February 16, 2013 – Weekly Review

Weekly Review

It was a rotten price week for precious metals, as the price of gold fell $58 (3.5%) and silver fell $1.65 (5.2%). As a result of silver's larger percentage move to the downside, the silver/gold ratio widened out a full point to 54 to1, still within the full year trading range. If you told me last week that gold would fall $58 and trade below $1600 on Friday, I would have assumed a larger relative decline for silver than witnessed. That's just an immediate observation and I don't know if that portends an immediate end to the price downdraft in precious metals or if more pain will have to be endured temporarily. Longer term, I can't help but view a switch to silver from gold as perhaps the trade of the decade, although I will reserve detailed discussion to a later date.

What I do know, along with many of you, is that the knockout price punch delivered to gold and silver this week was indeed administered by a powerful force with the most deadly of intent. Your eyes did not deceive you in viewing a daily deliberate beat down of the price of gold and silver with a determination not seen for a while by me. Fortunately, we don't have to rely on what we see in the daily price action alone, as there is a reliable statistical record from the CFTC and elsewhere which identifies who's delivering the KO price punch and who is the recipient.

We know, for instance, that the price prize fight this week was held on the COMEX and not in any other market, including the host physical market (which is against US commodity law). We also know that a small group of commercials are always on the buy side on big price smashes and speculators, mostly in the form of technical funds, are always the sellers. Since this is a continuous process and the commercials usually (although not always) come out ahead by buying low and selling high and by dictating what the tech funds do, the commercials must be considered the KO puncher and the tech funds the Â?puncheeÂ? or palooka. Certainly, I know that there is no other more plausible explanation for this week's beat down than it being deliberate, as the COT review should show in a moment.

Knowing the price smash this week was deliberate is only part of the story; more important is what it tells us about the future. The good news is that the deliberate price smash appears to have fulfilled its objective, namely, to allow the commercials to buy great quantities of COMEX gold and silver contracts. When the commercials buy all they can shake from the tree, a price bottom is formed. The bad news is the blatant nature of the deliberate price smash, which confirms that a market manipulation exists for which a specific federal agency was expressly created to prevent. In a moment, I'll try to use data from the CFTC to show the manipulation, but in a better world the agency would be using their own data to end the price distortion.

Conditions in the wholesale silver market still look tight to me. Turnover within the silver warehouses approved by the COMEX continued active, although off the frenzied pace of the past few weeks. Total inventories rose 1.8 million oz, to more than 160.2 million oz, another post-1993 record. Despite the price weakness, close to a million silver oz were added to SLV this week, in contrast to outflows in the big gold ETF, GLD. This isolates and confirms that COMEX paper trading was responsible for the recent silver price weakness. Sales of Silver Eagles continued brisk, but the US Mint may have caught up with demand. The next few weeks should tell us for sure.

The changes in this week's Commitment of Traders report were better than I expected, but that may be due to me not thinking about it much, as my attention was riveted to the daily deliberate price beatings. Still, gold declined by more than $40 during the reporting week ended Tuesday, while silver was down as much as a full dollar, setting the stage for large commercial buying, as this is the essence of the ongoing manipulation.

In COMEX gold, the total commercial net short position decreased by 14,000 contracts, to 160,700 contracts. This is the lowest commercial net short position since last August and it is not a coincidence that the price of gold is also now back to August levels. In fact, I would contend this is perfectly normal according to the commercial manipulative script. We are now down almost 100,000 net commercial short gold contracts from the late-November high readings and $150 lower in price. The 100,000 commercial contract reduction, the equivalent of 10 million gold oz and $17 billion in nominal amount terms, is the incontrovertible cause of the price decline. It's hard to see at first (explaining why the scam has persisted for so long), but when you grasp the significance of the amount of paper contracts involved and the complete lack of any other plausible explanation, the price rigging to the downside to accommodate buying by the COMEX commercials stands out as the predominant price factor.

The total commercial gold net short reduction was a case of broad cooperation as all three categories divvyed up buying what the technical funds sold. The big 4 bought back 6,000 short contracts, as did the raptors, with the 5 thru 8 largest commercials buying back the remaining 2000 short contracts. At 99,200 contracts, the net short position of the big 4 is also the lowest since August and there are not many weeks in the past few years that the big 4 in gold has been net short less than this amount. Likewise, the raptors, at 5000 contracts net short, are on the low side of what they've carried in the past. By any objective measurement the gold COT market structure is configured strongly bullishly in the latest COT report. Throw in notable technical fund new short selling and the stuff of important price bottoms is at hand.

Most importantly, there looks to have been an even greater improvement (reduction in the total net commercial short position) in the three trading days since the cut-off on Tuesday in COMEX gold (and silver). After all, gold declined by more than $50 in those three days and silver by $1.30, with appropriate salami-slicing and moving average penetration and on decent enough volume, to result in further significant reductions in the commercial net short positions of each market. I would estimate that thru Friday, the commercials doubled what they covered in the latest COT, but we won't know that until next Friday.

