

Weekly Review

At week's end, the price of gold and silver finished marginally lower, with gold down \$2 (less than 0.2%) and silver down 15 cents (0.7%), pushing the silver/gold price ratio out slightly to just over 63 to 1. But the marginal weekly price change masked a notable pick up in price volatility. I had concluded Wednesday's article with the prediction that price volatility, after a month long slumber, would return in force although I was unsure of short term price direction.

As it turned out, prices moved in both directions, down sharply on Thursday, before bouncing up on Friday. Trading volume was much higher on the Thursday sell-off, including the early price weakness in silver on Friday, than on the rally late Friday. While the two-day jump in price volatility was merely a coincidence to my prediction, the underlying condition of the market structure on the COMEX suggests much greater volatility ahead for gold and silver (and copper); even though the exact timing and price direction remain unknowable.

Undoubtedly, the determining factor to both short term price volatility and

direction is if the commercials on the COMEX can induce the technical funds into selling by rigging prices below the key moving averages (50 and 200 day). These moving averages were hit at the price lows for gold and silver, before Friday's bounce. That was no coincidence. Penetrations of moving averages are what cause technical funds to buy and sell. Unfortunately, the commercials are in charge of the price penetration department.

I would imagine there was some technical fund selling at the price lows on Thursday and Friday, but considering how much technical fund buying occurred on the bigger jump in gold and silver prices a month ago, it's reasonable to conclude that the technical funds are still over weighted to the long side, particularly in silver and copper. As such, it would likely take something away from COMEX paper trading to cause prices to erupt upward. Something like a development in the physical market.

A development that could overpower the price influence of paper COMEX positioning might be a shortage of physical material in the wholesale silver market. And while I study the changes in COMEX paper positioning closely, I try to remain alert to developments in the physical silver market. One such development is the continued turnover or movement of physical metal into and out from the COMEX-approved silver warehouses which I have been reporting

on weekly for more than three years.

Before reporting on this week's turnover, allow me to point out a few things that I think are important. The six silver warehouses approved by the COMEX for delivery purposes against silver futures contracts are not owned or operated by the COMEX (or the CME, which owns the COMEX). All six warehouses are independently owned and operated and the only connection to the COMEX is that the exchange sets standards and monitors all aspects related to delivery on futures contracts. Just like few futures contracts result in actual delivery, the actual day to day workings of a silver warehouse are not dictated exclusively by futures trading.

My point is that the actual warehouse functions of the COMEX-approved silver warehouses can be and are different than the functioning of COMEX futures and options trading. While it's understandable to consider the warehouses and futures trading to be one and the same, since the word "COMEX" is applied to both, in reality they are not exactly the same and in many ways completely different. Although the futures trading and warehouse functions are definitely related and complimentary, it is also somewhat ironic that the center of world silver futures trading and the most active silver warehouses are under a COMEX umbrella.

Most ironic of all is that COMEX futures trading dictates short term silver pricing, while the movement of actual metal in the COMEX-approved silver warehouses suggests that futures pricing control (manipulation) may be trumped. In any event, as regards the current and prospective price of silver, it is likely to be strictly a COMEX affair.

This week, an incredible 8.35 million oz of metal either came into or was removed from the COMEX-approved silver warehouses, as total inventories ticked up 1.1 million oz to 175.6 million oz. That's almost double the already high average weekly turnover this year and annualized (434 million oz) is more than 50% of total annual silver mine production. And yes, we're still stuck at the same level of total inventories at which we began the year.

I don't understand why and how this documented and easy to verify movement is not a prime focus of all involved in analyzing silver, yet it is hardly mentioned in most circles. To be sure, I never expected or predicted this frantic physical turnover to begin more than three years ago and to persist and intensify; I'm just observing and reporting. For all I know, maybe it will end tomorrow (although I doubt that it will).

