

August 13, 2016 – Weekly Review

Weekly Review

Despite a volatile trading week and a particularly volatile Friday, the prices of gold and silver finished almost exactly unchanged for the week. Of course, the silver/gold price ratio was also unchanged, at 68 to 1. An unchanged reading is rare enough in times of rapid price movements and this week's close is also remarkably close to the weekly close of July 2, six weeks ago. That means gold and silver prices have been, basically, chopping up and down actively, but at this point have treaded water for six weeks.

Yesterday's trading was especially volatile, with silver and gold prices surging at what used to be the opening of the COMEX day session and trading at the highs for hours, only to selloff and erase all the gains into the close. Essentially, this was a time-condensed version of the continued sharp up and down price movements over the course of a couple of days or so that I have reported on. These sharp price movements are impossible not to notice and since we know something must be causing them, various explanations are forthcoming, including cries of central bank manipulation.

In my opinion, yesterday's price surge and reversal had nothing to do with the retail sales report early on or reports later of \$5 billion of gold being dumped, which were among the stories circulating. Increasingly, the price volatility is centered on the COMEX and it is there where the full explanation lies. I don't have all the answers, but the facts I can uncover indicate there is a mechanical explanation behind the price volatility affecting not only COMEX silver and gold but also other commodities.

One thing I would point out (although I hate relying on preliminary open interest data) is that yesterday's very high volume price pyrotechnics appear to have resulted in no big open interest change in gold and silver. My inevitable conclusion is that whoever was originally buying and selling on the initial price surge must have reversed positions late in the day – otherwise there would have been bigger open interest changes. In other words, early buyers turned late sellers and vice versa. These are the traders responsible for the price volatility, not economic news releases or reports of massive gold dumping. Let me run through the usual format before returning to this central issue.

The weekly turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses surged to nearly 8.4 million oz this week, as total COMEX silver inventories rose a sharp 3.7 million oz to 156 million oz. Included in the increase was a deposit of more than 1.8 million oz into the JPMorgan warehouse which I didn't expect because I thought it finished bringing in all the metal it stopped previously. This week's total level of COMEX silver inventories is the highest since early February, but I believe that is more a function of how remarkably stable the level of these inventories has been, rather than a surge in deposits. After all, since February, I would estimate COMEX silver inventories averaged around 153 million oz weekly.

Over that same time, weekly COMEX silver inventory turnover – remember, this is physical movement, not paper trading – has averaged 5 million oz per week. Over the past 30 weeks, 150 million ounces of actual silver (in the form of 1000 oz bars) has been put on trucks and moved into COMEX warehouses or taken from the warehouses and put on trucks for unknown destinations. And after 150 million ounces were so moved, the total level of inventories hardly budged week by week and is now at the same level it was in early February.

Frantic physical turnover against a backdrop of unchanged inventories. These are the facts as I report them weekly and is a pattern unique to silver. I maintain that the most plausible explanation is one pointing to physical tightness at the wholesale level and also pointing to eventual higher prices. Most unusual is how persistent this unprecedented pattern has been since I started reporting on it more than five years ago. It has been a while, so let me solicit alternative explanations for the high turnover, no big change in total inventories pattern.

Turning to gold and the continuing August delivery process, with around 1200 contracts remaining open, it looks like the client(s) of JPMorgan having stopped 4117 gold contracts so far, may be on its way to taking as many as 5000 contracts by month's end. The second biggest stopper, Macquarie Futures USA, having stopped 2729 gold contracts so far (in its house account), looks on its way to taking the 3000 contract limit. (I hope Macquarie knows that if it wants to take more than the limit, it should call JPM for advice – yes, I'm being sarcastic).

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

This will be the third month running that a client(s) of JPMorgan has stopped more than 4000 contracts and even though the open interest in the September gold contract has been reduced by half, with 5000 contracts still open, I have a strong hunch that by that month's end, a client of JPMorgan will have taken 4000 contracts or more in COMEX gold deliveries for a fourth straight month. I can't attribute directly these unusually large gold deliveries to gold price change to date, but I sense the price effect will be felt eventually.

There was an unusually large withdrawal of 382,000 ounces of gold from the big gold ETF, GLD, yesterday, worth some \$500 million. There was a fairly sharp selloff on Thursday which might have accounted for the withdrawal from GLD and not yesterday's trading. Year to date, of course, there has been a massive increase of 50% (10 million oz) in total metal holdings in GLD, now at close to 31 million oz, as gold prices rose more than \$300, so withdrawals on down days shouldn't shock anyone.

