July 20, 2016 – Waiting is the Hardest Part

The Waiting is the Hardest Part

Perhaps the most difficult aspect about long term investing is in dealing with the term part – that is, coping with what we know today with what will be in time. And it's not just about comparing today with many years from now; since the flow of data changes and evolves, there are times when having to wait even weeks and months can be challenging. Then again, there isn't much choice since everyone can't trade short term and the long term approach is the most viable. This is particularly true in silver (and gold).

While silver is undoubtedly a great long term investment at current prices, it has and can get buffeted in the shorter term. The principle agent for intermediate price volatility in silver and gold is, of course, positioning change on the COMEX. There can be little question that the current extreme positioning between the technical fund longs and commercial shorts will dictate gold and silver price direction as it is resolved.

If the commercial shorts do hold the line and succeed in inducing technical fund selling by rigging prices lower, they will have escaped being in their worst financial hole ever. If the commercials fail to hold the line and some rush to cover shorts to the upside for the very first time, well that's the formula for a price explosion. The good news is that this particular wait should be relatively short and measurable in public data (future COT reporting). Not that anyone should rely on it, but my own sense is that the commercials will prevail in the short term and induce technical fund selling for what I still believe could be the last time. (Yes, this is not the first time I have said this is the last time).

I don't know of any way of measuring and observing how the current extreme positioning gets resolved other than by calculating the ongoing collective financial results and future COT changes. I'll update the financial scorecard on today's settlement prices, but early price weakness is clearly to the commercials' advantage. But it is also clear that big positioning changes have yet to be made (or are just starting to be made today). Up until today, gold and silver were in a kind of stasis Â? a period of equilibrium even though the market structure is extreme. Perhaps a better way of putting it is by comparing it to the eye of a hurricane Â? calm now, but not destined to stay calm for long. That's because we were not making the new highs necessary to fuel additional technical fund buying, nor making low enough prices to induce technical fund selling. Either was coming, for sure, but was just not here yet.

Definitely on the negative side is the question of how much additional buying power the technical funds possess. That's the whole point of measuring position extremes, namely, after record positions are established, there is much less remaining to be added. I've tried to make a big deal out of the concentration on the short side of COMEX gold and silver because that's the basis of price manipulation. But there is also a concentration on the long side of COMEX gold and silver that I point out weekly. Just as the short side is concentrated, so is the long side, just not to the same extent.

On a practical basis, I suppose it would be unlikely for there to be a record concentrated short position in COMEX gold and silver, without a large concentrated long position considering the evolution of the markets. There was a time, many years ago, when the smaller, non-reporting public traders were the largest counterparties to the commercials, before the managed money traders came to become the nearly sole commercial counterparties. As recently as the 1990's, small public traders were as large or larger than big reporting non-commercial traders as a group, particularly in COMEX silver.

At one point, around 1991, small public traders held a net long position in COMEX silver four times the size of what the large reporting non-commercials held. Today, that is completely reversed, with the net long position of the large reporting non-commercials currently seven times larger than what the small traders hold. What happened? For a variety of reasons, ranging from the public pulling back from direct commodity speculation via futures to the phenomenal growth of institutionalized trading in all forms, the little guy is hardly a factor in COMEX trading. There can be no question that the thousands of former small traders operating in COMEX silver couldn't possibly be considered concentrated. But the large managed money and other reportable traders which came to replace the public traders are, because of their few numbers, automatically concentrated.

Because these large managed money traders are so few in number, yet so large by the number of contracts they buy and sell, these trades must be considered concentrated Â? perhaps not to the degree that the commercials are concentrated, but concentrated nonetheless. So when I rant about concentration being the primary cause of price manipulation, the concentration is not just on the short side, but on the long side of COMEX gold and silver as well. And the incompetent and corrupt regulators are ignoring concentration on both sides of the market.

But, aside from the short side being more concentrated (larger) than the long side, it doesn't appear that the managed money traders on the long side are colluding as the commercial traders appear to be. After all, up until the past few months, the managed money traders were nearly always on the wrong side of the financial equation in COMEX gold and silver and who colludes in order to lose money? Based upon the mechanical price signals that the managed money traders rely upon, as well as their disciplined money management practices, it is impossible to construct a scenario where the managed money traders have been feeding upon the commercials and not vice versa.

In essence, we have two forms of concentration present in the setting of gold and silver prices, the inadvertent concentration on the part of the managed money traders and the very intentional concentration on the part of the commercials. In free market terms, they are both bad, but the deliberate price rigging by the commercials puts it in a class by itself. Concentration in any form must be avoided, but collusive concentration is the worst by far.

