

## Weekly Review

Gold and silver prices rose for the third straight week, gold by \$26 (2%) and silver by 17 cents (1%). As a result of gold's relative outperformance, the silver/gold price ratio widened out by half a point to just over 74 to 1, still stuck in a fairly tight trading range for going on nearly two years.

Considering that gold closed at a weekly high not seen in two years, while silver has not been able to close above its weekly high of two months ago, I would have imagined the silver/gold price ratio to be much higher, reflecting gold's persistent relative outperformance. Perhaps it will, seeing how the short term movements of the ratio are impossible to predict, at least for me. Longer term is the same old song – silver will do much better than gold.

Over the past three weeks, gold has risen by nearly \$90, completely erasing a loss of about that same amount during the month of May. Silver has managed to regain –only– \$1.25 of the \$1.60 it lost in May. These aren't monumental differences, but what makes it somewhat strange is that silver usually performs better to the upside. If you told me in advance that gold was going to rally

nearly \$90 in three weeks, I would have guessed a silver rally of two or three dollars, at a minimum.

However, if you instead informed me in advance, not of the price rise that would occur over the past three weeks, but the change in the COMEX market structure in gold and silver, then the actual price performance wouldn't have been as surprising to me. Simply put, the changes in the COT market structure over the past three weeks and over the year to date are nothing short of astounding. Not only have the changes been historic, they promise to be of the earth-shaking variety in the immediate future (which I would define as days, weeks and months – not years).

I'll get into the details in a moment, but a sense surrounds me that we are much closer to the resolution I "knew" was coming for three decades. I'm still not sure of how the thirty year price control of COMEX silver and gold plays out exactly, but there appears to be only two possible outcomes – straight up from here, or a final jiggle down before the straight up. While this is not different from my recent findings, it is much sharper in focus than ever. It also goes without saying that it's never been clearer that COMEX futures contract positioning is what causes price movement in silver and gold (and other commodities). Let me run through the usual review format first.

The turnover or physical movement of metal brought into and removed from the COMEX-approved silver warehouses surged this week to 8.9 million oz, the highest level since February. Total COMEX silver inventories fell 0.8 million oz this week to 150 million oz, a new three year low. I know I continue to be more interested in the physical turnover (and why it is occurring), than the total level of silver inventories, but I would point out that the total turnover this week was more than ten times the amount of the total inventory reduction. And this is not that unusual in that the weekly turnover vastly exceeds changes in total inventories.

I would have been embarrassed if I hadn't uncovered the unusual and unprecedented movement in the COMEX silver inventories five years ago and someone had to point it out to me. And yes, the incredible turnover in COMEX silver inventories points to physical tightness and metal accumulation by JPMorgan. A highlight this week is that another 2.8 million ounces were brought into the JPMorgan COMEX silver warehouse, which when added to last week's 0.77 million oz brings to 3.5 million oz of metal physically deposited over the past two weeks. I mentioned in last week's review that the 7.5 million oz that JPMorgan took delivery on in the May COMEX futures delivery may now be finding its way into the bank's own COMEX warehouse. It would appear there are now only 4 million ounces yet to be moved.

The deposits of silver this week in the JPM COMEX silver warehouse brought the amount of silver in that warehouse to nearly 73.5 million oz, the most ever and close to half of all the silver in the COMEX warehouse system. You may recall that the JPMorgan COMEX warehouse held zero silver ounces when it resumed operations in April 2011. From zero to nearly half of total COMEX silver inventories in five years would seem highly compatible with a premise that JPMorgan has been on a silver buying binge for five years. As would JPM being about the only stopper of silver on COMEX futures for more than a year and all the other signs pointing to the bank.

Quite counterintuitively, this week also featured JPMorgan reclassifying one million ounces of its eligible category silver to registered and delivering that silver the very next day. After being nearly the exclusive stopper (acceptor) of COMEX silver deliveries, this was tantamount to a man bites dog headline. In most of the silver deliveries on the COMEX for more than a year, JPM has struggled to take the maximum 1500 contracts allowed (7.5 million oz), often falling short by a bit. Then, it suddenly turns around and lets go of 200 contracts like nothing. My only conclusion is that things are so tight in the physical market that JPM had to sacrifice some of its silver to prevent signs of tightness from becoming apparent.

Other highlights this week (I'm going to skip over a few that haven't changed much over the past few days) include continued deposits into the big gold ETF, GLD, and a large withdrawal of 5.4 million oz from the big silver ETF, SLV, yesterday. Since the start of the year, more than 8.5 million oz have been deposited into GLD, or more than \$10.5 billion. Not exactly chopped liver. But it was the withdrawal from SLV that was of most interest, particularly considering the absolutely enormous trading volume of Thursday, when gold and silver prices reversed to the downside after soaring starting late Wednesday afternoon.

