

Gold finished higher this week by \$4 (0.3%) and silver by a sharper 38 cents (1.9%). Silver's relative outperformance resulted in a tightening of the silver/gold price ratio of a point and a half to just over 77.5 to 1. This is the tightest or highest valuation of silver relative to gold since January, but that's not saying much since the ratio is still stuck in the trading range of the past few years.

While there are other developments to report on, it should come as no surprise that the sole cause for price movement in all the actively-traded metals this week, or lack thereof, was due to futures contract positioning on the COMEX/NYMEX. This was true in the metals that moved notably, like copper and silver to a lesser extent; as well as the metals that didn't move that much, like gold, platinum and palladium. The positioning changes in silver, which appeared to be dramatic, occurred after the Tuesday cutoff for the COT report, while the changes in copper took place both before and after the cutoff.

A little while back, I remember commenting how the market structures in all the metals looked bullish, meaning the probabilities strongly favored an impending upside move likely to be much greater than a downside move. What makes a market structure bullish is a low managed money net long position or a large managed money net short position. Such a bullish structure develops after prices decline below the key moving averages which encourages the managed money technical funds to sell out long positions and/or add short positions.

Once the managed money traders are done selling, prices stop falling and it's generally just a matter of time before the process is reversed and the managed money traders buy back short positions and add to long positions, causing prices to

rise. I suppose I could make it more complicated, but there's no reason to do so; this is how prices are set in the metals and many other markets. One obvious proof of that is the absolutely remarkable explosion in commentary featuring COT report analysis. Nowadays, it's quite rare to read market commentary that doesn't include COT report analysis on futures contract positioning changes.

While the proof of futures positioning change setting prices may be obvious, that doesn't change the fact that it is also nuts and contrary to US commodity law, which holds as a basic tenet that excessive speculation should not determine prices. No one can deny that the managed money traders are anything but speculators and are classified that way by the CFTC. Likewise, no one can deny that the managed money traders buy and sell in excessive quantities, completing the excessive speculation equation.

I can cite more documented instances of managed money excessive speculation than the CFTC can ever deny (if it ever attempted to deny), instances in silver of 100, 200 and even 300 million ounces of COMEX silver being bought or sold in a matter of weeks or even days. Since this is an integral feature of my ongoing analysis, let me jump ahead and estimate that on Wednesday and Thursday, perhaps 40,000 net contracts of COMEX silver futures, the equivalent of 200 million oz, were bought by the managed money speculators.

It takes the world nearly three months to mine that amount of silver and a relative handful of paper speculators bought as much in just two days. It's not possible that such large and excessive speculative buying didn't cause silver prices to rise or that equally large paper speculative selling prevented the price from rising even more. Whether that amount of paper speculative buying and selling is confirmed in next

week's COT report depends largely on what transpires on this coming Monday and Tuesday, but it's quite rare for me to be seriously off in such predictions.

My whole point (as always) is that excessive speculation is setting prices in full view and the regulators are intentionally looking away. Copper and silver prices rose because the managed money speculators bought more aggressively than the commercial speculators sold as moving averages were penetrated to the upside. Gold, platinum and palladium didn't rise much because the managed money speculators didn't buy yet. The sharp rise in copper prices had everything to do with as much as 50,000 net contracts being bought by the managed money traders in the just reported and the current reporting week and not any developments in the real world of copper production and consumption. Same with the much more subdued price rise in silver. I'll come back to this later, but shame on the wimps and crooks at the CFTC for turning a blind eye to the perversion of the price discovery process.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses came to 4.5 million oz. for a second week (which happens to be close to the weekly average for the past 7 years). Total inventories fell a scant 0.1 million oz to 270.3 million oz, down ever so slightly from last week's 25 year record high. The total in the JPMorgan warehouse inched up by a bit less than 0.17 million oz to 139 million oz, following last week's unusual drawdown of 1.3 million oz. This week, we're back to the dribs and drabs mode of additions to the JPM COMEX warehouse holdings, itself notably different from the longstanding addition of silver by the typical truckload increments of 600,000 oz.

There were two days of very counterintuitive withdrawals totaling 3.3 million oz from the big silver ETF, SLV. I say counterintuitive because silver prices rose fairly

sharply which usually entails net investor buying, so I suspect buying by JPMorgan and a quick conversion of shares to metal, which results in metal being reported as withdrawn. Earlier in the week, there was an equally counterintuitive deposit of more than 4 million oz into SIVR before prices rallied. Along with these counterintuitive withdrawals and deposits of metal in the silver ETFs, there has been persistent deliveries on the COMEX of silver out of the ordinary, meaning no involvement by JPMorgan for its house account and the fairly constant addition of new contracts in the delivery month for quite some time.

