June 20, 2015 – Weekly Review/Confirmation

Weekly Review

Gold finished higher for the third week in a row, ending up by $19 (1.6%); while silver struggled to end 13 cents (0.8%) higher, its first gain in 5 weeks. As a result of silver's continued relative underperformance, the silver/gold price ratio widened out by another half-point, to 74.6 to 1, close to the most undervalued silver has been to gold over the past year. I am still convinced silver will vastly outperform gold over the long term, although I must point out that I read an Internet post this week suggesting gold was going to $45,000 an ounce, while silver would be $1.85 at that time. One of us is on the wrong meds.

There is no question, however, that silver has been stinking up the joint relative to gold of late. An associate suggested the big players on the COMEX were just trying to make me look bad, given my very recent pronouncements expecting silver to outperform gold. I don't believe that's the case, even though little surprises me when it comes to the COMEX. My bullishness on silver (and gold) has been tied to the market structure on the COMEX as depicted in the COT report.

The new report, released yesterday, was surprisingly even more bullish for silver and while gold's COT structure was not any less bullish thru the Tuesday cut-off, it may have deteriorated more than silver's on the price rally since the cut-off, particularly on Thursday. I'll discuss the report in a moment, but the short version is that it was spectacularly bullish for silver.

Even though I strive to analyze the COT market structure as objectively as possible, bullish or bearish, I confess to feeling better about life in general when we are configured bullishly, as we are now. I suppose it has to do with being more optimistic over the prospects for higher prices when the structure is bullish; as opposed to being reduced to hoping the downturn will be brief and shallow when the structure is bearish. That doesn't mean we can't go lower in price from here temporarily, it just means the probabilities favor higher prices when we are structured as we are currently.

And while I repeat myself in commenting how awareness is growing concerning the COT market structure and the price manipulation on the COMEX, allow me to point out another confirmation of that premise. Increasingly, I observe public comments on Internet blog sites giving instant summaries of the new report, within minutes of the report's 3:30 EST release. Most impressive is that the summaries are usually spot-on; yesterday's comments all recognized the bullish improvement in silver. This is a clear testament to the growing awareness. The good news here is that with growing public awareness about the defective price discovery process on the COMEX, also evidenced by some miners finally writing to the CFTC that makes it harder for the manipulation to continue. Turning a rock over and shining the light on vermin usually makes them scatter. Let's hope that also applies to market vermin.

Turnover or the physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled off notably from last week's torrid pace (8.2 million oz) to a more moderate (but still unprecedented among all other commodities) weekly total movement of 3.4 million oz. Total Inventories rose 1.5 million oz to 181.4 million oz, the highest total since last September. Still, the glaring feature about COMEX silver inventories, among all commodities, is that the change in total inventories is measured in terms of inches, while the weekly movement of those same inventories is measured in miles. It has been this way for more than 4 years and I would submit those same 4 years have witnessed the strangest circumstances in silver in many other ways as well, most of which seem to be connected to JPMorgan.

Speaking of JPMorgan and COMEX silver, after a further movement of 0.4 million oz into the bank's COMEX silver warehouse on Monday, there were no further deposits in this warehouse for the balance of the week. It would appear the movement related to the 4 million oz JPM had stopped delivery on in the May COMEX futures contract have been moved, as were the 7.5 million oz the bank stopped in March. It will be interesting to observe if JPMorgan is an active delivery participant in the upcoming and usually big July delivery process Â? either stopping or issuing.

Sales of Silver Eagles from the US Mint continue to be strong this month and also continue to be reported in an irregular sales pattern Â? days of no sales, followed by days of large sales. This still suggests the presence of a big buyer, as reports from the retail front continue to highlight low retail demand. Sales of Gold Eagles have picked up notably this month, but in contrast to Silver Eagles, which this year and for the past four years sales have been at the highest levels in the 29 year history of the program, Gold Eagle sales have been way below historical sales levels.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The Royal Canadian Mint reported robust first quarter sales of both silver and gold Maple Leaf coins. Annualized, sales of Silver Maple Leafs could hit 35 million oz this year if the pace of first quarter sales is maintained. The Royal Canadian Mint doesn't report daily sales, as does the US Mint, so it's impossible to determine if sales are erratic in terms of timing; but the large amount of Silver Maple Leafs being sold suggests, at least to me, the presence of a big buyer.

The changes in this week's Commitments of Traders (COT) Report were surprisingly constructive, particularly in silver. I didn't venture a guess for what this report would show, mainly because the prior week's changes in silver were so large; but in reviewing price action during the reporting week, perhaps the results shouldn't have seemed surprising. After all, there appeared to be highly sophisticated salami price slicing in silver, where a number of fresh price lows and general punk price action was more apparent in silver than in gold.

