

June 15, 2013 – Weekly Review

Weekly Review

In a slight reversal of last week's price action, the price of gold and silver finished higher, with silver jumping on Friday following the price-crushing on that day of a week ago. Gold finished \$6 (0.4%) up for the week, while silver ended 35 cents (1.6%) higher. As a result of silver's slight relative outperformance to gold, the silver/gold ratio tightened in by a point to 63 to 1, but silver still remains close to the most undervalued it has been to gold (and just about everything else) in nearly three years.

If you looked at silver's relative and absolute price performance over this time (especially this year) and objectively measured that performance against all the known actual supply/demand facts, you would have a hard time reconciling those facts with the price action. The difficulty would result if you tried to look at the facts and price in terms of silver being in a free market. If, however, you looked at what occurred price-wise in silver (and gold) through the perspective that this was a rigged market, then it would be much easier to understand what happened. I'm going to expand on this in a moment, but please let me briefly run through the usual weekly observations.

Movement of metal within the COMEX-approved silver warehouses turned quiet this week as barely more than one million ounces entered and left. Total silver warehouse stocks rose slightly, by 400,000 oz, to 165.1 million oz. There haven't been many weeks this quiet over the past two years, so it's too soon to detect a change in the trend or in my presumption that the rapid turnover (exclusively in silver) indicates tightness on the wholesale level. But I will report the data as they become available. For all I know, an ending to the heretofore unusual silver warehouse movement may signal the silver shortage is at hand.

Likewise, there was little movement in the holdings of silver in the big silver ETF, SLV. In truth, I had expected some notable withdrawals as a result of the high-volume price smash last Friday. Fortunately, there were notable improvements in the silver and gold COT Reports tied to the big price drop of a week ago, which I'll cover momentarily. There was some further liquidation in the big gold ETF, GLD, but the gold outflows there seem to be finally tapering off, along with the intensity of the price decline. The US Mint hasn't reported in the last few days on Silver Eagle sales, so I'll wait until they do before commenting.

The changes in this week's Commitments of Traders Report (COT) for both silver and gold were bullish, in that the headline number of the total commercial net short position declined in both COMEX futures markets. Additionally, detailed analysis under the hood stood out bullishly as well. Effectively, we are at the best COT set ups for silver and gold in as long a time that matters.

In gold, the total commercial net short position declined by 3300 contracts, negating last week's slight increase and reducing the total to 58,300 contracts, the lowest since 2005 (when gold traded in the \$400's). As has been the case recently, it was the other non-commercial trader category (in the disaggregated COT report) which was the big net seller allowing the commercials to buy, but the tech funds (managed money category) did add 2500 contracts to their gross short position (and potential future buying power). Also, the non-reportable (smaller) traders are back to net short, a very rare occurrence historically.

By gold commercial category, the 4 largest shorts did add a bit over 3000 contracts to their short position, with the 5 thru 8 and what I have formerly described as the raptors buying almost 5000 and 2000 contracts respectively. Since JPMorgan emerged recently as the biggest gold long on the COMEX, that has distorted my raptor calculations. Since the four largest gold longs (of which JPMorgan is now the dominant member) added 3200 new long contracts during the reporting week, I'd up JPM's long gold futures position to 53,000 contracts with the smaller raptors as being long 35,000 net contracts. As a result, it's also hard not to accuse the crooks at JPMorgan for being primarily responsible for the gold and silver price smash of Friday a week ago.

What is most remarkable is that the concentrated net short position of the four largest COMEX gold traders has been maintained and grown since mid-February even as JPMorgan has flipped completely from the short side and firmly to the long side. If you had told me back in February that JPMorgan would abandon the ranks of the four big COMEX gold shorts and, in fact, move from being the biggest gold short back then to becoming the biggest gold long currently, I would have trouble accepting that at face value. Further, if you had told me that the net short position of the four biggest COMEX gold shorts would remain intact (around 99,000 contracts), even with JPMorgan buying back 50,000 contracts, I would have not believed it. Yet that appears to be the case based upon the data in the COT and Bank Participation Reports.

