Weekly Review

In the face of extreme price volatility on Friday (when prices ended little changed on the day), prices of gold and silver fell to their lowest weekly close in nine weeks. For the week, gold fell $20 (1.5%), while silver ended lower by a sharper70 cents (3.6%). As a result of silver's underperformance, the silver/gold price ratio widened out by nearly a full point to just under 71 to 1, also a nine week undervaluation level for silver. Over the past year or so, the price ratio is still in the middle of a fairly tight trading range (64 to 1 and 83 to 1). I'm convinced silver will eventually shatter that trading range to the downside by vastly outperforming gold, but completely unconvinced about the short term direction of price.

The reason I am unsure about the near term is because it is close to impossible (at least for me) to time the factors that move the price of gold and silver. Despite the timing handicap, it is altogether another matter identifying the forces that move price. It has become increasingly clear that the main force that moves gold and silver prices is COMEX futures position changes. Yesterday, was a prime case in point. Within minutes, gold plunged $10, then shot up $20 and then continued to lose the $20 gain throughout the rest of the day. The pattern in silver was similar down 20 cents, up 50 cents and then an erosion of most of the gain.

Anyone interested in gold and silver should be questioning why prices moved as they did. If queried, I imagine most would point to the conflicting interpretations coming out of the Fed meeting in Jackson Hole and leave it at that. But by deeper examination, it doesn't appear to me that the Fed meeting had anything to do with the price volatility, save for it providing a cover story and an easy excuse for not digging further. By process of elimination, the prime force of price movement and volatility yesterday was computer generated trading on the COMEX nothing else could possibly explain the trading volume (extremely heavy) and the price moves.

Once high frequency computer trading is identified as the prime (sole) force behind yesterday's (and nearly every days') price volatility, additional findings are possible. One such finding is that most of this computer-generated trading is conducted by a literal handful of traders large speculators aligned against other large speculators that we call banks. There are not massive numbers of individual investors or traders engaged in the trading that makes up 90% or more of the actual volume on the COMEX, as who could compete alongside mega hedge funds or big banks? Little, if any of the trading in COMEX gold or silver involves legitimate hedgers, either actual producers or consumers.

Weekly data from the CFTC confirm that a few big traders dominate trading.

The bottom line is that yesterday's unusual volume and volatility was generated, as usual, due to computer generated games between a few large traders and had nothing to do with what most assumed moved prices. The point here is that price action is held captive by a handful of big money computer geeks and crooks and everyone else, including real producers and consumers, must accept whatever prices these crooks dish out. Don't get me wrong I am happy to deal with whatever prices are created because I believe I know why prices move, even if I can't know exactly when and how the games will be played. But aside from giving analytical clarity to why prices move, I have to say we are all nuts to accept this price-setting regime. Why should a handful of traders hold price control over everyone else?

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses snapped back this week to 5.8 million oz (300 million oz annualized). Total COMEX silver inventories increased another 3.3 million oz to 160.8 million oz, the highest level of the year. I still believe the most important feature to COMEX silver inventories is the persistent weekly movement over the past five and a half years and not the total level of inventories. Over the past five years, yearly changes in total COMEX silver inventories have been measured in the tens of millions of ounces, while the turnover measures in the hundreds of millions of ounces. The metal is moving for a reason and the reason still appears to me to represent tightness. Additionally, it would appear silver has been coming in these past few weeks (more than 8 million oz) perhaps in preparation for the COMEX September deliveries which commence this coming week.

On Wednesday, I commented on the wide price differentials existing between the nearby September COMEX silver futures contract and the next big trading month, December, which hit 14.3 cents on Tuesday's settlement. My take was that this was an artificially wide difference set deliberately by a few commercial shorts to their advantage and to the disadvantage of the managed money longs forced to pay up on rollovers. With most of the rollovers now complete and the wide price differentials already captured, the Sep/Dec silver spread collapsed to 9.4 cents on yesterday's settlement. Now that most of the rollovers are complete, there is little reason to maintain very wide discounts in the September futures month.

I'd estimate the commercials pulled in an extra $20 million or more by artificially snookering the managed money (and other) longs into paying up to roll over September contracts. Admittedly, this is a pittance in the overall scheme of things, but offers some indication of the depth and scope of the ongoing manipulation.

With the August COMEX gold delivery period winding to a close, I was somewhat surprised to see the second largest stopper, Macqaurie Futures, take a few contracts less than the 3000 limit and at seeing a client or clients of JPMorgan take more than 5000 contracts (5251). A client(s) of JPMorgan has been on a tear in taking gold deliveries these past three months and this month took the most ever. This does represent big demand for physical gold.

