February 27, 2016 – Weekly Review

Weekly Review

It was the second straight week for lower precious metals prices as gold fell by a mere $4 (0.3%) and silver was thumped for 67 cents (4.4%). As a result of silver's extreme relative underperformance, the silver/gold price ratio exploded by more than three full points to 83.3 to 1. This is yet another new high on the ratio (meaning undervaluation for silver compared to gold) dating back to 2008, when the ratio got as high as 85 to 1.

I recognize that this is a weekly review, but I am speaking of something beyond the scope of weeks or even thousands of weeks. Quite literally, the relative price between silver and gold has been recorded for thousands of years. The all-time high on the silver/gold price ratio was around 100 to 1 and was seen twice in the last century, in 1991 and in the early 1930's. In other words, over the scope of recorded civilization, silver has been priced as cheap as it currently is relative to gold on only a handful of times. Saying that silver's relative undervaluation to gold occurs once in a lifetime is an understatement because that's less than 100 years and I'm talking thousands of years.

Please remember that the measure of relative valuation, particularly between two very similar commodities, is among the purest and most objective comparisons possible Â? it filters out everything, including inflation and currency values, as those things are already reflected in the price. So, if the most objective measurement of relative value indicates a current reading rarely exceeded over a few millennia, as is currently the case in silver compared to gold, it would be expected for there to be an obvious explanation. Oh, there is an explanation, all right, but apparently, that explanation is not obvious to enough observers because otherwise it would not be allowed to exist.

The nuttiest thing of all is that given the verifiable data, not only should silver not be priced so cheaply relative to gold, it should be near the highest it has ever been valued to gold over the past 5000 years. That's because there has never been less silver in existence relative to gold than there is today. Rarity and scarcity alone should be valuing silver much more highly. I'm not saying gold is overvalued in a general sense Â? just overvalued relative to silver; meaning that silver is undervalued by all the facts available.

Given this highly unusual circumstance – a near multi-thousand year extreme in the relative value of gold and silver Â? there has to be an equally unusual explanation. There is such an explanation. Historical relative valuations filter out everything except one possibility Â? a manipulated price. If it could be shown that one (or both) of the prices being compared was artificially set, then it wouldn't matter how much of each commodity existed or anything else. All that would matter would be identifying the mechanism creating the artificial price. That mechanism is silver futures contract positioning on the COMEX.

I've indicated very recently that I don't know what to expect in the short term for the silver/gold price ratio and that's still the case. I am also more convinced than ever that once this latest downward rigging of silver prices runs its course, silver will shock to the upside, both on an absolute and relative basis to gold. Let me run through the usual format which, as usual, will include a long list of bullish factors and the one bearish factor Â? the market structure on the COMEX.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses actually accelerated this week to 10.5 million oz, as total inventories fell by 1 million oz to 154.2 million oz, a fresh three year low. According to my records, there have been larger weekly movements on two or three occasions. Over the past seven weeks, 58.9 million oz have been physically moved in or out of six COMEX warehouses, an average of 8.4 million oz weekly.

The world mines 16 million oz of silver each week, so the amount of silver moved in the COMEX warehouses over the past seven weeks is more than 50% of what the world mined over this time. This is silver that gets moved by truck into and out from six warehouses clustered in the general area of New York City. As an analyst, I find this beyond extraordinary and demanding of an explanation. For the past five years, I've offered the only explanation that I can come up with, namely, that it is a sign of an extreme and unprecedented tightness in physical supply.

Even more extraordinary is the almost complete lack of commentary about this highly unusual physical movement. I think I'm going to scream if I read yet another article talking about the amount of registered versus eligible metal with no mention of the physical turnover, since the same report showing the categories includes the turnover. I would invite you to query any commentator on the metals scene as to why he or she is not reporting on this physical silver turnover phenomenon. Please let me know what you hear.

JPMorgan took another near 2 million oz into its own COMEX silver warehouse this week, even after I thought it was caught up in transferring the metal it took delivery of in December. As of yesterday, JPM held 72.6 million oz in its own depository, or 47% of the 154.2 million total silver oz in the COMEX warehouse system. While JPMorgan's COMEX warehouse has grown its silver holdings sharply over the past 5 years (from zero), most other warehouses have witnessed large drops in their silver holdings. On these facts alone, a compelling case could be made that JPMorgan is acquiring silver. Of course, this is only one way in which JPM is acquiring silver, but it's hard not to reach that conclusion from the COMEX warehouse data alone.

http://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notices.html

Monday is first delivery day for the big COMEX March futures contract and the notices to deliver were quite small at 5 (see link above) versus the preliminary estimate of futures contracts still open after yesterday's trading, which at more than 3800 contracts is quite large. In fact, I'm hard pressed to remember a larger recent mismatch between the first day's deliveries and remaining open contracts. On its face, it is potentially very bullish because it hints at a reluctance by short holders in the March contract to part with (or secure) metal for delivery. In other words, this is the kind of first delivery day mismatch that gets your attention. Adding to that is tightening of the nearby spreads involving the March contract.

