February 20, 2016 – Weekly Review

Weekly Review

After four consecutive weekly gains, gold and silver finished a volatile price week lower; gold by $12 (1.0%) and silver down by 43 cents (2.7%). As a result of silver's continued relative underperformance, the silver/gold price ratio widened out to just over 80 to 1, the highest the ratio has been and the most undervalued silver has been to gold since late 2008 (when silver's price fell below $9).

While it wouldn't surprise me if silver continued to underperform gold in the short term, given their respective market structures on the COMEX, the breaking of a seven year price barrier requires some reflection. Certainly, 80 to 1 is an extreme level for silver to trade at a discount to gold, but neither is it unprecedented Â? having hit this level on more than several times over the past twenty years. Each time silver traded at a ratio of 80 to 1 to gold or higher, it never went much higher and always reverted to much less of discount by some wide margin. In other words and on the historical record alone, switching from gold to silver when the ratio hit 80 to 1 or higher, eventually provided a much higher investment return than not switching.

As compelling as the historical record may be, it is not just silver's historic undervaluation that seems so extreme; it is the fact that silver should no more be one-eightieth the price of gold at this time than I should take on ten new wives. Given all the data that can be known, silver should be much higher in price and much higher in price relative to gold. What data? How about starting with the fact there is much less silver in the world than there is gold and the little silver that does exist will someday be fought over by investors and industrial users alike, something that can't occur with gold. And we could finish by noting that only ten percent of all the silver produced in the world annually is Â?leftoverÂ? and available to investors and would be industrial users seeking to build working inventories in a shortage.

My point is that while the history of the silver/gold price ratio paints silver as extremely undervalued relative to gold, the actual facts surrounding each metal indicate the price ratio has, effectively, lost its mind. I don't think there has ever been a time in history when silver was as rare compared to gold than now and the current price ratio has mispriced reality. To have the price ratio indicate otherwise is crazy. Or maybe, I'm crazy for suggesting otherwise. Come to think of it, it's probably one or the other Â? either the current silver/gold price ratio is crazy or I'm nuts.

I think the answer revolves around what is setting the price of silver and, therefore, the silver/gold price ratio. There is absolutely no evidence suggesting that investors are selling silver to buy gold and even if silver investors were selling, the dollar amounts involved wouldn't add ten cents to the price of an ounce of gold. That's because the dollar value of total investment silver in the world runs to a very few tens of billions of dollars, while the value of all the gold in the world is measured in the trillions of dollars ($7 trillion).

The price of silver and the silver/gold price ratio is set by something other than actual metal realities. The price of silver is set by paper derivatives trading on the COMEX. This continue to explain why silver is so cheap on its own or relative to gold and why I don't think I'm crazy. I'll get into the particulars momentarily.

I'll sum it up now and again later Â? just about everything concerning the facts in the physical world of gold and silver point to higher prices; and only one non-physical fact points to potential price weakness at some point. The one potential negative fact is the market structure in COMEX gold and silver futures, as portrayed in the Commitments of Traders (COT) Report. While this is not anything new, I am struck by how extreme the physical bullish indications have become relative to COMEX positioning.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses remained high this (four day) week, as 6.9 million oz were moved and total COMEX silver inventories fell by 2.7 million oz to 155.2 million oz, a fresh three year low. JPMorgan moved another one million oz into its own COMEX warehouse, raising the amount of silver held there to nearly 71 million oz or more than 45% of total COMEX silver inventories. I would remind you that five years ago there were zero silver ounces in JPM's warehouse, as the bank was just embarking on its historic acquisition spree for physical silver. The 70 million+ oz in the JPM COMEX warehouse represents less than 20% of the 400 million oz I allege the bank has amassed over the past five years.

Here's another quick attempt to impress on you why the COMEX silver inventory turnover is so unusual and indicative of physical tightness. COMEX silver inventories are close to three year lows, amid unprecedented frantic physical turnover. Compare that profile to crude oil, where a genuine supply glut has led to the largest oil inventories in history and there is little inventory turnover. In a genuine oversupply circumstance, such as has existed in crude oil, storage capacity approaches its limit and unnecessary physical inventory turnover is non-existent. Why move oil in storage if extra new stuff becomes available daily? Since the opposite situation exists in silver Â? flat to shrinking total inventories and frantic physical inventory turnover Â? wouldn't that point to supply tightness?

There was another large deposit in the big gold ETF. GLD, yesterday of more than 600,000 oz. Since yearend, nearly 3 million oz of gold, worth some $3.5 billion, have been deposited in GLD as a result of net new investment buying, following years of much larger (20 million+ oz) investment liquidations and withdrawals. The physical buying and depositing of gold into the GLD (and other gold ETFs) has been a key, self-reinforcing factor in the gold price rally this year.