In silver, the total commercial net short position decreased by 5100 contracts, to 46,800 contracts. By commercial category, the big 4 (read JPMorgan) bought back 1700 contracts, reducing their net short position to 51,300 contracts. The raptors bought 3200 new longs, increasing their net long position to 15,400 contracts, at the upper end of the most they've held net long since August. (The 5 thru 8 bought back 200 short contracts). Certainly, the raptors are providing strong buying competition to the big 4 on engineered price sell-offs, as expected and as continues to be expected by me. In fact, I think it may be more the raptors behind the recent HFT price takedowns and not JPMorgan. But this is a small distinction in that JPMorgan is guilty of manipulation by virtue of their concentrated short position. That's because the raptors couldn't rig the price of silver this effectively without JPM's presence.

A 5100 contract weekly decrease (25.5 million oz) is a significant reduction, as would be my estimate of double that amount over the last three days, but is very different from what we see in gold on historical relative COT comparisons. Whereas gold's COT structure in undeniably bullish on historical measurements, silver is a long way from what would be considered flat-out bullish (as is the case in gold). There is a single factor underlying this difference Â? JPMorgan.

I would calculate JPMorgan's concentrated net short position in COMEX silver futures to be 33,500 contracts, down 1500 contracts during the reporting week. After deducting the 51,208 spread contracts indicated in this week's disaggregated COT report from total open interest, JPMorgan is still 33% of the entire COMEX short side. At this stage of the deliberate silver price takedown of more than $5 from the November peak, JPMorgan should have covered many more short silver contracts than they covered thru the cut-off of the report. Even assuming JPMorgan participated robustly in the commercial buying of the last three days, their remaining net short position is still much larger than it Â?shouldÂ? be at this point. To quantify it, it looks like JPMorgan is still 15,000 contracts or more net short than they were at important silver price bottoms in December 2011 and through last summer.

More to the point is that JPMorgan's still-elevated silver short position is the sole difference between the relative comparisons of the gold and silver COT market structures. It is the sore thumb that stands out. Last spring and summer, when price lows in gold and silver were seen at $1550 and $27 or less respectively, the configuration in gold and silver COT structures are remarkably similar in almost every important category compared to the current COT setup, except one. The one category that stands out is the difference between what JPMorgan held short in silver then versus now.

Back in the summer of 2012 and in December 2011, there was a strong feeling among many that JPMorgan might be able to completely eliminate its short position (then between 12 to 14,000 contracts) on lower prices. Instead, we rallied and on both occasions JPMorgan added aggressively to its concentrated short position. Today, JPMorgan's short silver position is at least double the former low levels (if they reduced it as much as I think in the past three days). That's a radically different setup, so much so that I would label it as the key factor in silver and gold at this point. Certainly, I hope everyone realizes that what I am saying is that the silver manipulation is more intense at this point, because of JPMorgan, than it ever was. That more observers than ever seem to see this (except for the see, hear and speak no evil monkeys at the CFTC, CME and JPM) is important beyond belief. I admit to still believing that JPMorgan is stuck in its massive silver short position, while also admitting that this is very much a minority opinion and that this makes JPM the prime danger to prices in both directions.

As to the immediate price prospects as a result of the likely COT changes thru yesterday, gold is at bullish extremes not seen since last spring. Silver, with the notable exception of JPMorgan, is also bullishly configured like gold, but less so. Considering what is going on in the respective physical worlds of gold and silver, and the extent to which silver is clearly manipulated more, silver is still every bit as bullish as gold and more so in the full picture. Does this mean we can't go lower still in price in the short run? Of course, I can't rule that out. Does this mean I'm a short-term price prediction weenie looking to cover my butt no matter what prices do? I don't think so. I just don't know how desperate and forceful JPMorgan and the collusive commercials will be in the short term, if they haven't already reached the point of maximum inducement of technical selling. Besides, a weenie doesn't indentify JPMorgan as a crook incessantly and send it to them. The truth is that Friday's high volume price decline, accompanied by a price penetration below two very round numbers ($1600 and $30), had all the makings of a final clean out. And let me again emphasize the entry of technical funds to the short side of gold and silver.

In the parlance of horse shoes or hand grenades, this certainly acts and feels like an important price bottom if coming close counts. One of the consistencies and dilemmas of COT analysis is that the lower price goes due to deliberate rigging and commercial short covering, the more bullish the structure gets. That does not eliminate the price pain felt by innocent investors, but there is gain in that pain in that prices will move higher when the commercials are done buying. I didn't predict the big declines this week but I was as prepared for them as was possible. I hope the same goes for you.

Looking back at the price carnage of the week, I can't help but be encouraged at the reported and expected improvements in the COT structures, the single most important near term price influence. The funny thing about the COTs is they explain on a short term basis and predict on a longer term basis. What that means to me is to hold on to long term silver positions tightly and continue to throw money out the window on call options. Eventually, this looks to get resolved to the upside and there is nothing I know of that precludes the upside to be quite exciting, particularly in silver.

Ted Butler

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Silver – $29.80

Gold – $1610

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