What I do know is that this is physical silver on the move and as such, is completely divorced from any discernable connection to paper futures trading. I also know that this frantic turnover of physical metal is specific and unique to silver compared to any other metals market. The most plausible explanation that I can uncover for the remarkable physical silver movement is that it is caused by persistent strong demand, although I remain open to other explanations. Still, it strikes me as ironic that COMEX paper futures trading controls short term silver pricing, while a completely different development in the COMEX-approved silver warehouses may more accurately be pointing to longer term pricing.

There were confusing readings, at least to me, coming from the deposits and withdrawals in the big silver ETF, SLV. At the beginning of the week, there was an outflow of around 1.5 million ounces which I didn't expect, followed by a deposit of 800,000 oz late in the week which I also didn't expect. In contrast, the deposits/withdrawals in the big gold ETF, GLD, have been much more expected in that we get deposits following price advances and withdrawals (liquidations) following price declines. Maybe I'm looking too hard, but the movements of metal into and out from the SLV (definitely mostly out) suggest wholesale physical tightness.

There was an increase of 1.4 million shares (oz) in the short position of SLV to just over 20.4 million shares, as of July 15. I had no firm expectation for this reporting period, but I would note that combined with the fully expected increase of 4.5 million shares in the prior report, the four week total increase came close to my previous expectation of a 7 million share increase in the short position. <http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

At 6% of total shares outstanding, the short position in SLV, while 6 million shares higher than a month ago, is still close to 50% lower than previous peaks a few years ago, both on an absolute basis and in terms of percentage of total shares outstanding. As such, I'm going to hold off, for now, any petition to BlackRock, the trust's sponsor for the time being; but promise to do so on a more substantial increase from here. There's no doubt in my mind that the 6 million shares sold short this month were related to not enough physical silver being available to deposit (without pushing prices higher), but I am also guided by the fact that the main silver price capping has come from COMEX futures trading where the commercials sold not 6 million oz, but 250 million ounces.

Sales of Silver Eagles look more and more as if the former big buyer has

stepped away. It was just a short time ago that the US Mint had to ration sales of Silver Eagles because it couldn't keep up with demand. But that is not what is occurring now. I still maintain that demand for Silver Eagles is not important to short term silver pricing compared to COMEX and SLV developments.

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

The combined changes in this week's Commitments of Traders Reports (COT) for gold and silver were the most subdued in months, directly a result of the range-bound trading during the reporting week. Therefore, I'll run through them quickly.

In COMEX gold futures, the commercials increased their total net short position by 3,300 contracts to 160,200 contracts. By commercial category, the big 4 bought back 2800 short contracts, while the big 5 thru 8 added more than 6000 new shorts and the raptors stood pat, with the exception of JPMorgan which added nearly 3000 new long contracts. JPM is now long 25,000 COMEX gold contracts.

The counterparty technical funds (in the "hot money" managed money category of the disaggregated report) were net buyers of more than 3600 contracts, including the covering of more than 4700 short contracts. After buying back more than 50,000 short gold contracts over the past six weeks and with a remaining short position close to 22,000 contracts, the technical funds have just about exhausted all the rocket fuel of short covering that existed in early June. These technical funds could still add more new long positions on new gold price highs. Barring any new physical market developments in gold (of which I am unaware), it will take such new technical fund buying to drive gold prices higher.

In COMEX silver futures, the total commercial short position declined by a scant 300 contracts, to 58,300 contracts, barely a rounding error. There was some greater change by commercial category, as the big 4 (JPMorgan) increased its concentrated short position by more than 1400 contracts, while the big 5 thru 8 shorts stood pat. The raptors bought 1800 new longs, increasing their net long position to a still low 9100 contracts. I'd peg JPMorgan's net short silver position to be at an even 20,000 contracts. (100 million oz).

With only a 300 contract change in the headline number of the total commercial net short position, the counter party technical funds didn't do much. As was the

case in gold, the short position in the key managed money category declined below 9000 contracts after being over 42,000 contracts at the beginning of June; meaning that more than 33,000 contracts of the type of buying I refer to as rocket fuel has been burnt.