While there is still much distrust of GLD (and SLV) in Internet circles, all the evidence indicates the hard metal ETFs have functioned as advertised. After all, it was the influx of investment money into GLD, which accelerated starting in 2009, which coincided and led to the gold price high of 2011; just as it was the investment liquidation in GLD starting in 2013 that coincided and contributed to the gold price decline that lasted into last year. There is no question that trading volume and net investment buying in GLD (and other gold ETFs) has been very strong on the gold rally this year and has contributed to the rally. Should that strong buying continue, it will add a bullish force in gold that's been lacking since 2013.

On the other hand, the trading volume and net investment buying in SLV has been much more tepid than in GLD. I suppose one might argue that is why the silver/gold price ratio is so wide and in a very basic sense I would agree with that. But you have to look a little deeper into the matter to get at what I believe is the real story. This is like the age-old question of which came first Â? the chicken or the egg? Did the price of gold go up more because of the buying in GLD or did the buying in GLD result from higher prices set elsewhere (the COMEX)?

While not completely a black or white issue, the whole investment world seems motivated by price momentum; always seeking the next investment play. I believe much of the buying in GLD resulted from the gold price moving higher because that happens in every market. Collective human behavior is to buy what's going up. The rally in gold this year also featured wider macroeconomic fears, including stock market weakness which, undoubtedly, added to investment buying in the stock of GLD, the most logical place for a stock market investor to seek a gold refuge. I still believe the rally in gold had its roots in the extremely bullish COMEX market structure into yearend, but there can be no denying that the rally has been strengthened by net buying in GLD accompanied by the strong physical demand that results from net new buying of shares of GLD.

By contrast, the silver rally has been so tepid (relative to gold) and the trading volume in SLV has been much more subdued than the volume in GLD. Collectively, investors tend to rush for what's going up the most and in the case of gold or silver, clearly the attention has been on gold because it has performed better. Let's face it Â? many of the new investors buying GLD haven't suddenly got the gold religion overnight; they are simple reacting to higher prices. I don't think that is accidental in this case.

I think silver's price has been kept in check by the big COMEX commercial shorts to cutoff any potential surge in investment buying in SLV. By adding aggressively to new short positions in COMEX silver futures, JPMorgan and the other commercial crooks have succeeded in snuffing out the silver rally to date for the prime reason to not let silver investment demand unfold as it has in gold. And while there's no question this won't be effective on a long term basis, these crooks have owned the short term, at least up until now.

When it comes to comparisons of gold and silver demand where the relative price rally to date doesn't matter much, silver has put in a much better relative demand performance. Sales of Silver and Gold Eagles from the US Mint indicate it is selling as many coins as it can produce. In fact because the Mint has clearly struggled longer and more to provide as many Silver Eagles as demanded, it is not quite fair to compare the amount of Silver Eagles sold to Gold Eagles because it is beyond question many more Silver Eagles would have been sold if the Mint could keep up with demand. Furthermore, JPMorgan has purchased more than 100 million Silver Eagles over the past five years because it could do so without impacting the price of silver.

Based on how the Mint sells these coins, a large buyer acquiring massive quantities can do so without adding pressure to the price of silver (since the Mint accepts the spot price plus a fixed premium on the date of sale). Figuring out these types of angles is what JPMorgan does at its core. It also helps that the US Mint will release no information about who is buying its coins, a further testament to the power of JPM's lobbying. Am I suggesting that the Mint is in cahoots with JPM? Absolutely.

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

On a very minor note, a subscriber sent me an audio interview which discussed my allegation that JPMorgan had purchased 100 million Silver Eagles over the past five years, in which it was stated in the audio that I claimed that JPM bought 300 to 400 million Silver Eagles. Since the US Mint only produced a bit over 200 million Silver Eagles over that time, that is not the type of mistake I would make. I believe I have maintained all along that JPMorgan was buying half of all the Silver Eagles sold over the past five years.

The changes in this week's COT report didn't make for pleasant reading if you are bullishly inclined, particularly in silver. Given the large price swings and very high trading volumes on the COMEX, I had some hope that there might be some surprise away from a big increase in commercial selling and technical fund buying. As a reminder, the reporting week included the large, high volume rally of Thursday Feb 11, in which gold jumped as much as $60 and silver by as much as 70 cents; as well as the sharp selloff on Monday and Tuesday, into the cutoff. I was hesitant to predict what might be reported.

I will say, however, that I have no doubts that both the Thursday rally and subsequent selloff was a COMEX-generated price event. Some may question how COMEX trading can be stated as being responsible for price movement in the middle of the night and on US-only holidays and the answer is simple Â? because the COMEX is nearly always open. In essence, all trading is electronic and electrons never sleep. It's not like there are tens or hundreds of thousands of active gold and silver traders impacting the price; there are no more than 30 or 50 big traders on the COMEX, commercials and managed money technical funds, setting the price of gold, silver and other commodities. That's proven in the COT data. Leaving aside how nutty we all are for tolerating this, since none of these traders are anything but speculators (not real producers and consumers), the reality is that this is what has determined price.

