

Weekly Review

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Against a backdrop normally bullish for precious metals (foreign currency worries and stock market declines), prices instead fell fairly hard, particularly in silver. Gold fell for the first time in six weeks, off \$24 (1.9%), while silver dropped by 75 cents (3.8%). As a result of silver's relative weakness, the silver/gold ratio widened out (again) by a full point to 65 to 1. This is the cheapest silver has been to gold in six months, although the ratio has not taken out the extremes of the past year and a half (yet). Maybe not in the short term, but the underlying fundamentals still point to silver vastly outperforming gold in the long term.

Certainly, I am aware of no supply/demand fundamentals that explain the price performance of either silver or gold this week. Instead, there is clear and compelling evidence of the real cause for the price weakness — large trader positioning on the COMEX — in this week's COT report. And no, you haven't been imagining things; silver has been especially hard hit recently. This is also explained in the COT report and, as always, the heavy hand of JPMorgan can be seen just about everywhere in gold and silver. Let me run through the weekly format first.

Turnover, or movement of metal into and out from the COMEX-approved silver warehouses picked up to around 4 million oz total in and out, while total inventories climbed by 900,000 oz to 179.4 million oz. This is another new 16-year high, although I should point out that total COMEX silver inventories are still 100 million oz below the 280 million oz mark of the mid 1990's. I still expect silver inventories to climb and continue to believe the movement is more telling. But in any regard, at the present neither the level of inventories nor the movement has much to do with pricing; large trader positioning in COMEX futures contracts sets the price of silver (and gold).

Unless updated Monday, final sales from the US Mint indicate almost 4.8 million Silver Eagles were sold for the month, compared to almost 92 thousand oz of Gold Eagles. While historically healthy, in that some full years of Silver Eagle sales didn't match this month's sales, the sales fell short of more recent Januarys. I don't sense that retail demand is strong, but I still do sense the Mint may not be producing all the Silver Eagles it can sell. I also still continue to be amazed that the dollar flow into Silver and Gold Eagles is close to even. This reflects extraordinary relative demand for silver in this apple vs. apple comparison, despite the extreme relative price weakness orchestrated on the COMEX.

After the first two days of deliveries in the big February contract in COMEX gold futures, only 59 contracts have been delivered against versus an estimated

5900 remaining February contracts still open. The big gold futures long holder, JPMorgan, took 11 of those contracts on the first delivery day, but none on day two, perhaps suggesting that JPM has (or will) roll over its remaining Feb contracts and not press for delivery, as it did in August and December (when JPM took more than 9000 deliveries combined). There is no way of handicapping what will transpire in the Feb gold delivery, but I'm still convinced that JPMorgan has no interest in squeezing the gold shorts in a forceful manner and causing price disruptions. But I am just as convinced that JPMorgan could squeeze the gold shorts should it desire. All that said, the resolution of the February delivery period will be of interest.

This gold delivery circumstance, along with other observations I'll get to, highlights the unnatural dominance that JPMorgan holds in gold and silver. Quite literally, what JPMorgan does or doesn't do determines the price of gold and silver. It's easy to lose track of the big picture when one focuses on all the details. But when you step back a bit, JPMorgan is dominant in just about every detail.

The changes in this week's Commitments of Traders Report (COT) fully explained the price action of the reporting week ended Tuesday, Jan 28. During the reporting week, gold rallied by as much as \$40, touching multi-month price highs and decisively penetrating the 50 day moving average. This was no big surprise as the COT market structure for gold has been bullish for months. Also

expected was that the gold price jump was driven by technical fund buying.

In contrast, the price action in silver during the reporting week was punk; no new monthly highs were established, the 50 day moving average was not decisively penetrated and prices finished near recent lows. Such price action would and did indicate that the technical funds were sellers in silver, the opposite of their behavior in gold. The only question is if the technical funds are operating in a free market or are buying and selling at price signals arranged by the commercials and JPMorgan. The answer only comes in considering all the facts.

In COMEX gold, the total commercial net short position increased by a hefty 18,900 contracts, to 65,000 contracts. This is the largest total commercial net short position since Nov 11, but a year ago the commercials were short triple this total amount (at \$1650 gold). Therefore, it would still appear the gold market structure is not bearish on an historical basis. Please take a minute to consider that 18,900 contracts are equal to 1.89 million oz of gold and it was the ownership change of this gold equivalent which caused prices to rise in the reporting week.