Thursday's reported trading volume in SLV exceeded 30 million shares, the most in nearly three years. Unlike the large trading volume in COMEX gold and silver futures or even in GLD, the trading volume in SLV seemed to accelerate as prices moved lower. Therefore, I'm not terribly surprised there was a big withdrawal as the trading looked to point to plain vanilla investor selling and a withdrawal would be considered in order. However, I'm less sure of why there would be big selling, as no important technical signals were generated. But if I had to bet my last dollar, it would be on JPMorgan being the big buyer and then converting the purchased shares of SLV into metal to avoid SEC reporting requirements. Yes the bank "gave away" a million ounces by delivering on the COMEX this week, but picked up five times that amount in SLV maneuverings.

It's becoming clearer by the day that JPMorgan has stepped away from buying Silver Eagles from the US Mint, as sales have collapsed. I can't attribute the sales collapse to a sudden falloff in retail demand because retail demand has been punk all along. Therefore, sales of Silver Eagles are dependent on the amount JPM decides to buy. Apparently, for the month of June, JPMorgan has decided to back off, for the most reasonable explanation being that it intends to buy what it is passing on now at lower prices. So far this month, sales of Silver Eagles are running at a rate 50% lower than what prevailed for the first five months of the year.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

The changes in this week's Commitments of Traders (COT) Report were large and generally conforming to expectations. The increase in the headline number in silver stayed just within the 5000 to 10,000 contract increase I predicted and while the increase in the gold headline number exceeded the 40,000 contract increase I expected, at least I had the good sense to note it could be more than 40,000 contracts.

In COMEX gold futures, the commercials increased their total net short position by 54,400 contracts, to a new total high-water mark of 298,100 contracts. Based upon price action, trading volume and further increases in total open interest since the Tuesday cutoff, it would appear that another 30,000 to 40,000 contracts have been added to the commercials' net short position through yesterday. If so, the total commercial net short position in gold has never been this extreme (and bearish) in history.

By commercial category, all three commercial groups sold forcefully. The big 4 added 24,900 contracts of new gold shorts, the big 5 thru 8 added 10,800 new short contracts and the raptors (the smaller commercials apart from the 8 largest traders) added 18,700 new shorts. Without going through my notebooks, the concentrated short positions of the 4 and 8 largest traders have never been larger (more bearish) than they were in this report (177,241 contracts and 264,498 contracts respectively). And I can't see how new records weren't established over the past three trading days.

On the buy side in gold, it was mainly a managed money technical fund affair, as these traders bought nearly 52,000 gold contracts, including 45,439 new longs and the buyback of 6435 short contracts. It's important to note, once again, that gold (and silver) prices are set by positioning between a small group

of commercials and a small group of managed money technical fund traders, no matter what else may be transpiring in the real world of gold and silver. As was the case with the commercials who hold record gold short positions, the managed money technical funds now hold record long positions, with the records indicated in this week's COT report already exceeded in trading since the cutoff.

In COMEX silver futures, the total commercial net short position increased by 9900 contracts to 81,700 contracts. This is the largest (most bearish) short position in a few weeks, but unlike the case in gold, is still about 10,000 contracts less than the record net short position in early May. And while the total commercial net short may have grown since the cutoff, it wouldn't appear that the silver short position grew anywhere near as much as it has in gold. Without elaborating on it too much now, I don't think that's an accident and my conclusion is the commercials may not be as eager to add to shorts in silver as they may have been in gold.

By commercial category in silver, the raptors did the heavy selling in liquidating 8100 long contracts, while the big 4 added 2300 new shorts and the big 5 thru 8 bought back 500 short contracts, also a markedly different pattern than seen in gold (which adds to my premise that the commercials are not as eager to short



silver as they appear to be in gold). I'd peg JPMorgan's short position as being up to 22,000 contracts from my estimate of 20,000 last week, but it could have been Bank of Nova Scotia adding to shorts.

While steady for two months, the concentrated net short position of the 8 largest traders is still obscenely large and manipulative at 92,587 contracts (463 million oz). That's still more than 50% of annual world mining production and more than half of total world visible silver bullion inventories, which means silver still has the largest concentrated short position of any commodity in the world. There was a time long ago and in galaxy far, far away when concentrated positions were the foremost litmus test for manipulation. Thank goodness the CFTC and CME have dashed that out of date premise (yes, I'm being sarcastic).

On the buy side of silver, it was all the managed money technical funds and then some, as these traders bought 12,258 net silver contracts, including adding 8937 new longs and the buyback 3321 short contracts. Just like the commercial counterparties on the short side, the managed money technical fund long position is extremely large (bearish), but not quite to record extremes as is the case in gold.

All of this leads me to the sense that, after 30 years, we are very close to some type of resolution to the COMEX price manipulation. Right or wrong, I've been steadfast that the silver price manipulation had its roots in positioning on the COMEX between the technical funds and the commercials and the glaring concentration on the short side. I've shied away from deeper conspiracies involving the US and other governments, not because they couldn't possibly be true, but because the hard facts were lacking.

Where the facts were not lacking were in the weekly COT reports and documentable statistics from the exchange, various mints and as concerned the big ETFs, among other sources. Most remarkably, these are the facts that point to a resolution of the COMEX manipulation dead ahead. As I've been reporting for quite some time, the disparity between just about everything I observe in the real world of silver and gold having grown more extreme when compared to the one potential negative □ the market structure on the COMEX. Now, it appears to me that something has to give.

