June 27, 2015 – Weekly Review

Weekly Review

Gold and silver prices fell for the week, with gold ending down $26 (2.2%) and silver down by 33 cents (2.1%). I was a bit surprised that silver wasn't relatively weaker than gold this week, as it usually accelerates to the downside when the metals move lower, but the silver/gold price ratio ended unchanged at 74.5 to 1.

Casting aside my consistent advice not to read too much into short term price changes, there are now so many unique and extreme circumstances at play in silver, that even the price action tells me that something very special is about to unfold. While the data indicate that a general metals upturn in price is close at hand, that data also strongly suggest that silver should lead the way higher by a wide margin.

The main data are contained in the new Commitments of Traders (COT) Report released yesterday, which has brought me to the point of exhausting my ability to describe just how bullish the market structure is in all CME metals (gold, platinum, palladium and copper), with silver in a class by itself. I'll get to the details of the new report momentarily, after I review some really special developments away from the COT market structure.

Turnover or the physical transfer of metal brought into or taken out from the COMEX-approved silver warehouses cooled further this week, as only 2.1 million oz were moved and total COMEX inventories rose by 1.5 million oz, to 182.9 million oz. This is the highest level of total COMEX silver inventories in about a year, but these total inventories are still within a narrow band extended back two years. If anything, it's a wonder that COMEX silver inventories haven't grown by much more significant amounts over the past few years.

While many seem perplexed why we haven't slipped into a raging silver physical shortage by now, with some asking aloud as to where all the physical silver is coming from, the facts as we know them answer both questions. What will set off the inevitable physical silver shortage is a spike in investment demand, which aside from the epic buying by JPMorgan, has not been present for the past four years. Absent strong general investment buying, the shortage won't materialize.

As for where all the silver is coming from, after all industrial and total fabrication demand is satisfied and deducted from total production (mine plus recycling), there have been about 100 million oz Â?left overÂ? and available to world silver investors annually. Over the past four years, that adds up to close to 400 million oz and is very close to the amount accumulated by JPMorgan.

In simple terms, there has been little net silver investment buying over the past 4 years as prices moved lower, except the buying by JPM. In fact, it has been the absence of broad investor silver demand that has enabled JPM to buy as much as it has. Please don't forget that it was largely JPMorgan's key role in manipulating silver prices lower on the COMEX that both discouraged broad investor buying and cleared the way for this crooked bank to acquire silver at a giveaway price. That's what makes this the financial crime of the ages.

On a scale from 1 to 10, with 10 representing the maximum significance to what's important to future price, I would place the actual level of total COMEX silver inventories at no more than a 1. That same measure applied to the weekly movement in COMEX silver inventories would garner a 10 from me. And I'm still of the opinion that the recent cooling off in the weekly turnover is bullish because it suggests, at least to me, that JPMorgan is at the end of its massive physical silver accumulation, meaning prices could fly soon. But that is far from the only clue.

If physical silver movement on the COMEX is on the wane, that has not carried over to the deposit/withdrawal pattern this week in the big silver ETF, SLV, where the word Â?counterintuitiveÂ? has ceased any real meaning. After deposits of 2.2 million ounces earlier in the week on low volume and declining prices (the opposite of what would be expected), yesterday a whopping 4.8 million oz were withdrawn from the trust. While some small withdrawal would be expected, actual price patterns and trading volumes would not explain the very large withdrawal yesterday.

About the only plausible explanations I can come up with for the beyond counterintuitive deposit/withdrawal pattern in SLV (and I am shocked these very public patterns are not widely discussed) are that deposits seem intended to reduce the short position in SLV and the withdrawals are intended to convert shares to metal for the purpose of evading SEC share reporting requirements by JPMorgan. These are the same explanations I have offered for years and I have yet to hear any plausible rebuttal. This week's unusual deposit/withdrawal pattern also seems to point to JPMorgan putting the final pieces in place on its truly masterful, if not highly illegal, historic accumulation of silver. At least, that's how I see it.

The new short sale report on stocks was released late Wednesday and indicated substantial reductions in the short positions of the two big hard metal ETFs, SLV (silver) and GLD (gold), for positions held as of June 15. In SLV, the short position declined by a very hefty 8.1 million shares to under 11.8 million shares (ounces). That's the lowest I remember the SLV short position being in quite some time. In GLD, the short position declined by nearly 5 million shares to just over 13.4 million shares (1.3 million ounces). As a percentage of total shares outstanding, short sales in SLV are down to 3.4% of total shares, while the percentage in GLD is 5.6%.

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

First, these reductions are unabashed good news, particularly for silver. The lower the short position in SLV, just like the lower the commercial short position on the COMEX, the better it is for higher prices to come. When the short position in SLV is large, the big shorts (JPMorgan) are more exposed to loss if prices rise and that makes them more determined to force prices lower. When the short position is low, like now, the big short sellers are less exposed to loss on a price rise and have less incentive to press prices lower (except in the very short term).

