

August 17, 2013 – Weekly Review

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In a blast to the upside, the price of gold and silver surged this week, with gold ending \$64 (4.9%) higher and silver ending its best week in years \$2.70 (13.2%) higher. As a result of silver's strong relative outperformance, the silver/gold price ratio tumbled almost five full handles to just over 59 to 1. While silver is now more fully valued to gold than any time in the past four months, the ratio is still midrange of where it had been over the past couple of years. In other words, silver is still a compelling better relative buy than gold based upon all the actual data I look at for the long run. For the short run, as always I plead the fifth, but owning silver over gold is a no-brainer for me.

It's much more enjoyable tallying up paper profits than losses and who doesn't like it when the birds are chirping and life's good? But it is just as important not to obsess over short term price movements in one's favor as it is not to become despondent over negative short term fluctuations. Elation and depression (greed and fear) are emotions that can derail long term investment decisions. One thing is for certain after last week's price jumps – Mr. Price Volatility has entered the building (as if he ever left) and it's real easy to imagine sharp price moves in either direction.

Another thing we know for certain is the cause of the week's price jump. It wasn't any specific news or change in actual silver and gold supply/demand fundamentals; it was directly related to the extreme market structure and penetration of key moving averages. It was also clearly COMEX-centric. Despite widespread commentary about gold and silver price influences from around the world (GOFO, LBMA and assorted claptrap), the price dominance of the COMEX has never been stronger. I'm not particularly happy about that, but anyone who argues that the price of gold and silver is not set on the COMEX is missing it completely (although the happenings in the big silver ETF, SLV, and its gold counterpart, GLD, often come into play in determining prices).

Turnover, or movement of metal into and out from the COMEX-approved silver warehouses, continued strong this week, but off the torrid pace of the two prior weeks. On turnover of more than 2 million ounces for the week, total COMEX inventories rose by half a million oz to 165.2 million oz. This rapid movement still resonates with me as indicative of wholesale physical silver tightness.

We did get significant and expected deposits of metal into SLV during the week, first as a result of the price jump and trading volume of a week ago Thursday (in last week's review) and also as a result of continued gains and trading volume on Monday. The deposits totaled 4 million oz. But there have been no deposits yet as a result of the continued price gains and very heavy volume late in the week (particularly on Thursday). I would guess that at least 10 million more oz is "owed" to the SLV as a result of trading over the last three days. Ten million oz, you may recall, also happens to be the amount of new silver available monthly to the world's investors after all fabrication needs are satisfied.

It might be instructive to briefly review the mechanical dynamics of SLV on the world of physical silver. The dynamics are similar in the big gold ETF, GLD, but to a much lesser extent on the gold physical world given the more enormous gold supplies in the world relative to silver (in dollar terms). Many years ago, a good friend, Carl Loeb, christened SLV as the "Death Star" because of what it would eventually accomplish in silver, namely, suck all available investment grade silver (1000 oz bars) into the trust over time.

The reason for that is simple "any net new buying of shares of SLV must be met with an immediate deposit of metal into the trust equal to the newly purchased shares. The only way to circumvent that mechanical requirement is by fraudulent short sales, which is why I try to make such a big deal out of this fraudulent short selling. Because it is much easier for investors to buy shares of SLV than it is to buy and store 1000 oz bars on one's own, SLV has been enormously popular. (I didn't say better, mind you, but certainly easier). So popular, that SLV has become the largest single stockpile of silver in its 7 year existence, accounting for a third of the one billion oz of investment grade silver in the world. In total, all silver ETFs hold 70%, or 700 million oz, of the world's silver bullion in 1000 oz bar form.

As a result of the epic silver price plunge of May 2011 and continuing through just a little while ago, demand for silver ETFs and SLV flattened out, but now seem to be reviving. I believe this potential silver ETF investment revival could break the back of the crooks at JPMorgan on the next go-around. Silver demand and the willingness of silver investors to hold has been many times stronger than for gold ETFs on the rotten price performance this year and now there are even signs that outflows from GLD and other gold ETFs may have finally ended.

That's why I'm paying close attention to the metal flows into SLV. A little while back, I mentioned that we might be positioned in silver as we were three years ago, when we began the epic run from \$18 to \$49 eight months later. In hindsight, I am convinced that the key factor in that run was the demand for physical silver, particularly in SLV and other silver ETFs. The thing to remember is that if new investors come into these silver ETFs because of favorable price action, it probably doesn't matter much to these new investors whether real metal gets deposited into the trusts, as many will be investors just looking to make a buck. But it will make a difference to the silver market as actual metal must be deposited on any net new ETF purchases. I'll also be closely watching the next short sale report on SLV on August 26 for a large increase due to metal not being available.

I haven't mentioned Silver Eagle sales much as the US Mint mostly only updates once a week (on Mondays). The sales seem to be at the same 800,000 coins a week rate as has prevailed for most of the year and it appears that Silver Eagles are still allocated or rationed due to heavy demand and restrictions on blank supply. Where the demand is coming from is less clear as domestic retail demand seems tepid, from what I'm told. I still think the crooks at JPMorgan may be buying as many Silver Eagles as they can. At the same time, demand for Gold Eagles has fallen off a cliff, if US Mint statistics are to be believed. At the mid-month mark, only 2500 oz of Gold Eagle coins have been sold compared to almost 1.6 million oz of Silver Eagles. We can't continue on 600 times more silver being sold than gold by the Mint (without silver blasting off in price) and it will be interesting to see how the month progresses.

