Weekly Review

Thanks to a moderately impressive Friday rally on the COMEX (where the price of many metals is set), both gold and silver ended the week higher for the first time in six weeks. Gold finished the week up by $29 (2.7%), while silver ended nearly 50 cents (3.6%) higher. As a result of silver's slight relative outperformance compared to gold, the silver/gold ratio tightened in by a half point to just over 74.5 to 1. In other words, silver is still priced at an insanely cheap price relative to gold, as well as remaining insanely cheap on an absolute basis. The question still remains – how much longer can this pricing insanity last?

Even though daily price gains have been as rare as hens' teeth over the past 5 or 6 weeks, Friday's rally was enough to put both gold and silver at the highest weekly close in four weeks. I'd ask you to reflect on that for a moment, specifically, a one day rally that was significant enough, but far from record breaking, to put gold and silver prices at four week highs. And please keep in mind that on Thursday, both gold and silver traded at new intra-day price lows extended back for five or six years.

Here's what that means to me □ it is unquestionable confirmation of the whole COMEX price manipulation, salami slicing, snookering of the managed money traders by the crooked commercials premise and nothing else. Something caused prices for gold and silver (and platinum, palladium, copper and even crude oil) to move in a relentless stair step manner for nearly six weeks, only to suddenly turn up after it appeared the managed money technical funds finally sold as many futures contracts that they were capable of selling.

As it turns out, this one-day rally in gold and silver was quite unusual in that never have I witnessed more commentators and analysts getting the call right. The clear distinction between those who understood what was going on during the six week price decline and anticipated that a rally was close at hand and those commentators who didn't, had to do with the focus on the COT market structure. Those that embraced the idea that managed money/commercial positioning is responsible for price movement proved to be □in the know,□ while those looking at non-COT factors were, well, out to lunch and clueless.

If you think I'm giving high fives to COT-centric commentators and mocking those not (yet) in the fold; you may be missing my main point. That point is the COT-types have to be more convinced than ever of the validity of the premise and those not convinced until now are much more likely to become convinced about what really moves prices. I'll have more on issue this later, after a quick review of subjects usually covered; but I fully stipulate that not much else matters to gold and silver prices away from COMEX futures contract positioning.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses slowed to "only" 2.3 million oz this week, as total COMEX silver inventories fell to another two-year low of 157.9 million oz, down 1.1 million oz from last week. Once again, we saw a mid-week reduction of 600,000 oz in the JPMorgan COMEX silver warehouse, still a somewhat unusual occurrence, particularly as JPM has emerged as the leading silver stopper this month.

While I'm more concerned with the unprecedented and unique to silver physical inventory turnover than I am to changes in the total level of inventories, I would note that COMEX total silver inventories are down by more than 25 million oz since late-June. I don't think this represents evidence that we are in a genuine silver deficit in which more silver is being consumed than is being produced (as was the case between 1941 to 2006), but the COMEX inventory decline is certainly not evidence of a glut of actual silver. I would think the most rational explanation for the recent drop in total COMEX silver inventories is that the metal was desired or needed to be held elsewhere by whoever owned it. On its face, that is also not suggestive of a glut.

After the first week of the big December COMEX delivery period for gold and silver, the general conclusion I reach is one of overall physical tightness (although I may be guilty of being predisposed to that view). In gold, there are around 2700 futures contracts open in December down from nearly 8000 a week ago, but there have been only 91 deliveries tendered so far. Interestingly, JPMorgan has stopped (taken) 65 of the total gold deliveries, or 71%, in its in-house trading account. Based upon how COMEX deliveries are apportioned, it would be reasonable to assume JPMorgan holds the lion's share of the December gold contracts still remaining open.

I don't agree with those that suggest that any of this will lead to a delivery default of some kind, for the simple reason that I don't think it would be in JPM's self-interest. Let's face it, JPMorgan controls the gold and silver price (that's why I label them as crooks and manipulators); but for the bank to intentionally create a COMEX delivery default (which it could do in a heartbeat) would hurt the bank more than it would any of us. Can and would JPM squeeze the price higher if it was to their advantage? Heck yes; but keeping the casino open to fleece the unsuspecting managed money traders would seem more profitable to my way of thinking.

There are only 400 or so open contracts remaining in December COMEX silver, after the 3513 deliveries in the first week. JPMorgan has taken 1230 of total contracts delivered or redelivered in its house account and whether it ends up with the full permissible limit of 1500 contracts by the end of the month looks nip and tuck, but an indication that the bank still wants to acquire physical silver (so should we all). Even though there are very few silver contracts remaining open for delivery this month, it still adds up to a tight wholesale market to me.

There was a big one-day withdrawal mid-week from the big gold ETF, GLD, of 500,000 oz; adding to the total of 1.5 million oz redeemed from the trust over the past month. While somewhat surprised at the total amount of gold redeemed, it is certainly in keeping with the premise of plain vanilla investor liquidation and not any deep conspiracy theory (aside from the ongoing manipulation). After all, when investment assets trade to price lows extending back years, meaning that one's investment is continuously worth less, the usual collective investor response is to sell. But based upon yesterday's sharp and, hopefully, continuing rally, we should see a cessation to the reductions in the holdings of GLD and see increases dead ahead.

