# Weekly Review

Following several weeks of price declines, gold and silver rose this week; gold by $10 (0.8%) and silver by nearly 30 cents (1.8%). As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in by perhaps half a point to 73.5 to 1, following weeks of more volatile movement. I remain clueless to expectations about near term movement in the ratio, but silver's undervaluation to gold on a long term basis remains stark.

In general, short term price movements always seem a bit surreal to me due to the random nature of various inputs constantly impacting all markets. This is particularly true in silver (and gold) where I'm convinced that the short term in dominated by trading and positioning on the COMEX and the longer term by developments in physical supply and demand. It's human nature to look closely at things that are of interest to us on a daily basis, but it's also wise to remember that daily examination rarely reveals new insights for the long term.

The great quandary in silver currently is the vast array of factors pointing to much higher prices, not the least of which is the fact that so little of it could be taken off the market in a heartbeat so as to cause an instant price revaluation, offset by the sole bearish price influence □ the intentions of the 8 or less big COMEX shorts. The setup is further complicated by the fact that while the big COMEX shorts are in total control of short term pricing, their price control, as and when it is broken, will be broken suddenly. Unless you are gifted in market timing that means the best approach is to be in silver before the sudden price revaluation, but always with an awareness the big shorts can always move it lower in the short term.

The turnover or physical movement of metal into and out from the COMEX-approved silver warehouses started out the week only slightly below typical levels, but stopped completely on Thursday and Friday. For the week, some 2.25 million oz were moved as total inventories rose 1.4 million oz to 176.9 million oz. At less than half the average weekly movement over the past year, it does appear that the movement has tapered, but it is still too soon to know for sure. Even with the apparent slowdown, it still must be pointed out that the movement of silver stands out as no other commodity has such a physical □churn□. Since the ultimate level of the price of silver will be determined in the physical, as opposed to the paper realm and because the COMEX silver inventories are the second largest repository for silver in the world (behind the SLV), the unprecedented and continuous (until now) turnover may be signaling a major silver change ahead.

I don't usually dig into the details of COMEX deliveries against futures contracts, primarily because there is usually not much to report. One reason for that is because the deliveries are reported by clearing member and not by who is actually behind the deliveries. But because it is the delivery mechanism that underpins the COMEX as the silver price setter, I'm always on the lookout for anything even slightly unusual.

One very transparent feature to the otherwise opaque data is the classification if the clearing member is making or taking delivery on behalf of a customer or for the clearing members' own house or proprietary trading account. On the first two delivery days of this month's March silver futures contracts, a total of 1393 contracts (almost 7 million oz) were issued (put out) and stopped (taken). The majority of deliveries both issued and stopped were for the house, or proprietary, trading accounts of a few big banks, including, JPMorgan, Bank of Nova Scotia, Credit Suisse and Citicorp.
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

A few observations. First, in this day and age of almost non-stop findings and reports that the big banks have conspired to fix prices in almost all the markets they deal in, the COMEX March silver deliveries would seem to certify that they are certainly the kingpins of COMEX silver. I'm sure all these banks could come up with a litany of cockamamie stories as to why they must deal in silver for their own accounts away from the simple explanation that they are just speculating and controlling the market, but you would be hard-pressed to come up with clearer evidence to the contrary than in the March deliveries so far.

Second, the fact that JPMorgan, in its proprietary trading account, was the largest stopper of 735 deliveries (3.7 million oz) would seem to coincide with my speculation that the bank has been accumulating physical silver in a serious manner, even as a number of its own customers issued deliveries this month — an apparent conflict of interest.

But the biggest concern is this — JPMorgan has been the biggest short in COMEX silver futures since taking over Bear Stearns and the bank's taking of physical silver deliveries this month has occurred while it is still the biggest short with 18,000 contracts (90 million oz) still held net short. In order for JPMorgan to have taken delivery of 735 contracts this month for their own account and benefit means it had to be long those futures contracts while at the same time being short many more futures contracts. This is permitted by the CFTC and the

CME, as commercials can hold open long and short positions in the same month (not allowed for non-commercials), but please step back and consider what I just said.

