Weekly Review

Gold and silver continued their month-long rally as prices finished slightly higher for the fifth week in a row. Gold added $5 (0.4%) and silver 25 cents (1.2%) in the holiday shortened trading week. The silver/gold price ratio continued to reflect silver's slightly stronger relative performance and tightened in by another half point to 62.5 to 1.

While it's usual for silver to outperform to the upside, since the move up in the precious metals seems to be 100% COMEX generated, I have detected no specific indications that investors are favoring one metal versus another. That day will come, I'm convinced, but is not yet here. The price moves over the past month are fully-explained by technical fund versus commercial positioning on the COMEX, with little preference of one over the other. I'm also convinced that important price moves, particularly in silver, will come from developments in the physical market and not solely in the paper trading markets.

I was all set to report the slowest week in turnover or movement of metal into and out from the COMEX-approved silver warehouses over the past three years until Thursday's big movement lifted the four day turnover to 2.7 million oz, not that far below average weekly movement. Interestingly, total COMEX silver inventories remained unchanged at 175.5 million oz, which always showcases my main takeaway about the unusual physical inventory turnover being more noteworthy than total inventory.

I hope you know that I am merely observing and trying to analyze the documented flows in and out of physical silver in the COMEX warehouses and have been doing so since they began over three years ago. I suppose the turnover could end at any time, but it doesn't seem likely given how consistent it has been for so long. No other commodity inventory, both on the COMEX and elsewhere, fits the rapid silver turnover pattern and that alone would seem to raise the question of why it exists in COMEX silver. So far, however, I seem to be alone in raising the question and in trying to answer that it is related to physical tightness. That may not be the answer, but neither have any plausible alternatives appeared. It still feels very important to me, particularly since I hold that physical will trump paper in silver in the end.

Over the past month, flows of metal into the two big precious metals ETFs, GLD in gold and SLV in silver, have gone in different directions despite moving in the same price direction, almost to the point of lockstep. On the nearly $90 gold and $2.50 silver rally over the past five weeks, GLD added, as one would expect, 300,000 oz to holdings; but it has been the opposite in SLV, as 10 million oz of silver were removed. It is reasonable to conclude that given the price move and attendant trading volume in SLV, the trust experienced net buying (as was the case in GLD) that necessitated silver being deposited, not removed.

The withdrawal in SLV is the outlier and the most plausible conclusion is that metal was needed more urgently elsewhere (and that the short position likely increased). Since deposits and withdrawals of metal from the ETFs are as physical as can be, unusual occurrences in the world of physical silver get my attention, seeing as I envision an inevitable physical conclusion. That's two unusual occurrences for those keeping score □ COMEX warehouse turnover and withdrawals from SLV on price strength.

Unless the US Mint forgot to report, sales of Silver Eagles have declined sharply over the past month, both on an absolute basis and relative to sales of Gold Eagles. I'm not particularly concerned about the sales slowdown to the direction of silver prices as conditions in the wholesale physical and paper markets are more important. Ironically, retail demand appears to have been decent over the past month, somewhat in contrast to the full six months of the year which

featured record sales of Silver Eagles and tepid retail demand. More than anything, I think this confirms my speculation that there was a single big buyer (JPMorgan?) of Silver Eagles over the past few years which suddenly pulled away from buying. Well, maybe it doesn't absolutely confirm my speculation, but I've used up my quota of plausible alternative explanations.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

With no Commitments of Traders (COT) and Bank Participation Reports until Monday (I'll have some comments an hour or two after the 3:30 PM release), please allow me to guesstimate what the reports may reveal and, more importantly, put the last month's price action and market structure changes into perspective.

Make no mistake the past month's price changes in gold and silver were 100% the result of changes in COMEX futures contract positioning, as is usually the case. The technical funds bought and prices climbed, just as prices fall when the technical funds sell. This isn't that complicated. I continue to be thunderstruck by how many commentators have come around to the importance of COT market structure changes. Now, if only more would recognize this is tantamount to market manipulation, I am convinced it would contribute to the demise of the illegal COMEX price control.

It wouldn't surprise me if the headline number of the total commercial net short position increased by 5000 to 7000 contracts in COMEX silver and by 20,000 to 30,000 contracts in COMEX gold in Monday's report. If this proves to be the case, then in round numbers, this will mean that since June 3, the headline commercial net short position increased by 40,000 contracts in silver on the nearly $2.50 rally and by 100,000 net contracts in COMEX gold on the $90 price rally.

These are very significant numbers of contracts and equivalent amounts of metal that were transacted over the past four weeks. 40,000 contracts of silver are equal to 200 million oz and 100,000 contracts of COMEX gold are equal to 10 million oz of gold. 200 million oz of silver is the equivalent of 25% of world annual mine production and 23% of the world's visible inventory of silver bullion (875 million oz). It would be virtually impossible for 200 million oz of silver to change hands within four weeks on the small price increase witnessed. This highlights the disconnect between the COMEX and the real world of silver. Ten million oz of gold is 10% of annual mine production and while only a tiny fraction of world above ground gold (5.5 billion oz), in dollar terms 10 million oz is equal to more than $13 billion.

