January 21, 2015 – Once Again, To the Brink

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Gold, in particular, has gotten off to a strong start this year, with silver mostly trailing along (at least to the point at which I started this article this morning). I say this with the full knowledge that the silver/gold price ratio has tightened in since year end, which means that silver has actually outperformed gold on a percentage basis.

Despite silver's documented relative outperformance, it sure hasn't Â?feltÂ? like that has been the case. One reason why that is so is because gold has penetrated its various moving averages to the upside much more quickly than silver has, where usually silver moves faster and further on up moves. That is likely to change in the future, but in the event of a sell-off, it is also highly probable that silver will move faster and further to the downside (because it is more intensely manipulated).

There appear to be two distinct forces to the budding gold and silver price rally this year – futures positioning on the COMEX and Western physical metal buying, principally in the ETFs (exchange traded funds). Futures buying by speculators on the COMEX actually began before year end, at the price lows of early November and in some ways is now quite advanced. Most likely in the COT report to be released on Friday, speculators will have bought more than 100,000 net COMEX gold contracts (10 million oz) and 40,000 COMEX silver contracts (200 million oz) through the close yesterday since November.

Of course, traders identified as commercials (but who are really also speculators) sold an equivalent number of the paper contracts since early November, since there must be a seller for every buyer and vice versa. Based upon the raw quantities of the equivalent metal involved, it is fairly straightforward to conclude that COMEX futures positioning was the prime factor behind the price rally to date. The flipside to speculative buying/commercial selling on the COMEX is that when the speculators are done buying, the commercials then look to induce those speculators to sell and the risk of a sell-off grows high.

I call this manipulation because COMEX futures positioning causes prices to first rise and then fall with little regard to what's occurring in the actual world of gold and silver; but some are content to call it just the way markets work (or ignore it completely). Regardless of what you call it, the risk of a selloff grows as speculators continue to buy COMEX futures and commercials sell. In fact, the only reason for why a selloff might occur is if the commercials are successful in rigging a selloff to induce speculative selling.

Despite that growing risk, on this rally I have remained fully committed position wise, because of certain extenuating circumstances in the COMEX positioning, increasing outside world factors and because silver is so cheap. Of course, I may come to regret that decision or may change my mind, but with silver still below the primary cost of mining production, a selloff should prove temporary. I know that Einstein said that insanity is doing the same thing over again and expecting a different result, but I don't think he was referring to an illegal market manipulation which must end at some point.

The other factor in the precious metals rally, at least in gold, is the strong recent buying that has emerged in the gold ETFs, particularly in the biggest, GLD. This is something that has been lacking for most of the past two years. When there is net new buying in GLD (or SLV), additional metal must be deposited into the trust according to the terms of the prospectus. Over the past three business days, more than 1.1 million oz of gold, worth more than $1.4 billion, has been deposited into GLD, something not seen in quite some time.

Considering the gold price rally and recent developments in currency and other world financial markets, it is not surprising that there would be strong buying in gold. In fact, it would have been unusual if there wasn't a collective move to the premier hard asset and unless the COMEX commercials slam the brakes on the budding price rally, more gold should be expected to be deposited into GLD and other gold ETFs. As I indicated previously, this is exactly how it is supposed to work Â? net new buying in hard metal ETFs should and must result in deposits of metal; net selling must result in liquidations or withdrawals of metal. Therefore, GLD is functioning exactly as it should be functioning.

But what about the big silver ETF, SLV? Not only have there been counterintuitive withdrawals when there should have been deposits of metal, even when the price of silver surges and volume explodes, like was the case last Friday, deposits of metal are still not forthcoming into the trust. (In the interest of full disclosure, my wife still owns more SLV than ever and I still love my wife very much, so please don't assume otherwise; this is about analysis, not specific investment advice.)

As I have pointed out consistently, the counterintuitive withdrawals of metal from SLV have to do, in my opinion, with the conversion of shares into metal to avoid the SEC's 5% share ownership reporting requirements by a big buyer (JPMorgan). That's bullish, not bearish. Since JPMorgan is a shrewd crook, my sense is that it wasn't the bank buying on Friday's big high volume price move. Instead, the buying in SLV was broad based, as has been the case in gold and GLD. As such, big silver metal deposits, on the order of six million oz or more should have been made into the SLV. As of last night, no deposits were reported.

As I have written over the years, the only way net new buying in SLV (or GLD) can be delayed or avoided is if the sellers to the net new buyers short shares and fail to abide by the prospectus to secure and deposit metal as required. If such short selling occurs, it is generally revealed in the next short interest report. However, since Friday (January 16) was a day after the cutoff for the next short report (due in a week or so), if there was big short selling on Friday in SLV, as I suspect, we'll have to wait until the following report.