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

On the other hand, the open interest in the COMEX September gold contract, which like silver begins its delivery process in the next couple of days, has dwindled down to 2906 contracts as of yesterday's close from more than 10,500 contracts when I first mentioned it weeks back. Since September is very much a non-traditional delivery month for gold on the COMEX, the remaining number of open contracts is still very large and unusual, but so is the 70 percent decline in open contracts. I get the feeling that the big reduction in open interest in the September gold contract was motivated by a large prospective stopper sensing that too much of a physical delivery demand might unduly impact gold prices and that big stopper backing down. Of course, my suppositions are speculative.

There were around 7 million silver ounces deposited into the big silver ETF, SLV, in a week's time, before a near 2 million oz withdrawal later in the week. The withdrawal looked normal and in response to price weakness and plain vanilla investor liquidation. The 7 million oz deposit did look unusual in that it occurred over a time of lackluster price and trading volume. The most plausible explanation for the deposit was that the metal was brought in to create new shares which would offset a portion of the short position in SLV. I was waiting to comment until the new short interest report was issued and the new report was issued late Wednesday, too late for inclusion in the mid-week commentary.

The new short report, for positions held as of August 15, indicated an increase of nearly 1.7 million shares in SLV to just under 12.4 million shares (ounces). Although this level of short selling is not historically extreme in SLV, the increase and resultant higher level reinforces that much of the 7 million oz deposit could have been intended to reduce the short position. Alternatively, had there been a big drop in the short position, I would have been scratching my head to account for the big deposit. Of course, if the next short report on SLV doesn't show a big reduction, I'll be back to scratching my head. By the way, the short interest in GLD fell 1.7 million shares to under 12.2 million shares (1.2 million oz).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Sales of Silver Eagles remain putrid and on track for a month even weaker than the prior month, itself the slowest sales month in years. I continue to be amazed at public commentary not recognizing that the sales drop is due to JPMorgan stepping aside from its aggressive purchase of Silver Eagles over the past five years. For the most part I have commented about slow retail sales of Silver Eagles and other retail forms of silver for years and it was the slow retail pace that led me to the conclusion that JPMorgan was accounting for much of the total sales. The US Mint was certainly producing and selling more than 200 million Silver Eagles since 2011, but it was clear the public wasn't the main buyer. Those that didn't recognize that the public wasn't buying seem to be confused about the sudden fall off in sales. But if you did see that JPM was the big buyer, then there is no confusion about suddenly weak sales – JPM stopped buying. Hopefully, we'll find out why in the fullness of time.

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

The changes in this week's Commitments of Traders (COT) Report were somewhat wide of my predictions, particularly in gold, but much closer to expectations that the market structure would remain extreme, regardless of any changes. And despite this week's volatility, the overall market structures in COMEX gold and silver still remain extremely bearish by historical standards.

In COMEX gold futures, the commercials increased their total net short position by a smallish 6500 contracts to 317,500 contracts. (I had expected a small decrease instead). While the overall commercial change wasn't noteworthy, the same cannot be said of the commercial category breakdown. The big 4 added 3600 new shorts and the raptors added 6600 new shorts. This left the big 5 thru 8 commercial shorts as having bought back and covered 3700 short gold contracts.

As a result, the concentrated short position of the 4 largest COMEX shorts (all commercials by mathematical deduction) hit yet another new record of 212,000 contracts (even). Both in contract terms and as a percentage of total open interest (37%), the short position in COMEX gold has never been more concentrated. Since concentration is the prime necessary requisite for manipulation, it can be factually stated that the evidence of potential gold market manipulation has never been greater than in this week's COT report.

Here I've been, ranting and raving about the key issue of concentration on the short side for years, mostly in silver, and the concentrated short position in gold has also joined the party. I have to wait a couple of weeks for the next Bank Participation Report to drill down on who the big gold short might be, and positions can change dramatically in that time, but I'd peg the big short in gold to be the same as the big short in silver JPMorgan. As of Tuesday's cutoff, I'd peg JPMorgan's net short position in COMEX gold to be upwards of 85,000 contracts or 8.5 million equivalent ounces.

Another standout feature of this week's COT report on gold is the continued reduction in the short position of the 5 thru 8 largest shorts. This reconfirms the failure of one of the big gold shorts, as recently reported. In the COT report of July 12 (six weeks ago), the 5 thru 8 largest gold shorts held just over 100,000 contracts net short. On that date, the total commercial short position was not that much different from the current report and the raptors held nearly the exact number of shorts as they did in the new report. What changed dramatically was the holdings of the 4 largest shorts and the big 5 thru 8 shorts.

The big 5 thru 8 reduced their number of shorts by 30,000 net contracts, while the big 4 increased their short holdings by more than 23,000 net contracts. It is impossible to reconcile the data – raptors unchanged, big 4 up by 23,000 contracts and the big 5 thru 8 down by 30,000 contracts – and not conclude a big 5 thru 8 trader bit the dust and covered a short position of 20,000 contracts or more.

