

August 23, 2014 – Weekly Review

Weekly Review

Gold and silver prices fell to ten week lows, with gold finishing off by \$24 (1.8%), while silver fell 15 cents (0.8%). As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in to 66 to 1, after mostly widening out over the past two months. I wouldn't read anything into this week's relative performance as the ratio is still within the longer term trading range. Short term, it still appears a tossup, but longer term all the facts point to silver widely outperforming gold.

There should be no question about why gold and silver prices are now lower by \$60 and \$2 respectively since mid-July, having given back major portions of the entire \$90 gold and \$2.75 silver rallies to that point. There should also be no question as to why the probabilities since mid-July have strongly suggested lower prices. In fact, all questions about short term pricing for gold and silver (and copper) must be directed to the sole source of such pricing – COMEX futures positioning. And not just general trading and positioning on the COMEX, the positioning of only two very specific groups of traders sets the price of gold, silver and copper, namely, the technical funds (in the managed money category) and their collusive commercial counterparties.

Part of me wants to apologize for thumping on this tub yet again, but the facts are clear – prices are set by technical fund buying and selling and all that buying and selling is orchestrated by means of a blatant collusion by another set of large traders called commercials. The reason this purely speculative and highly specific trading is setting the price of world commodities, even though it is as far removed from legitimate hedging as is possible, is because it is so large compared to real world amounts or other trading on the COMEX.

I'll get into the COT details in a moment, but just this week for example, the technical funds sold and the commercials bought more than 30 million oz of silver futures, an amount close to what the US mines in a year and the US is in the top ten of silver producing countries. It is not possible that the concerted one-week sale of the equivalent of such an amount of metal not to have been the primary influence on price. Over the past four weeks, the technical funds have sold to the commercials 105 million oz of silver contracts, or three times what the US produces in a year. What difference could it make what else may be going on in the world or in the metals world if such massive amounts are being transacted in full view?

The world's gold, silver and copper producers, consumers and investors have been shut-out from the price discovery process at the hands of large speculators plunging into and out from derivatives positions on the COMEX. Not only is this preposterous, it is illegal. Most responsible for this sorry state of affairs is the crooked CME and CFTC. Funny how no part of me ever wants to apologize for calling them (along with JPMorgan) crooks.

Thanks to a heavy 2.7 million oz turnover yesterday, the physical movement of metal into and out from the COMEX-approved silver warehouses exploded this week to 6.25 million oz, well above the torrid 4.5 million oz average turnover this year. Total inventories rose 2 million oz to 178.2 million oz, but total inventories are not the key story; this is all about the remarkable turnover over the past 3.5 years.

I've observed and studied daily changes in the COMEX silver inventories for 30 years. For the vast majority of that time, not much has been revealed, but I do remember certain specific changes that did reveal much, although only with the passage of time. For example, starting after 1985 and continuing until almost 1995, a massive 150 million oz were added to the COMEX inventories, bringing total inventories to more than 280 million oz. Since we were in the midst of a 65 year structural consumption deficit, I nearly lost my mind trying to figure out where the heck all that silver was coming from since we had less silver in existence with every passing year. Later, I learned the increase was due to central bank silver leasing and the transfer of metal from Delaware (and I think I regained my sanity). Another example was the large reduction of over 100 million oz in the COMEX silver inventories to less than 80 million oz in 1997-98. I didn't have to wait long for an explanation as it was Warren Buffett moving the silver he purchased to London.

We have seen an increase in COMEX silver stocks of almost 80 million oz to current levels since 2011 and much of that might be explained by the liquidation of 60 million oz from the SLV starting in May 2011. But increases or decreases in total COMEX inventories are much less important to me today than the phenomenal turnover since April 2011. Since we're no longer in a silver deficit, I expect total inventories to grow, all things being equal. But I never expected this frantic turnover, nor did I expect it to continue for as long as it has.

Mostly, I am still confused why more don't focus on it. Let me take another crack at explaining why this physical movement seems so significant to me (I might have done this before). Try to imagine, for a moment, that the warehouse movements were occurring, not in silver, but in another commodity, like gold or copper. If the equivalent of two full days of world production were being moved weekly into and out from the COMEX gold or copper warehouses, as is the case in silver, would anyone notice?

I would think that if 550,000 oz of gold came into and out from the COMEX gold warehouses on a weekly basis for years, that movement would be a prime topic of conversation. No, check that – tongues would be wagging in trying to discern why so much gold was being physically moved. Likewise, if 100,000 tons of copper (2 days world production) on average came into and out from the COMEX warehouses on a weekly basis, all would be astounded (especially seeing as total COMEX copper inventories are around 26,000 tons).