But what may be normal investor reaction in GLD wouldn't appear to be the case in its counterpart, the big silver ETF, SLV. There was an early week deposit of more than a million oz in the metal holdings of SLV, which I would attribute to short covering; but yesterday's 2.3 million oz deposit of metal into the trust looks related to a pickup in trading volume on Thursday after silver looked like it was resisting establishing further new price lows. Volume on Thursday was 8.2 million shares which was the highest daily trading volume since the recent price top on Oct 28. Usually, deposits and withdrawals of metal take a bit longer in SLV, but that appears to be the most plausible explanation for yesterday's 2.3 million oz deposit.

Also yesterday, trading volume in SLV exploded to more than 14.7 million shares or nearly three times average daily volume, on the rally. The way GLD and SLV function is that on days when there is obviously net investor buying of new shares, the corresponding amount of actual metal must be deposited shortly into the trusts. The only way to avoid depositing the actual metal is for sellers to short shares to avoid having to deposit metal, a perversion of what the prospectuses outline. Therefore, just like I just described in GLD, I would now expect additional silver metal deposits into SLV and if those deposits don't occur over the next few business days, the most reasonable explanation is that the crooks (JPM) is back to shorting shares of SLV.

The reason this is so important is that if we are as tight in the wholesale silver market as the preponderance of the evidence that I follow indicates, higher silver and gold prices would represent additional physical demand for metal as and when investors look to buy the two biggest ETFs for silver and gold. And, as I have long contended, this additional physical metal demand could push us into my long-awaited physical silver shortage. After all, SLV is not called the Death Star for nothing (hat tip Carl Loeb).

The changes in this week's Commitment of Traders (COT) and monthly Bank Participation Reports were not particularly significant, but rather confirming the strongly bullish market structure I (and many others) have been reporting on these past few weeks. As always, there were some tidbits of interest in the details.

In COMEX gold futures, the commercials continued to reduce their total net short position, this week by 9100 contracts to just 2900 contracts. This is the lowest commercial headline number in 15 years or when gold traded around $300. Since Oct 27, the total commercial net short position is down by 162,000 contracts; the equivalent of 16.2 million gold oz and the largest reduction in the shortest time that I can recall.

If you would allow me to speculate a bit, given the strong managed money buying and commercial selling that undoubtedly occurred on yesterday's high trading volume rally, this week's record low commercial headline number will likely not be exceeded for a very long time. No, that doesn't mean we can't rally much further in price, just that I doubt we will see as low a total commercial net short position in gold for quite some time.

By commercial category in gold, the 4 big shorts bought back 3900 short contracts, reducing their concentrated net short position to levels almost as low (and bullish) as the multi-year record set a couple of weeks ago. In terms of higher prices to come, a low concentrated short position is just what the doctor ordered. The big 5 thru 8 shorts bought back 500 short contracts and like the big 4 short position, sits real close to multi-year lows. Finally, the raptors (the smaller commercials apart from the big 8) added 4700 new longs in increasing their net long position to 114,000 contracts, not quite a record but very bullish just the same.

On the sell side of gold, it sure looks like the managed money traders are sold out, as these traders established a new record net short position, but not by amounts equaling the net commercial buying. The managed money traders did sell 3900 contracts on a net basis, including the liquidation of 1077 longs and the selling of 2825 additional short contracts. The long liquidation brought us a hair under the 90,000 contract non-technical fund core long position I wrote about recently, but at 89,982 contracts after new five year price lows, I doubt we will see less than 90,000 contracts held long by managed money traders anytime soon.

In COMEX silver futures, the total commercial net short position actually increased, but by a modest 1100 contracts to 29,800 contracts. Despite this week's slight increase, since Oct 27, the total commercial net short position is down by 40,000 contracts, the equivalent of 200 million oz. In simple terms, the commercials positioned themselves better for an upside move by 200 million oz over the past 5 or 6 weeks.

By commercial category in silver, the big 4 (read JPMorgan) bought back 1000 short contracts and the big 5 thru 8 shorts bought back 1300 short contracts, which means the raptors sold out 3400 long contracts. I may be oversimplifying what took place due to the large deliveries on first notice day for the December contract, but you can drill down to the details to the point of madness.

Thanks to yesterday's release of the companion monthly Bank Participation Report, I was able to reconcile with greater clarity the net short position of JPMorgan, which was very close to what I had been reporting. As of Tuesday, JPM looks to be net short between 14,000 and 15,000 contracts of COMEX silver, down by close to 10,000 contracts (50 million oz) from the previous Bank Participant and COT reports of Nov 3. I am convinced the price decline over the past month or so had its root cause in JPMorgan rigging prices lower to buy back these shorts. And, as an aside, even though I have studied the Bank Participation Report for many years (it was the smoking gun that prompted the third CFTC silver investigation in 2008), about the only thing I find it useful for nowadays is pinpointing the net silver short position of the crooks at JPM.

