Weekly Review

It was a mixed and holiday shortened trading week as gold finished higher by $4 (0.3%), while silver ended lower by 22 cents (-1.3%). As a result of gold's outperformance, the silver/gold price ratio widened out to just under 72 to 1, a full point higher for the week. Considering the unexpected (once again) changes in the newly-released Commitment of Traders Report (COT), the relative weakness in silver was not surprising in hindsight.

I'm going to jump right into the new COT report after first mentioning that, perhaps partially due to the shortened trading week, the turnover or movement of metal into and out from the COMEX-approved silver warehouse cooled off to just 1.2 million ounces this past week. This is the lowest movement that I can remember in quite some time. Total COMEX silver inventories remained unchanged at 176.5 million oz.

There does seem to be a developing cooling off in movement this year and at this point I don't know if that will continue or even what that might mean. I am sensitive to any changes in the patterns for silver for the main reason such changes may indicate an end to the ongoing manipulation. For instance, perhaps a sharp fall-off in turnover may mean JPMorgan has taken as much physical silver as it can after heavily buying over the past four years when the turnover jumped sharply. Time will tell.

There weren't any special developments in silver since my article on Wednesday (since there was only one trading day), save for CFTC's allegation that the wheat market was manipulated by Kraft. I'll get into that case in a moment, but let me address the new COT report first.

You'll recall that last week's report was shockingly bullish for gold and so unexpected by me that it was the largest miss I ever made in predicting a COT report. But I did allow for the possibility that there was a major reporting error although I intended to treat the report as accurate. It's clear now that last week's data was not accurate in that it was not timely. Based upon actual trading statistics, it is virtually impossible that the CFTC reported data on a timely basis last week. Simply put, I still believe the data are accurate, but not necessarily as of the date indicated.

The CFTC has had past problems with the timeliness of its reports and it is clear that occurred in last week's report. There is absolutely no chance that the agency will ever admit to any of this, so I suppose you will have to take my word for it. I still believe the actual data are accurate and important, even if the as of date is misstated and that the data be relied upon, albeit with the filter of being a few days late at times. And I don't see any intent or motive to misreport on the part of the agency, it seems more a case of not being able to efficiently process and report in a timely manner than anything else.

The best way of looking at this is to take the last two COT reports as one, as that will minimize the distortion in last week's report. Originally, I thought I was fairly close to my previous prediction for silver, but wrong off the charts in gold. As it turns out I was actually more wrong in silver than I was in gold. I had originally expected (and hoped for) no more than a 10,000 contract increase in the total commercial net short position in silver and no more than 40,000 contracts in gold for the previous report. When that report showed a 9000 contract increase in silver my prediction seemed close but the 3600 contract actual decline in gold had me off by a country mile. Yesterday's report changes all that.

The COT report issued yesterday and supposedly covering positions thru the close of business on Tuesday, March 31, indicates a further increase of 10,600 contracts in the silver total commercial net short position and a 28,200 contract increase in COMEX gold futures. So, for the two weeks combined, the headline number in silver increased by 19,600 contracts (98 million oz), while the total commercial net short position in gold increased by 24,600 contracts. By combining the two weeks, I was off by almost 10,000 contracts in silver and only 15,000 contracts in gold (instead of more than 43,000 contracts on just last week's report). I'll breakdown this week's report in the usual manner in a moment, but first some general comments.

The two week increase in the total commercial net short position in COMEX silver is among the largest in history and is bad news, perhaps for future prices, but certainly for the free and fair functioning of the market. In a matter of a few trading days, roughly 100 million oz of silver were bought by small a group of technical funds and sold by a small group of different speculators called commercials. All on a price rise of up to $1.50 and still below the average primary cost of production.

First and foremost, this is the largest quantity of paper silver sold by the commercials at such low prices ($17 or less) in more than five years. As such, it certifies that trading and positioning in COMEX silver futures contracts sets the price for actual silver. It takes all the world's silver mines 45 days to produce 100 million oz of metal. It takes only a few days for a few commercial speculators to sell that quantity of silver derivatives on the COMEX. There is a basic misbalance between the influence that COMEX futures trading has on the actual world of silver production, consumption and investment that can't be legitimately explained.

To be sure, not all the nearly 20,000 silver contracts sold by the commercials were new short sales, but too many were. Over the two reporting weeks, the 8 largest shorts sold 7400 new silver contracts short, with the big 4 accounting for 6100 contracts of that. I won't know for sure how many new short contracts JPMorgan accounted for until this week's Bank Participation Report on Friday, but it could be close to all the 6100 new contracts sold short by the big 4. At this point it looks like JPMorgan is up to 18,000 contracts net short and maybe more.

