January 9, 2016 – Weekly Review/Eureka Moment?

Weekly Review

Against a backdrop of sharply lower world stock markets, the price of gold soared by $44 (4.2%)on the week, while silver, courtesy of a sharp Friday selloff, managed to add only 11 cents (0.8%). As a result of gold's significant relative over performance, the silver/gold price ratio widened by a hefty 2.6 points to 79.3 to 1. This is, by some small margin, the most undervalued silver has been to gold since late 2008.

As an ardent proponent of the long term merits of switching gold positions into silver, I don't believe I am simply being stubborn in continuing to advocate such a switch. I certainly don't believe that gold is overvalued in price; it's purely a case of silver being dramatically undervalued relative to gold. And the cause of silver's absolute and relative extreme undervaluation sits in full view to all who care to know.

Gold's gain this week and silver's sloppy performance had nothing to do with stock market weakness or any pronounced flight to safety. That flight to investment higher ground featuring a rush to gold and silver may well develop given the world financial background; but there are few indications that occurred over the past week (except in one's imagination). Likewise, there was no evidence whatsoever of any real rush by investors switching physical silver positions into physical gold positions. All the recent verifiable evidence (such as official coin statistics) points to actual silver investments being much stronger relative to gold on any historical metric.

So if it's not investors rushing to gold and not silver, or investors switching silver positions into gold, then what the heck accounts for silver's increasing relative undervaluation? The same thing that always moves gold and silver prices, namely, COMEX futures positioning. Later on, I'll dig into some brand new findings dealing with COMEX positioning, but let me run through the usual weekly format first.

The turnover or weekly physical movement of metal brought into or taken out from the six COMEX-approved silver warehouses remained close to the average weekly levels of past months, as just over 3 million oz were moved and total COMEX inventories increased by 0.7 million oz to 161.4 million oz.

I continue to maintain, as I have for going on 5 years, that this previously unprecedented frantic turnover in COMEX silver inventories was one of the most unusual developments I've run across over the past three decades. I also continue to believe that this physical silver movement reflects a tightness in the wholesale market. Finally, I continue to be amazed about how little attention the COMEX silver warehouse turnover has garnered, even though the data is available daily and is widely followed.

This week I was amazed anew about a report highlighting a recent 3.5 million oz switch in COMEX silver inventories from the registered to eligible category. Such a switch, while somewhat unusual, did not involve any physical movement in any way and there was no indication of any change in ownership – all that was known was the change in category; not one ounce was physically moved. Yet the report suggested all sorts of big doings because the category switch.

What amazes me the most is that the daily report from the CME that provided the data on the category switch is the same report which has indicated that much more than 3.5 million oz of silver have been physically moved on average each week for the past nearly 5 years.
Yet the author (nor hardly any other) saw fit to reference the incredible weekly physical movement over the past 5 years and chose instead to focus on a paper work (if that) reclassification of metal that was not physically moved in any way.

Somewhere around a billion ounces of actual silver have been physically moved in and out the COMEX warehouses cumulatively over the past five years with hardly any mention, despite no similar movement occurring in the inventory of any other commodity, with virtually no mention. Yet a one-time non-movement category classification change attracts attention. What am I missing?

More than 300,000 oz of gold was brought into the big gold ETF, GLD, this week as was befitting the climb in gold prices and increased trading volume. This is how it is supposed to work ? higher prices and increased trading volume are highly suggestive of net new investor buying, which requires new metal be deposited into this hard metal ETF. Of course, what is usual doesn't always apply to the big silver ETF, SLV, where close to 1.5 million oz of metal was removed from the trust this week. It wouldn't appear that there should be a silver deposit, given the subdued price action in silver relative to gold and the very low trading volume (up until Thursday); but an actual withdrawal was still in the counterintuitive category. My best explanation for the withdrawal ? someone converting shares to metal to avoid ownership reporting requirements.

The changes in this week's Commitments of Traders (COT) Report were largely within my expectations, although I did fall short in my predictions for gold. The reporting week covered four trading days, including the first two trading days of the New Year, in which gold decisively penetrated and closed above its 20 day moving average, while silver failed to do so (on a closing basis). On that consideration I expected an increase in technical fund buying and commercial selling in gold, but not in silver. Of course, this is all through the Tuesday cutoff, and doesn't include the active positioning from the cutoff.

In COMEX gold futures, the commercials only increased their total net short position by 3900 contracts to 19,300 contracts (I had guessed an increase of 15,000 to 20,000 contracts, and came much closer, but still shy in the alternative managed money headline number). It's also possible the data may not have been completely timely, given the monumental CFTC screw up in the Bank Participation Report, also released yesterday. In any event, the small increase in the total commercial net short position, included an 1300 contract reduction in the short position of the big 4, who swam against a 4600 contract sale of raptor long positions and a 600 contract increase in the short position of the big 5 thru 8.