The data are clear – the total commercial net short position in gold declined by 102,000 contracts since Feb 12 and JPMorgan has accounted for almost all of that reduction in their monumental flip. Despite the documented reduction in the total commercial net short position, the short position of the big four has barely budged. That means that some new big gold short sellers have entered the market precisely as JPMorgan was buying back 50,000 contracts of gold shorts and buying 50,000 contracts of new COMEX gold longs. These are new big guns on the short side of gold versus the biggest gun of all – JPMorgan. It's as if Doc Holiday and Wyatt Earp had orchestrated a COMEX version of the Gunfight at the OK Corral.

http://en.wikipedia.org/wiki/Gunfight_at_the_O.K._Corral

In silver, the total commercial net short position declined by 3400 contracts to just 5000 contracts. There may have been one prior time (in 1997) that the total commercial net short position was this low in the COMEX's 50 year history. By commercial category, it was a story similar to what occurred in gold. While the total commercial net short position was at the lowest level in history, the net short positions of the big 4 and big 8 were disproportionately large and concentrated. With only a 5000 contract (25 million oz) total commercial net short position, the big 4 were net short over 39,000 contracts and the big 8 were net short more than 50,000 contracts (250 million oz), or ten times the total commercial position.

Since JPMorgan has flipped completely from the short side to the long side in gold (primarily to hedge and offset their manipulative silver short position) and because the latest Bank Participation Report showed the bank less net short (at 15,000 contracts) than the companion COT report suggested, I suspect that JPM has pulled a mini-version in silver of what they pulled off in gold. It would be inconsistent for JPMorgan not to be buying back silver short positions aggressively as they are in gold. But that also means, as is the case in gold, that some other big traders are replacing JPM in the big 4. I don't think that JPMorgan has been able to flip completely off the short side of COMEX silver and onto the long side as they have in gold, but the bank may be down to 10 to 12,000 contracts net short as a result of their crooked takedown of silver prices a week ago Friday, when these SOB's caused silver to drop more than a dollar.

The truth is that it is hard for me to be as precise as I have formerly been on what JPM holds in silver without a companion release of the Bank Participation Report (which only comes once a month). I can tell you that they are as crooked as a June day is long and can come close enough to what they hold. Perhaps I should keep it simple and say that the raptors accounted for 3200 of the 3400 commercial contracts bought, pushing the raptors to a new record net long position of 45,500 contracts. Additionally, the tech funds (managed money) finally got net short and the non-reportables (smaller traders) are back close to their previous record low net long position.

I could sit here and describe in detail how bullish the gold and silver COT structures are until the cows come home. Although the changes this week are incremental rather than sudden and shocking, it's important to view this week's changes with what has occurred over the past several months. Those cumulative changes have certainly been shocking and relatively sudden. The first thing that I would ask you to consider is how such extreme position changes came about. After all, we're talking about gold position changes of more than 11.5 million oz on the COMEX alone and double or triple that when including ETF withdrawals and OTC positioning. In silver, around 250 million oz have been repositioned on the COMEX and maybe double that when taking ETF and OTC changes into account.

These are historic quantities that are easily verified as to having occurred. How and why did they occur? The how is easy — the price of gold and silver were manipulated lower at key points (like the two days in mid-April and last Friday) in order to induce technical and distressed selling. The how is so easy to see that there is no other plausible explanation and those who report on the COT while refusing to see the causation look foolish. In fact, I'm not going to spend much time on the how — just look at the deliberate price smash last Friday and the almost automatic improvement in this week's COT. Look at the \$300 gold and \$10 silver decline since February and the tens and hundreds of millions of ounces and billions of dollars that changed hands. Changes like that don't occur without a means and motive. The means is centered on JPMorgan's ability to rig prices (through HFT algo's and trading dominance). It's the motive I would ask you to focus on today.

The motive for the dramatic positioning changes in gold and silver must lie with either the principal buyers or sellers. So it comes down to who you think had the means and motive — the sellers or the buyers? On the one hand, the sellers have sold long positions (probably at a loss) and have exited the gold and silver market or now hold extreme short positions at what are the lowest gold and silver prices in years. On the other hand, the buyers, primarily the largest and most powerful financial institution in the world, have bought back short positions (at great profit) and now hold record large net long positions (in gold) and record low net short positions (in silver) at the same lowest prices in years. Not only does JPMorgan have the means and motive (and not the sellers), they are in the best position they have been in since I first identified them as the big gold and silver crook in 2008. JPMorgan has played the gold and silver market like a fiddle since that time and it's almost inconceivable that they were not in control of the price downswing.

But this is about what you think, not me. I'll state the facts and circumstances as I believe them to be; and you must draw your own conclusions as to how the current record extreme positioning in gold and silver will be resolved. When I say I keep throwing money away buying silver call options, it's not to entice you into buying such options, as I have no financial interest whether you do or not. I state it because it indicates that I am extremely bullish on the price prospects for silver, otherwise I would knowingly be wasting financial reserves. The truth is that the current set up in silver (and gold) is the best I have ever seen, particularly in one important way. Yes, of course, the crooks at JPMorgan could always rig prices a bit lower, but only for a short while, as I've been attempting to convey recently.