Since gold is not primarily an industrial commodity, it's hard to imagine the motivation investors would have in physically moving so much metal in and out. And even though copper is very much an industrial metal, it's almost impossible to imagine that much copper being moved. Then what the heck is going on in COMEX silver? If it isn't extreme tightness, I don't know what it is. And I hope no one asks that if silver is experiencing such tightness due to demand then why is the price so low?

The changes in this week's Commitments of Traders Report (COT) were noteworthy and fully expected. As I indicated in my concluding remarks in Wednesday's report, hefty reductions were expected in the total commercial net short and managed money net long positions in COMEX gold, silver and copper as of the Tuesday cut off. I also indicated that gold was the least advanced in its liquidation cycle, relative to silver and copper and, therefore, subject to greater relative selling should its 200 day moving average be penetrated to the downside. That, of course, occurred the very next day, although I hadn't intended to predict the actual timing of the penetration.

Predicting changes in upcoming COT reports, as I have indicated previously, is not really guesswork, but more of a reasoned evaluation after the fact. Predicting short term prices is very difficult, except when speaking in probabilities; the COT guesstimates much less so. It all depends on price action in the reporting week. Since we had moving average penetration to the downside and a series of new price lows (salami-slicing) in COMEX gold, silver and copper, it was a forgone conclusion that the technical funds were selling and the commercials bought.

Some still stubbornly cling to the belief that technical funds always sell and commercials always buy on price moves lower as being a mere coincidence and not at the core of an ongoing manipulation. There's no nice way of saying it – those commentators are out to lunch and are of great disservice to their readers. It can't be clearer that the technical fund/commercial tango is the cause and effect of pricing.

In COMEX gold futures, the total commercial net short position was reduced by 13,000 contracts to 147,700 contracts. By commercial category, the 8 largest shorts bought back less than 2200 contracts, leaving the raptors as the big buyers of nearly 11,000 contracts. I group JPMorgan with the raptors and this week JPM flowed with the commercial crowd, adding 2500 contracts to a long position now measuring 17,500 contracts and a far cry from the 85,000 contracts held by bank a year ago.

The de facto new headline number of the managed money category's net position lived up to its billing in gold for the reporting week as net buying of 13,200 contracts occurred in the managed money category, comprised of nearly 10,000 contracts of long liquidation and more than 3200 new shorts. I can't stress enough what this actually means, namely, as serving as stark proof that one narrow set of traders, which consider nothing more than the price and the moving average price, are buying and selling in such large quantities and to the exclusion of other traders that they set the price of gold lower in the reporting week. The tech funds did all the selling this week; so, of course, they were responsible for lower price (leaving out that the crooked and collusive commercials orchestrated the whole thing).

Certainly, there was heavy technical fund selling on Thursday as gold prices were rigged below the holdout 200 day moving average, I would guess on the order of 20,000 contracts or more. After I observe what will happen next Monday and Tuesday, I'll probably have a sense of what the next full reporting week will look like.

In COMEX silver futures, the total commercial net short position was reduced by 6300 contracts, to 37,400 contracts. The commercials have reduced their total net short position by 21,000 contracts over the past 4 weeks and with a continued reduction since the cut-off, are more than half-way along in the offsetting of the 50,000+ contract net short position increase from early June to mid-July.

By commercial category, the raptors (the smaller commercials mostly apart from the 8 largest traders) accounted for most of the net commercial short reduction by adding 6000 contracts to a net long position now at 26,200 contracts. The big 4 shorts did buy back more than 1700 short contracts, while the big 5 thru 8 shorts added 1400 new shorts. I'd peg JPMorgan as now being net short 17,500 silver contracts, the same number of contracts this crooked bank is long gold. The concentrated net short position of the 8 largest shorts is 63,649 contracts, the equivalent of more than 318 million oz of silver and the largest concentrated short position in existence among all commodities in terms of actual world production. (I'll come back to this at the end of this review.)

As was the case in COMEX gold, the technical funds in the managed money category accounted for nearly 6000 contracts of net selling, offsetting almost all of the commercial buying. The main difference with gold is that the technical funds in silver were proportionately much heavier short sellers, selling short more than 5400 contracts. With a gross short position of nearly 25,000 contracts in the managed money category, the technical funds have added more than 15,000 new shorts and have about that many more short contracts to add to get back the record level of early June.

Considering the technical funds most likely added more silver shorts since the cutoff, the most reasonable guess for a bottom in price is for that to occur as and when the technical funds are fully short. There's no guarantee that we won't see a bottom in the silver price before the old record tech fund short position is revisited, but if the commercials are looking to buy as many contracts as possible, it most likely will come from new technical fund short selling as opposed to heavy technical fund long liquidation from this point.