Sales of Silver Eagles are so weak that I am becoming more convinced that not only was JPMorgan the big buyer of these coins over the past 5 years, the bank had to have bought more than the 50% of total Eagles sold that I have attributed previously. That Silver Eagle sales have imploded precisely as silver prices have surged would seem even more unusual. Why JPMorgan has suddenly ceased its purchases of Silver Eagles is a separate subject; take away JPMorgan and there is little that explains the sales pattern in Silver Eagles over the past five years and more recently.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders (COT) Report fell within general expectations of decent if not sizable reductions in the total commercial net short positions in gold and silver. The reductions were much closer to decent rather than sizable, but don't strain your eyes or think too hard about the details this week, as the story is still firmly planted in the continuing historic extreme in market structure. This week's changes are not shocking or unusual in any way; this year's changes are shocking and unusual in every way.

In COMEX gold futures, the commercials reduced their total net short position by 11,100 contracts to 312,900 contracts. Previously a level never achieved in the history of the COMEX, it has now been 8 weeks that the commercials have been short more than 300,000 net contracts of gold. That's the equivalent of more than 30 million ounces of gold, meaning every ten dollar move in gold is worth \$300 million to, largely, just 8 commercials. A \$50 move in the gold price is worth \$1.5 billion to just 8 traders or so. Let me stop here and respond to a question I got from a subscriber a while back.

Adam asked if the running dollar amounts I attribute to the big commercials in gold and silver are actually a big deal to these big shorts. After all, the few billions of dollars I report on are not much relative to the total assets of JPMorgan or other big banks. I agree and moreover, have previously exempted JPMorgan from financial trouble in any regard. That said, trading in COMEX gold and silver is very specialized and involves remarkably few people or assets within a large financial institution.

These specialized profit centers have goals and objectives defined by historical precedent and specific financial guidelines. That is, traders get to invest a small portion of the institution's money with expected profits and losses in mind. This year, these specific profit centers who normally short large quantities of gold and silver contracts against the technical funds are, for the first time, deeper underwater, by a factor of five or ten, than ever previously. Not in terms of the institutions' total assets, but in terms of the trading centers' own budgets.

Such large unrealized losses attract intense managerial review. In fact, this is a large part of my still unfulfilled premise that if we get a selloff, it may be the last one due to the managerial reviews that have already occurred. Further to Adam's question is that a big 5 thru 8 gold trader bit the dust and yet we have heard of no broader bank failure or news of the dust biting. That's because it was a big deal within the institution and not to the institution as a whole. The open question is whether the remaining commercials can still rig a selloff in which great numbers of short contracts can be closed out.

By commercial category, the 4 big gold shorts bought back a scant 1300 short contracts, the big 5 thru 8 traders a further 5500 short contracts and the raptors bought back 4300 shorts. I make a big deal about concentration because it is the key element of any manipulation and I must note that the concentrated short position of the big 4 gold shorts is larger in terms of contracts than ever before at nearly 206,000 contracts, save for last week. As a percentage of total open interest, this week's concentrated short position of 35.8% is, I believe, the highest ever.

On the sell side of gold, it was mostly a managed money affair as these traders sold a net 9477 contracts, including the liquidation of 7046 longs and the new short sale of 2431 contracts. As was the case with the commercial short position, this week's reduction in managed money longs is insignificant when compared to the number of longs still held.

In COMEX silver futures, the commercials reduced their net short position by 5800 contracts, to 103,300 contracts. As was the case in gold, the big story is not this week's reduction, but the fact that we are still over 100,000 contracts or 500 million oz in the total commercial net short position and have been for nearly six weeks. As I grow older it seems to me that we live in an increasingly insane world and nothing is more insane to me than the thought that only 8 traders would dare to position themselves to be net short more than 500 million ounces of silver.

By commercial category, the raptors accounted for most of the buying with 4800 contracts, covering all of their 4700 contract short position and leaving them 100 contracts net long. The big 4 shorts bought back 2400 contracts and the big 5 thru 8 added 1400 new shorts. Not that it hasn't been true before, but the 8 largest shorts in COMEX silver now hold the entire commercial net short position at 103,428 contracts or more than 517 million oz. That's nearly 65 million oz short per trader and not one of those traders is engaged in legitimate hedging (unless controlling prices is a legitimate hedge). I'd put JPMorgan short position at 33,000 contracts, down 2000 for the reporting week.

On the sell side of COMEX silver, the managed money traders sold less than 3500 net contracts and that included new shorting of 3355 contracts and only 97 contracts of long liquidation. I know I've said it too many times already, but the story is the extreme positioning, not the changes this week.

The COT report describes in exquisite detail, the positioning changes Tuesday through Tuesday each week. Because we are talking in terms of numbers of contracts held by the various trading groups, the positions and changes can be plotted and displayed graphically. I don't plot the changes on these pages, but the graphs are nearly universal on the Internet and no doubt that accounts for the growing coverage of the market structure.