By commercial category, it was a mixed bag in gold. Despite the big commercial total increase, the 4 biggest shorts actually bought back a thousand short

contracts, while the big 5 thru 8 largest shorts added almost 8000 new short contracts. The smaller commercials (the raptors) sold out almost 12,000 long contracts on the price jump.

On the buy side in gold, it was almost exclusively a technical fund affair, as these traders (in the managed money category of the disaggregated report) bought 17,000 contracts; 5000 in new longs and 12,000 contracts of short covering. As I mentioned last week, I would have expected more of a price jump with that amount of technical fund buying.

Most interesting was that the biggest long, JPMorgan, didn't sell at all and actually bought an additional 1000 contracts, pushing the bank's long market corner in COMEX gold futures to 62,000 contracts, or 19.5% of the total net open interest (minus spreads).

In COMEX silver, the total commercial net short position decreased by 2900 contracts, to 21,000 contracts. There are not many weeks where the total commercial net short positions in COMEX gold and silver move so markedly in the opposite direction; but then again, there are not many weeks where the direction of price is so different either. Under the hood, there were some surprises by category.

One surprise was that the raptors (the smaller commercials apart from the 8 largest traders) accounted for all the commercial buying and then some. The raptors added 4200 new long contracts, increasing their net long position to 40,300 contracts. This is the largest raptor net long position since last July (when silver first declined below \$20).

On the buy side, it was all the technical funds in silver, as these funds sold a total of 5800 contracts or double the net commercial total change for the week. Included in the technical fund sales were almost 3400 new short contracts, which will serve as bullish fuel to the upside when JPMorgan allows the price of silver to turn up.

A disturbing aspect to the new silver COT report was that JPMorgan does not appear to be signaling a turn up in silver prices just yet, as the bank added a thousand contracts to its short position. In fact, JPMorgan appeared to be the only commercial short seller in silver for the reporting week, something that happens with disturbing regularity, but not usually as silver prices decline. When you think about it, nothing could be more manipulative. At 17,000 contracts net short, JPMorgan holds a short corner in COMEX silver futures of 14.4% on a net basis.

With JPMorgan having cornered the COMEX gold futures market to the long side and simultaneously holding a short market corner in silver, there should be little surprise in how prices moved during the reporting week; strong in gold, weak in silver. I don't deny that the raptors have a strong influence on price and in maneuvering the technical funds to buy and sell, but when you hold a controlling market share (as JPMorgan does), you basically control the market.

I don't want to get into short term predictions, but the pronounced relative strength in gold and weakness in silver seems particularly deliberate to me. The important technical levels in gold are now over \$1275 (where technical fund buying will accelerate as new highs are made) and below \$1235 (the 50 day moving average and below which would invite technical fund selling). Between these two levels exists a sort of no man's price land for the technical funds. Unless past patterns suddenly change, the penetration of either level should lead to some further follow thru. After all, this positioning is the prime influence on price.

In silver, we are already below all the important moving averages, so the only thing that will generate additional technical fund selling and short selling are new price lows, aka, "slicing the salami." I have this feeling that the commercials may use gold price weakness in the short term to induce price weakness in silver; even though silver prices are already dirt cheap and lower prices in the short term should not last long should they appear. Of course, I

only get these feelings when I think like a criminal (or a JPMorgan strategist).

If there is one theme that I've tried to advance over the recent past, it is that JPMorgan is the prime manipulator of gold and silver prices. This can be seen in just about every data series available, including exchange and government statistics. The trick to seeing is not to look too close. I think many observers look too deeply into the various public statistics and sometimes end up missing the obvious.

I'd like to raise a new issue today pointing to JPMorgan's criminal control of gold and silver prices. I make a big deal over JPMorgan's dominant and controlling market shares in COMEX gold and silver for the obvious reason that a 15%, 20% or 25% market share of any regulated futures market by any one entity constitutes manipulation in and of itself. This can be verified by the proposal from the CFTC to limit positions to no more than 3% to 5% of total open interest. Away from the COMEX, the indications are that JPMorgan holds an even larger concentration and market share in OTC derivatives.