By being the largest COMEX silver short, JPMorgan has exerted the largest negative price influence on silver while, at the same time, has stepped up as the largest taker of physical silver on the COMEX in the first two delivery days of the March contract. Is this not, on its face, the most egregious and crooked circumstance that one can imagine? Manipulate the price lower and then scoop up the metal at bargain prices with the blessing of the regulators. With such blessings, it's no wonder JPMorgan is considered the US's most politically connected bank.

On Wednesday, the new short interest report revealed a stunning decline in the short positions of both SLV, the big silver ETF, and in GLD, the big gold ETF. In SLV, the short position dropped by more than 7 million shares, or almost 35%, to just under 13.7 million shares (oz). The short position in GLD dropped by more than 5.5 million shares (37%) to just over 9.3 million shares (0.9 million oz). These were the largest joint or single delcines in memory. There had been some large deposits of metal into the GLD which appear to have accounted for the large drop in the short position, but the decline in SLV was a surprise to me.

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

I had expected a large decline in the SLV short position because of recent large deposits of metal, but in the next short report and not in this reporting period, which covered stock trading from Feb 2 to Feb 13. As it turned out, this was a fairly price-flat and subdued trading volume period in SLV, as can be seen in the historical record. In fact, the price of SLV was the same on the close of the last day before the reporting period in question (Jan 30) and the final day of the period (Feb 13). http://finance.yahoo.com/q/hp?s=SLV+Historical+Prices

There is one conclusion that I can draw from this unusual decline in the short position of SLV. Because it occurred when it did, namely, out of synch with what one might have reasonably expected, it seems very unlikely to be the work of many independent traders involved in various trading strategies. Instead, the large decline in the SLV short position (as well as in GLD) appears to be the work of one entity and who better than JPMorgan, the kingfish of the silver price manipulation. JPMorgan is the big COMEX silver short and now the biggest stopper of silver deliveries this month and a very unusual decline just occurred in the short position of SLV (of which JPM is the custodian). I wonder what the odds would be that it wasn't JPM behind the drop in the SLV short position. Is there any aspect to silver not dominated by JPM?

I always consider a decline in the short position of SLV to be good news, as the smaller the short position, the less there are shares not fully covered by metal, as the prospectus dictates. Even when the short position in SLV increases it is not all bad because at the very least, it usually means conditions in the wholesale physical market are tight and short sellers in SLV can evade requirements to deposit metal by shorting shares instead. So unless and until the short position grows significantly, this unexpected decline should be taken as good news.

Sales of Silver Eagles from the US Mint appeared to close the month at nearly the Mint's maximum production capacity, but not quite in rationing mode. The standout feature continued to be the stark difference in demand for Silver Eagles versus Gold Eagles and Buffaloes. Because January always entails unusual demands for coins during that month, I wrote previously that it would probably be well into February before signs of whether JPMorgan was continuing to buy Silver Eagles at the pace I've speculated over the past four years. The combination of super strong sales of Silver Eagles vs very weak sales of gold coins persuades me to conclude that JPM is still buying Silver Eagles. Added to all the unique signs of JPMorgan's involvement in silver above, I think it would be more unusual to conclude the bank wasn't buying Silver Eagles.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type

=bullion

Even though I was hesitant to put precise numbers on the changes in this week's Commitments of Traders Report (COT), there were no big surprises in that the headline number of the total commercial net short position fell, as speculators and technical funds sold and commercials bought gold and silver contracts. Since prices did make new lows during the reporting week, the only real surprise would have been if the commercials sold on balance.

In COMEX gold futures, the total commercial net short position was reduced by 7900 contracts, to 135,700 contracts, continuing the string of recent reductions but at an expected slower pace. All told, the commercials have reduced their total net short position by an impressive 70,000 contracts (7 million oz equivalent) over the past four weeks' selloff. Is it enough to declare we are now in a strongly bullish structure from the very bearish COT structure of January 27?  Perhaps, but I'm not sure.

By commercial category, the gold commercials acted as the Three Musketeers again with all three categories buying. The big 4 bought back more than 2200 short contracts, the big 5 thru 8 bought back nearly 2200 shorts and the raptors added 3500 new longs. At 17,300 contracts net long, this is the largest raptor net long position since December 23 and you never know when these traders might engineer a gold rally to grab some quick trading profits. Offsetting that is the short position of the eight largest shorts which is still disproportionately high relative to where it was back then.