To think that the equivalent of 200 million oz of silver and 10 million oz of gold were bought mostly by speculators identified as technical funds and sold by other speculators identified as commercials over a four week period of time is astounding. These amounts are not that far from the number of net contracts sold by technical funds and bought by speculating commercials on the bulk of last year's $400 gold and $12 silver historic price declines. It's also why I am disappointed with the tepid price advance over the past month relative to the number of contracts changing hands, the price moves up over the past month were subpar.

200 million oz of silver is a lot more than either the Hunt Brothers or Warren Buffett bought as silver prices surged by $40 when the Hunts bought and silver prices doubled on Buffett's buying into 1998. 200 million oz is a lot more than what was added to the world's ETFs which caused the price run up to $50 in 2011. This time around, little more than $2 was added to the price of silver as the commercials were more aggressive in selling than at any prior point in history.

I can't empathize enough that very few, if any, legitimate silver producers participated in the selling of the 200 million oz over the past month on the COMEX. This means that the COMEX commercial selling was entirely speculative in substance. For weeks and months leading to the June 3 price low in these reports and in the reports of many others, a great deal was made of the record technical fund short position and how it must result in a certain price surge as these funds bought back their short positions and perhaps went long.

Therefore, my main question is not why the technical funds turned buyers as prices penetrated the moving averages to the upside; but instead why the heck did the commercials that I call the raptors sell so aggressively when they could have easily engineered a lot more than a two dollar silver rally. Sure, the raptors made more than $200 million collectively on this rally, but that's peanuts compared to what they could have made by doing nothing and letting the technical funds reach up in price. Quite frankly, this is a question that haunts me because it cries out for an answer.

Try as I might, I can't come up with a legitimate plausible explanation for why the raptors sold so aggressively. The most plausible explanation I can think of is hardly legitimate, although it does seem plausible the raptors know they control the technical funds and are capable of engineering the technical funds back on the shorts side at lower prices at some point. Think of it as the raptors possessing the proverbial goose that laid golden eggs that prevented the raptors from taking all they could from the tech funds this time around. Why destroy the technical funds when you can extract profits at will and on a continuous basis?

While plausible in terms of basic human avarice, I hope you see that this is not legitimate in any way and more than confirms my take that the COMEX is a cesspool of illegal price discovery. Yes, it makes criminal sense that the raptors would bleed the technical funds indefinitely while setting silver prices for the rest of the world, but that doesn't qualify as legitimate. Sadly, that may be closest I can come to legitimate when I speculate further at what is evolving in full view.

I want to be very careful here before speculating what else may be behind the very aggressive raptor commercial selling in COMEX silver (and gold). As you know, I try to stick to the facts and to minimize the speculation. I try to avoid what can be called conspiracy theories because such theories can marginalize otherwise valid premises. It seems to be a fact of life that there are more conspiracy theories in precious metals than in other areas. I suppose this might be related to the secretive nature about precious metals, especially gold, on the part of governments and central banks. I think the lack of transparency leads to all sorts of storytelling that I try to avoid. That said, allow me to weave a conspiracy tale I've been contemplating for a while.

In addition to the notable selling aggression of the raptors over the past month, a clear price pattern of diminishing silver (and gold) rallies has developed over the past few years. Even as the COT structures have progressively grown more extreme at important price lows; the resultant price rallies have grown weaker. At the end of 2011, on a strongly bullish COT set up, silver rallied more than $10 in two months. On a strongly bullish COT set up in the summer of 2012, silver rallied $7 or $8 in two months. On a strongly bullish set up in the summer of 2013, silver rallied $5 in a month. On the strongly bullish COT set up in February of this year, silver rallied $3 in little more than a month. On the strongest COT set up of perhaps all-time a month ago, silver hasn't run that far (yet).

There is little doubt that silver rallies are diminishing in strength, despite progressively more extreme COT set ups since the highs of 2011. Even if you haven't plotted it the way I just described, undoubtedly you sense that silver doesn't exhibit its old strength. This is also a question I ask myself often — what has changed that has taken the vigor out of silver rallies as time has progressed? I know it is raptor selling (and formerly JPMorgan short selling) from the COTs, but is there anything in the physical markets or in silver in general that would account for the ever diminishing rallies? I can find no such explanation; instead, I see signs of increasing physical tightness as I report regularly.

Before I give you my speculation as to what's behind the diminishing silver rallies, let me mention that the CFTC held two staff meetings on June 19 concerning speculative position limits. First a little background. The enactment of legitimate speculative position limits in COMEX silver, along with the honest enforcement of such limits would immediately end the manipulation in silver prices. That's why I have petitioned the Commission and the COMEX for such limits for two decades.