The near \$90 rally in gold over the past three weeks has been accomplished by an increase of more than 115,000 net contracts or 11.5 million oz (including extrapolation) of managed money technical fund buying on the COMEX which the commercials sold into, either deliberately or as an act of desperation. I

mentioned above that the big gold ETF, GLD, added more than 8.5 million oz since the start of the year, but the technical funds bought and the commercials sold 11.5 million oz in three weeks.

Since the start of the year, the technical funds have purchased more than 300,000 gold contracts, or the equivalent of more than 30 million gold oz, or more than three times the amount deposited into GLD. I know there is a big difference between real gold and paper gold in many regards, but the crazy thing is that the difference doesn't matter much when it comes to setting prices.

You should be able to see it with your own eyes ☐ in May we dropped almost \$90 in gold as the technical funds sold 80,000 COMEX gold contracts and over the past three weeks, gold rallied \$90 as the technical funds bought more than 115,000 gold contracts. No other venue for gold, actual or derivative, came close to the verifiable quantities sold and bought on the COMEX. By process of elimination and as has been the case for decades, what drives gold and silver prices is positioning on the COMEX. And the proof resides in official US government statistics.

Verifiable data aside, why can't the price of gold and silver continue to be driven just as it has been driven over the past three weeks and past thirty years □ by COMEX positioning between the technical funds and the commercials? For one reason, because the forces of the physical world seem more bullish than ever before, so much that JPMorgan has accumulated a physical silver position unequalled in history and appears to be starting to do the same in gold. The only problem with the bullish readings from the actual world of gold and silver metal, is that those readings are in direct contrast to current positioning on the COMEX, to an extreme never witnessed before.

I've a big believer in following the money in my analysis. That's why I don't dwell on deep conspiracies involving governments. I believe that in all things denominated by the exchange of money, particularly large amounts of money that the best analysis revolves around the flow of money □ who is making and who is losing. That's been the driving force behind discovering the silver manipulation in the first place and studying it for the past 30 years. I report on the COT report continuously (and many more have picked up on the analysis), but from the start, I have tried to follow the money.

In following the money in COMEX silver and gold, I have long observed that the commercials have mostly made the money at the expense of the technical

funds for the past three decades. On rare and isolated occasions, the technical funds have managed to score a monetary victory, but in gold and silver, those technical fund victories are very few. Moreover, given the nature of the players and trading strategies, it is very common for the technical funds to have built up extremely large unrealized profits on either the long or short side, only to have the unrealized profits end in realized losses, as the commercials pull the rug out from the technical funds. Again, this is my understanding of the gold and silver markets based upon more than 30 years of studying the data and following the money.

So, in a very real sense, there's not much unusual about the current COMEX market structure, save for the size of the current poker table stakes and the fact that no other factor in gold and silver seems as a potential negative apart from the positioning. In thirty years, the financial stakes have never been higher, nor the case for higher gold and silver prices never been more compelling. As such, I have trouble imagining how we avoid some type of price fireworks ahead.

The commercials were actually in a slightly worse financial position at the gold and silver price top in early May, being in the hole for \$1.5 billion on an unrealized loss basis, when gold was at \$1295 and silver close to \$18, although

at that point they had taken \$750 million in realized gains from the start of the year. Subsequently, on the price decline in May, the commercials added another \$300 to \$400 million in realized profits in closing out 80,000 contracts of gold shorts and 20,000 contracts of silver shorts.

Now, however, the commercials hold a much larger short position in gold of close to 330,000 contracts or 33 million oz (extrapolating through yesterday). Their average short price is now around \$1270, a big improvement over their average sale price in May, but based upon Friday's closing price of \$1300, the commercials now hold open unrealized losses in gold of around one billion dollars, plus another couple of hundred million dollars in silver. Thus, the commercials are better off on an unrealized/realized basis for the year to date than they were in May, but that doesn't tell the whole story.

It is the size of the current commercial short position that might be problematic. If the COMEX commercials do hold the equivalent of 33 million gold ounces short (plus 450 million ounces of silver short), that means every one dollar rise in gold creates additional unrealized open losses of \$33 million for the commercials collectively. Every ten dollar increase in gold adds \$330 million to the open commercial loss and if gold rises as much as it rose over the last three weeks, the commercials will be out an additional \$3 billion. And if silver runs as

well, add in \$450 million in additional open losses for every dollar rise in silver.

We're talking really big money here, money that the commercials have never been out in the past in gold and silver. Because the commercials have never been out anywhere near this amount of potential losses before, it's impossible to know how they will handle it. And because the commercial short position is so concentrated in gold and silver this means the bulk of any potential loss will be taken by a small number of traders. The 8 largest traders in gold hold nearly 90% of the entire commercial short position and in silver it's even worse – the 8 largest traders hold more than 100% of the commercial short position (because the raptors are still net long).

I'm not worried about JPMorgan not meeting margin calls because I believe the bank could come up with more money quickly than anyone short of the US Government and besides, since JPM is massively long physical silver, any price rise wouldn't hurt the bank. I'm m