January 31, 2015 – Weekly Review

Weekly Review

The three week precious metals rally of the New Year ended with a thud for silver, but less so for gold. Thanks to a strong rally on Friday, gold ended the week only $10 (0.8%) lower, while silver was still smashed for $1.05 (5.7%) for the week. As a result of silver's underperformance, the silver/gold price ratio widened out by nearly 4 full points to just under 75 to 1.

This put silver close to the cheapest it has been relative to gold in years and the nature and cause of the price action this week suggests that it wouldn't be surprising for silver to get even relatively (and absolutely) cheaper in the near term. But that same cause for potential short term weakness, when combined with the verifiable facts concerning actual metal supply and demand, still argue powerfully for a long term outperformance by silver that will shock many.

If you came away from this week's price performance sensing that there was an intent and deliberation behind the pronounced weakness in silver, your senses have not failed you. It goes without saying that something caused the relative and absolute price smash in silver and, by process of elimination, it had nothing to do with actual metal fundamentals or even perceived fundamentals and everything to do with deliberate actions on the COMEX.

That more are seeing this is good; that some still insist otherwise can only be attributed to a vain refusal to admit to not comprehending the obvious sooner. It has gotten to the point where the only remaining manipulation deniers (apart from the regulators) are those who always denied the price manipulation and whose egos stand in the way of any open reassessment, no matter what the facts. I'll come back to this later.

The turnover, or physical movement of 1000 oz bars into and out from the COMEX-approved silver warehouses abated a bit this week from the average weekly turnover of close to 5 million oz, as Â?onlyÂ? 2.4 million oz were moved; including a very rare day of zero movement and another where only 36,000 oz were moved. Total COMEX silver inventories rose by 1.4 million oz to 178.1 million oz. As a reminder, I report on this physical silver movement on the COMEX continuously because it appeared out of the blue four years ago and is still specific and unique to silver of all commodities. I certainly didn't anticipate it occurring and can't possibly know if it will continue.

In contemplating what can only be called a highly unusual situation, I have offered the conclusion that such an intense physical turnover is indicative of overall physical tightness, which happens to be the precursor of shortage and my prime final ending for silver. The warehouse movement and several other occurrences also dovetails completely with my speculation that JPMorgan has amassed an historical stockpile of silver, although that thought only occurred to me over the past year or so. I continue to be amazed that the COMEX silver warehouse movement, which is reported daily, has become virtually Â?unmentionableÂ? in analytical circles in terms of why it is occurring. If you have any thoughts as to why this may be the case, please drop me a line.

There were no notable deposits/withdrawals in the big silver ETF, SLV, since Wednesday's report, although given the price volatility and trading volume I would imagine some changes in the near future. But given the counterintuitive experience to date, I couldn't guess whether it would be a big deposit or withdrawal; or both. The big gold ETF, GLD, did report another big deposit (182,000 oz) on Wednesday and it would appear that and other recent gold deposits have been effected to reduce the short position. The same should be happening in SLV and probably would be if there were sufficient supplies of available metal to do so. (All eyes will be on the next stock short interest report of Feb 10, for the two-week reporting period that ended yesterday.)

January turned out to be the fairly strong month it traditionally is in terms of demand for coins from the US Mint. As previously explained, there are a number of reasons why January has usually been the strongest month for sales of Silver and Gold Eagles and we'll have to wait to see if the extraordinary sales pace for Silver Eagles of the past few years is maintained. About the only thing to be concluded about January's sales of Silver Eagles (5.53 million) is that the Mint appears to be producing to full production/blank supply capacity.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were, once again, expected and unwelcomed. In last week's review I wrote that I expected that there was another large increase in commercial shorting in gold, as well as an increase in the managed money gold long position since the previous cut-off. I didn't mention silver, but that matters little, as both markets witnessed large increases in the headline number of the total commercial net short position. It wasn't that the price gains were so large after the cutoff, but more that the slight new price highs during the reporting week were multi-month highs and as such, were prime motivation for technical fund buying. About the only good thing I can say is that, thanks to Thursday's wicked sell-off, next Friday's COT report shouldn't show a continued increase in the headline number (at least through yesterday).