One of the ironic aspects to COT market structure analysis is that the worse price action may appear, that usually indicates a bullish improvement in the structure. Admittedly, this runs contrary to the normal feelings one gets, in that prices going up make us feel better about expecting even higher prices. For instance, the relatively stronger gold price action compared to silver recently makes it feel like that should continue. This week the relative weakness in silver had to make you feel that silver would continue to underperform. But according to COT market structure analysis, the opposite is more likely to occur in the future. I know this seems upside down, but please remember that we are comparing feelings to hard data.

In COMEX gold futures, the commercials reduced their total net short position by 2000 contracts to 76,600 contracts, the lowest (most bullish) total level since May 5. Even though the total change was small, it was remarkably evenly divided by all three commercial categories, as big 4 and big 5 thru 8 traders bought back 700 and 600 short contracts respectively and the raptors added 700 new longs.

It was better on the sell side of gold, as traders in the managed money category continued to add to short positions. I misspoke last week in calling the gold managed money short position as at a new record, although it did increase significantly. Anyway, this week's increase in managed money shorts of 6043 contracts did establish a new record of 89,529 contracts, nearly 2000 contracts more than the previous record set in March. The greater the managed money short position, the better, as most of these contracts will be bought back in an aggressive manner. The increase of 3400 contracts in managed money longs to 124,500 contracts is no big deal in historical terms.

The problem in gold, if there is a problem, is in how many managed money short contracts were bought back, along with new long contracts added since the Tuesday cutoff. Based upon the decisive penetration of the 50 day moving average in gold and the high trading volume accompanying the penetration, I may be conservative in estimating that 30,000 net contracts were bought by managed money traders and sold by commercials since the cutoff. When, as and if gold prices penetrate the 200 day moving average (only a few dollars from the closing price), it must be assumed there will be more managed money buying and commercial selling.

So while gold prices are acting much better than silver prices in observational terms, the COT market structure is deteriorating more in gold than in silver. Silver did touch the 50 day moving average momentarily during the week, but failed to close above it, while gold close over this moving average for the past two days. Silver failed to close above the 20 day moving average, although it did penetrate it for a while intraday on Thursday. And the 200 day moving average wasn't challenged this week in silver. Therefore, I'm not sure how much deterioration occurred in silver's market structure since the cutoff and considering the big improvement in this week's report, it's hard to imagine the type of deterioration that likely occurred in gold.

In COMEX silver this week, the commercials reduced their total net short position by a rather significant 7100 contracts to a total 28,900 contracts. This is the lowest (most bullish) total since December 2. By commercial category, the big 4 and big 5 thru 8 appeared to buy back short positions totaling 600 contracts apiece, but I must explain my use of the word Â?appeared.Â?

Usually, say some 99% of the time, it is easy to identify the 4 and 8 biggest shorts in COMEX silver as being commercial traders. Not that the commercials in COMEX silver are not every bit the speculators that the managed money traders are, but it's usually a snap to conclude that traders classified as commercials are the big shorts in silver (when reviewing all data). That's because usually the commercials dominate the short side in COMEX silver.

But the 4 or 8 largest traders on the long or short side of every regulated commodity can be either commercials or speculators, even though in COMEX silver it's almost always strictly commercials on the short side. When the short side of COMEX silver in the managed money category gets very large, as is the case presently, it becomes more likely that a big managed money trader or two may have entered into the ranks of the big 4 or big 8 short holders. That can have a profound impact on the market structure in a manner disproportionate to what one would normally think.

For instance, if I was certain that there were no managed money short traders in the big 4 or big 5 thru 8 currently, I could say with confidence that JPMorgan and the other commercials in the big 4 reduced their concentrated net short position by 600 contracts this week to where the total big 4 commercial short position was just under 44,000 contracts and JPMorgan's share was 12,500 contracts, down 500 from last week. Likewise, there was a reduction in the big 5 thru 8 category this week and absent any managed money traders, I could say the commercials in that category also reduced their net short position by another 600 contracts.

But if there are managed money traders in the big 4 or big 5 thru 8 category, as I suspect is the case, the net effect of that is to greatly reduce the commercial trader short share. For instance, if there is a managed money trader or two in the big 4 or big 5 thru 8 ranks, JPMorgan's share could be as low as 7500 contracts, or down to near the lowest short position the bank has held over the past 7 years. If true, that would have to be considered ultra-bullish. Unfortunately, we're three weeks away from the next Bank Participation Report, which would normally clarify matters.

If there are questions about the existence of a managed money trader or two in the ranks of the big shorts in COMEX silver, a very rare circumstance, at least there is no question about the actual level of managed money shorts. This week, managed money shorts in COMEX silver increased by more than 9000 contracts, to 44,779 contracts, less than 1500 contracts from the record set last Oct 28. The long side of managed money in silver increased by less than 1200 contracts and at 45,520 contracts wouldn't seem prime for big liquidation if my 40,000 contract floor is valid.

