December 21, 2013 – Weekly Review

Weekly Review

The selling pressure continued in precious metals and gold fell $35 (2.8%), while silver fell 25 cents (1.3%) for the week. Since I contend that prices are manipulated on the COMEX, I try not to derive much meaning from short term price change. That said, it was somewhat notable that silver held up better to the downside and the silver/gold ratio tightened in a full point to 62 to 1.

The price downdraft came immediately after the Federal Reserve's tapering announcement late Wednesday and the world was quick to conclude that the decision was responsible for the move to near three year lows in gold and silver. Rarely have I seen such unanimity in the media and analytical community about the reason for the precious metals price decline. Please allow me to explain why the agreed upon explanation is poppycock.

As has been the case all year and longer, this week's price decline emanated on the COMEX, the sole setter of gold and silver prices, first in the minutes after the Fed's announcement and then overnight into Thursday's opening. In every conceivable market transaction there is a buyer for every seller. What causes prices to rise or fall is the collective aggressiveness and urgency of either side. If the buyers are more aggressive, prices will always rise. If the sellers are more aggressive, the price will always fall. No exceptions.

Therefore, we know that the sellers were more aggressive than the buyers in COMEX gold and silver on Wednesday and Thursday. We also know, thanks to the COT report, who the sellers and buyers were. While the COT report covering Wednesday's and Thursday's waterfall price decline won't be published until Monday, Dec 30 (due to the holidays), there is little question that the technical trading funds were the aggressive sellers which precipitated the price decline. This has been the case all year and particularly since Oct 29 when gold was about $150 and silver $3 higher in price. The technical funds have been and were almost assuredly the big sellers on Wednesday and Thursday.

Technical funds, as their name indicates, trade on price signals alone; particularly selling when new price lows are recorded, as was the case this week. Technical funds don't care a whit about anything except price movement and not a one pays any attention to outside supply/demand factors or what the Fed does or says. These trading funds sold and sold short on Wednesday and Thursday because gold and silver prices were down to new lows; pure and simple. Therefore, the unanimous conclusion that gold and silver prices fell because of the Fed announcement is pure poppycock.

The far more compelling explanation for the price downdraft is that the counterparties to the technical funds, led by JPMorgan and other commercials acting in collusion, used the Fed announcement to illegally set prices lower on the COMEX in order to induce technical fund selling. The Fed's announcement was merely a convenient cover story for the commercials to rig prices lower so that they could buy as much as they could from the technical funds. I can understand how easy it is for the media to get the story completely wrong; what I can't understand is how some precious metals market commentators still profess not to see the real story.

As painful as this year has been to precious metals investors and this past week has added to that pain; there is more comfort in understanding the real reason why prices have fallen. That's because technical fund short selling is the most bullish type of selling possible. Yes, this selling most often results in the type of price washout seen this week, but that is only half the story.

A short sale is always an open transaction that must be closed out at some point by either actual delivery or a buy back of the short position. In the case of technical fund short sales, the delivery option doesn't effectively exist and these short sales must be closed out by a buy back at some point. The question is when and at what (higher) price will the tech funds buy back their open short sales in COMEX gold and silver. The answer to that question resides with the commercials, particularly JPMorgan, which will determine where and when the technical funds will buy back; in the same manner as the commercials determined where and when the technical funds would sell short this week and for the past two months.

It was another extremely active week in the movement of metal into and out from the COMEX-approved silver warehouses. More than 5 million ounces were physically moved this week, as total silver inventories rose another 2 million oz to 173 million ounces. This is the highest level of COMEX silver inventories in many years, but the real story is in the movement, not the total. This incredibly active physical turnover is unique to COMEX silver.

There is no plausible explanation I can come up with other than it indicates that the vast bulk of COMEX silver inventories are not available for sale at current prices and this necessitates new silver be deposited to satisfy demands for withdrawal. The active churn of silver coming and going in the COMEX warehouses points to a much tighter wholesale market than the illegally-set prices on the COMEX futures market would indicate.

I had been expecting withdrawals from the big silver and gold ETFs, SLV and GLD, as a result of Thursday's price drubbing on high trading volume. Instead, yesterday we had a fairly large deposit in GLD and no change in SLV. If we don't get withdrawals early next week, I'll further sit up and take notice of a change in pattern of the bullish variety.

The delivery situation in the COMEX December futures continued to feature JPMorgan as the big silver stopper (taker) and the near exclusive gold stopper. As of today, JPMorgan has taken 5619 gold contracts so far this month, or 96% of the total 5850 contracts issued for delivery. Also as expected, there continued to be a consolidation and movement of gold into JPMorgan's own COMEX-approved warehouse. I mentioned this as logical for not paying some other warehouse when you can store it yourself makes sense. What I hadn't mentioned is that the movement of gold metal to JPM's own warehouse also suggests it may be considered as a longer term investment by JPM, as it would take some time for the storage savings to overcome the upfront costs of physical movement. If you were planning on selling shorter term, you would not likely incur costs needing time to overcome.

The changes in this week's Commitments of Traders Report (COT) were minor and on the inconsequential side, as what occurred this week after the Tuesday cut-off is more important. I had expected some reduction in the total commercial net short positions for both gold and silver, but the reduction came only in COMEX gold. The reporting week included some choppy price action and since the previous week's report featured a large move on the prior Tuesday, my sense is that not all the previous week's actual tally was included in the previous report.

