

February 22, 2014 – Weekly Review

Weekly Review

For the third week in a row, the price of gold and silver rose to multi-month highs. Gold rose by \$7 (0.5%) and silver climbed 35 cents (1.6%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in to under 61 to 1; still within the broad trading range of nearly a year.

While I can't call the new Commitments of Traders Report (COT) a surprise, it certainly warrants the most attention this week. So let me run through the usual weekly format first before getting into the details.

Turnover, or movement of metal into and out from the COMEX-approved silver warehouses cooled to around 2 million oz this week, as total inventories fell 1.1 million oz to 180.4 million oz. This would still be considered a notable weekly turnover for the time period before April 2011. That's when the rapid silver turnover first began.

But if metal turnover in the COMEX silver warehouses appeared to cool, it has suddenly surged in the holdings of the big silver ETF, SLV. Those holdings have seen both net withdrawals and deposits this week in excess of 2 million oz and gross turnover much greater than that. It seems the COMEX silver warehouse "condition" of rapid metal movement may have come to the SLV as well. If the suddenly rapid turnover in SLV metal holdings is related to physical tightness that should not be negative to silver prices. And there seems to be a bit of odd movement in the holdings of the big gold ETF, GLD. I had planned on dissecting the metal movements in SLV and GLD today, but would rather devote time to the COT report. Ed Steer has covered this issue the past couple of days and you might want to review his take on this.

<http://www.caseyresearch.com/gsd>

The changes in this week's COT report were significant, particularly in silver. This was not entirely shocking, as silver recorded a \$1.75 gain over the reporting week ended Tuesday, among the largest reporting week gains in history (gold gained \$30+ in the reporting week). In addition, the price advance during the reporting week penetrated the important 200 day moving average in both silver and gold for the first time in a year. Given the large short positions held by the technical funds, it can't be called surprising that those technical funds rushed to buy back short positions on the upside penetration of the moving average.

What was somewhat surprising was the extent of the technical fund short covering in silver, which resulted in a reciprocal increase in the headline total net commercial short position that was the largest in years. There may have been larger weekly increases in the total commercial net short position over the years in COMEX silver, but this week's increase of 10,400 contracts looks to be the largest in the past few years. Let me run through the changes and then offer some commentary on what it means.

In COMEX gold futures, the total commercial net short position grew by 19,100 contracts, to 91,800 contracts. While certainly not the largest increase in the total commercial net short position in gold, neither is it insignificant — as 19,100 contracts is the equivalent of 1.91 million oz of gold, or slightly more than the total world gold mine production for a week. As I'll show in silver in a moment, what makes the weekly change in COMEX gold positions noteworthy is that none of it involved real producers or consumers or investors in gold, just paper (electronic) futures speculators.

By gold commercial category, the eight largest shorts — only — increased their net short position by less than 3400 contracts, as the gold raptors (smaller gold commercials, but including JPMorgan) sold out 15,700 existing long positions. JPMorgan appears to have sold out more than 10,000 of its long market corner, reducing that corner to 58,000 contracts or 17.5% of total net COMEX open interest. In other words, JPMorgan accounted for more than 50% of the net weekly change of 19,100 contracts. Since when did controlling more than 50% of the trading in a world commodity not constitute market manipulation?

The technical funds in COMEX gold accounted for 16,700 contracts of the non-commercial buying of 19,100 contracts, or more than 87% of the gold contracts bought this week (non-reporting or small traders made up the balance). The technical funds are in the managed money category of the disaggregated COT report http://www.cftc.gov/dea/futures/other_1f.htm These technical funds bought back more than 10,000 of their short gold positions and added close to 6500 new long contracts.

It was more pronounced in the silver COT Report, but there were very few, if any, real producers (miners) or gold fabricators involved in trading in COMEX gold futures in the reporting week. Try to think of that the next time you see one of those CME Group advertisements proclaiming how the exchange revolves around legitimate hedging. That's balderdash because this week's COT reports in gold and silver indicate no hedgers were involved in the trading. And while on some level, JPMorgan should be allowed to sell what they hold long, this crooked bank shouldn't be allowed to control more than 50% of the selling in the COMEX gold futures market, as was the case this week.

In COMEX silver futures, the net 10,400 contract increase in the total commercial net short position, to 32,900 contracts, was among the largest on record and pushed the total commercial net short position to its highest level in almost a year. Just to put this week's increase into proper perspective, the 10,400 contract increase is the equivalent of 52 million oz, or three and a half times the amount of silver produced by all the world's mines for a full week.

Throw in the previous reporting week's 7,600 contract increase in the commercial net short position and the two week selling equaled 18,000 contracts, or the equivalent of 90 million ounces of silver. That's the equivalent of six full weeks of total world silver mine production. As I'll show in a moment, there doesn't appear to have been any participation on the COMEX by real silver producers or consumers — just speculators.

By commercial category, the 4 biggest shorts (JPMorgan) added close to 4500 new short silver contracts, while the big 5 thru 8 shorts bought back a few hundred short contracts. The raptors (the smaller commercials apart from the big 8) sold out 6400 contracts of a net long position now down to 26,100 contracts. On the buy side, technical fund short covering accounted for the entire weekly change, as these funds (managed money category) bought back more than 10,700 short contracts and, unlike in gold, sold out a few hundred long contracts.