In COMEX gold futures, the total commercial net short position increased by a hefty 28,400 contracts to 206,200 contracts, another high-water mark extending back to December 2012, when gold was priced close to $1700. Since Nov 11, the commercials have increased their total net short position by 150,000 contracts (15 million oz); since December 23, by 100,000 contracts (10 million oz). It is very rare (my way of saying I can't recall to the contrary) when an increase of 100,000 to 150,000 contracts in the total commercial net short position hasn't resulted in a notable price decline soon afterwards. I am fairly sure that someday this pattern will be broken (more so in silver, than in gold), but I am completely uncertain if that day is this day.

By commercial category in gold, it was once again a cohesive and collusive affair as all three commercial categories added aggressively to short positions. The 4 largest shorts added more than 13,000 new shorts, the big 5 thru 8 added 7000 new shorts and the raptors (the smaller commercials) added 8000 new shorts. I know the CFTC and the CME would contend that these commercials are merely Â?making marketsÂ? to accommodate speculative buying, but there is a fine line between serving as a market maker and capping, controlling and manipulating prices. As I hope to show in silver in a moment, that line isn't fine in any way.

On the buy side in gold, as is usually the case and fully expected this week, it was mostly the technical funds in the managed money category that were the big buyers. These traders accounted for nearly 24,000 gold contracts bought, including 17,508 contracts of new long positions, putting the managed money long position at more than 173,000 contracts, the highest level in more than two years. It wasn't that long ago that I was remarking that managed money longs weren't that large in gold. I can't say that any more. As such and whether or not many new technical fund long positions are put on (at higher prices), the risk of liquidation on lower prices is high. The remaining level of short contracts in the managed money gold category is now low enough (under 20,000 contracts) that no significant additional short covering is likely and the potential for new shorting (only on lower prices) is greater.

In COMEX silver futures, the total commercial net short position rose again by a hefty 6000 contracts (30 million oz) to 61,600 contracts. This is the highest level of the total commercial net short position since October 2010. (The price of silver did then advance in an historic manner over the next six months, so it is important to remember that anything is possible, but I have a different point today).

By commercial category, the big 4 (read JPMorgan) added 1500 contracts, the big 5 thru 8 added 1900 new shorts and the raptors sold out an additional 2600 contracts of existing long positions. The raptors' net long position has been reduced to 3700 contracts, about as low as it has been in more than two years. I'd peg JPMorgan's net short position to be close to 20,000 contracts or triple what it was a few months ago and next week's Bank Participation Report should help clarify the matter.

The buy side in silver was mostly the technical fund affair as is usually the case, as traders in the managed money category accounted for nearly all the 6000 commercial contracts sold, including an expected additional short covering of more than 4100 contracts. Now with less than 8000 contracts held short in the managed money category, there is likely little technical fund short covering left, same as in gold. The big question is whether the technical fund traders can be lured into selling heavily short on lower prices. I'll save that discussion for a later date. There is room for technical fund long liquidation of at least 10,000 contracts on lower prices, even if my contention that there may be 40,000 long positions in the managed money category not affiliated with technical funds.

If you got the impression last week that someone was intentionally and deliberately trying (and succeeding) to drive silver prices lower, you haven't taken leave of your senses. As I concluded in last week's review, some expectation of lower prices was reasonable considering the lopsided nature of the COT structure. Clearly, after this week's COT, short term caution is still advisable, although the bullish prospects for the long term are still firmly intact. I know I have beaten this issue to death but I ask you to bear with me and allow me to try to explain again just what's at stake in silver. I know it's complicated but I will try to make it as simple as possible.

The core issue in silver is the existence of a concentrated position by eight traders on the short side of COMEX silver. This is the same issue that drew me to silver almost 30 years ago. What's a concentrated position and why is it important? Simply put, a concentrated position is a large market position held by a small number of traders. The key part is the small number of traders, rather than the size of the position, since even the largest market position held by a very large number of traders could never be called concentrated and should never be a problem. The more participants in a market, the freer and healthier that market is considered to be. After all, it would be absurd to consider any market with large numbers of participants to be manipulated.

Manipulation can only occur if one side of any market is controlled by a small number of participants. I would define manipulation as the artificial setting of price, either high or low. Just because a market is priced high or low doesn't mean the price is artificial or manipulated. But if a market that appears to be priced artificially high or low also has the presence of only a few participants concentrated on one side of the market, then the question of manipulation rises to the forefront. That's because it is impossible for a manipulation to exist without a concentrated position.