I find it completely astounding that nearly 35,000 new short contracts have been added by technical funds in the managed money short category in two or three weeks. That's the equivalent of 175 million ounces of silver sold short deep into a price hole that wasn't even contemplated not too long ago. I believe a reasonable person, had he or she been aware of the true silver story would sooner jump off the Brooklyn Bridge than short that amount (or any) of silver.

Clearly, the mechanical technical funds have no idea about the real silver story, mainly because they refuse to look at all, as it is in conflict with their version that the COMEX silver and other markets are free and not manipulated. Let's face it Â? no one would trade a market on price considerations alone if one believed someone might be tampering with the price. And if the technical funds ever came to that realization, they would be forced to stop trading silver and other markets as they do currently. This would, effectively, put them out of business and goes a long way to explaining why the tech funds refuse to see that silver is manipulated in price and they are the marks at the poker table.. A man is less inclined to believe something if it jeopardizes his livelihood.

But what the technical funds believe or don't believe is beside the point as they are presently short up the ying-yang in COMEX silver and seeing as they can't possibly deliver against their short positions, they must buy back and cover at some point. That point is most usually the penetration of moving averages and seeing how that has yet to occur in COMEX silver, that buying, most often of the rocket fuel variety, lies in the future. This means the sweet spot lies ahead, even if temporarily stalled by further price declines.

The key question, as always, is the intent of the commercials in selling into the certain managed money buying ahead. In this regard, the actions of JPMorgan are of greatest concern. If this crooked bank adds to silver short positions on the next silver rally, it will be hard to bet against the rally not eventually petering out. But considering the phenomenal position that JPMorgan may be in now for a major silver price advance, the prospect for it not to sell aggressively may be higher than it has ever been. The good news is that we won't likely have to wait long for the answer to what always is the key question.

A quick word on COMEX copper. Managed Money traders bought more than 55,000 copper contracts, the equivalent of almost 700,000 tons of metal, starting in February, causing prices to rise from $2.50 a pound to almost $2.95 in May. In one month, managed money traders have now sold nearly 50,000 COMEX copper contracts, the equivalent of 625,000 tons, and have driven down copper prices to under $2.57 per pound, more than a 10% decline from a month ago. There have been no significant developments in actual copper supply and demand and since the quantities changing hands in COMEX copper dealings are double the size of the copper inventories in COMEX and LME inventories, it should be clear that copper prices, like gold and other precious metals; have officially contracted the COMEX silver disease. That copper mine producers tolerate the COMEX manipulating the price of their product is stupefying.

The Ultimate Confirmation

I've embraced one central theme for the past 30 years Â? that the price of silver has been manipulated lower on the COMEX.   For a good part of those three decades I've exerted an intense effort in analyzing the actual supply/demand fundamentals of silver, including production/consumption trends and the resultant annual balance between the two, inventories, investment demand, etc. Those fundamentals indicate that the price of silver must increase dramatically in the future, making the manipulation both the cause and explanation for the continued low price.

While I still follow the actual fundamentals of the metal closely; increasingly, I write less about their influence on the price. Why should I? After all, I can't remember an occasion over the past few years where the actual fundamentals had any effect on price; silver (and gold) prices are set on the COMEX when speculators adjust futures positions. Yes, the fundamentals will dictate the future price of silver, but have zero influence on short to intermediate term pricing. That's why I focus so closely on COMEX positioning.

When I step back, it is truly astounding how the acceptance that silver and gold prices are manipulated by COMEX trading has grown from the levels of five or ten years ago. Twenty or thirty years ago, you could count the number of observers who believed that silver or gold was manipulated in price on one hand. Of course, not everyone believes silver is manipulated in price yet, but it occurs to me that we are moving towards total acceptance as new facts are uncovered.

The most compelling facts proving that silver is manipulated in price include the data showing the COMEX has become an exclusive speculative venue where managed money speculators vie against mostly bank speculators called commercials and the fact that COMEX silver has the largest concentrated short position of any commodity. Together, these two facts prove beyond question that silver is manipulated in price. Now a new fact has emerged that ties those two facts together and illustrates and proves the manipulation like never before.

I recently observed that JPMorgan and other members of the 4 largest short sellers on the COMEX had never taken a loss on any newly added short position in COMEX silver futures over the past seven years. Let me clarify that statement; JPMorgan and other commercial traders in the big 4 have never bought back a silver short sale at a higher price than the price they sold short at (for a loss) and only and always have bought back silver short sales at lower prices than originally sold (for profits). In other words, the four big shorts in COMEX silver have a perfect trading record Â? all profits, no losses. (Of course, if a managed money trader has entered into the ranks of the big 4, that trader will likely incur losses)

In baseball terms, this is the equivalent of a Major League pitcher throwing nothing but perfect games for a full season or a batter hitting 1.000 for a whole year. Or in other words, a statistical impossibility. Think I'm overstating the case? Well, just imagine anyone entering into inherently dangerous trades (shorting the most undervalued asset of all) several times a year, year after year, and always booking profits and never a sin

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