

July 2, 2016 – Weekly Review

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Paced by a stunning late week rally in silver, prices of gold and silver rose for the fifth consecutive week; gold by \$24 (1.8%) and silver by \$2.02 (11.4%). This was the highest weekly closing in two years for gold and nearly that long for silver. Generally, I'm not focused on performance in set time periods, but if any assets have advanced more this year (away from the mining stocks), then I am unaware of those better performing assets.

As a result of silver's extreme relative outperformance this week, the silver/gold price ratio tightened in by a rarely seen six full points, to just under 68 to 1, the lowest level in one and a half years. What this means in practical terms is that anyone who switched gold into silver over the past 1.5 years is now better off for having done so. However, those who switched from gold to silver when the price ratio was lower, have some ways to go before being better off. Everything I look at tells me that silver will vastly outperform gold longer term, but I still plead ignorance as to which way the ratio moves short term.

My premise for silver's eventual relative outperformance is centers on the base of the available investable physical quantities of silver being a fraction of the base of available gold in dollar terms and the fact that silver is the most manipulated commodity in the world. Sooner or later, those factors will be dealt with. But it occurs to me that, away from my own premise for favoring silver over gold, there is an almost universal and subliminal opinion that silver will outperform gold. Let me cite two examples from this past week for what I am talking about.

First, there was widely circulated 150 page report issued this week, the 10th annual "In Gold We Trust" by Ronald-Peter Stoferle and Mark Valek. (I'm getting virus warnings on the link to the long version of the report, so rather than provide that link I would ask to look up the link later, as it's widely available). But allow me to provide what I believe was the money quote of the report, from page 119 "Should our assumption of an upturn in the trend of price inflation turn out to be correct, silver will be one of the investment assets likely to benefit the most from the inflationary trend in coming years. **At a gold price of USD 2,300 and a gold/silver ratio of 40 (which would appear quite realistic to us in an environment of rising inflation) the price of silver would stand at USD 57.50.**"

I offer no opinion on the merits of the report, because it's not my place to praise or critique others. But in taking the authors' own words, they conclude that gold will likely rise by 75% and silver by 225%, or three times greater than gold. I ask you ^ if you thought silver would rise three times more than gold, wouldn't you say buy silver first and then gold?

Another report this week suggested that gold could rise to \$12,000 and silver to \$360 per ounce. Those are pretty high price targets, but the same circumstance still exists ^ gold is projected to rise by 9 times and silver by 18 times, or double the rise in gold. Maybe I'm keeping it too simple, but I'm not distorting anyone's words or price projections ^ I'm just asking a simple question ^ doesn't one buy the investment he or she believes will go up the most?

Turning to one other development this week, before I get into the usual format, on Thursday, I was surprised to read that JPMorgan was successful in having another COMEX silver manipulation case filed against it dismissed. No, of course, I wasn't surprised that JPMorgan was sued for manipulating the COMEX silver market or that the case was dismissed, I just wasn't aware that the case(s) existed in the first place. I was surprised because any lawsuits against any bank for manipulating silver or gold are always widely discussed on the Internet; to say nothing about lawsuits against JPMorgan for manipulating COMEX silver and this was the first I heard of them.

<http://www.reuters.com/article/us-jpmorgan-lawsuit-silver-idUSKCN0ZF2IG>

After looking into the matter, it became clear that the reason the cases may have not been in the limelight previously was because the nexus of the case involved COMEX silver spread trading and not a manipulation of the absolute price of silver. Regular readers may know that spreads are specialized transactions which involve the simultaneous purchase of one trading month and sale of a different trading month of the same commodity.

Since a spread holder is almost always long and short different months of the same commodity in balanced amounts, a big move up or down in a commodity generally has no bearing on the spread holder, as his or her profit or loss is determined not by how much the commodity may rise or fall, but by the change in the differences between the months involved. None of this is of much concern to the vast majority of silver or gold investors and it is understandable that the lawsuits may have remained below the radar for that reason.

