Weekly Review

Following three previous weekly declines, the price direction of gold and silver, seemingly joined at the hip, parted company this week as gold rose $15 (1.2%), while silver fell by another 40 cents (2%). Accordingly, the silver/gold price ratio widened out by two full points to almost 66 to 1. We're still within the past year's trading range for the price ratio, but now are much closer to the upper levels. Given my continued expectations for increased price volatility, little in the way of short term movements would surprise me, either in absolute price or in the silver/gold price ratio. Longer term, it's still hard for me to imagine silver not vastly outperforming gold.

It's also hard for me to imagine just how rotten world events have become lately. I suppose one should become less disturbed by such things through the aging process alone, but things look worse around the world than they did years and even months ago. Truth be told, given the nature of the underlying causes for many of the world's hot spots, it's easier to imagine things getting worse than better. If ever there was a time when world events should send investors rushing towards precious metals as safe-haven assets, one would think that this would be the time. Strangely, I find little actual evidence of such safe haven buying in gold and silver.

Yes, gold did advance in price this week, but I detected no widespread or grass roots rush to the metal; and with silver down in price for four weeks running, any talk of widespread buying would seem absurd. Maybe I'm looking too closely or am too deeply wed to my own confirmation bias, but price action this week, just like every other week, was controlled by positioning on the COMEX between two highly specific groups of traders the technical funds and their counterparties, the commercials. Simply put, despite a world in deep crises, the price of gold and silver is still controlled and set in paper trading on the COMEX.

Please don't misinterpret my point; I'm not suggesting that COMEX positioning will always set the price of gold, silver and copper with little regard to actual supply/demand considerations. In fact, I would advance that the COMEX's absolute control over prices should and must end at some point. But in the church of the here and now, the COMEX is it. I'm aware of all the popular reasons given for buying precious metals (currency and financial system collapse, etc.) and I still firmly hold my own reason for favoring silver (the coming shortage), but neither the popular reasons nor my own matters much at this point as the COMEX is in complete control of price. I'll return to this theme after the usual format of review.

Turnover or physical movement of metal into and out from the COMEX-approved silver warehouses slipped slightly this week to 3.65 million oz. Aside from this number being below the year to date weekly average movement of 4.5 million oz, there is nothing that suggests that 3.65 million oz is not a very large movement. Tellingly, total COMEX silver inventories remained unchanged at 175.3 million oz, both for the week and for the year to date, highlighting the message that the turnover is much more important than total inventory levels. Let me try to make this point in a different way.

The average weekly turnover this year in the COMEX silver warehouses is 4.5 million oz or two full days of world silver mine production (2.2 million oz of silver are mined daily). While we've had some unusual recent activity in the COMEX gold warehouses (as previously reported), I would guess (from memory) that COMEX gold warehouse weekly turnover has been no more than 40,000 oz over this year, making the weekly gold turnover 15% of one day's world mine production (275,000 oz). The weekly silver warehouse turnover is 200% of daily mine production, while the weekly COMEX gold turnover is 15% of a day's gold mine production. Why the disparity?

The most plausible explanation that comes to my mind is related to silver's industrial demand component. Silver is being brought into and taken out from

the COMEX warehouses because it is in high demand from industrial and other fabrication needs. There is much less urgency for investors to move metal around (as long as it's in a safe place) and since gold is primarily an investment metal, there would appear to be little need to move it for investment purposes. And it's not just against gold that silver's warehouse turnover appears stark; compared against purely industrial metals (like copper), the silver warehouse movement relative to mine production is also off the charts. The almost unreal level of physical turnover in the COMEX silver warehouses begs for an explanation. I say it points to physical tightness and I continue to solicit your explanations.

Adding to the unusual pattern of COMEX silver warehouse turnover, there was an unusual (at least to me) deposit of nearly 3 million oz this week in the big silver ETF, SLV. I say unusual because silver price action has been punk and I would have suspected that the SLV would have experienced withdrawals and not deposits, thus continuing the counterintuitive pattern I wrote about recently. Don't get me wrong, I'd rather see deposits in SLV than withdrawals, but most of all, I'd prefer to see a logical pattern of both.