Unfortunately, this is the heart of the silver manipulation new concentrated short sales on any and every price rally. The two week increase in new short sales brings the total concentrated short position of the big 8 to 66,001 contracts or 330 million oz. The big 4's share of that is 45,078 contracts or more than 225 million oz. COMEX silver has the largest concentrated short position relative to real world production and consumption of any commodity and that manipulative position just increased sharply on a stinking $1.50 rally. Little or none of the world's largest concentrated short position appears to be related to legitimate hedging; that's what makes it blatantly manipulative.

There's no secret that I was expecting (hoping) that the big concentrated silver shorts would refrain from adding new shorts and capping the price on the next rally. The many that expected the game to remain rigged are correct at this point and my hopes and expectations have been dashed, again to this point. So let me jump to price expectations. Do we now have a market structure that could produce a silver sell-off? Yes. Do we have a market structure that could produce a silver rally, perhaps even the big one? Yes, again. A lot may have to do with gold.

Even though gold experienced the large increase in commercial selling this week that I thought would be registered in the previous report, the market structure in COMEX gold is still skewered to the upside. Whereas the silver market structure is neutral at best, gold's is still very bullish. We're less than 30,000 contracts from the recent trough in the headline number (the most bullish reading) and 125,000 contracts away from the most bearish reading on January 27.

Even though the previous COT report was off in timeliness, my discussion of the effect of gold not penetrating the 50 day moving average in last week's review is still mostly valid. In fact, the difference between the silver and gold market structures is defined by the fact that silver had penetrated its 50 day moving average, while gold has yet to do so. Someday (and probably soon) gold will penetrate its 50 day moving average (now around $1212), along with its 100 day ma ($1208) and its 200 day ma ($1237). When that occurs, there should be a wave of technical fund buying, both short covering and the buying of new long positions.

Undoubtedly, when this technical fund buying occurs, there will be certain jolt to the upside in the price of gold (even though other factors will be credited). How big this gold price jolt will be is dependent on how aggressive the commercials are in selling to the technical funds. That the commercials were very aggressive in selling silver contracts suggests that may the case in gold, but it's a fluid situation and we'll get to see for ourselves. And depending on the extent gold price jolt, whenever it comes, that may have some influence on silver.

For those keeping close track of the week to week changes, let me run through this week's COT reports. In COMEX gold futures, the total commercial net short position increased by 28,200 contracts to 81,100 contracts. This is still on the low end of most bullish reading of last week and the most bearish reading of 206,200 contracts of Jan 27. Again, that we are structured bullishly and sit just below key moving averages suggests a price jolt ahead at some point. That same structure would also suggest somewhat limited downside potential.

By commercial category, the big 4 actually swum against the selling of the big 5 thru 8 and the raptors, in buying back 2900 short contracts which left the big 4 with their lowest (most bullish) net short position since January. The big 4's short covering meant the other two commercial categories had to sell more. The big 5 thru 8 added 7000 new shorts and the raptors (the smaller commercials away from the big 8) sold out close to 24,000 long positions, reducing their net long position to 56,400 contracts.

On the buy side in gold, the technical funds' buying in the managed money category accounted for nearly 90% of what the commercials sold; as the managed money traders bought 24,600 gold contracts, including more than 5000 new longs and nearly 19,600 contracts of short covering. That's a lot of short covering, but we were at a record extreme of more than 87,000 managed money short contracts in the previous week.

In COMEX silver futures, the total commercial net short position increased by 10,600 contracts, to 49,900 total contracts. That is the equivalent of a 53 million oz weekly increase in the headline number, which is in addition to the previous week's 45 million oz increase. There can be no other possible conclusion than that this selling, particularly the 37 million oz of new concentrated short selling, prevented the price of silver from moving higher.

By commercial category, this week the big 4 added 3300 new shorts and the raptors sold out 7900 longs, while the big 5 thru 8 bought back 600 short contracts. The raptors now hold 16,100 net long silver contracts and I would peg JPMorgan at 18,000 or more contracts net short. Please remember that JPMorgan stopped (accepted) the maximum number of COMEX silver deliveries allowed in March, so how anyone would not conclude that what this bank is doing (shorting paper in order to buy physical cheaper) is manipulation in its purest form and is either out to lunch or a silver market regulator (or most likely both).