Including the buying of new long contracts in the managed money category of some 20,000 contracts, the technical funds have bought an incredible 53,000 net contracts in COMEX silver futures since the beginning of June, the equivalent of 265 million oz. It is not possible that the buying of 265 million oz of COMEX silver futures over the course of 6 weeks would not result in more than a rally of close to \$2 were it not for collusive and deliberate commercial selling designed to cap the price. Everything about the CME, which oversees COMEX trading, screams out that this is a criminal enterprise.

While this week's COT changes are inconsequential, the same can't be said about the change over the past 6 or 7 weeks; I'm still shaking my head over what has transpired on the COMEX. Simply put, COMEX futures positioning is the sole explanation for the (tepid) price rise and will, most likely, be the sole explanation for what occurs next. Let me see if I can put into perspective (again).

The key sub-category of the COT report is the managed money category of the disaggregated version, home of the technical funds. Whether they are gamed or not by the commercials, the technical funds are the driving force behind price moves. More observers than ever before are becoming convinced that trading on the COMEX drives gold, silver and copper prices, even if there is still some confusion over the actual mechanics of such trading. For instance □ big price drops are never caused by massive commercial selling, as is still commonly reported; instead such drops are always caused by massive technical fund selling □ after the commercials artificially rig prices lower through phony HFT and spoofing and cause the technical funds to sell. The commercials are always net buyers on big price drops, always.

The good news is that it wouldn't appear to be that great of a gulf between understanding the nuance of how the commercials maneuver the technical funds once one realizes that futures trading on the COMEX is what sets the price. Things seem to be progressing in that direction, but we're not quite there yet. Two new lawsuits indicate just how far the issue of manipulation has advanced; while at the same time illustrating that we are not quite there.

One recent suit alleges that "wash sales" comprise a significant percentage of all CME trading. To me, this is just an acknowledgement of all the phony HFT and spoofing (bluffing orders) that I write about consistently. In fact, it's hard for me to understand why it took so long for such a suit to appear. Of course, the connection between the phony trading as deliberately effecting price change to force others to trade has not been alleged yet.

<http://wallstreetonparade.com/2014/07/lawsuit-stunner-half-of-futures-trades-in-chicago-are-illegal-wash-trades/>

The second lawsuit involves allegations that price manipulation has occurred as a result of the London Silver Fix. This suit looks patterned on the previous lawsuits of price manipulation in gold due to the London Gold Fix. Since there is manipulation in both markets, I wish the plaintiffs good luck (the enemy of my enemy, etc.). Once again, we are moving in the right direction, but the focus needs to be sharpened; as any lawsuit alleging a silver manipulation without targeting the CME, COMEX and JPMorgan is wide of the mark. Close, but no cigar.

<http://www.bloomberg.com/news/2014-07-25/deutsche-bank-hsbc-accused-of-silver-fix-manipulation.html>

Finishing up on the COT structure through the prism of the key managed money

category, we are at or near record net long positions in COMEX silver and copper over the seven years that the CFTC has published disaggregated data.

In COMEX gold, while the technical funds have increased their net long position by close to 100,000 contracts in less than 6 weeks, one of the largest changes ever; the managed money category has been larger by that same amount over the history of the report.

I don't know if that means whether the COMEX commercials will try to induce further technical fund buying in gold on higher prices or will instead try to pull the plug on all three markets to the downside first. What I do know is that whatever transpires in the managed money category of the COT report will almost assuredly explain whatever price action is experienced.

What is also known is that the changes in market structure have been extreme enough over the past month and a half so as to change the profile of the market. Whereas six weeks ago we were in a low risk to the downside/high reward profile to the upside, that is no longer the case. Not to acknowledge that would be unprofessional.

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The price of silver is still low enough in that is at or below the primary cost of production and is attractive to long term investors on that basis alone.

However, the low risk condition derived from a record large technical fund short position has disappeared and has been replaced by a near record technical fund long position. Then again, if the verifiable developments in the physical silver market (COMEX warehouse movement) lead into shortage, the COTs won't matter much.

Ted Butler

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Silver - \$20.75

Gold - \$1308