Want proof? Then look at any long form COT report for any commodity. The CFTC provides weekly detailed concentration data for every regulated commodity as a safeguard against manipulation. This is fitting as preventing manipulation is the CFTC's most important mission and monitoring concentration is the most efficient protection against manipulation. I always raised the issue of concentration on the short side of COMEX silver with the CFTC in all the investigations I have persuaded them to conduct. The only reason the agency conducted those investigations was because concentration and manipulation go hand in hand and their own data indicated the concentration. That the agency has closed those investigations without specifically addressing the issue of concentration is a reflection on them, not on me or you.

Concentrated positions can exist on either the long side or short side of any market. Just about everyone can understand that the Hunt Brothers manipulated the price of silver to an artificially high price level in 1980 by buying so much silver that it deliberately drove the price higher. But even the most intelligent person can be confused by the concept of short selling, to say nothing of a concentrated short position, even though the concentrated short position on the COMEX today is much greater than the Hunts' concentrated long position. Admittedly, this has been a factor in more not recognizing that silver has been manipulated to the downside. Not only is higher education of critical importance for the future for the US and the world; it is vital in silver

This week, the CFTC reported that eight traders on the COMEX held 65,301 contracts of silver net short, close to the highest level in years. That is the equivalent of more than 326 million ounces of silver. It is also the equivalent of more than 40% of world annual mine production and 150 days of world mine production, an amount unequalled among all commodities. By comparison, the concentrated short position in COMEX copper is less than 10 days of world production. With silver priced close to the lowest level in years and below the average primary cost of production, it is hard, if not impossible, to explain the existence of the largest concentrated short position in terms of hedging by mining companies or other legitimate hedgers.

Moreover, the concentrated short position in COMEX silver is mostly held by US and foreign banks, according to data in the Bank Participation Report. There are not many physical commodities where the banks control a larger share of market concentration than they do in COMEX silver futures and those few markets are run by the CME Group, the same self-regulatory organization that is supposed to be the front line regulator in silver.

Again, the issue is not that there are 326 million ounces held short in COMEX silver futures. The issue is that the 326 million oz are held short by only eight traders and there is good reason to believe that position is responsible for an artificially low price. Certainly, no one would argue that silver prices appear artificially high based upon all the documented evidence, but if silver prices did move to extremely high levels and there was a documented concentrated long position, no one would need to petition the regulators for answers about that concentration. And you'll notice that the few remaining deniers of the silver manipulation, never dare utter the word concentration (if they even grasp the meaning of the word) because it would expose the matter once and for all.

That leads us to what happens now? The reality is that the short side concentration in COMEX silver exists and is responsible for the low price. No one can reasonably suggest that absent the concentrated short position, the price wouldn't be dramatically higher. Another reality is that the CFTC and the CME will never move against it for the simple reason that to do so now would expose and embarrass these institutions in a way that could destroy them. Yet another reality is the growing awareness that silver is manipulated by an undeniable concentrated short position that the regulators dare not address. That creates the strong likelihood that enough of the world's investors will focus on the facts of the concentration and move to take advantage of it.

The beauty of more outsiders becoming aware that the price of silver is manipulated by a short side concentration rests not only in explaining why silver is priced artificially low, but also in how to take advantage of it. By this I mean that well-heeled investors (of which there are more daily in our very unequal world of wealth distribution) upon learning of the true facts behind silver's artificial low price are not likely to fall into the trap of the paper speculators on the COMEX.

While I can't give you the timing, when large investors come to learn how silver has been manipulated lower, they will most likely not fall into the trap of speculating in leveraged paper contracts, but will instead look to buy the real thing. After all, anyone newly exposed to why silver is so low would have little reason not to buy real metal (including ETFs). Imagine if you will, what it would be liked if a well-known activist investor, like a Carl Icahn or Bill Ackerman or any of the many hundreds of such investors in the world came to learn of the particulars in silver and then took a position and sought, as is their normal custom, to broadcast the facts to the world to encourage others to invest.

This is certainly in keeping with the eventual physical silver shortage I foresee in silver due to its dual demand nature (industrial and investment) and is merely a suggestion for how it can be accelerated. In the meantime, the COT structure does not seem configured for higher prices in the short term, barring some unforeseen event (like I just described). Certainly, there are more world factors than ever pointing to higher silver (and gold) prices and still only one negative. That one negative, positioning on the COMEX, was responsible for last week's selloff and should we continue to selloff in the short term, is the only possible explanation in advance.

Ted Butler

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Silver – $17.25

Gold – $1284

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