

Weekly Review

For the holiday-shortened trading week, gold ended \$10 (0.9%) higher, while silver finished 30 cents (2.1%) higher. As a result of silver's relative outperformance this week, the silver/gold price ratio tightened in a bit to just under 75 to 1, just about smack dab in the middle of a trading range that has extended for more than a year. While it goes without saying that I still find silver grossly undervalued relative to gold, I'd like to make a different point regarding the price ratio.

Along with the daily price action 99% of the time, the remarkable thing about the silver/gold price ratio is how little it has changed over the past year and longer. Moreover, just about every single trading day features a near continuous lockstep move – up or down \square in gold and silver, as if there was some immutable law of nature demanding each trade in unison on a tick-by-tick basis. But there is no such law even though that appears to be the case to everyone watching. Silver and gold are two distinct commodities, both similar and different in many ways; not only in terms of actual production and use, but in the dollar amounts of how much of each exists in the world.

Gold's total above ground supply in all forms (5.5 billion oz) is worth a collective \$6 trillion (\$6,000 billion). Silver's total world bullion inventory of one billion oz (1000 oz bars) comes to less than \$15 billion and even if doubled for coins and smaller bars, is still less than \$30 billion or less than one-half of one percent of what all the gold is worth. Quite literally, in terms of the size of how much of each that exists, silver is no more than a flea compared to gold.

Then why in the world would a commodity with a collective inventory more than 300 times larger than another commodity trade in a price tick-by-tick lockstep manner with the much smaller commodity? If it were possible for each metal to have emotional feelings, I would imagine gold feeling insulted that silver mimicked its price pattern and, perhaps, silver feeling smug thinking that gold followed its lead.

Of course, the only explanation for gold and silver prices moving in lockstep has nothing to do with real world comparisons of actual production, consumption or inventories, since none of those factors has any bearing on either relative or absolute price movements or levels. This is strictly about COMEX paper trading and positioning. How could it be otherwise? Since orchestrated and choreographed COMEX futures positioning solely determines the price movements in gold and silver, that same positioning must determine

movements (or lack thereof) in the silver/gold price ratio.

This may sound simple enough to regular readers who understand how gold and silver prices are set on the COMEX. But without that understanding, I've read some of the darndest interpretations about what changes in the silver/gold price ratio might portend, including big effects on monetary policy or economic activity. Since the individual price of gold and silver is set by COMEX futures contract positioning, the relative price of each must also be set in that same manner. Therefore, anyone reading any economic significance into what the silver/gold price ratio may indicate is missing the basic mechanics of how prices are set.

For my part, I still hold that the price of gold and silver is manipulated and, as a result, so must be the silver/gold price ratio. I also still hold that silver is much more manipulated in price than gold and, since the price ratio reflects silver's undervaluation, that makes silver the much better investment value.

Even though this was a four day work week and that the last two days saw minimal movement, the turnover of metal moved into or taken out from the

COMEX-approved silver warehouses amounted to nearly 3.3 million oz this week. Total COMEX silver inventories grew 1.3 million oz, to 159.6 million oz. There was one truckload (0.6 million oz) brought into the JPMorgan warehouse and that leaves another 3 million oz still yet to be brought in, if JPM's pattern this year of moving the metal it acquired via COMEX futures deliveries into its own warehouse is followed.

So far this month, JPMorgan has stopped (taken) 1360 COMEX silver deliveries and with only 118 open contracts remaining in December, the math suggests it won't hit the full 1500 maximum contract limit. Perhaps JPM picked up the few contracts it appears to be falling short of by an EFP (exchange for physical alternative delivery method) or perhaps the bank finally ran out of money (just kidding) with which to buy silver. In any event, the December delivery month appeared tight and "sticky" the whole month and underscores overall silver tightness, as does the physical silver warehouse movement.

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

The link I just posted depicts the year to date delivery details for all COMEX/NYMEX metals, on a month by month basis. As such, it is somewhat

detailed and may take some time navigating and getting used to. But it is the same link that will support the COMEX delivery situation in gold. (And for what it's worth, if you are so inclined to follow it, please save it before the end of the year since the delivery details prior to this month will be lost when the CME switches over to 2016).