I'm not suggesting there will be a delivery squeeze based upon one day's data, but if there were to be such a squeeze, it would most likely occur after looking like current configurations. Also, since JPMorgan, in its own house or proprietary trading account, stopped (took) delivery on two of the five contracts issued, that most likely means JPM is net long in the March contract since delivery notices are assigned according to how many contracts a clearing member holds. I must point out the inherent conflict (illegality) here.

JPMorgan appears to not only be the largest short holder in COMEX silver futures, but appears to have sold short additional contracts recently, thus capping silver prices and setting the stage for even lower prices. Yet at the same time, JPM appears to be taking delivery of metal at the artificially depressed prices it created. Could anything be more crooked? And I'm not just talking about what JPM might or might do over the course of the March delivery process, this is what these crooks did consistently all last year. If someone is looking for a motive for the silver manipulation, look no further than to allow JPMorgan to load up on physical metal at artificially depressed prices.

Arguing against any stress or short squeeze in the March delivery process is that any such disruption would appear to hurt the exchange and the leading clearing members, of which JPM rules supreme. For most silver investors, a COMEX delivery default would generally be the best news possible, because that would send prices skyward. But that's not the case for the commercial crooks which would risk destroying their whole criminal money making enterprise.

I closed Wednesday's article with an expectation of an increase in the short selling in SLV and GLD to be released later that evening. I would have commented in any event, but we did get the expected increases. As of the close of business on Feb 12, the short position in SLV increased by 3.5 million shares to 13.5 million shares (ounces). The short position in GLD increased by 3.75 million shares to just shy of 12.9 million shares (1.2 million ounces). These were among the largest increases in recent times, but in truth, I thought the increase in GLD would have been even larger. I would guess that the large subsequent deposits of metal into each ETF would have reduced the short position. I wish there was no short selling allowed in these ETFs, but I wish for a lot of things. In any event, short selling in these ETFs is a problem, but not the core problem for pricing. I'll get to the core problem momentarily.

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Sales of Silver and Gold Eagles from the US Mint still appear to be at the maximum limit of the Mint's capacity to produce, particularly in silver. I'm still convinced that due to retail demand remaining soft, JPMorgan is hoovering up at least 50% of all Silver Eagles produced. I think the crooks at JPM lay off from time to time, so as not to exhaust the Mint's supply of Silver Eagles, but the most recent numbers suggest JPM is not holding off by much. There's a reason the Mint sold an even 10 million Silver Eagles through this week; and the reason is that was all the Mint could produce.

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

The changes in this week's Commitments of Traders Report were, in a word, rotten. Silver's new numbers didn't add powerfully to the bearish market structure, but the changes in gold brought its market structure to the same bearish extreme attained in silver over the past couple of weeks. I think I'd almost rather be mugged than report the details.

In COMEX gold futures, the commercials increased their total net short position by 31,200 contracts, to 163,100 contracts. This is the largest (most bearish) headline number since Oct 27, which happened to be near the top of the gold market which then fell more than a hundred dollars. I would contend that the only reason we fell that hundred dollars in the price of gold into November and extending through December, was so that the commercials could buy into the decline as technical funds sold on the way down. It's hard not to expect that again.

By commercial categories in gold, the big 4 added 8200 new shorts and the raptors (the smaller commercials away from the 8 largest traders) sold 24,200 net contracts, liquidating all of their remaining long positions and establishing a net short position of 10,800 contracts. The big 5 thru 8 bought back 1200 short contracts. The gold raptors have not been net short since last February (also an important top in the gold market). After avoiding adding shorts as gold rallied in the New Year, the big 4 have added almost 20,000 new shorts over the past few weeks, never a bullish sign.

On the buy side in gold, it was mostly a managed money affair as these traders bought just over 28,000 net contracts, including buying 15,154 new longs and the buyback of 12,930 short contracts. Managed money longs have added 65,000 new longs on the rally (since December 29) and with more than 141,000 contracts long there is ample room for liquidation on lower prices. Likewise, managed money shorts have bought back close to 65,000 short positions and with less than 33,000 short contracts remaining, there is not a lot of room for further short covering.

The 130,000 net contracts (13 million gold oz) bought in the managed money category was the principle price propellant for the near $200 gold rally. The commercials sold 150,000 net contracts (15 million oz) over this time, mostly to the managed money technical funds but also to the smaller non-reporting traders. This is now water under the bridge and one has to wonder where the next wave of buying in COMEX gold futures will come from.

Yes, it's true that there have been times when there have been larger gold long positions than the technical funds now hold in gold and that suggests there could be more buying ahead.
But it's also true that there have not been many times where we have seen a bigger net buying spree by the technical funds in as short a time frame as the current rally and that suggests such buying has been exhausted. Certainly, after any comparable past buying spree in gold by the technical funds, the next big move in price was lower. This is the absolute root of market structure analysis.