On the buy side of gold, it was all the managed money category to the tune of nearly 11,300 contracts, including new buying of 3661 long contracts and the short covering of 7613 contracts. No doubt there has been very significant managed money buying and commercial selling in gold since the cutoff, as prices powered through the important 50 day moving average for the first time in two months.

In COMEX silver futures, there was a net reduction of 1100 contracts in the commercial total net short position to 28,800 contracts. The big 4 reduced their net short position by 1100 contracts, while the raptors sold 800 longs and the big 5 thru 8 added 800 shorts. I've been calculating JPMorgan's net short position as 12,000 contracts but now feel I may be underestimating the bank's silver short position by 2000 to 3000 contracts.

I had hoped to recalibrate JPM's position with yesterday's Bank Participation Report, but no such hope was realized as there was something screwy about the report, the minute Ed Steer told me the numbers (I hadn't looked at them yet). To make a long story short, not only did some sub-category changes look suspect, the total open interest numbers given were markedly different from the numbers given in the companion COT report; which is impossible given that both reports are derived from the exact same data as of the same day (Tuesday).

I've uncovered a few (very few) errors in the COT report over the years, mostly of the timing variety and I have no real concerns about accuracy of the current COT report (unless the CFTC is deliberately adjusting COT reports to match my predictions ? only kidding). But this is the first time I've seen a COT or Bank Participation Report flat out wrong in the COMEX/NYMEX metals that I follow. I'm not sure and not that interested in the other markets covered, but I would expect the CFTC to correct the report Monday, once they become aware of it. I'll send them today's article as I always do and maybe this will be their first notice about the Bank Participation being issued in error. If so, I hope they read further, because I'll have some rather choice remarks about their regulation away from issuing incorrect reports.

While the commercials were slight net buyers in silver, the managed money traders were net buyers as well, in selling 156 long contracts and buying back 908 shorts. These are insignificant changes that should not be overly focused on apart from indicating no serious change in the bullish market structure that existed in silver and gold through Tuesday. What about changes since Tuesday?

Aside from there being two full trading days left in the current reporting week, the trading activity over the past three day is not that easy to handicap, particularly in silver. In gold, the sharp closing penetration of the 50 day moving average on very heavy trading volume would seem to indicate an increase in commercial selling and technical fund buying of significant amounts, anywhere from 30,000 to 40,000 (or more) net contracts, were the report as of today.

Silver is much trickier, in that there was heavy commercial selling and technical fund buying on Thursday's rally above the 20 day moving average, which kissed but did not close above the 50 day moving average. In contract terms, perhaps 10,000 contracts or more were repositioned on Thursday. But along came Friday with a very heavy volume selloff which sent silver prices back below its 20 day moving average. You just know that a bunch of commercial contracts were sold and a bunch of technical fund contacts were bought on Thursday and close to the opposite occurred on Friday.

In fact, it is the almost impossible to describe in legitimate terms silver price action that caught my interest over the past two trading days. Over the past month, there were at least three separate occasions in which silver first rallied sharply in a single day, only to lose most of those gains the next day; and one other occasion where silver rallied over a few days, only to lose its gains in one day. This highly unusual price behavior, even for silver, the world's most manipulated market. Certainly, there are no legitimate actual supply/demand explanations for this kind of erratic price behavior because there are never legitimate explanations for the price movement in silver. It always comes down to who's zooming who on the COMEX – check that – it always comes down to how the commercials are zooming the technical funds.

Another Eureka Moment?

I've had a good number of Eureka (?I have found it!?) Moments with silver, starting from my first, 30 years ago, when it dawned on me that it was unique to silver that it had a much larger open interest on the COMEX than any other commodity relative to real world amounts. When the paper derivative COMEX futures open interest was converted to real world amounts, only in silver was that amount much larger and off the charts compared to every other commodity. In fact, the open long and short position in COMEX silver was larger than world annual production of actual metal, something not indicated in any other commodity.

It struck me as preposterous that this was so, since having a paper derivatives position greater than what was actually produced in a year was akin to the tail of a dog being larger in mass than the dog itself. In such a circumstance, how could the tail not wag the dog? Alternatively, how could a paper market larger than the host physical market not dictate prices to the physical market? I quickly focused on the COMEX short position and its undue concentration as being the prime cause of silver being manipulated in price. Remarkably, these findings have remained constant in the three decades that followed.