But it's so much more involved than that. Besides being flat-out bullish currently, the recent changes in the SLV short position provide important confirmation points to the silver price manipulation. That's why I write about this short sale issue so often, as I have been doing since shortly after SLV came into existence in 2006. I do admit that this can be a complicated issue, but if I didn't think it contributed mightily to understanding the real silver story, I wouldn't subject you to it.

Out of concern for the length of this review I would ask that you reread the sections of the weekly review of June 13 and the article of June 10 (in the archives) that pertain to the short position in SLV and the highly counterintuitive deposits that I reported on back then. There are about 9 paragraphs total in those two prior articles that pertain to this discussion and that's just too many to reproduce here. The gist of my take was that the big metal deposits (nearly 11 million oz) into the SLV during the period June 1 to June 15 were made to reduce the short position. This was confirmed upon the release of the short report this week.

Let me first make a confession. I knew when I published this past Wednesday's article that the new short report would be released much later that evening and I was tempted to predict a big reduction in the report, but I chickened out. As I hope you know, I'm not usually a weenie when it comes to predicting the COT report or in calling JPMorgan, the CME or the CFTC as the crooks that they are. And if you read the two prior articles I referred to, you'll see those previous discussions explained why I was expecting a significant reduction in the just-released short report. Still, I refrained from saying that explicitly on Wednesday and I'd like to explain why.

The short answer was that I was afraid I could be way off in my expectations for a very large reduction and I didn't want to embarrass myself. I'm not an overly egotistical person, but I do try to avoid making a public fool of myself when I can. But the longer answer is that I was concerned that what might cause me to be way off the mark was not so much my analysis calling for a big reduction in the short position of SLV, but my lack of confidence in how the short report is compiled and the entity reporting the data, the Depository Trust Clearing Corporation (DTCC).

I've discussed the DTCC before as being among the most opaque and non-transparent of large financial institutions and I have no clue as to the methodology for how the stock short report is compiled. Compared to the methodology for how the COT report is compiled, which is straightforward and relatively simple and therefore reliable in my eyes, the stock short report is the opposite. With stocks, the DTCC publishes the short interest twice a month with no explanation for how the data are compiled. That's kind of like the once a month gold and silver volume figures publish by the LBMA, which aren't worth the time to review, precisely because there is no detail provided, just a take it or leave it single number.

Therefore, my personal trepidation in making a hard prediction on Wednesday was not rooted in a lack of confidence in the logic of my analysis, but in my distrust of the methodology of the report and the DTCC. But the big reduction in the short position of SLV is good news on multiple counts. Like the big changes in the two prior stock short reports, the short position in SLV both increased and decreased for the last three reports exactly as they should have considering price, volume and deposits into the trust. That's good because, despite my wariness of how the report is compiled, it strongly suggests the data are correct. I would stipulate that it is a good thing to have confidence in financial reports, rather than suspect the books are cooked.

Aside from that, the new short report confirms my take that the metal deposits were behind the big reduction in the short position in SLV and that a straight buy back of more than 8 million shares would have driven the price of silver higher and that's why the deposits were made instead. As for explaining why there was a big reduction in the short position of GLD where there were no big deposits of gold into that trust during the reporting period (there were deposits this week), the answer is simple Â? the physical gold market is not as tight as the physical silver market, nor is the buying of 5 million shares of GLD (500,000 oz of gold), as critical to the price of gold as are 8 million shares and ounces to the price of silver.

But the most important element in the big reduction in the short position of SLV is that it is profoundly bullish to the price, particularly because I am convinced that it was JPMorgan covering SLV shorts by depositing metal into the trust. There can be no more bullish setup than in having the world's largest owner of physical silver (ever) rush to cover big short positions in both COMEX futures and shares of SLV. Just like you shouldn't ignore all the animals racing towards higher ground just before a tsunami hits, when the biggest silver holder and crook rushes to buy back shorts, you should expect a price tsunami to follow.

Sales of Silver Eagles from the US Mint have surged, in their recent erratic stop and go pattern, to the second largest sales month of the year, with two days left in the month. Sales of Gold Eagles have likewise surged this month, but the spotlight still must be directed towards Silver Eagles. A while back I opined that Silver Eagle sales had cooled off because JPMorgan had sharply increased its short position in COMEX futures and shares of SLV and knew, therefore, that it would soon rig silver prices lower and why buy Eagles when you were going to manipulate prices lower? Now that JPMorgan has succeeded in manipulating silver prices lower and in covering their shorts on the COMEX and in SLV, why not buy Silver Eagles much cheaper than before? I don't think JPMorgan saved much by temporarily postponing purchases of Silver Eagles (maybe a couple of million dollars), but when you are the world's greediest financial pig, you'll snort up every dollar available.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's COT report were disappointing when I first viewed the legacy report, as is my custom, compared to what I had been expecting in the headline number of the total commercial net short position, particularly in gold. You'll remember the price pattern was unusual, especially in gold, because gold prices first rose strongly above key moving averages and then plunged back below those moving averages all within the same reporting week. That automatically makes predictions all the more difficult.

