bottom because these late-arriving speculative short sellers are not strong holders and will rush to cover as soon as prices start to rise. As you can see, these short sellers came to the market in size (over 2700 contracts).
http://www.cftc.gov/dea/futures/other_lf.htm

There were a number of extremes in this week's silver COT that bear mention. For one thing, the net long position of the non-reportable traders was, I believe, the lowest in COMEX history. This category is thought of as the little guys, although the technical definition of a non-reporting trader is any trader holding less than 150 contracts open. It is generally thought that a very low net long position in this category is bullish because it suggests little further selling on lower prices and potentially much bigger buying as prices rise. Also, the percentage of the market held net short by the 4 largest traders is, I believe, the lowest (26.7%) in years (although not in terms of actual contracts). These mileposts are indicative of a major price bottom.

It is of no small significance that such a large number of contracts were transacted this week in silver, as well as the large number of contracts transacted since the recent price high into Feb 28. But where it really gets interesting is when you convert the number of contracts into the ounces of metal those contracts represent. On Feb 28, the total commercial net short position in silver was 44,600 contracts, as prices hit over $37. On the $7 price decline over the past two months, more than 22,000 (50% of the total) net short commercial contracts were liquidated. That's the equivalent of 110 million ounces of silver. In gold, about 80,000 contracts were liquidated, the equivalent of 8 million gold ounces. Please try to put these numbers into perspective.

Some (including me) get all excited about a 3 million ounce rise or fall in COMEX silver warehouse inventories or a similar change in the short position of SLV. A change of 500,000 gold ounces in an ETF or in a country's holdings garners notice. My point is that the net changes in COMEX futures contracts dwarfs the changes in real world silver and gold supply and demand. That's crazy. It is also clear proof of manipulation. I am not talking about trading volume, which too many focus on. I'm talking about net changes in overnight holdings of futures contracts as depicted in the COT. These net changes in derivatives holdings are too big for the underlying markets upon which the derivatives are based. The tail is wagging the dog.

In silver, over two months maybe 20 million real ounces are left over after real consumption is subtracted from total world production. On the COMEX over the same two months, more than 5 times that amount actually changed hands. The same holds true for gold. It is not possible that the changes in net holdings on the COMEX can be related to legitimate hedging activity, no matter what JPMorgan or the CME contend. The changes in net holdings on the COMEX are so large and disproportionate to the quantities being produced and consumed in the real world that the net changes are dictating and setting the price. That is against commodity law, which holds that prices be set in the cash markets and then discovered in futures trading. The data published by the CFTC proves that COMEX activity sets the price because it is so large relative to what occurs in the real world.

At times, I have to laugh (or cry) when I read other commentary on changes in the COT and market structure. For sure, most of these commentaries accurately reflect the actual changes, but many report the changes matter of factly, as if the commercials just happened to be in the right place and got lucky in buying such outsized quantities. Hello? How does anyone just happen to buy 110 million ounces of silver or 8 million ounces of gold at extremely advantageous prices in a two month time frame over and over again? And that Â?anyoneÂ? just happens to be the same hard core small group of commercials working through collusion to cheat outsiders, just as they have cheated outsiders in everything from mortgages to every financial instrument ever created (by them)?

In predicting the increase in this week's COT for managed money short selling, I wasn't being clairvoyant; I was merely explaining what likely occurred given the price action based upon similar circumstances in the past. It was an explanation in advance, given the price and trading action that had occurred and not really a prediction at all. I didn't know this increase in technical fund short selling would occur prior to the intentional takedown in price; but once the takedown occurred, it was relatively simple to explain what had occurred prior to the release of the COT report. My point is that I could do this only because this is a manipulated market and I look at it through that perspective. The technical funds were tricked again, as is par for this course.

The shame is that such clear and compelling evidence of collusion and manipulation is being ignored by the regulators at the CFTC whose main mission is to guard against it. I don't care if the CFTC is negligent, intimidated or under higher orders to ignore the silver manipulation in progress and neither should you. I'll continue to highlight their failure to enforce the law and to bring dishonor to their sworn personal oath to serve the people. It's simply disgraceful.

Before closing, I promised a long-term subscriber that I would address a question he asked about the technical funds being the constant suckers to the collusive commercials.

Dear Ted,
Having followed you regarding silver for over seven years, I find myself wondering again why the tech funds continue to behave as patsies for the commercials. Even if they don't believe in the manipulation you repeatedly refer to, aren't they getting creamed repeatedly on the price smashes? Wouldn't that be enough to get them to change their reliance on using technical indicators to dictate their trades? All but the most addicted gamblers stay away from the casino at which they consistently lose. Can you explain this in a future issue?
Regards,
Dan

It's a great question. The answer rests on a number of factors. First, the tech funds don't buy their entire position at the top or sell at the bottom. They buy on the way up and sell on the way down, generally. This means, based upon the average prices at which they buy and sell, this largely involves giving back open profits and the losses are not all hard dollar in nature. For example, on the $7 drop from the recent highs, the tech funds, while giving back much greater open profits, didn't suffer a hard $7 loss on all their purchases. Second, the tech funds only deploy a small percentage of their assets to silver or any single market relative to total assets under management. Losses and profits in all markets tend to be blended as a market basket approach. The tech funds certainly don't believe the silver (or gold) market is manipulated. Truth is, since their approach is technical, they don't think about any market in terms other than strictly price and moving averages. That means it is all just numbers to them and buying or selling silver is no different than buying or selling cocoa, wheat or any other futures contract. As I have remarked in the past, if you are not looking for manipulation, you are very unlikely to see it. The tech funds don't mind lots of little losses in pursuit of a few very big gains and the individual losses in silver probably don't stand out. To exclude silver would diminish portfolio diversification, a prime tech fund objective. For a time in the distant past, I actually marketed tech funds and there is a lot of good things to say about them as well, such as discipline and objectivity. But it goes without saying that in a manipulated market they do tend to be the patsies.

I have mixed feelings about how successful JPMorgan and the other collusive COMEX commercials have been in snookering the technical funds and other speculators on this last deliberate price takedown. On the one hand, it's extremely distasteful that these manipulators have pulled it off once again. That our regulators have been so impotent and that our faith in the rule of law has been openly mocked diminishes us all.

On the other hand, we are much deeper into a very bullish market structure. The crooked commercials have again extracted blood from a stone in this latest blatant rigging of the price. With that illegal rigging, the price of silver is poised to move significantly higher. While some further sell-off is always possible, it is not probable under the current market structure. The only real question is the nature of the coming price rally. Will it be like the one that emerged from the December low where we ran $10 as JPMorgan sold short an additional 11,000 contracts to snuff out and eventually smother the rally; or will the crooks at JPMorgan finally stand aside and allow the price of silver to climb to true free market levels for the very first time? The answer to that question should be evident fairly soon.

Ted Butler

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Silver – $31.30

Gold – $1663

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