The most plausible explanation for metal coming into SLV at this time amid weak price action and lackluster trading volume is, of course, that the deposit

was made to reduce the short position in SLV shares which has been increasing recently. The short share reduction due to this week's deposits won't be reflected in Monday's new short sale report because the cut-off for the report was July 31. But the important takeaway is that it is highly likely that the metal that came into SLV this week wasn't available when the short sales were originally made. This would seem to confirm my premise of physical silver tightness, as is seen also in COMEX warehouse movement. Maybe 1 + 1 does equal 2 after all.

Sales of Silver Eagles picked up markedly for the first few days of August over slow sales levels of the past two months, but I was somewhat disappointed that the US Mint didn't report any sales for the past three days of this week. For a short while early in the week, it looked like "Mr. Big" may have returned. That would certainly be a surprise. Reports from the dealer front line don't suggest strong retail demand. (The reports of strong demand for certain gold coins from the Mint looked like that involved low mintage specialty coins).

The changes in the week's Commitments of Traders (COT) and the monthly Bank Participation Reports were both largely as expected and very instructive. Prices were lower during the reporting week for both gold and silver, with each metal penetrating important moving averages to the downside. The penetration

was more decisive in silver and since the Tuesday cut-off, gold has bounced back up and off its 50 and 200 day moving averages smartly, while silver has remained below its moving averages.

What was expected was that the headline number of the total commercial net short position declined during the reporting week in both gold and silver as the technical funds did what they always do, namely, sell whenever prices penetrate moving average to the downside. But I also sense that the technical funds were big buyers in COMEX gold after the Tuesday cut-off and it was for this reason and not anything related to world events that gold prices rose as much as $35 since Tuesday. With no such comparable rally in silver, there was no technical fund buying as there was in gold.

In COMEX gold futures, the total commercial net short position declined by 17,300 contracts to 131,600 contracts. This was the largest weekly decline since late May and the lowest total level of the commercial net short position since late June. Further, the total level of commercial net shorts is now down more than 34,000 contracts since the recent peak on July 8. However, we are still 68,000 contracts higher that what the commercials held net short on June 10.

By commercial category, it was largely a big 4 and big 5 thru 8 affair, as the largest 8 shorts bought back just over 15,000 contracts, while the raptors accounted for 2000 gold contracts. Once again, JPMorgan swam against the commercial tide as the bank sold 3000 of its net long position, reducing that position to 20,000 contracts the lowest in more than a year. I don't know if it is related to the Senate actions of Carl Levin to pressure Goldman Sachs and JPMorgan to get out of commodities, but based upon JPM's reduced positions in COMEX gold and silver, as well as the bank's recent absence from COMEX deliveries in its proprietary trading accounts, I get the feeling that JPMorgan may be quietly exiting these markets. If so, it's about time and I hope the door does bump them in the butt on their way out.

Let me stop here for a moment. It occurred to me that we may need to change the definition of the headline COT number. Up until now, the single number used to summarize the report has always been the total commercial net short position in each market (which one gets by calculating the difference between the gross commercial long and short positions). But at least in the three main COMEX metals markets, gold, silver and copper, a more important headline number has emerged, namely, the net and gross positions in the managed money category. Not just for this week, but for much longer has the managed money category become the most important category of the COT report.

I must confess that several years ago, when the CFTC first began publishing the disaggregated COT report, I was instinctively dismissive of it as being unnecessary. I don't know if I ever wrote that, but I certainly thought that way, probably because I pig-headedly thought I knew it all and was resistant to change (I am human, you know). Regardless of why I thought the way I did, I couldn't have been more wrong. As it has turned out the disaggregated version of the COT report has proven to have been illuminating and confirming of the critical role of the technical funds in the COMEX metals. If you do run across any previous bad-mouthing by me of the disaggregated reports, please feel free to mush them in my face.

This week in COMEX gold, the technical funds in the managed money category sold nearly 18,000 contracts, including almost 6,000 new shorts, fully matching and slightly exceeding total net commercial buying. What was confirmed this week (and longer) is that it truly is just two specific groups of COMEX traders that are setting prices for the rest of the world the technical funds and their (collusive) commercial counterparties. Whatever headline number one chooses to employ, commercial or managed money, the story is the same these two distinct groups (probably 30 to 50 traders on either side) set the price of gold, silver and copper. This is what makes the CME Group a criminal enterprise for allowing and encouraging a corrupt pricing mechanism.