On the buy side, as was the case in gold but more so, it was all managed money buying as the technical fund traders in this category bought more than 11,800 silver contracts, 1200 contracts more than the commercials sold. In order to believe that the CFTC was timely in this week's silver COT report, one has to believe that technical funds bought the equivalent of 59 million oz during a week featuring two up days and three down days in which prices were lower overall. Of the 11,800 contracts bought by managed money traders, 4855 were new longs and 6962 contracts were short covering.

An Unavoidable Comparison

A rare event occurred this week; the CFTC charged a major food company, Kraft, Inc., with price manipulation in the wheat market. You can count on one or two hands the number of times the federal commodities regulator has charged anyone with price manipulation in its 40 year history.
http://www.cftc.gov/PressRoom/PressReleases/pr7150-15

For what it's worth, the agency's case looks convincingly laid out and seems to contain all the elements of proving price manipulation, including intent and the ability to control prices. That said, the Commission has a very poor record of prevailing in the manipulation cases it has brought.

One thing telling about the case was that a large commercial trading entity who was supposedly using the futures market for strictly hedging purposes was accused of engaging in a variety of market schemes for strictly speculative gains. So much for the widespread argument that commercial traders are always □only hedging□ and how I should cut them a break. As you know, I have long held that the commercials, at least on the COMEX, are just speculators gaming other speculators and little legitimate hedging occurs. Certainly, that's what the CFTC alleged in its complaint against Kraft. http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfkraftcomplaint040115.pdf

Quoting from the press release □

Aitan Goelman, the CFTC's Director of Enforcement, stated: □This case goes to the core of the CFTC's mission: protecting market participants and the public from manipulation and abusive practices that undermine the integrity of the derivatives markets. A market participant who is not happy with cash prices available to it may not resort to manipulative trading strategies in an attempt to artificially

lower that price.

Yes, Director Goelman is correct; the core of the agency's mission is to protect public market participants from manipulation and abusive trade practices that undermine the integrity of derivatives markets. And no, a market participant not happy with cash prices may not artificially lower those prices to secure physical supplies. Wait a minute isn't that exactly what I've alleged JPMorgan has done and is doing in silver, namely, shorting on the COMEX in order to scoop up physical silver at bargain basement prices? Haven't I been writing this two times a week for a very long time? (In the interest of full disclosure, I have sent Director Goelman every article I've written since he has been the agency's enforcement director).

In fact, I've based my allegations about what JPMorgan has done in silver primarily on the agency's own public data and that from the exchange (COMEX) and other public sources. The CFTC's case against Kraft is derived from private trading records and internal emails. Further, there is a bit of complexity in the agency's case against Kraft, in that the company's trading strategy involved buying futures contracts in order to impact the basis (the price differential between futures and cash grain prices) and lower the cash price. With JPMorgan, there is no complexity as this crooked bank has used futures market short sales to depress the price of silver in order to buy physical silver at artificially cheap prices.

Importantly, the Commission's case against Kraft most likely came as a result of a complaint from a disgruntled insider who was damaged by Kraft's futures market activity and not as a result of widespread complaints or damage to the public. To my knowledge, this was not a case publicly discussed prior to the charges being filed. Compare that to silver, where many thousands of market participants and observers have petitioned the agency for years about the manipulation by JPMorgan and where investors and silver producers have been and are being damaged by artificially depressed silver prices.

The unmistakable conclusion is that this agency is bought and paid for or otherwise not acting in the public's best interest. For a federal agency, I don't think there is a more serious allegation.

So the real question is why the selective prosecution of the law? Why is the CFTC going after Kraft on a complicated case with an alleged payoff that looks like chump change (around $5 million total profit to Kraft), when public data indicate JPMorgan shorts the silver market whenever prices rise to cap and drive prices lower in order to profit on those short sales and accumulate silver at unfairly low prices; with JPM's cumulative illicit take running into the hundreds of millions if not billions of dollars?

I can see the agency going after Kraft, but I can't see any legitimate reason for it not to go after JPMorgan for the far more egregious silver activities the bank is involved in. Worse, why won't the agency explain why the public data doesn't point to JPMorgan doing what I allege the bank is doing? Can the Commission refute that JPMorgan has been the big concentrated short seller in COMEX silver futures since acquiring Bear Stearns in early 2008 and has been accumulating physical silver while remaining short COMEX futures for the past four years? That's the key, no one – not the CFTC, not JPMorgan, not the CME – can offer a reasonable explanation for JPM's control and manipulation of the silver market and what has transpired these past seven years.

Beyond the shadow of any doubt, the CFTC knows what price manipulation is; otherwise it never would or could have charged Kraft. So how can the agency see it with Kraft in wheat an