We can see that just about every big price move is accompanied by big managed money and counterparty commercial positioning. Not just in gold and silver, but in other markets as well. A big price move up, for instance, is always accompanied by big managed money buying, either new long positioning or short covering or some combination of each. This is undeniable. I suppose the only question is if the price moves up are strictly accompanied by managed money buying or if the price moves up are caused by managed money buying. Because I can't recall any occasions where prices moved higher in the absence of managed money buying; that pushes the managed money price connection from accompanying to causal. Besides buyers' aggression is what causes prices to move higher. Managed money buying pushes prices higher. Managed money selling pushes prices lower.

Further, the data in the COT reports is not only detailed, but it is historical as well, seeing as it has existed in various forms for more than 30 years. Because the history of the COT data goes back so far, it is easy to establish when historical extremes are set. As I have been reporting, we have recently established new historical records this year in COMEX gold and silver in many important categories, including record managed money short positions at the start of the year and record managed money long and commercial short positions currently.

It's not just that we have established new records in gold and silver positioning, those records have occurred in the shortest times ever. Moreover, there is only one category on the non-commercial side that has grown at all – the managed money category. The categories involving traders other than managed money traders, namely, other reporting traders and non-reporting traders haven't grown at all – just the managed money category. Finally, these observations are not only true in COMEX gold and silver, they are also true in COMEX copper and NYMEX platinum, palladium and crude oil, to name just a few markets.

Quite literally, there has been an explosion in the amount of managed money participation in all these markets. In gold, silver, platinum and palladium, we are at or close to all time extremes in managed money long positions. In copper, we just witnessed the largest managed money short covering on record on the rally to \$2.25 and now appear in the throes of the managed money traders reestablishing that short position in recent trading. In crude oil, the most important commodities market of all, managed money traders recently established their largest gross short position in history on the price slide from \$50 to \$40 and may be in the process of covering to the upside.

The point of all this is to establish that the main price driver for commodity prices is managed money positioning. Not for a heartbeat have I changed my mind in any way that the commercials are dictating and inducing the managed money traders to put on and take off increasing larger positions; I'm just trying to keep it simple in pointing out that when the managed money traders move, they move prices. Because their positions are larger than ever – both long and short depending on the market – the effect that managed money traders have on prices is stronger than ever.

The problem is that this brand of price influence is wrong and, in fact, outright crazy. Why should traders classified as speculators exert the most influence on price and not real producers and consumers instead? Further, the managed money traders haven't grown much by the number of traders involved, it's much more a case of roughly the same small number of traders establishing much larger positions than previously held, due to increased assets under management. Why are there more assets under management? Because interest rates are near zero or less and money is rushing to every possible alternative.

In silver, there are less than 70 traders holding managed money long positions and in gold the number is 109. The biggest concentration is still on the short side by the commercials, but there are relatively few traders on the long side as well, making this a private closed club. Talk about the top 1% or 0.1% in terms of wealth or income inequality – when it comes to the many hundreds of millions and billions of people in the world impacted by the price of gold and silver in any way, to think that 100 or so elite traders on the COMEX decide the price is twisted.

The nuttiest thing is that the managed money technical funds have no interest whatsoever in the price of gold or silver, except as to whether they should buy or sell based upon price movement. The commodity markets were intended to be a place where real producers and consumers could come to pass off price risk to speculators willing to assume that risk. Because of the growing dominance of the managed money traders (and their counterparty banks), real producers and consumers have largely been excluded from participation and have been replaced by speculators only.

This leads to what is causing the recent price volatility, such as was experienced this week. If I say it has nothing to do with the retail sales report or reports of the dumping of billions of dollars of gold, then I'm required to offer an alternative explanation. I know it is COMEX paper trading behind the volatility because that is elementary; what I don't (can't) know is who is behind the trading. The COT report is great, but not for day to day reporting, only week by week. But I also know it isn't a hoard of smaller traders like in the old days and it's certainly not the miners day trading futures. Therefore, it has to be related to the big position holders in the COT report, namely, the managed money traders and the commercials.

My personal experience with the technical funds ended more than 30 years ago. Back in the day, so to speak, there was very little day trading by the technical funds and what little occurred was usually bad news since it had to represent a quick loss (winning positions were always held the longest). But a lot can change in three decades and it looks like some of the active trading and price volatility must involve the technical funds in some way. For sure, we know it involves the commercials because the banks are always involved in everything.

Best I can surmise, all the volatility can be laid at the feet of rapid HFT-type computer trading and it looks like the banks are aligned against some form of technical fund adversary. It's hard to imagine the banks as sustaining almost daily trading losses in active COMEX gold and silver trading because they are so deeply underwater on open large short positions and banks are very good at rigging the game to their own advantage. Therefore, it seems to me much more likely that the banks are on the winning side of the short term bets, while being way behind on an unrealized basis. I'm talking about the quick \$20 moves in gold and 40 cent moves in silver which may reflect a \$40 million combined closed out profit and loss. If the banks (commercials) are winning these short term bets, then it has to be the traders like the technical funds on the losing end. In any event, these short term

Date Created

2016/08/13