Recently, I've read a number of commentaries that reference the quarterly derivatives report from the Office of the Comptroller of the Currency (OCC). It's always good to cite reliable source data and this report deserves to be referenced. The OCC is part of the US Treasury Department and I have studied

this derivatives report for many years. I don't usually reference it in what I write, as the information contained is not as detailed as the COT or Bank Participation Reports, but I have never felt the data to be wrong. It just doesn't give net positions, as can be deduced in CFTC reports. Also the OCC report is somewhat dated by the time it is released. The current report is as of the end of September (and some complain about the COT report having a three day delay).

Basically, the OCC derivatives report measures the level of OTC (over the counter) derivatives held by US commercial banks for the purpose of measuring potential risk to the financial system. I would point out that one of causes of the great financial crisis of 5 or 6 years ago is said to be the OTC derivatives held by AIG that went bad and avoided detection until it was too late because AIG didn't report to the OCC (since it wasn't a commercial bank). In any event, the recent commentaries caused me to take a new look at the OCC report; only this time I stood back a bit to see if I could come up with a new perspective on data that I was somewhat familiar with already.

The OCC report appears somewhat daunting in that is many pages long and contains more charts and graphs and tables than you could shake a stick at. But don't let that deter you, as all the data you really need is always in table 9 which appears near the end of each report. That's the table showing gold and other precious metals derivatives holdings of the US banks. (Other precious

metals include silver, platinum and palladium, although the report doesn't break down how much of each metal is represented in the statistics).

<http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/derivatives-quarterly-report.html>

The thing that jumped out at me this time is something I overlooked in the past. What jumped out at me was the percent of market share held by JPMorgan in gold and other precious metals derivatives. JPMorgan holds the largest share of OTC derivatives and has since I've looked at this report (it goes back 18 years). And JPM has held the largest share of gold derivatives, even before taking over Bear Stearns in early 2008. But prior to the Bear Stearns takeover, JPMorgan wasn't the largest holder of other precious metals derivatives (HSBC was).

But it is the percentage of what JPMorgan holds in gold and other precious metal derivatives that is so shocking. Here I am (legitimately) accusing the bank of manipulation for holding market corners of 15% to 25% of the COMEX, all while JPMorgan is holding 60% of the entire US commercial bank derivatives position in gold and other precious metals derivatives. Of total derivatives of all types (interest rate, currency, etc.) JPMorgan holds about a 30% share of the US bank total position; so JPM's gold and precious metals market share is double its overall share.

Further, JPMorgan has massively increased its market share in other precious metals derivatives since it acquired Bear Stearns; going from a 38% share in the fourth quarter of 2007 to a 60% share currently. This is in addition to JPMorgan holding the dominant market shares in COMEX gold and silver. Some will be quick to say it's all an arbitrage and JPMorgan has merely offset one dominant market share in one market with another dominant market share elsewhere. To that I say poppycock (actually, I had another word in mind).

When does the market concentration of any one entity rise to a level that is unquestionably manipulative to that market? We know it can't rise higher than 100%; so is there no number less than 100% that should set off alarm? I don't know what it is that the OCC would find alarming since they are reporting JPMorgan has a 60% share of the gold and other precious metals OTC derivatives market by US banks. If a 60% market share doesn't suggest systemic risk, what level does?

Here are some questions I keep asking myself that I can't answer; so I am open to and soliciting suggestions. What legitimate explanation could justify JPMorgan holding a 60% market share in OTC gold and silver derivatives among all US banks? Is JPMorgan the only bank qualified to deal in these securities? What would gold and silver pricing look like if JPMorgan didn't have a 60% market share? What percentage of market share would the OCC find troublesome or why are they bothering to report this? Please don't tell me that

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JPMorgan is crooked and are out to make profits and the government is giving them a pass, as I already have figured that out. I was more asking for a legitimate explanation, which I am convinced does not exist.

At some point, I believe the increasingly obvious gold and silver price manipulation by JPMorgan is going to reach a head, seeing how it is documented clearly in US government publications. No one can predict exactly when that may be, but the continued silence by JPMorgan and the regulators to serious allegations of excessive market share only adds to the pressure. Remember, preventing dominant market shares are the prime purpose of US antitrust and commodity law. JPMorgan is breaking that law and that is confirmed on a continuous basis.

Ted Butler

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Silver - \$19.15

Gold - \$1245