Some still insist that the commercials are strictly Â?market makingÂ? in their dealings with the technical funds, but that's just a hollow excuse and thin cover story for price control and manipulation. Because the commercials have never collectively bought back short gold and silver positions at a loss, that's all the proof anyone should need to see that this isn't legitimate market making in the slightest. Legitimate market making involves risk, yet the COMEX commercials have never lost collectively whenever they took on an extreme bet. COMEX silver and gold has been about the only place where the banks haven't guessed wrong. Is it because of their smarts or their control?

While it remains an open question whether the commercials will succeed on this go-around, if they do, I am still convinced any serious price takedown is likely to be the last. Just about everything I look at continues to lead me to that conclusion. I continue to be amazed at the increased collective focus on the COT report and the COMEX market structure in connection with price and almost equally amazed at the growing anti-big bank chorus emanating from both sides of the US political scene.

While I doubt either side, Democrat or Republican, will directly address the concentration and manipulation in COMEX gold and silver by big banks, direct intervention may not be required. The banks, particularly JPMorgan, are not unaware of the growing attention to their role in setting gold and silver prices and can't be comfortable with that attention escalating further. A price manipulation on as grand a scale as COMEX gold and silver can't last forever and especially as more become aware of it. And this is certainly not lost on JPMorgan.

Recently, I made public a couple of articles dealing with concentration and was quite pleasantly surprised at the volume and tone of the comments generated, both publicly and sent to me privately. What surprised me most was not that all seemed to grasp the significance of concentration, but that no contra-argument or rebuttal was presented that defended concentration in any way. I'd like to think that's because there can be no defense of concentration on any level. This can't be lost on JPMorgan and, in fact, is likely responsible for the bank's incredibly determined accumulation of physical silver over the past five years and its more recent accumulation of gold. As crooked as I feel JPMorgan is, I have also always believed it was the smartest crook around. As such, its accumulation of physical metal has to be the smartest measure it could have taken for what lies ahead Â? the perfect antidote for the manipulation's end.

About two weeks ago, I pointed out that JPMorgan may have started to exhibit in gold the pattern it had established in silver, namely, the physical transfer of metal it took in COMEX futures deliveries into its own COMEX warehouse. In silver, JPMorgan moved just about every ounce it took delivery on since March 2015 into its own COMEX warehouse, close to 50 million oz. You'll remember that JPMorgan took delivery of 6700 contracts (670,000 oz) in the COMEX June gold delivery, more than double the amount allowed by spot month position limits, and an additional 4000 contracts for a client(s).

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

As of yesterday, JPMorgan has now moved a total of 650,000 oz of gold into its own COMEX warehouse over little more than two weeks. It remains to be seen whether the physical transfer of gold will include the contracts JPM stopped on behalf of a client(s), but there can be little doubt what the 650,000 oz already transferred involved. The most plausible explanation, just as was the case in silver, is that JPM intends to hold the metal indefinitely and in the most cost effective manner, namely, in its own warehouse.

With JPMorgan having established the largest private holding of physical silver in history and a substantial holding of late in gold as well, the case can be made that prices are good to go to the upside. I agree that is possible, but despite the large physical holdings, it bothers me that JPMorgan still holds large short positions in COMEX gold and silver futures contracts. I'll gloss over the inherent conflict of interest and obvious motivation for manipulation in JPM shorting an excessive amount of futures contracts while accumulating physical metal on the cheap, but more will surely see that as time advances.

Instead, let me focus on how it might be to JPMorgan's advantage to rig prices lower first in order to buy back as many paper short positions as possible. Given market mechanics, it is much easier for JPMorgan to buy back many more paper contracts than it could buy in physical metal form, if the technical funds can be induced into selling in earnest. JPMorgan can double cross anyone or anything it chooses to (including what I think is in the bank's best interest), but buying back short COMEX gold and silver contracts would appear to be the best course for the crooked bank.

Was today's selloff the start of the liquidation process? There's no way to know without waiting longer, but allow me to updater the financial scorecard through today's settlement. On Saturday, my back of the envelop calculation for the commercial running open loss for the year dropped to $1.5 billion from the apex unrealized loss of $2.5 billion in the previous week. This was based upon a closing gold price of $1337 and silver closing price of $20.20 and a gold short position of 32.5 million oz and a 350 million oz short position in silver (ex-JPM).

Today gold closed about $18 lower than last Friday and silver ended around 60 cents lower, meaning the commercials gained back around $800 million in combined gold and silver collective losses, leaving those losses at roughly the $700 million mark. That's down from $2.5 billion less than two weeks ago and must be considered advantageous to the commercials. Once again, I'm not rooting for the commercials to succeed, I'm just keeping score of a crooked poker game that happens to involve those not voluntarily involved in the game Â? like all gold and silver investors and producers. I don't think there has been much in terms of serious liquidation through yesterday's COT reporting week cutoff, although there may have been more today.

Ted Butler

July 20, 2016

Silver – $19.60   (50 day moving average – $17.80)

Gold – $1319   (50 day moving average – $1287)

Date Created
2016/07/20