In COMEX silver futures, the total commercial net short position was reduced by a hefty 8,400 contracts, to 48,200 contracts. This is the largest single weekly reduction of the commercial net short position since February 2013 and one of the largest weekly reductions in history. Unfortunately, while the total commercial net short position is down more than 10,000 contracts from the recent peak of mid-July, it is still nearly 40,000 contracts higher than it was on June 3.

By commercial category in silver, it was pretty much divvied up, in three musketeer all for one, one for all collusive manner. The big 4 shorts bought back 1200 contracts, the big 5 thru 8 bought 3400 short contracts back and the raptors added just under 4000 contracts of new longs, to a net raptor long position of nearly 14,700 contracts. I'd peg JPMorgan's net short silver position to be down to 18,000 contracts.

As if highlighting my previous comment that there's a new headline number sheriff in town, the selling by technical funds in the managed money category vastly exceeded the massive commercial net reduction of 8,400 contracts by more than 40%. Nearly 12,000 silver contracts were sold by the technical funds

in silver, almost evenly divided between long liquidation and new short selling. In other words, the technical funds sold 12,000 net contracts, or the equivalent of 60 million silver oz in one reporting week because prices dipped below certain moving averages (or were rigged below certain moving averages, to be more precise). Please think about this for a moment.

A few large traders (maybe 20 or 30) which we know are speculators by CFTC definition, sold the equivalent of four weeks of world silver mine production in one reporting week. I'm not trying to be a wise guy, but if a small group of speculators sold four weeks' worth of the total world production of any commodity in one week, could anything have had more of an impact on price than that concentrated speculative selling? Away from silver (which is the most manipulated commodity in the world), I don't think 4 weeks of the world production of any commodity has ever been sold by a group of speculators in one week in history.

That I am making these statements and asking these questions based exclusively on the report of the regulator most responsible for keeping silver manipulation free is otherworldly. The CFTC is reporting that a relative few pure speculators sold 4 weeks' worth of world silver mine production in one week as if that was perfectly normal. The only problem is that it is so far from normal

that, undoubtedly, the agency won't even respond to allegations that this is manipulation, pure and simple. What other conclusion could I come to other than the CFTC is just as crooked and corrupt as are JPMorgan and the CME?

More than 40 years ago, I was a fresh faced broker at Merrill Lynch on Lincoln Road in Miami Beach. This was long before South Beach became a center for glitz and glamor. As the youngest guy in the room (unfortunately, the opposite is increasingly true), I'd watch the other brokers and customers study the moving stock price board as it flashed symbols and numbers all day long. Tape reading was all the rage and I must confess, I didn't have a clue as to what the tape revealed, even when explained to me. That's true to this day. My guess is that few, if any, could actually read the tape, but many pretended to do so. I would imagine the actual inability to read the tape by most explains why it has appeared to have faded from view.

Back then, all you got from studying the tape was volume and price; there was no way of telling who was buying and selling. In other words, there was no COT report. In stark contrast to those times, we do have a free weekly report from the government today which provides exquisitely detailed and timely information as to who is buying and selling (by traders category). I guess what's otherworldly about today is that not only can we monitor the evolving

market structure like never before through objective data, the same report proves manipulation beyond question.

The COT data show that the interplay between the technical funds and the crooked commercials maneuvering those technical funds into buying and selling is what is setting prices. Maybe someday and maybe soon there will be a price influence on gold, silver and copper coming from an alternative source away from the COMEX, particularly given the level of world tensions. Truth be told, I welcome that day. But until that day arrives, it would appear that the COMEX will continue to set prices and that the most logical way of anticipating short term prices is by analyzing the changing COMEX market structure.

Accordingly, the probabilities still favor a clean out of the technical funds to the downside in gold, silver and copper. That could come straight away or after a rally that generates more technical fund buying to be liquidated at a later date, such as what I believe occurred in gold since the cut-off date. But probabilities are just that and not certainties. If there's one thing I have learned for sure over the years is to never depend on anyone to guide you accurately in the short term. Even if someone gets the short term right on a number of occasions, he or she will let you down at some point, most likely when it matters most.

Instead, depend on what makes the most sense to you and for the long term. Even though I am commenting extensively on what may transpire in the short term based upon COMEX positioning, that is not intended for short term trading purposes, but rather to set the stage and prepare for the long term. Silver is nearly priced for perfection for the long term, even if the short term is troubling due to the technical fund/collusive commercial match up.

Ted Butler

August 9, 2014

Silver – $19.90

Gold – $1309