Additionally, the plaintiffs in the case were sophisticated traders, experienced hedge funds well-versed in the intricacies of COMEX silver (and gold) spread trading. One of the plaintiffs, also considered a world-class high stakes poker player, has an established history of controversial and spectacular COMEX spread forays (incidentally, racking up an impressive regulatory record). I believe it is fair to characterize the plaintiffs as market plungers, at least in spread trading terms and as such they were involved in COMEX silver in ways not shared by most silver investors or traders. The traders in question deal in spreads involving thousands and even tens of thousands of silver and gold contracts, playing for differential changes between the months mostly overlooked by the majority of market observers. This type of spread trading is practiced by a very small number of traders.

That said, there is much to glean from the news. Certainly there are some things no one would argue about. The plaintiffs, obviously, lost a lot of money — otherwise they wouldn't have sued. Since they sued JPMorgan, the bank was obviously on the other side of the trade and a big winner (remember my finding that JPM has never lost in silver?). It's also clear that JPMorgan was (is) the big kahuna in COMEX silver spread trading because the bank took on what had to be very large spread trades. Certainly, in their successful quest to get the case dismissed, JPMorgan's lawyers didn't claim that JPM wasn't the biggest factor in COMEX silver spread trading. I would ask you to stop right there and consider how extraordinary all this is.

In case after case, starting with the CFTC's five year investigation that I helped initiate in 2008, to the class action civil lawsuits that followed, whether stated overtly or not, JPMorgan is always the center of the allegations of wrongdoing in COMEX silver. And it all can be traced to JPMorgan taking over Bear Stearns in 2008. That is nothing short of extraordinary. I know that the thrust of US law centers on the presumption of innocence, but how many times must a rapist be charged and not convicted before bells and whistles go off? And the method of JPM's defense is a cover up when it comes to the CFTC investigation and the seeking of dismissals in civil cases to prevent discovery. A friend commented that this was why I have never been sued for calling these market crooks out — I don't think there is a way for JPMorgan to silence me without me openly stating my defense, namely, presenting the evidence behind me calling them crooked.

But the biggest thing in all these allegations and lawsuits against JPMorgan is the absolute absurdity that the nation's most important bank is even involved in COMEX silver in the first place, to say nothing of dominating every aspect of the market. Who the heck died and left these crooks in charge of silver? There was much talk several years back of making sure that the banks no longer dealt in commodities and the opposite has occurred in silver. Of course, seeing how JPMorgan has acquired massive amounts of physical silver over the past five years, the path to much higher prices is more assured than ever and silver investors will be greatly rewarded because of that. But that doesn't change the fact that JPMorgan is the silver price manipulator and an undeniable crook.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses slipped from the extraordinarily high levels of the past two weeks, but at nearly 5.8 million oz can hardly be called tepid. Total COMEX silver inventories rose by 0.3 million oz to 151.1 million oz, still close to three year lows. Activity in the JPMorgan warehouse was toned down as only 150,000 oz came in and 600,000 oz were removed this week, the withdrawal perhaps related to the one million oz JPM had to deliver in the June COMEX silver futures contract.

JPMorgan has continued to stop or take silver deliveries in the COMEX July contract for its own house account, having stopped 144 of the 682 contracts issued so far, or 21% of the total. Considering that less than 2000 contracts still remain open in July, it looks highly unlikely that JPM is looking to take the 1500 contract maximum limit allowed. At this point, I'd guess JPM will stop less than 600 contracts or so, although we're only two days into the delivery month. I get the feeling that JPM is laying off pressing for additional physical silver deliveries because it knows the market is too tight to accommodate it. Of course, I can't prove that.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Over in the COMEX July gold futures contract, normally a month that features few if any deliveries, since it is considered a non-traditional delivery month, JPMorgan has backed off completely in stopping or taking gold deliveries in its own house account. You'll remember that JPM took delivery of just over 6700 contracts last month in its own name, the most ever, with a client(s) also taking delivery of more than 4000 gold contracts. The big stopper this month is a client(s) of JPM again, for more than 2400 contracts of the 4019 issued so far, or 60% of total gold deliveries. Left to one's imagination is the relationship between JPM and its client(s). HSBC has remained the standout issuer of gold contracts both this month and last. I'm not sure what it means, other than this is another case proving the banks dominate gold and silver, but HSBC is the big stopper of silver contracts so far this month.