Other Eureka Moments include first discovering, before 1996, that precious metals leasing explained an artificial oversupply of actual gold and silver being dumped on the market by central banks. This leasing of precious metals was about the most convoluted and hare-brained scheme ever devised by Wall Street and was so stupid and manipulative that it had to come to an end at some point. Precious metals leasing did end, as it had to, but not before many years passed by and mining companies like Barrick and AngloGold lost tens of billions of dollars. (Perhaps there is a lesson and encouragement here for those who believe that the COME manipulation will last indefinitely).

My next Eureka Moment occurred when I uncovered that JPMorgan became the big COMEX silver short manipulator with its acquisition of Bear Stearns in 2008 and then uncovering that the bank accumulated a massive amount of physical silver (400 million oz) over the past five years. Interestingly, all my discovery moments came in closely studying and contemplating the silver market from all angles; so while they were very surprising in some sense, their discovery wasn't purely accidental because there was an intent to uncover them.

Starting more than 30 years ago, I also embarked on a study of the Commitments of Traders (COT) Report that has only grown more intense over the years. The COT reports not only fully explain past and prospective price cycles, the data contained therein provide the primary proof that silver has been and is manipulated in price. The COT data show that COMEX futures market positioning is so influential on silver and gold pricing that it is no surprise that more analysts and commentators than ever write about the reports. Please accept all this as an introduction to what I believe to be another Eureka Moment in silver (and gold) that occurred to me over just the past few days.

For the better part of two months, I and many others have been reporting on the extremely bullish market structure that has existed in COMEX silver and gold. The managed money technical funds had sold a record or near record amount of short contracts on the price decline from the end of October into November and December; thus setting up the near certainty of a price rally of some undetermined proportion. This is the essence of the COT market structure premise.

It is the incredibly weak market rally which started to unfold this week in gold, but most particularly in silver, that has led to another Eureka Moment for me. First, let me describe what happened this week and who was behind it, before I get to what it may portend. We do need to start a bit earlier to begin to understand what I think occurred this week.

A quick look at gold and silver price charts since the top in prices in 2011 will reveal a point I've made often, namely, that there has been a pronounced pattern of new lows in which the price rallies have become progressively weaker. From the price highs in 2011, following severe price declines, the rallies in silver have gone from more than ten dollars, to $7, to $5, to $3 and, more recently, less than $2. In gold, from its price highs in 2011, after big takedowns in price, subsequent rallies have ranged from $300, to $200 and more recently gold rallies have been around $100. All the selloffs and subsequent and progressively weaker rallies have been fully explained and foretold by the market structure and positioning changes on the COMEX, as proven in the COT data. This is why so many have adopted the COT market structure premise.

What occurred this week in gold, but especially in silver, shocked me, to the point of me saying to myself that something was seriously wrong (remember, being such a fervent believer that prices are manipulated, I should be the least shocked about anything that transpires price wise). What shocked me was the level of aggression on the part of the commercials to sell into the managed money technical fund buying that occurred.

There is no question, as I've described incessantly, that after the technical funds establish an extreme short position on declining prices, it's only a matter of time before prices then rise enough to meet the key moving averages which have been moving lower, and the technical funds begin to buy as prices move higher. There is also no question of the manner in which the technical funds buy ? at the market (the most aggressive form of buy order).

Say what you wish about the technical funds as to their motivation and reasons for why they behave as they do; there is no question as to what they actually do (buy on higher prices, sell on lower prices) and how they do it (with at-the-market buy and sell orders). There is also no question that the technical funds are incredibly consistent, because if they weren't, there would be no great rush of acceptance for the COT market structure premise. Furthermore, it is simple to see that the managed money technical funds behaved this week as they have always behaved, namely, they bought a large number of gold and silver contracts as important moving averages were penetrated to the upside ? same as always.

Because the managed money technical funds always behave in the same manner (buying to the upside) and because these funds have built up historic or near historic short positions, it is simple to conclude that the buying that next occurs should be the most forceful buying ever. As such, the price advance should be among the most forceful in history. This is a simple mechanical process and underscores my big move premise in silver.

But the simple observation this week and on the single day reversals in silver following strong rallies over the past month, indicates a much different pattern than suggested by the massive aggressive buying indicated by the large technical fund short position. In other words, something overpowered and neutralized the bullish price effect of aggressive technical fund buying. The something that was wrong was even more aggressive selling by the commercials into technical fund buying.

At first, this may appear to be no big new finding, since I have always characterized pending gold and silver prices rallies as being dependent upon how aggressive the commercials were in selling to the technical funds. But just because this is not a brand new finding, does it mean there is not something new to learn from it. When you step back and put this into perspective, much about the price action of the past few years is explained.

Since the managed money technical funds have increased the size of their positions over the years, their influence on pri

Date Created
2016/01/09