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

I won't sugarcoat it – there was little good news in the new Commitments of Traders Report (COT) except, I suppose, that it could have been worse. The problem is that it probably is worse, considering the price action after the Tuesday cut-off. Considering the price action both in the reporting week and afterward, the expectation was for an increase in the total commercials net short position in gold and silver. After all, gold prices were up \$60 during the reporting week and silver was up more than \$2, with solid penetrations of the 50 day moving average in each.

In gold, the total commercial net short position was \hat{A} ?only \hat{A} ? up 6,700 contracts to 60,900 contracts, the highest level in two months. I say \hat{A} ?only \hat{A} ? because the 28,400 contract increase the previous week was allowed to stand and no reporting clarification was made by the CFTC. Considering the price action, it's best to combine the last two COT reports on gold to get the most accurate perspective. By commercial category, the 8 largest shorts actually bought back 2200 contracts and the raptors sold 9000 long positions (remember, since JPMorgan is long COMEX gold, they were the biggest seller in the raptor category \hat{A} ? more in a moment).

If there was good news in the gold COT report, it came from there being no build up in technical fund new long positions and not much short covering over the past two weeks. I think the tech funds may have bought new longs and covered more shorts after the Tuesday cut-off, but as of that cut-off, I was a bit surprised (and encouraged) they hadn't done more of each. My reasoning is that the biggest risk of a serious sell-off comes when the tech funds are massively net long, which is not the case in new COT report. That doesn't rule out Mr. Price Volatility ruining the party temporarily, but I don't see the makings of a major new bear leg to the downside.

It looks like the crooks at JPMorgan (I sure hope I don't offend them Â? yeah, right) sold about 8,000 contracts of their 85,000 contract corner on the COMEX gold futures market. Using a last in, first out accounting basis, the JPM crooks made about \$80 to \$100 million on the 8,000 contracts they bought \$100 to \$120 lower. As of the cut-off, JPMorgan's 77,000 contract net long positions now makes up 23% of the long side of the true net open interest on the COMEX, down 2% from the previous week's 25% market share and corner. It would be safe to assume JPMorgan sold more after the cut-off, but safest of all would be to consider this bank to be the most evil and manipulative financial organization to ever exist.

In silver, there was a whopping 10,000 contract increase in the total commercial net short headline number, doubling the total commercial short position to 20,300 contracts, the highest since mid-April. Since prices jumped impressively on high volume after the cut-off, it is reasonable to conclude a further increase in the total short position. On the other hand, a 20,000 contract net short position seemed highly improbable for the low side at the start of this year; everything must be kept in perspective.

While the commercial net short position increased by 10,000 contracts, it wasn't all new short sales. The raptors sold out 5600 of their long contracts, taking profits (on a last in, first out basis) reducing their net long position to 31,900 contracts as of the cut-off. Raptor selling of long positions automatically increases the commercial net short position, but these sales are not the same as new short sales. Since raptor selling didn't account for all the commercial selling, that means there was new commercial short selling of almost 4400 contracts. The 5 thru 8 big shorts added more than 1000 contracts of new silver shorts with the big 4 and you know who adding 3300 new short contracts.

It looks like JPMorgan added 3000 new short contracts in COMEX silver futures, increasing the evil bank's short position to 16,000 contracts and most likely more since the cut-off. For months and for years before that I have specified the act of JPMorgan adding new short contracts on the next silver rally as being the key factor for price. I have done that to alert you, as well as the regulators at the CFTC and also the crooks at JPMorgan and the crooked exchange operators at the CME Group that this will be the purest act of price manipulation possible. Despite my warnings, the crooks at JPMorgan have again chosen to add silver shorts to cap the price.

First things first. I'm not big fans of the silver raptors that use HFT and other means to manipulate prices and force the technical funds and momentum investors to buy and sell. But once they get long, it's hard to criticize the raptors from selling out to take profits, as is occurring now. But what JPMorgan is doing and the regulators are permitting in allowing JPMorgan to add to silver short positions is beyond excusable. There is no possible explanation for JPMorgan adding silver shorts for a legitimate reason. Please try and think this through.

Had JPMorgan not sold short 3000 contracts (and probably more since the cut-off) the price of silver would have climbed higher than it did during the reporting week. The bigger the sale, the more of a price depressant it serves as. As the biggest single seller during the reporting week, JPMorgan is, clearly, the biggest price depressor. JPMorgan has been doing everything in its power to buy silver this year at higher price than prevailed during the reporting week. The 3000 contracts JPM sold in this report is the equivalent of 15 million oz, or just about the same amount of silver that this crooked bank took delivery of during the month of July.