After buying back short silver contracts in the prior two reporting weeks (as well as adding long gold contracts), JPMorgan returned to the sell side with a vengeance, accounting for the entire big 4 short increase or more than 43% of the commercial silver selling this week. While there's no doubt in my mind that the raptors behave collusively with JPMorgan in playing the technical funds, it must be noted that the raptors were selling existing long positions, not adding to shorts. In the reporting week, JPMorgan increased its short COMEX silver position to 17,500 contracts, or to a 15% net market share (minus spread positions).

Even though the total net commercial short position in COMEX silver futures increased by 10,400 contracts, the increase is mostly the mathematical result of the selling out of raptor long positions. From what I can tell, JPMorgan was the only commercial increasing short positions in the reporting week, something that has recurred on previous silver price rallies. Please think about that for a moment. JPMorgan was the sole short seller in COMEX silver and the largest seller in COMEX gold, accounting for 43% and 52% of all the commercial selling in each market this week. How could such large shares of net weekly trading not be manipulative to the price of silver and gold? And why is the nation's largest bank also allowed to be its largest precious metals speculator?

The real standout in this week's COT report in silver is that technical fund buying (short covering) accounted for 100% the buying, while technical funds accounted for 87% of the COMEX gold buying. By CFTC trader definition, we know that these managed money traders are purely speculative and are, therefore, not remotely related to hedging activities. The commercial sellers, primarily JPMorgan, were trading for their own accounts, as there is not a hint that miners were selling and hedging or that JPM was acting on behalf of miners. Since JPMorgan was the most aggressive seller in both silver (where it was short) and gold (where it was long), the unavoidable conclusion for why JPM sold so aggressively was to contain the price advances.

Another way to look at this is to consider what would have been the price impact if JPMorgan hadn't been the big seller in both markets. It is a mathematical certainty that had JPMorgan not sold short 4,500 additional silver contracts and sold 10,000 gold contracts in the reporting week, the price of silver and gold would have been higher. We know what the technical funds bought and why they bought (higher prices). If there were other sellers willing to sell, apart from JPMorgan, those sellers would have sold. Almost assuredly, those other sellers would have emerged had JPMorgan not sold, but only at higher prices. Therefore, it's quite easy for me to point the finger at JPMorgan as the price-fixing crook I allege it to be, as gold and silver prices would have surely been higher without JPM's selling. I wish I could make it simpler than that, but I don't know how to.

There are some that still insist that gold and silver prices are not manipulated by JPMorgan, despite the banks' controlling market shares in COMEX gold and silver and this week's even higher share of net trading and the absence of any legitimate hedging. These ill-informed manipulation deniers claim that no one complains about manipulation when prices move higher. Huh? That's all I've done today. If a market is manipulated, as I contend COMEX silver and gold to be, the manipulation is present whether prices rise or fall. In fact, the manipulation is more apparent on the up moves, as that's when the manipulative selling by JPMorgan is clearest.

I'd like to see someone try to defend JPMorgan's actions in the reporting week (aside from capping prices) and the how the exchange is fulfilling its economic and congressional mandate of facilitating hedging by real producers and consumers. There doesn't appear to have been any legitimate hedging in gold and silver during the reporting week, only electronic gamesmanship between unquestioned speculators (technical funds) and speculators pretending to be fulfilling some legitimate economic purpose (JPM and the commercials). Yet the real producers and consumers and investors in silver and gold are having prices dictated to them by the shysters on the COMEX. How and why the miners tolerate this is baffling; perhaps it may be all those phony CME Group advertisements proclaiming its markets revolve around legitimate hedging when that is clearly not true, at least in gold and silver. The COMEX is all about speculators setting prices for the real producers. As such, it should be put out of business since it's not even close to operating as intended.

Speaking of advertisements, Investment Rarities, Inc. took out a half page ad in today's Investor's Business Daily (dated Monday Feb 24) which features a condensed version of my article about what really happened to Bear Stearns (page A-13). I have to commend IRI's president, Jim Cook, for attempting to inform the world of JPMorgan's transgressions in silver and gold, as I see them to be. I know he has been unable to get TV ads placed, as no network seems comfortable with me referring to JPMorgan as crooked. So here's a tip of the hat to Cook, for trying to spread the truth.

OK, so where does the big manipulative selling by JPMorgan leave us? I'm not sure in the short run, but I still see silver as being currently undervalued by at least ten or twenty dollars and as much as hundreds of dollars over the long term. I'm just guessing here, but barring a further tightening in the physical market, the crooks on the COMEX might be able to rig a short term sell-off at some point. The problem is that there are signs that the physical market is tightening further in both silver and gold. It's important to remember that the really big price runs in silver and gold have come when COT readings were negative but physical was tight (think silver into the April 2011 highs).

So I have to grit my teeth and look at the giant price mountain in the distance while navigating the short term path which may contain obstacles that have little to do with the long run. It is becoming clearer every day, however, that JPMorgan is every bit the silver and gold price manipulator I allege it to be. Whether the bank has the power to smash prices in the short run remains to be seen; but the current depressed level of prices (despite the recent rise) must end on that distant price mountain.

Ted Butler

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Silver – \$21.85

Gold – \$1326

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