On the sell side of gold, it was largely a technical fund affair, but not exclusively so, as traders in the managed money category accounted for 6200 contracts sold, including 4000 long contracts liquidated and 2200 new shorts. Based upon the historical record of the past few years, there still doesn't appear to be much room for long liquidation in the key managed money category, say no more than 10,000 contracts or less. If the commercial succeed in generating significant technical fund selling, it must come from new short sales by the funds. That's still the key (as it is in silver).

In COMEX silver futures, the headline total commercial net short position was reduced by a greater than expected 5600 contracts, to 42,100 contracts. From the price top and peak in the commercial short position of January 27, we're now down close to $2 and 20,000 net contracts, respectively. That's the equivalent of 100 million ounces and as such is not chump change. Is it enough to signal an all-clear? I wish I knew. I do know that if anyone tried to buy 100 million oz of physical silver in a hurry, prices would surely rise.

All commercial categories bought in silver, but it was more a Two Musketeer effort. The big 4 bought 2400 short contracts back, the raptors added 2900 new longs and the big 5 thru 8 the few hundred balance. The silver raptor net long position is now at 20,400 contracts, the highest since Dec 30 and the question in my mind is how much buying capacity the raptors have after the debacle in November when a number of raptor longs got bombed out on lower prices. The largest net long position the raptors have held since the wipeout has been 23,900 contracts (on December 23), so I'm inclined to think the raptors don't have much room for buying a lot more silver contracts on lower prices.

The big 4 and big 8 still hold fairly large net short positions, despite the reductions this week. I'd peg JPMorgan at close to 18,000 contracts short and should be able to sharpen that number with next week's release of the Bank Participation Report. Coupled with the possible lack of significant additional buying power of the raptors, if the commercials can rig silver prices lower, it would appear that the big concentrated shorts might be able to pick up more than the meager share of buying they have achieved to date. This, of course, assumes fairly significant technical fund selling ahead.

The technical funds did account for over 3900 contrcats of long liquidation in the reporting week, reducing the long position in the managed money category to just over 44,000 contracts. More surprising was that managed money shorts bought back 500 contracts of short positions despite the lower prices during the reporting week. I was thinking there was room for up to 10,000 new technical fund shorts on lower prices, even if the technical funds who covered so profitably in November didn't return to the short side. The lack of new shorts by technical funds this week on lower prices may suggest the potential for additional short sales may be even more limited than I assumed.

I'm still of a mind that there may be 40,000 long contracts of non-technical funds in the managed money category not likely to be liquidated on lower prices. So it's hard for me to see where all the selling will come from that would enable the big commercial shorts to buy back significant numbers of short contracts. After all, the commercials can't buy COMEX silver (or gold) contracts from the ether; there must be a contract sold for every contract bought. Nothing would make me happier than to see the big silver commercial shorts run out of room to rig prices lower because of a lack of technical fund selling capacity, but I also know how crooked these commercial shorts are and must consider that if they are stuck, they are likely to resort to extreme measures rather than go down without a fight (to lower prices). A wild card here is that if

JPMorgan is as heavily long physical silver as I imagine, they could always survive and prosper on higher silver prices despite holding a big short position. If your physical long position is much larger than your paper short position, that means you are net long and not afraid of higher prices.

Since gold and silver prices have rallied since the Tuesday cutoff, I doubt there has been any commercial buying so far in the current reporting week. I'll have a better idea after trading on Monday and Tuesday. So far the recent rally and subsequent fall in gold and silver has followed the COT market structure premise to a “T”. After the reduction in the commercial short position of the past month, the structure is much less bearish, but not yet as bullishly structured as we've seen at recent bottoms. Then again, all things considered, there is no guarantee we will see a strongly bullish setup before silver prices begin to rally in earnest. I'm more certain than ever that day draws near, but still uneasy that the big commercials might have a dirty trick up their sleeves.

Ted Butler

February 28, 2015

Silver – $16.60

Gold – $1214