Earlier in the week, the new short report on stocks indicated an increase of nearly 2.5 million shares in the short position of SLV, increasing the total short position (following a string of declines) to 10.27 million shares (ounces). This was as of June 15. There was no big change in GLD, the big gold ETF. Of more concern in SLV was what happened in the strong silver rally ended Thursday, June 30 and yesterday, which won't be included in the next short report. I'm guessing there was a further increase and the increase was directly related to there not being enough physical silver available for immediate deposit. Based upon the high volume trading in SLV the past few days, as many as 5 to 10 million oz of physical silver are owed to the trust and I'll be monitoring daily deposits closely. One of these days, the short selling of shares of SLV in lieu of physical deposit will blow up in the short sellers' face and the chance of that occurring would seem to have increased based upon everything I observe.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Sales of Silver Eagles trailed off to the lowest monthly total for the year in June, a direct result of JPMorgan standing aside (just as the bank has stepped back from COMEX silver deliveries). The ironic aspect is that retail sales have just started to pick up and more than anything, this highlights the critical role JPM has played in buying Silver Eagles and Silver Maple Leafs over the past five years. It hasn't made a difference what the retail public does, if JPM buys Silver Eagles aggressively, the Mint can't keep up and should JPM step aside, the Mint is stuck with coins.

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

Onto the changes in this week's Commitments of Traders (COT) Report. As far as predictions, I was pretty close on silver, but way off in gold, where I estimated there would be an increase of 40,000 contracts in the headline commercial net short position and there was only an increase 14,000 contracts. Let me briefly explain why I was wrong because we're faced with the same circumstance this week.

My prediction was based upon the high volume and sharp price increase of last Friday, on the Brexit news. Total open interest expanded by 50,000 to 60,000 contracts that day (final vs preliminary). What accounted for the missing 26,000 contract increase in this week's report was an increase of that amount in gold spreads. Well, guess what almost the exact same situation exists today. The high volume gold rally yesterday has resulted in an increase in the preliminary total open interest in COMEX gold futures of close to 24,000 contracts. But was that an actual increase in commercial shorting and managed money buying (as I thought last week) or another big increase in gold spreads? Because I can't be sure and am not inclined to embarrass myself again, I'm just going to wait and see. Importantly, none of this greatly alters my money game analysis.

In COMEX gold futures, the total commercial net short position increased by 14,200 contracts to 326,300 contracts, yet another historical (bearish) extreme. Even if it wasn't increased by the amount I expected, the commercials have never been more net short COMEX gold (nor have the managed money traders been more net long). By commercial category, the big 4 added 9800 new short contracts, the big 5 thru 8 shorts added 3900 new shorts and the raptors chipped in with 500 additional short contracts. The concentrated short positions of both the 4 and 8 largest traders in COMEX gold futures have never been higher.

On the buy side of gold, the managed money traders added 10,959 new longs and bought back 317 short contracts. As just mentioned, this is the largest managed money long position in history, both on a gross and net basis. An alert reader noticed that there was a sharp increase in the number of gold contracts held by the 4 big longs, with a net increase in big 4 long holdings of 20,000 contracts this week and 15,000 contracts in the prior COT report. While I'd prefer the long positions in COMEX gold and silver remain in broad hands rather than concentrated hands, the concentrated short positions are still much larger than the concentrated long positions. The reason I'm concerned with any concentrated long positions is because the regulators have a history of going after big longs and not big shorts. More on this in a moment.

In COMEX silver futures, the commercials increased their total net short position by 5300 contracts to 95,200 contracts, the highest (most bearish) in history. Even more astounding is that the concentrated net short positions of the 4 and 8 largest traders have never been higher, with the 4 largest silver shorts holding 67,224 contracts net short (336 million oz) and the 8 largest shorts holding 97,665 contracts short (488 million oz). Apart from JPMorgan, I can't see how any big COMEX short could come up with the physical silver covering even one-tenth of the paper silver it holds short.

By commercial category, the big 4 increased their net short position by 1800 contracts and the raptors sold off 3200 longs, leaving the big 5 thru 8 as adding 300 new shorts. On the buy side, the managed money traders didn't add any new long contracts and actually sold 133 longs, while buying back 2217 short contracts. By virtue of the slight reduction in managed money long contracts, the managed money traders hold only a new record net long position (as opposed to also on a gross basis).

The key here is the concentrated nature of the silver short position. Eight t

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