I've been following the silver market closely since 1985 and less closely, but professionally, for 15 years before that, since I was prodded to by my old friend and mentor Izzy Freidman. Early on (in 1986) I saw the manipulation by means of the excessive and concentrated COMEX short position and immediately began petitioning the exchanges and the CFTC. Now many have come to know just how corrupt is the COMEX. I came to learn (mostly in hindsight) that there was always one big commercial short and never a big commercial long. The big short changed over time, from Drexel Burnham, to AIG, to Bear Stearns and finally to JPMorgan.

Over the past 25 years, every time the COT structure indicated a low total commercial net short position, not only did I conclude that was bullish for the price, I also concluded that was the time when the big short would (or should) wash his hands of the ongoing price manipulation and not sell short additional contracts on the ensuing price rally. Regular readers need not be reminded of this, as I'm sure you've heard it enough. Invariably, although not always with pinpoint price or timing accuracy, we got the price rallies. But the big silver short, especially in the form of JPMorgan for the past five years, always ended up shorting enough additional contracts to first cap the price and then cause its eventual decline. So regular was this behavior that I know from people writing to me that many believe that this will never change. I disagree and feel certain that it will change. More to the point, I think it will change fairly soon.

What convinces me that the change is at hand is the remarkable position transformation that the big gold and silver short, JPMorgan, has been able to achieve. There is little doubt that JPMorgan is massively long in COMEX gold futures and minimally short in silver, thanks to COT and Bank Participation Report data. The bank has held similarly small net short silver positions in the past and has not chosen to abandon the manipulation and not add additional shorts, but there is something very different about this time. That something is their massive net long gold position, which I have been chronicling as of late. I never said that JPMorgan was not smart and powerful. They are very smart and powerful; it's just that they are just as crooked when it comes to manipulating markets.

It is only because JPMorgan is so smart and powerful and adept at manipulating markets that they have been able to amass such a large gold long and small short silver position. The truth is maybe they can add more to the gold long and reduce the silver short position with still lower manipulated prices, but we have to be in the terminal phase of this operation in terms of gauging how many more sellers can be lured in at this point. There is a limit to such engineered speculative selling. Therefore, since JPM is running out of road as to how much more gold and silver they can buy before we reach the resolution, or gunfight stage, it is no exaggeration to say that we are running out of time in which to buy cheap silver (and gold).

You don't have to remind me (nor me you) just how bad the price action has been these past few months (and years). But the rotten price action is precisely why the time to buy is running out, as some resolution is mandatory. All the positions on the COMEX are open positions, both the longs and the shorts, because they are derivatives contracts. All derivatives contracts have a long and short side that must be closed out eventually, either by offsetting sale or purchase or by making or taking actual delivery in the case of COMEX gold and silver.

For the first time in my experience (since 1986), the big silver short is positioned to resolve the matter profitably once and for all time and quit the manipulation to its advantage by not selling additional quantities of silver short on the next rally. Will JPMorgan let prices rip to the upside, now that it is so favorably configured that way? As I said, that's more for you to decide than me, as I've already made up my mind.

I do know this Â? JPMorgan has remained silent against the growing chorus that the bank has manipulated the price of gold and silver (and other markets). Yet this is an important financial institution that spends many millions of dollars a year on lobbying and advertising to protect and enhance its reputation. (Some of the directors I wrote to last year were on the reputation committee). To be notified at the CEO and Board of Director level, as well as at the highest levels of regulatory oversight about persistent and specific instances of serious wrongdoing at the bank is not something an institution as smart and powerful as JPMorgan would or should take lightly. The one sure remedy for removing the bank from the spotlight of continuing negative attention is for it to stop manipulating the price of gold and silver. This isn't that complicated Â? stop the manipulative activity and the negative attention stops.

Ten days ago, I opined how we were getting closer to the resolution in terms of the declining moving averages and the eventual upside price penetration of key moving averages in gold and silver. These penetrations could and should trip off technical type buying to the upside. The sharp takedown last Friday took us away from the moving averages, but there has been an inexorable mathematical decline to the moving averages. The key 50 day moving average in gold is down to \$1430 (I guessed \$1425), while the 50 day moving average in silver is now just below the \$23.50 level I mentioned. In another five or ten trading days, the 50 day moving average in gold will be near \$1415, while silver's will be hovering around \$23.

Perhaps we'll get some further deliberate price smashes, but it really is only a matter of time before we face the prospect of an upside penetration of the moving averages. Somehow, I believe that is also on the minds of the traders at JPMorgan, as well as what they intend to do at that time.

Ted Butler

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Silver – \$22

Gold – \$1390

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