The managed money traders stood pat on the short side in adding only 70 new shorts and the managed money longs actually added 1652 new longs, thereby increasing the core non-technical fund long position to more than 54,000 contracts. Again, my basis for the core long position in silver and gold by managed money traders revolves around the improbability of technical fund buying as prices sink ever lower and if it isn't technically motivated buying it's got to be something else. Something else is the conclusion that silver (and gold) is undervalued and therefore unlikely to be sold on yet lower prices.

A Paradigm Shift

If there's one term that I have come to loathe over the past decade or so, it is the overuse and misapplication of the term paradigm shift. Not that the term itself, first coined by the American physicist Thomas Kuhn in the late 1700's, but the over use of the term around the turn of this century. Paradigm shift came to be assigned to any new technology or trend that came along. No doubt we have seen some really big shifts in how the world has evolved, but just like a "perfect storm," the term can and has been overused.

That said, let me join in on the overuse and employ the term to describe something that has been truly earth shaking in how markets, particularly gold and silver, have come to be priced. In the old days, defined as more than 10 or 20 years ago and longer, gold and silver prices moved higher or lower based upon the interactions of many thousands and tens of thousands of individual investors. This was a time when gold and silver prices rose when the mass of investors who dealt in these markets bought on a collective basis and declined when these investors sold collectively. No longer is that the case.

I know that there must be a buyer for every seller and vice versa and that has been true throughout history; but I'm talking about something else. I'm talking about the mechanics of the market and how there's been a shift of epic proportions in those market mechanics. In the old days, changing world events and the public's reaction to the news was largely responsible for why gold and silver prices rose and fell. As I just indicated, no longer is that the case.

If, for example, a terrible terrorist act occurred, or a Russian plane was shot out of the sky, or China imported most of or more than the world's gold mine production, or if the US Mint sold for 5 years running more Silver Eagles than ever in history, or if JPMorgan bought more than 400 million oz of silver, in the old days that would result in a price rise. Since that's clearly no longer the case, it is appropriate to say that there has been a paradigm shift in the mechanics of what moves gold and silver prices.

It's not that human logic and reason and collective investor behavior have changed, because people are still people. What has changed is the mechanics of the market. No longer does it matter how investors behave collectively, as that has little to do with price change; all that matters are the mechanics of the market. You know where I'm going with this □ nothing has mattered to the price of gold and silver for many years than what a few managed money and commercial traders are doing on the COMEX.

I don't say that can or will continue indefinitely and I, for one, expect it to change and change quickly, particularly in silver; but I am saying the market mechanics of COMEX positioning has represented a paradigm shift in gold and silver (and other commodity) pricing. And I don't think I'm exaggerating at all when I say no other factors have exerted any influence on pricing, to the point of completely perplexing anyone paying attention to gold or silver but not being aware of the COMEX mechanics. For just one example, it has had absolutely no impact on the price of gold whatsoever, but every day I read anew how much gold was withdrawn from the Shanghai Gold Exchange and how much metal is flowing from the West to the East.

I'm not doubting that the withdrawals or the flow didn't occur or that someday these withdrawals won't impact the price of gold; I'm just stating that up until this moment, these withdrawals and the flow have had zero impact on price. After all, record withdrawals (said to represent Chinese demand) couldn't have had much impact on price, as the price of gold had slipped to multi-year lows just as the withdrawals have reached an apex.

In no way am I singling out this one factor, as it's just one example of what I'm talking about. Even I have been guilty of this in my discussions of COMEX silver warehouse movements and sales of Silver Eagles; as clearly unprecedented COMEX silver warehouse movements and record sales of Silver Eagles have done absolutely nothing for the price of silver. But at least I have always provided the explanation for why silver prices weren't responding to circumstances that should have sent prices higher.

The explanation is that the paradigm shift is the ongoing COMEX manipulation. When it came to be that a handful of large managed money technical funds and a handful of crooked commercials trading in extraordinarily massive paper contracts came to control the price of gold and silver, every other factor that formerly had a big impact on price was made irrelevant. That's why it's silly to expect prices to react to the news as in the old days. In these new days, the big traders don't care about the news, just whether prices have penetrated moving averages.

The good news is that many have come to see the paradigm shift and that is evident in the continuing attention being paid to the COT market structure analysis. If someone is not looking at the COT market structure to explain prices, that someone is missing the boat and doing a disservice to his or her readers if that person comments on the metals publicly. And I say this in the spirit of constructiveness in that the sooner everyone recognizes that the paradigm shift is nothing more than the ongoing COMEX price manipulation, the better off the precious metals world will be.

So, was yesterday's price pop a one-hit wonder or the start of something serious to the upside? No doubt there was managed money buying and commercial selling yesterday, but it's hard for me to imagine how several weeks of the most orchestrated and choreographed price rigging by the commercials in history could be neutralized in one trading day. Having thrown caution to the wind in buying silver, it's going to take a heck of lot more commercial selling to