In COMEX silver futures, the commercials increased their total net short position by 3600 contracts to 73,700 contracts. This is another new record in the headline number dating back to 2008 and as such can only be considered ultra-bearish. By commercial category, it was largely a raptor affair as these smaller commercials sold off 4300 long contracts. The silver raptors have not flipped to the short side as did their gold counterparts, but they do hold, at 5100 net contracts, their smallest net long position since January 2015.

The big 4 (read JPMorgan) added less than 100 new shorts and the big 5 thru 8 bought back 800 short contracts. I'd still peg JPMorgan as being short at least 24,000 contracts and I am anxiously awaiting next week's Bank Participation Report for confirmation. The only thing complicating the tally is that if the silver rig job to the downside started yesterday and continues through Tuesday, JPM might have covered a chunk of their shorts into the cutoff day for the coming report.

On the buy side in silver, it was mostly a managed money affair as these traders bought 3300 contracts net, including adding 1958 new longs and buying back 1342 short contracts. As was the case in gold, it's hard to see where much additional managed money buying can occur. With fewer than 12,000 contracts held short, most of the rocket fuel short covering has been burned. I suppose that there might be room for the technical funds to add to long positions, but that supposition must be balanced by the fact that this week's long position of 62,683 contracts is close to the largest in the history of the disaggregated COT report. And based on the most recent price action in silver, it doesn't appear the commercials are trying to lure new technical fund buying on new price highs and appear more to have started the technical fund sell cycle to the downside.

Silver is under $15 and I'm back to talking about the sell cycle being initiated to the downside. This is worse than having to have turned cautious in October at $16. Have these commercial crooks no shame? Where silver looks to have begun the engineered managed money sell cycle to the downside by closing below its 200 day moving average decisively yesterday and closing in on its 50 day moving average; in contrast, gold is still miles ($100) above its 50 and 200 day moving averages. Coupled with the bearish market structure in each, this suggests the potential for some dramatic moves to the downside in both metals.

The last thing I want to do is to start to attempt handicapping price movements in the short term. The simple truth is that no one can do that successfully for long; at least no one who would write about it openly (if anyone could do that, they would be doing it with their own money and not sharing it with others, except on a percent of profit basis). That said, please allow me to outline what I think could happen ahead.

First, the drumbeat of evidence pointing to a grotesque fundamental undervaluation in silver means I must always maintain an exposure to the upside, even if a selloff looks likely. For those so inclined anyway (normal long term investors), it means gritting your teeth in preparing for a selloff, with, hopefully, the means to add should the selloff progress and play out as it usually does. Not being all that normal, in addition to maintaining an exposure to the upside, I have attempted to create buying power should a selloff develop along the lines of past bearish market structures by lightening up on long positions and even gambling on short (put options) positions for the sole objective of being able to buy as much as possible should the selloff occur.

I am not trying to be cute or cover my butt by saying the price of silver (and gold) could go either way. The price of anything could always go either way. I'm more interested in the reasons why prices could go higher or lower. Silver could, should and will go much higher in time, possibly even in the short term. When it explodes in price, as it surely will at some point, the manipulation will be over, done, kaput. But I have seen this same movie so many times and think I know not only how it usually ends, but why – so that the commercials can buy what they can induce the technical funds to sell.

Although one can't help but take it personal, the commercial/managed money scam does not intentionally target anyone save the technical funds. Who provides the profits to the commercials are largely the technical funds. Having just taken more than half a billion dollars from the technical funds by forcing these funds to buy back short positions in gold and silver, the commercials appear likely to repeat that feat to the downside by forcing the technical funds to sell out recently acquired long positions at big losses to the funds and big profits to the commercials. If we do get a sharp selloff from here, the chances are strong it will be the last great opportunity to buy silver, at least that is how I will play it.

I've run out of time today, but would like to address a development this week from the CFTC on position limits (remember them?). In essence and most likely to stall the process even further, the agency somehow got roped into seeking the opinion of a nine member outside committee, which was composed of eight members whose livelihood would be enhanced should position limits not be adopted and one member not affected financially by position limits. The committee's 8 to 1 recommendation to, basically, kill position limits should not be a surprise.

Long time readers might remember I championed the idea of position limits to end the silver manipulation for years before former CFTC Chairman Gary Gensler took up the issue in 2009. In my opinion, Gensler was never really interested in position limits on silver, just on energy contracts, but there was no way to specifically exclude silver position limits under broad overall position limit reform. Even after position limit reform was written into law under Dodd-Frank, the CME and JPMorgan derailed the effort and Gensler left the agency without accomplishing his prime mandate. Since then, the idea of position limits has floundered, even more so with the recent outside committee finding. The floundering was a testament to the power and control of the big banks and industry lobbying efforts against the common good.

Date Created
2016/02/27