But the important question is this Â? why wasn't metal deposited into SLV when it was deposited into GLD under remarkably similar trading circumstances? The most plausible answer is because gold was available for deposit, while silver was not. Even if the delay in SLV is relatively short, say a matter of days, it is clear that there was a delay in depositing silver while there was no delay in gold. Again, that is not intended as a knock on gold, just that the GLD functioned as it should have functioned and gold was available for deposit. Clearly, that was not the case in SLV.

Unless the Authorized Participants and sponsor in SLV are just looking to draw unnecessary negative attention to themselves, the most plausible explanation for why silver was not deposited into SLV was because the metal was not available. Most astounding of all is that this is a circumstance with precedence, in that it has occurred on many occasions in the past in SLV and, according to my memory, never or hardly ever in GLD. I'm not trying to trick you (or myself), but the word used to describe the inability to deliver a physical commodity in a required timely manner is shortage. Please look up the definition yourself.

If this was a one-off circumstance, I might be justly accused of unnecessarily inflaming an otherwise innocent situation for my own advantage. After all, exaggeration seems to be the norm in precious metals commentary. But the failure or delay in making this metal deposit into SLV, along with the series of counterintuitive deposits/withdrawals in this and other silver ETFs, goes hand in glove with all the other unusual happenings in the wholesale physical silver market (think COMEX silver warehouse turnover).

In fact, this failure/delay in depositing silver when it should have been deposited goes to the heart of the silver story. You know the story Â? because there is so much less available silver than gold in the world as a result of a half-century of deficit industrial consumption and because silver is the one true dual use commodity (industrial and investment), any burst of investment demand will trip off a shortage. Well guess what Â? we just got a burst of investment demand last Friday in SLV and what resulted (no big deposit) can be reasonably be termed a shortage; maybe not a big and lasting shortage, but certainly within the true meaning of the word. Like most anything else, shortage is a matter of degree and it's a heck of lot easier to transform into a severe shortage from a mild shortage than from no shortage at all.

Because silver is the most manipulated market in the world, thanks to JPMorgan and other related CME crooks, I don't expect these criminals to roll over and play dead, even if JPMorgan has amassed as much physical silver as I think. But the one sure end to the silver manipulation will come from a physical shortage and most of which I write about concerns indications of that coming shortage. That's not to minimize the chance that the crooked COMEX commercials won't attempt to rig prices lower, but that also explains why silver is still priced so cheaply currently.

The US Mint reported sales of Silver Eagles of nearly 1 million coins yesterday, adding to already healthy sales month to date. It's too soon to make valid conclusions at this point because January is traditionally a strong month for a variety of reasons. It will probably be deep into February before I can get a read about true demand, including whether JPMorgan (aka Mr. Big) is still buying.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I would expect Friday's COT report to show increased speculative buying and an increase in the total commercial net short position, probably quite significant in both gold and silver. Through yesterday's cutoff, total open interest in gold is up by 28,000 contracts for the reporting week, so unless there was a marked increase in spread trading, it's hard not to imagine a big jump in commercial shorting. Total open interest increased by less than 3000 contracts in silver over the reporting week but that probably understates the increase in the headline number of the total commercial net short position, although I do hope I'm wrong.

I'll be paying particular attention to what the 8 big COMEX shorts did in the way of adding new shorts, especially in silver. Even with big new concentrated shorting in gold, it is hard to make a case for manipulation considering the small percentage that even a big increase would represent when compared to world annual gold production and the amount of gold bullion in existence. In silver, it's different because the big 4 and 8 concentrated short position is already off the charts on both measures.

Up until the last COT report, the bulk (80%) of the commercial selling in silver since November has been long liquidation on the part of the raptors (the smaller commercials apart from the big 8), rather than new shorting by the big 4 and 8. But with not many raptor long contracts left to liquidate (12,500 in the last COT report), any new commercial selling beyond that must be new short selling by the big 8 or new shorting by the raptors. Since the raptors haven't gone significantly short in years, it looks like any heavy commercial selling from this point would come from the big 4 and 8. If that were to occur, everyone should have a problem with that.

With the price of silver below the average primary cost of production, the number of legitimate hedgers looking to sell and lock in current prices should be as rare as a hen's teeth. So, if there is a notable increase in short selling by the big 4 and 8, those short sales can only be designed to cap and manipulate the price. No greater proof of manipulation is possible than one or a few traders being the sole short sellers. I suspect that will be the case but maybe I'll be wrong.

In the meantime, the bullish reasons for buying gold and silver seem to increase daily from a review of world events, while the reasons why prices may instead sell off is still confined to one, namely, the unbelievably corrupt COMEX. Because there is only one possible negative, the odds long term are stacked to the upside.

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Silver – $18.20

Gold – $1295

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