In COMEX gold, the commercials reduced their total net short position by 1900 contracts, to 27,100 contracts. This is the smallest net weekly change in gold since May, as we have been averaging net changes of greater than 10,000 contracts weekly for many months. The total level of gold commercials shorts is still near historically low levels and this week's price action suggests we are sitting at new record extremes were the report to be cut-off yesterday.

By gold commercial category, the big 4 and big 5 thru 8 largest traders actually added almost 5500 in new shorts as it was the raptors' buying of 7300+ new long contracts that accounted for the 1900 contract reduction in total commercial net shorts. On the flip side of technical fund selling, these funds sold more than 2000 gold contracts, including 1100 in new short sales. Based upon the jump in total open interest of more than 10,000 contracts as a result of Thursday's smack down, it seems reasonable to conclude the gold tech funds now hold record gross short positions.

In addition to JPMorgan taking another 1000+ contracts in actual delivery during the reporting week, the big gold long appears to have added another 3000 long contracts to a market corner now 68,000 contracts strong. This is almost 21% of the net open interest in COMEX gold and I'd like to see anyone claim (with a straight face) this percentage of market ownership didn't represent a market corner in any large futures market. It also means that JPMorgan has begun to add new long gold contracts after sitting pat for weeks.

With less than 1000 contracts now effectively remaining open in December, JPMorgan will likely pass the 6000 contract level for taking actual delivery of gold this month, or 600,000 oz. Combined with the 300,000 oz the bank took delivery of in August on the COMEX, JPMorgan holds 900,000 oz of actual gold as a result of these two COMEX deliveries with a cost basis of $1.2 billion. This is separate and distinct from the 68,000 futures contracts held in the latest COT (and probably more since the cut-off). These 68,000 contracts represent ownership of 6.8 million gold oz, with a notional (face) value of more than $8 billion. Remember, this is just what we can see in COMEX transactions; what other amounts of gold or silver JPMorgan may have purchased away from the COMEX is impossible to verify, but I believe may be formidable.

In this day and age of the impending Volcker Rule and position limit regulations and with all fully aware of the disastrously bad bet by JPMorgan in the London Whale debacle, it seems impossible to imagine this crooked bank making such a large and what appears to me to be an illegal bet on the price of gold. Most strange of all is that the large bet is clearly revealed in government and exchange data. Looking past the illegal behavior by our largest domestic bank and considering who is on the other side of the bet (the tech funds which are short), I still have to conclude that this is an extremely bullish set up and that JPMorgan can ring the cash register of higher prices at will.

In COMEX silver, the total commercial net short position grew by 1700 contracts to 19,200 contracts. This is still an extremely low short position and must be considered extremely bullish. By commercial category, neither the big 4 nor big 5 thru 8 traders added to short positions; as the raptors fully accounted for the total increase by reducing their net long position by 1700 contracts to 38,000 contracts. My sense is that the raptor selling should have been recorded in the previous COT report and I remember being surprised when they hadn't sold last week.

The only negative feature in the silver COT report was that the tech funds bought more than 2500 contracts, including the buyback of more than 1900 short contracts. I would imagine that these short positions and then some were added on the price weakness after the cut-off, as that is the rhythm of the market. It certainly doesn't feel good, as new technical fund short positions are only created on lower prices; but there are no better shorts to have in any market than technical fund shorts, as it is certain they will buy back at some point (unlike the commercials who never buy back shorts to the upside in price).

I'd peg JPMorgan's manipulative short position in COMEX silver to have remained unchanged at 13,000 contracts; although I would bet the crooked bank bought more short contracts back on the engineered price takedown on Wednesday and Thursday. Putting it in perspective, this is still a very low silver short position for JPMorgan and the bank is well-positioned to drop its manipulative grip on silver prices; particularly considering its long market corner in COMEX gold.

That this has been a brutal year for precious metals investors is an understatement; this has been the worst year in my memory. But considering the extent of the damage and the reason for it, the time has come to stop focusing on this year's price beating and look instead to what will be a much better future. Once one grasps how prices were rigged lower by JPMorgan and other collusive COMEX commercials for the sole purpose of allowing these crooks to buy; the future bright focus becomes easier. Being at or below the cost of production is a certain recipe for higher prices.

Here's another bonus. In the eating your own cooking department, I had an experience this week that astounded me. This is the third year in a row that I have made a contribution to my wife's retirement account and put all the proceeds into silver (SLV). What astounded me was that this year's contribution (essentially the same as the two prior years) bought almost the total amount of silver ounces bought in the last two years combined; to say nothing of reducing the cost basis by a large amount.

The flip side to this year's price beating is that it enables you to buy a heck of a lot more ounces for the same dollar amount. No doubt silver is a strong hold at current levels and it would be a mistake, in my opinion, to sell. But if you happen to be in the fortunate position of being able to buy more for the long term, I wouldn't hesitate in doing so. JPMorgan's rigging of the silver price wasn't intended to provide you with the gift of opportunity; but gifts sometimes come as unintended consequence.

Since next Wednesday is Christmas, I plan to skip the usual article on that day and instead issue a report next Saturday (as usual) and again on Monday after the next COT report is published. Of course, if something needs saying before then, I will try to do so. The knee is healing and thanks for the best wishes. Merry Christmas and holiday wishes and a better New Year to us all.

Ted Butler

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Silver – $19.40

Gold – $1203

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