On the surface, the gross long position in the managed money category, at nearly 41,000 contracts would appear to offer ample opportunity for significant technical fund selling. But considering that there has likely been further technical fund long liquidation since the cut-off and one other key factor potentially in play, the amount of selling left on the long side of managed money might be much less than first assumed. Earlier this year, I referenced a phenomenon I never observed before – the buying of 10,000 new silver contracts on the long side of managed money on a price decline, from October 2013 thru early June. Since technical funds don't buy on new price lows (only new highs), the only rational explanation was that technical funds weren't buying, but other non-technically motivated money managers. That non-technical fund buying in the managed money category put an effective floor of around 35,000 contracts on the long side of the category.

My point is that if those non-technical funds are still long, there may be not much long liquidation remaining in this category, particularly considering that further liquidation likely occurred since the cut-off. Certainly, if the commercials keep pressing prices lower to induce more technical fund selling, as would appear likely, we will hit the limit of managed money long liquidation quickly and probably more quickly than the maximum in technical fund new short selling.

A quick word on copper. COMEX copper looks to be the most advanced in the coordinated move to the downside, followed by silver and then gold; meaning there has been relatively more technical fund selling in copper. Just this week, while the commercials bought just over 5600 contracts, the technical funds sold almost double that amount in their net selling of 10,400 contracts. Over the past month, the technical funds have sold nearly 40,000 net contracts of COMEX copper or the equivalent of 500,000 tons of copper or nearly 20 times total COMEX copper warehouse stocks. There shouldn't be any doubt that this level of technical fund selling caused copper prices to fall 20 cents (6%) over this time. The only question is why don't copper industry analysts and insiders (that doesn't include me) see this?

While the probabilities suggest further technical fund selling in silver and gold, it's akin to guesswork to imagine how many contracts that will ultimately involve. More difficult still is in guessing how that translates into price. That's because the price is completely controlled by the commercials in the short run. (Some would say for the long term as well, but not me.) Therefore, one is reduced to imagining how vicious the commercials will be from here. Will they openly smash prices as low as they are capable or, since so many now see how this crooked COMEX casino really operates, will the commercials look to slice the salami super-thin, meaning a series of slight new price lows designed to induce technical fund selling outside any glare of a dramatic price fall. I have lots of questions like this; unfortunately, fewer answers.

What I do know is how I will handle it no matter whether the short term resolution is vicious or not so much. Or even if there is no downside resolution from here. I'll continue to hold core positions and look to add on a downside resolution, including most likely, call options at some point. But nothing on margin (as is usually the case. And, if the downside is resolved and I take planned action on the buy side, I will handle any subsequent rally as being the big one until I get conclusive proof in the COTs that the crooked commercials have sold anew.

Back to the concentrated short position in COMEX silver. While I am delighted about the number of new articles being written about silver and how silver is being included more and more in discussions formerly reserved for gold alone, it is also important to note the differences between the two metals. I've long held that silver is the most manipulated market in the world and therefore destined to climb the highest in price when the manipulation ends. I believe this can be demonstrated in comparing the concentrated short positions in COMEX silver and gold.

The 8 largest shorts in COMEX silver now hold (as of the most recent COT report) the equivalent of more than 318 million oz of silver and 15.4 million oz of gold. While the total notional dollar value of the gold short position is \$20 billion and the notional value of the silver short position is closer to \$6 billion, in terms of actual metal the silver short position is much more extreme. In terms of annual mine production, the concentrated COMEX gold short position is around 15% versus the silver short position being close to 40% of annual mine production. In terms of known bullion in existence in each, the COMEX concentrated gold short position is 0.5% (one-half of one percent) of the world's known 3 billion oz of gold bullion. The COMEX concentrated silver short position is more 36% of the world's known 875 million oz of silver bullion. That's 0.5% vs. 36%.

It seems to me that the concentrated short position in COMEX silver is so much head and shoulders higher than the equivalent short position in COMEX gold as to provide no real similarity (aside from the day to day mechanical manipulation). The COMEX silver short position can't be addressed or resolved without some great fanfare (like exploding prices or people going to jail); whereas the COMEX gold short position could be resolved with nowhere near the price fireworks required in silver. As I said, I'm delighted with the lumping of silver with gold in more and more articles; hopefully the real facts about silver will continue to emerge.

Ted Butler

August 23, 2014

Silver – \$19.40

Gold – \$1281

Date Created

2014/08/23