The silver that JPMorgan took delivery of in July was bought some time before the July delivery commenced, according to COT and Bank Participation Reports data. JPMorgan sold the 3000 contracts short in the \$20.50 to \$21.50 that prevailed in the reporting week. Since the price of silver which JPMorgan paid for the July deliveries was higher than \$21 that means that JPMorgan sold short the new 3000 contracts at prices lower than they paid for the July deliveries. That's uneconomic and points to another motive for the new short sale; the only other motive being price capping and manipulation.

As I indicated earlier and as of the cut-off, JPMorgan was net long 23% of the COMEX gold futures market (once spreads are removed). On that same basis, JPMorgan is short 16% of the COMEX silver futures market. This is down substantially the 40% net short position in COMEX silver that JPMorgan held a couple of years ago, but is still outrageously high and also qualifies as a short corner on the market. Whereas JPMorgan is likely decreasing its gold long corner on the market, it is increasing its silver short market corner. Our nation's most important bank has two market corners going at the same time; all while the regulators pretend not to notice.

I feel like the proverbial man who screamed fire in a crowded theater. Only instead of there being no fire, there are two fires – the long market corner in COMEX gold and the short market corner in COMEX silver both being run by the same crooked bank, JPMorgan. And instead of a panic resulting from screaming fire, the regulators at the CFTC and the CME, as well as the crooks at JPMorgan are pretending that a 23% or 15% market share by one entity is not the market corner it always has been in the past. But along with the pretending comes something else – silence in terms of a rebuttal. My greatest fear is in publicly humiliating myself with false analysis and my second greatest fear is getting caught up in a legal tangle with the crooks at JPMorgan and the CME for incorrectly calling them crooks. The lack of a rebuttal to my allegations of JPMorgan cornering two markets does diminish my two fears.

The news that Paulson & Company liquidated more than half of its massive holding in the big gold ETF, GLD, in the second quarter was instructive, along with the other big names that succumbed to the deliberate rigging of the gold price into the end of June. At the beginning of this year, when the first signs of big metal liquidations in the GLD first appeared, I remember speculating that Paulson was the big seller. That didn't turn out to be the case, although I'm sure Paulson (as well as me and most of you) is sorry he didn't sell at that time and save himself \$400 of a gold decline (\$14 in silver). But you know the story – we'd all be billionaires if we could do things over.

Still, despite the concerns of the COT above, the liquidations in gold and silver look largely complete, now that the big names have bombed out of gold. Looking ahead, it's hard for me to imagine Paulson coming back into gold as heavy as he was in the past. I sensed this same thing when Warren Buffett got tricked out of his silver around \$7 just before the silver ETF, SLV, was launched. Even though Buffett could have replaced his sold silver a few dollars higher at the most, something else would have prevented him from doing so. That something else was pride and reputation, something that transcends more money. If Buffett paid more to get back into silver (which would have been wise), it would look like he screwed up in selling in the first place. While he did screw up in selling, it would be worse for him if great numbers of outsiders thought that; reputations are that important.

Looking at the big liquidations in gold and GLD, I think the same logic prevails, namely, that Paulson can't get back into gold as big as he was previously, especially at higher prices. He risks too much potential reputational damage, particularly if he buys back in higher in price, only to see the price fall again. That would sully his reputation immeasurably, something a professional money manager avoids like the plague. I don't care about Paulson; my point is that the gold positions liquidated this year are unlikely to be reestablished any time soon and that detracts from future gold demand. Conversely, since there was no big liquidation in SLV this year, it is easier to imagine stronger buying in silver.

Back to the COTs and JPMorgan's increase in its manipulative silver short position; what to do? For me, not much. I'm holding off on buying new call options since the price and option premiums surged. I'm afraid to sell the calls I do hold and am not thinking at all of selling fully paid for silver positions due to the same fear of missing the big move. If the crooks at JPMorgan succeed at rigging prices lower (that will be the only reason we would go lower), I'll scrape up some courage and throw more money out the window for new call purchases (and absorb the mandatory verbal abuse from my wife, which will be highly justified).

Looking back at the big silver run three years ago, as previously stated I am convinced it was physical buying, particularly in SLV and other silver ETFs that caused the run. Certainly, it wasn't the COT structure. Even with further deterioration, the COT structure today is a helluva lot better than the COT structure back then. Back then, the commercial short position in silver hit 65,000 contracts versus 20,000 today. In gold the commercial total net shorts hit over 300,000 three years ago versus the 61,000 today.

I hate that the crooks at JPMorgan have increased their manipulative silver short position but that's something that must be put into perspective as well. While I did label JPMorgan as silver price manipulators back then, it was with nowhere near the intensity I use today. Three years ago, JPMorgan was everyone's favorite bank and the apple of the regulators' eye. No longer is that the case. Back then, it was nothing but puff pieces about Jamie Dimon and how great was JPMorgan as a financial institution. Quite literally, today it is rare when a day goes by without a new report of what this crooked bank has done wrong.

I know this is all old hat to most of you, but try to visualize just how small is the number of people who recognize that JPMorgan has a long corner in the gold market and a short market corner in silver. The gold market corner is new and easier to understand than the short silver market corner and it threatens to spread quickly and widely, particularly since no one has been able to rebut it.

Ted Butler

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Silver – \$23.20

Gold – \$1377

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