On Wednesday, I had guessed we might see a headline number of unchanged to no more than a 10,000 contract increase in the total commercial net short position in COMEX gold; so I naturally felt deflated by the 24,300 contract reported increase. It wasn't an especially embarrassing miss, but I was resigned to having missed by a wider margin than I would have preferred Â? until I reviewed the much more detailed disaggregated COT. As would also prove to be the case in silver, the details in the disaggregated COT report changed my initial interpretation of the headline number in a dramatic way.

In COMEX gold futures, the total commercial net short position did increase by 24,300 contracts to 100,900 contracts, to a level more neutral to bullish than the strongly bullish prior readings. By commercial categories, it was mostly a big 4 and raptors affair, as the big 4 added 13,300 new shorts and the raptors sold out 10,500 contracts of long positions. The big 5 thru 8 added 500 new shorts.

With that amount of net commercial selling, I was prepared, as is usually the case, for there to have been significant managed money reciprocal buying. That there wasn't was a very pleasant surprise. In fact, there were less than 5000 contracts bought by managed money traders, mostly in the form of short covering to the tune of 4602 contracts. I don't recall such a large commercial repositioning and such a small managed money change; typically it's the commercials vs the managed money traders accounting for most, if not all the big shifts in market structure. Why not this time?

The explanation for why the commercials sold so much while the managed money traders bought so little was because the other category of large reporting speculators, called other reportable traders, bought an unusually large number of gold contracts, close to 14,500, including the addition of 11,575 new long contracts. I don't write much about this category of speculators because it's usually a commercial/managed money matchup, but I must at this time (as I will in silver momentarily).

As it turns out, the large other reportable gold traders now hold a long position of just over 78,000 contracts, the largest amount in more than two years. What makes this significant is that these traders are clearly not technical funds which buy on rising prices and sell on lower prices, because the long position has been built up on the generally falling gold prices of the past two years. This suggests the presence of a core non-technical fund long position in gold, similar to the core non-technical fund long position I have often referred to in the managed money category in silver (and gold).

The potential bullish significance of this in gold is that these large reporting traders, both in the managed money category and in the other reportable category, appear unlikely to sell on further gold price weakness and likely to hold and buy more until prices advance. I can't dismiss the normally bearish significance of an increase in commercial selling, particularly new short selling by the 4 largest gold shorts as occurred this reporting week; but the fact that there was relatively low managed money buying (both new longs and short covering) would seem to offset the bearish significance.

This was a very unusual COT report in gold in that the managed money change came very close to what I expected even if the headline number didn't. On balance, I would still consider the market structure in gold to be strongly bullish since not only did the record managed money short position get reduced so little, but it undoubtedly rose to a new record as of today, given the gold price weakness since the cutoff and the pronounced price salami slicing since Tuesday.

When I first reviewed the legacy COT report in silver, I was somewhat disappointed that the commercial headline number grew by a slight 600 contracts, which while certainly within my stated prediction range, didn't suggest the improvement in the market structure I had hoped for. But when I looked at the disaggregated report, I actually exclaimed out loud, Â?Holy Crap!Â? I meant that in a very good way.

On Wednesday, I had hoped for an increase in the managed money short position to a new record, since we were only 1500 contracts shy in the previous report, but I didn't expect an increase of the more than 8500 contracts that were reported. That managed money technical fund traders added the equivalent of 42.5 million ounce of silver to a short position that now measures more than 266 million oz is hard to conceive. Not only is it hard to conceive that these traders could be tricked into selling the world's most undervalued asset short to such an extent and at such a low price, it is hard for me to conceive how they could have allowed themselves to step into what could be the biggest market trap in history.

In COMEX silver futures, the total commercial net short position increased by a slight 600 contracts, to 29,500 contracts, a total still less than half the level of a month ago, meaning still spectacularly bullish. But because the most salient feature of this report and the reports of the two prior weeks is the astounding increase in managed money shorting, I am forced to suspend my usual breakdown of what each category of commercials did, the big 4, the big 5 thru 8 and the raptors. Oh, I can tell you that the big 4 increased its concentrated short position by more than 7500 contracts and how the big 8 now hold the largest concentrated short position (80,309 contracts or over 400 million oz) in more years than I care to look up. But, amazingly, all these extremes now hold a very different meaning.

For the first time since I have followed the COT report (three decades) enough non-commercial shorts have entered into the ranks of the 4 and 8 largest traders so as to alter my normal interpretation of the concentrated short position and market structure in COMEX silver in a manner that seems almost unimaginable. Some things haven't changed, such as 8 traders holding more than 400 million oz of silver net short being such a clear case of price manipulation with the potential of creating disorderly markets that the CFTC should be horse-whipped and tarred and feathered for allowing it. But what has changed the most is the composition of the 4 and 8 largest traders and that change would appear to be profound indeed.

Because there was such a large increa

Date Created
2015/06/27