In COMEX gold futures, the total commercial net short position increased by 27,100 contracts to 132,000 contracts. This is the largest commercial net short position since Oct 27, not coincidently the top of the gold market at that time which would result in a decline of more than $100 into yearend. Detracting from a potential negative reading is that current readings in gold are still around 30,000 contracts less than the peak gold COT levels at that time and not excessively bearish on a longer historical basis.

Still, since December 29, the commercials have sold nearly 120,000 net contracts (12 million oz) of COMEX gold futures or four times the amount of gold deposited into GLD. Yes, one is paper and the other physical gold, but up until now, it seems the paper gold is the bigger price influence.

By commercial category in gold, the big 4 added 7900 new short contracts, with the big 5 thru 8 adding 700 new shorts and the raptors (the smaller commercials) selling out 18,500 long contracts. While the big 4 short position is not excessive on a historical basis on the cutoff date, total open interest in COMEX gold futures has climbed by nearly 35,000 contracts since Tuesday and it's hard to imagine that there hasn't been additional shorting by the biggest shorts.

On the buy side of gold, it was largely, but not exclusively, a managed money affair as traders in this category bought 20,377 net contracts, including new longs of 5160 contracts and short covering of 15, 217 contracts. (Of special feature this week was net buying of more than 8000 contracts by the smaller non-reporting traders). While the long side of the managed money traders is not particularly large at just over 126,000 contracts, it does leave room for liquidation on lower prices considering the recent low in this category of longs was just under 80,000 contracts.

More to the point is that at just over 45,000 gold contracts still held short by managed money traders, this leaves little rocket fuel type buying remaining as of the cutoff date. Over the past three years, this category of shorts has rarely dropped below 30,000 contracts. The short covering by the managed money traders has been a chief propellant to the $200 gold rally and I can only wish that the short covering by the managed money shorts in COMEX silver had resulted in a comparable silver rally, but it didn't.

In COMEX silver futures, the total commercials net short position increased by a hefty 8,400 contracts to 70,100 contracts. In little over six weeks, the commercials have sold 40,000 net contracts, the equivalent of 200 million ounces Â? how could that level of selling not cap the silver rally? This is the largest total commercial net short position in silver since early 2008, when Bear Stearns bit the dust and JPMorgan took over as the main silver crook. Back then, silver was over $20 and at price highs not seen since 1980. Back then, one could make a decent case that it would have been at least economically feasible for a silver producer to lock in operating profits (although few did sell).

Today, it would be hard for a primary silver producer to justify selling short at current price levels, since so few are currently profitable. So the price circumstances are completely different today compared to 2008, despite the total commercial net short position being the same. One other thing that is the same today as was the case in 2008 and that has remained the same over the entire time is that this uneconomic short position is manipulative to the price Â? because if it didn't exist the price of silver would be higher by multiples of the current price.

By commercial category in COMEX silver futures, it was a big 4 and raptor affair. The four largest shorts (read JPMorgan) added nearly 4300 new short contracts and the raptors sold off 5300 long contracts, meaning the big 5 thru 8 shorts bought back 1200 short contracts. I would peg JPMorgan's concentrated short position to now be at least 24,000 contracts, up more than 8000 contracts (40 million oz) in two reporting weeks.

Since I have previously and consistently focused on the specific fact that whether JPMorgan added to its COMEX short positions on the next silver rally as being the most critical factor, I can't shy away from that now. This is the clearest and most direct proof that JPMorgan is the big silver manipulator and that it has the equally crooked CME and CFTC in its back pocket. If JPMorgan hadn't added 8000 new COMEX short contracts over the past two weeks, the price of silver would have likely run away on the upside.

Even clearer proof of a COMEX silver manipulation is that the 8 largest commercial shorts are now short 79,490 contracts, the equivalent of 397.5 million oz, or roughly 50% of world annual production and also nearly 50% of all the known 1000 oz bars of silver in existence. Eight stinking crooked traders short half of what the world can mine in a year and half of what silver is known to exist and not one of them a legitimate hedger or producer.

I take that back Â? the crooks at JPMorgan can now claim, by virtue of accumulating 400 million oz of physical silver over the past five years that the 120 million oz it holds short in COMEX futures is a hedge against its physical long position. Of course, this is the same as the guy who kills his parents and then pleads for mercy because he's now an orphan. Certainly, the sycophants and assorted nitwits at the CFTC would accept JPM's version readily.

On the buy side of COMEX silver futures, it was primarily a managed money affair as these traders bought nearly 8000 net contracts, including buying 1849 new longs and buying back 6128 short contracts. At just under 61,000 contracts held long, there is room for at least 11,000 contracts of long liquidation on lower prices, even if my core non-technical fund long position of 50,000 contracts remains intact. The bigger issue, as was the case in gold, is that with only 13,000 short contracts held by managed money traders, the rocket fuel buying tank is approaching Â?EÂ?.