Five years ago, former CFTC chairman Gensler hit the road running in trying to introduce position limits in those physical commodities where limits weren't in force (including silver). His efforts concluded with position limits being a key provision of the Dodd-Frank Act. Then, precisely because position limits would end the silver manipulation, JPMorgan and the CME Group had position limits, effectively, overturned and consigned to the garbage heap.

That's why the CFTC meeting on position limits seemed out of place. Still, since it did concern an issue close to my heart for 20 years, I was drawn to it like a moth to a flame. A normal person, unless heavily medicated, would have no use for four and a half hours of testimony on narrow and esoteric issues, as the view count of the videos will confirm. This meeting is not about to go viral.
http://www.youtube.com/watch?v=jx5ZryxlRsI&feature=youtu.be

http://www.youtube.com/watch?v=pbKC8GJeQGU&feature=youtu.be

I confess to only observing portions of the meeting, but I came away with certain impressions. As it turned out, I got a chance to put faces on some of the officials I send my articles to, including two new commissioners and a new chairman, as well as the moderator of the meeting, Market Oversight Director Vince McGonagle. In addition, two of the chief witnesses are also regular recipients of my articles; Terry Duffy, head of the CME and its chief legal officer Thomas LaSala, who was formerly the chief legal officer of the COMEX before it was acquired by the CME.

My main impression was how collegial and familiar everyone was. I'm all for cooperation between the regulators and industry as long as that cooperation is on a level playing field and the markets' and the public's best interest is in place. Unfortunately, I know that not to be the case. While there was some acknowledgement about the reason for position limits being to prevent concentration and excessive speculation, those words rang hollow when measured against the facts at hand. It was clear that the majority of discussion involved promoting specific points of corporate self-interest with lip service given to issues like market integrity and upholding the spirit of commodity law.

Let's face it everyone there, including the regulators, are ignoring the obvious illegality in COMEX silver even though I send them everything I publish for you. That is what was so surreal about the meeting it was as if no one ever accused the CME of being responsible for the silver manipulation because it subverted the enactment of position limits and encouraged illegitimate trading practices. Yet, that it the essence of what I have done.

In fact, it is nothing short of amazing that the CME (as well as JPMorgan) has never reacted to me for openly accusing them of manipulating silver prices (as well as gold and copper). This has been the case for quite some time, but that in no way diminishes the unusual and unprecedented nature of this circumstance. That I can openly accuse the CME for being the market crook I allege it to be with no blowback is simply astounding. How much more explicit can I be than this?

http://www.silverseek.com/commentary/comex-%E2%80%93-why-it%E2%80%99s-corrupt-13323

As far as the CFTC, it continues to avoid the obvious and evades enforcing commodity law as it relates to silver. The history of the Commission investigating COMEX silver but never truly addressing the old issues of concentration and position limits as well as newer issues like silver becoming a market devoid of legitimate hedging and an exclusive speculative playground centering on HFT games, is what prompts my conspiratorial explanation for the progressively diminishing nature of silver rallies over the past three years.

As you know, if there is one thing that will blow the roof off the silver market it is a physical shortage. As you also know, the most likely immediate cause that could lead to a physical shortage would be a sudden increase in silver investment demand. In turn, the most likely candidate for creating a sudden increase in silver investment demand would be a sharp rise in the price. Human nature being what it is, particularly on a collective basis, dictates that there is net new buying in asset markets rising in price. Silver is very much included in those asset markets and increased buying has developed in the past in silver on increasing prices.

I have come to believe that the main cause behind the diminishing nature of progressive silver rallies is a willful intent on the part of the regulators and key commercials on the COMEX to snuff out any silver rally before it generates sufficient investment demand that could lead to a physical shortage. More than any alternative explanation that possibly comes to mind, I believe there is a conspiracy between the CFTC and other parts of the US Government, along with crooked private interests on the COMEX, to not let silver go too far on the upside. Further, while this may also be true to some extent in gold, it is in silver where the situation is most critical.

If my speculation is correct, this silver capping premise has evolved over the past few years and, no doubt, may be considered as the right thing to do by the parties involved. I can see how regulators might think it is to the common good to prevent silver (and gold) prices from surging and damaging the collective mood and other markets. But not only is this still illegal, as someone who has studied silver closely for three decades, it is nonsensical.

The world is not going to end when silver reflects its true supply/demand realities and it is a terrible mistake to assume otherwise. In fact, silver desperately needs a free price to adjust its real supply and demand after years of crooked COMEX price setting. It is preposterous to suggest a few individuals in and out of government know better than the collective weight of the free market. As time goes by and more outside observers wake up to what has transpired over the past few years in silver, the intent of a few insiders to control the price will become more obvious.

Silver is very much a world commodity and sooner or later, if my conspiracy speculation is close to the mark, entities throughout the world will override what is, essentially, a US manipulative production. Particularly on Independence Day, it saddens me to even imagine there could be such overt interference in a regulated market. But I'd rather be sad than oblivious to the true state of the silver market. And more than anything else, if I am correct, this adds greatly to the kaboom factor as silver prices are more likely to explode when the price capping ends, rather than increase gradually.