Where JPMorgan has taken roughly a third of all the silver deliveries issued in December, in gold the bank has taken nearly 97% of total COMEX gold issuances, or 1438 out of 1484 deliveries (all in its house trading account for both metals). With just under 600 contracts remaining open in December COMEX gold futures, JPM looks set to stop around 2000 gold contracts for the month, or 200,000 oz. There have been months this year in which a larger number of gold contracts have been issued and stopped by a single entity, including JPMorgan, but none in which a larger percentage of total deliveries were issued or stopped than this month.

For example, when Goldman Sachs stopped 2500 gold delivery contracts in the August delivery period (which took until the last day to be completed), that only amounted to less than 50% of the total gold deliveries issued that month. Therefore, it is somewhat unusual to see JPMorgan take such a high percentage of this month's gold deliveries. To be fair, this could be interpreted as no one

else being interested in taking delivery of physical gold at this time on the COMEX and I mention it for the purpose of objectivity. But, taken with the surrounding circumstances, I'm more inclined to view it differently. What circumstances?

The circumstances of the December gold delivery period seem to suggest an unwillingness (or inability) for shorts to deliver metal, rather than a reluctance on the part of buyers to accept delivery. Usually (whatever the heck that is these days), the biggest deliveries are made at the outset of the month, since a short holder intending to deliver has no economic incentive to wait until the end of the month. That was the case in silver this month, as a customer of JPMorgan issued the lion's share of this month's deliveries early on.

In the case of gold, the standout feature this month has to be the lack of deliveries early on and the continuing slow pace of deliveries. Therefore, the most plausible explanation is that the shorts in December gold are more reluctant to part with metal and that the longs (JPM) are more interested in getting delivery. Combined with a continuing tightening of the inter-month spread differentials, gold looks tight on a physical basis, just as silver does, but not to the same extent of tightness.

On Thursday, metal holdings in the big silver ETF, SLV, fell by 1.5 million oz, bringing the total reduction in silver holdings in the trust to 4.7 million oz over the past two weeks. This is quite counterintuitive, since silver prices have been steady to somewhat higher over this time, with the biggest volume days being on up days and it would be most reasonable to expect metal holdings to be steady or even higher. Remember, the general rule of thumb is for metal to be withdrawn on obvious investor liquidation which occurs on pronounced price declines; and for metal to be deposited (or at least not be removed) on the net buying that typifies steady to increasing prices. So if plain vanilla investor liquidation doesn't appear to be behind the withdrawal of silver from SLV, then what else could it be?

The two most plausible explanations I can come up with is that buyers of shares of SLV immediately converted newly purchased shares into metal to avoid SEC reporting requirements or holders of shares converted shares into metal because the metal was needed more urgently elsewhere. These are certainly not new ideas on my part, but that doesn't make them less plausible. It also points to tightness in physical silver supplies, along with the other signs of tightness I've reviewed to this point.

I'm still amazed that the record sales of Silver Eagles this year from the US Mint (47 million) and for the four prior years is still largely assumed by many to be the result of strong retail investment demand. That assumption is flat-out wrong and gives real meaning to the word assume (making an ass out of u and me). This year and the four years before that have featured miserable retail demand with only a few pockets of demand surges. I don't have any reason to misrepresent retail demand and in more ways than not would prefer that retail demand was as strong as many conclude. But that's not the case, nor has it been and for the life of me I don't understand how so many commentators are missing this.

To be sure, there can be no doubt that the US Mint did produce and sell more than 207 million Silver Eagles over the past five years – the only question is who the heck bought all 207 million oz? Admittedly, it took me a while to figure out this conundrum – record sales in the face of punk retail demand – but it eventually became clear that the only possible (forget plausible) explanation was the presence of a big buyer. And if JPMorgan was not the big buyer (also of coins from the Canadian Mint), then there are two big crooks in silver and not just one. I would remind you that JPMorgan turns up as the biggest factor in silver (and, increasingly, in gold) in every way possible and it would be unnatural and unusual if the bank wasn't the big buyer in Silver Eagles.