I remember thinking before any of this occurred (and maybe writing about) that if a big 8 short bit the dust, due to the financial pressure of being short in a $300 gold rally, that unless another big short took up the slack and increased its short position, prices would explode. Gold prices haven't exploded (at least yet) and the only reason they haven't is because of the massive increase in the big 4 concentrated short position. Not only do the data prove that, I'm serious in suggesting there can be no other explanation given the facts. Simply put, had the big 4 (JPMorgan) not added 23,000 new short contracts as one of the big 5 thru 8 covered, the price of gold would have climbed at least a hundred or two hundred dollars or more. Not to be argumentative, I welcome any alternative explanations for the dramatic juxtaposition in big 4 and big 5 thru 8 holdings.

On the buy side in gold, it was all managed money traders which bought nearly 11,000 net contracts, including 7398 new longs and the short covering of 3559 short contracts. Again, it's not a question that this week's report was newly bearish to the price of gold; it has been structured that way for months.

In COMEX silver futures, the total commercial net short position was reduced by 2500 contracts to 98,100 contracts. (I had guessed a reduction of 5 to 10,000 contracts and managed to come closer in terms of the managed money counterparty change). By commercial category, the big 4 added 100 new shorts, while the raptors bought 2000 new longs and the big 5 thru 8 bought back 600 shorts. I'd peg JPMorgan's short position in silver to remain at 33,000 contracts.

Although decisive new concentrated shorting records weren't established, as was the case in gold, the concentrated short position in silver is still off the charts and, therefore, must be considered extremely bearish in historical terms. Additionally, I see no evidence of a big short biting the dust and covering in silver as seems ultra-clear in gold. I would have assumed such a commercial failure in gold would translate into a failure in silver since I assumed the 8 big shorts in gold were the same 8 big shorts in silver. Aside from another lesson not to assume (making an ass out of u and me), I can't explain why it happened in gold and not silver. Not being able to explain is different from reporting the data accurately.

On the sell side in silver, the managed money traders sold just over 5000 contracts, including the long liquidation of 1891 contracts and new short sales of 3178 new shorts. I would have guessed more long liquidation.

While this week's changes in market structure were not overly dramatic in gold and silver, there were some markets where the changes were dramatic, including the most important commodity of all □ crude oil. There has been an $8 rally or so in crude oil over the past couple of weeks. I mentioned in last week's review how managed money traders were the largest factor by far in the buying of crude oil futures on the NYMEX. That carried over into the current reporting week. Roughly 150,000 net crude oil contracts have been bought by managed money traders over the past two reporting weeks, the vast majority of the buys being short covering.

The 150,000 net contracts of managed money buys is larger than the buying, by magnitudes, of any other category of crude oil traders. Therefore, it is unmistakably clear that managed money buying accounted for the $8 to $9 rise in crude oil prices over the past two weeks. Not real oil production or consumption, just managed money buying, mostly short covering. How crazy (and manipulative) is that? A 20% two week change in oil prices because of paper trading by one speculative category of traders on the NYMEX. For allowing this, the CFTC and the CME Group should be hung by their feet and beat with a stick. The rest of us should be outraged that this is how oil prices are set.

Additionally, COMEX copper prices have fallen sharply as managed money traders have sold short 30,000 contracts in three weeks. These traders have some way to go to hit previous extremes in copper shorting, so it would not surprise me if they sold even more as prices continued to fall. Every darn market seems to have been infected with the silver disease and we're all worse off because of it.

After not penetrating to the downside the 50 day moving averages for months, silver penetrated its 50 day moving average every day this past week and gold for the last three trading days, as did platinum. Not necessarily a price prediction, but no one should be surprised if this leads to lower prices and further managed money selling, given the current market structure. Then again, this may be a temporary bottom as was the case back in late May, when a downside penetration of the 50 day moving averages proved brief. I'm not being cute I just don't know how to read the commercials' intentions and ability to rig prices. Either possibility, a price swoon or reversal up, can easily occur. If we do ever clean out the technical fund longs, I won't equivocate. Promise.

Prices ended not much changed from Wednesday's calculations, meaning the combined commercial financial scorecard ended the week in the hole by $1.7 billion, $800 million to the better for commercials' negative $2.5 billion reading at last Friday's close. And aside from the manipulation of spread differentials to the commercials advantage, I'm of the firm opinion that the sharp day to day price volatility is orchestrated in the commercials' favor since the commercials sell high and buy low, the opposite of how the technical funds behave. This also stacks the deck in the commercials' favor, just not enough to offset the still large unrealized open losses they hold on short positions.

Finally, I confess to being an avid reader of all things related to silver and gold and broader financial issues. Unfortunately, 99% of what I read leaves me feeling I wasted my time. But every rare once in a while, I read something that truly resonates and strikes a chord. Presented without further comment is that something

http://charliebilello.tumblr.com/post/149462062304/pundit-or-professional

Ted Butler

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Silver – $18.65   (50 day moving average – $19.45)

Gold – $1321   (50 day moving average – $1331)