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

=bullion

As I indicated on Wednesday, I'll have some commentary on the Commitments of Traders (COT) Report shortly after it is published on Monday, in observance of the Christmas holiday this week (same goes for next week's New Year's holiday delay). But with the reporting week's cutoff on Tuesday, please allow me some guesswork on what Monday's report may indicate.

As you may recall, there was some unusual price activity during the reporting week, including a sharp move up on the Wednesday (Dec 16) of the Fed announcement, only to be followed by a bigger selloff on Thursday and then followed by a decent rally on Friday, the 18th. Two days up and one down would argue for an increase in managed money buying and commercial selling, as does the first two days of this week in which both gold and silver finished above their respective 20 day moving averages. Therefore, the conventional bet would be for a deterioration or an increase in the total commercial net short position in the COT report to be issued Monday.

Offsetting the arguments for a deterioration in the market structure for gold and

silver was the relatively light trading volume on the up days, particularly on Monday and Tuesday. Therefore, I'm prepared for some minor deterioration, say no more than 5000 silver or 10,000 gold contracts sold net by the commercials and hopefully less. Even larger amounts of commercial selling won't alter the still extremely strong bullish market structures in both metals.

In fact, watching the trading action during the reporting week and after the Tuesday cutoff, I came away with the impression that the commercials were doing what they could to keep the managed money technical funds largely intact and remaining heavily on the short side. Despite trading below the 20 day moving average since late October for far more days than above for both gold and silver, I would have expected more signs of managed money buying than I thought I saw actually occur. If there hasn't been heavy managed money buying, as seems suggested by the trading pattern and volume, that could be a big deal.

I can't know the reason why the technical funds haven't bought more silver and gold contracts than I'm guessing, but it could be related to these funds getting tired of being whipsawed and beat at every turn by the commercial riggers. This time, it seems the technical funds have put off buying until more concrete price signal are given (and created by the commercials). But unless they have

changed their technical methodology completely (highly unlikely), the postponement of technical fund buying in no way reduces or eliminates the coming certain buying in any way. All it does is concentrate it into a shorter time frame, making it, whenever it occurs, a more powerful upward price force.

While the managed money technical funds seem to be dilly-dallying about buying as the 20 day moving average gets penetrated, an eventual penetration of the 50 day moving average looms closer every day (accompanied, at least for me, by the soundtrack in *Jaws* when the giant shark was just about to attack). Based upon the inevitable combination of the moving averages becoming lower through the passage of time and the slight rally we've seen off the recent bottoms, the 50 day moving average in silver is only 26 cents above Thursday's closing price and only \$22 above gold's closing price.

I can't say if we march on up through the 50 day moving averages in gold and silver straightaway, or with more stalling and manipulative shucking and jiving by the commercials, but this is as close as we've been to an upside penetration in months and that increases the odds of a penetration occurring sooner rather than later. My main point is that because the technical funds appear to have postponed buying until now, the buying, whenever it comes, must be more condensed and stronger. And I'm still flabbergasted at the potential windfall the

commercials have created for themselves as well as the reciprocal financial jeopardy the technical funds may be in. It's hard to imagine that we may be on the edge of a big move up and the commercials have positioned themselves to record extremes at an average price unchanged from this week's close.

Maybe I'm seeing things that don't exist, but then again maybe it does turn out as I see it. The way I see it is that gold and silver look primed for an upside move of some great significance and, accordingly, we should be as bullishly positioned as is possible. If this turns out not to be the big move, there should be ample warning along the way that JPMorgan is adding to shorts, particularly in silver. Should that occur, we'll deal with it then. For now, however, the best course is to try to envision much higher silver prices than we've seen in quite some time.

Ted Butler

December 26, 2015

Silver - \$14.38 (50 day moving average - \$14.64)

Gold - \$1076 (50 day moving average - \$1098)