I may not have offered my take on all these unusual silver developments, so let me do so at this time. I get the impression that the wholesale physical silver market has tightened to an extent not seen previously; so much so that for the first time in seven years, JPMorgan has not been able to secure anywhere near the same amount of physical silver it has been accumulating over that time. Let's face it, silver world mine production and recycling have been leveling off and there's no sign of any meaningful decline in world economic activity and resultant silver industrial demand. For sure, silver investment demand (away from JPMorgan) has been weak for some time, but that's a given.

At some point, stagnant or falling total production and steady to growing industrial demand will cause a crunch in any commodity, even one that is manipulated in price, and my sense is that we may be at that point in silver, based upon clues such as just described. If JPMorgan no longer has the ability to accumulate the quantities of metal it has enjoyed over the past seven years that would go a long way to persuading it that the time may be up in continuing to depress the price. Of course, arguing against this premise is the recent aggressive new shorting by JPM, admittedly no small matter. Still, the signs of physical tightness of a type not

witnessed previously appear visible to me.

Turning to gold, developments in the June COMEX deliveries appear to have turned my wild-assed guess of last week into reality. You'll recall that I opined that the very large number of open contracts remaining in the delivery month would be resolved with JPMorgan delivering large numbers of contracts. I forgot to add that I was guessing that JPMorgan would do so out of its house account, but that's what I meant. So when a customer of JPM issued a decent number of gold contracts early this week, I was prepared to admit that wasn't what I had in mind, even though it was close.

However, before I got a chance to make clear what I originally intended to say, JPMorgan saved me the trouble by first transferring nearly 400,000 oz of gold from its eligible holdings in its COMEX warehouse into the registered category and delivered a bit over 4000 contracts the very next day. Thus, in one fell swoop, JPMorgan singlehandedly solved what looked to be a serious mismatch between very low deliveries and very large open interest in the June gold delivery. In addition, in that same discussion last week, I opined that HSBC would likely end up taking delivery of 3000 contracts and it now looks like it may go over that amount, having stopped 2976 gold contracts so far.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

As I have intoned previously, the data, whether actual or predicted are meaningless in the abstract; what matters most are what the data mean. The reason I expected JPMorgan to be the biggest issuer of gold in the June delivery period is because it is the boss of bosses in gold and silver and based upon the flow of data to that point, no one else appeared likely to make delivery. The reason HSBC stopped so many gold

contracts is that it has awoken to JPM's accumulation of physical gold and silver.

When I first saw that JPMorgan had issued 4000 contracts for delivery, while it fit with my expectations, I was also disappointed because the 400,000 oz delivered represented a pretty big chunk (18%) of the 2.2 million gold oz in the JPM COMEX warehouse. As such, it suggested JPMorgan probably didn't think gold was about to rise in price since it just let go of half a billion dollars' worth. But then I realized that 400,000 oz of gold was only 2% of the 20 million oz I believe JPMorgan to have accumulated over the past five or six years. It then dawned on me that JPM had no choice but to deliver the 4000 contracts and it wasn't necessarily an overly bearish factor for gold. When I reviewed the new COT report, I became more convinced that JPM delivering such a large number of contracts may not have been at all bearish for the price of gold, as I'll explain momentarily.

Turning to the changes in this week's Commitments of Traders (COT) report, aside from some unusual commercial category changes in gold which I just alluded to, it was basically a nothing report in the manner fully expected. Gold and silver prices hardly budged for the reporting week ended Tuesday, making it impossible for me to expect any meaningful positioning changes. On Wednesday and Thursday, there were monumental changes in silver as I indicated earlier in this review, just not through Tuesday.

In COMEX gold futures, the commercials reduced their total net short position by a minor 2400 contracts to 134,300 contracts; not much of a change that left the market structure in gold as still solidly bullish. The surprise was by commercial category and unless one viewed the COT report as I do, replete with analysis of the big shorts and the raptors (the smaller commercials apart from the big 8), I don't

know how it could be seen, particularly this week.

By commercial category in gold, the big 4 bought back a very hefty 12,100 short contracts, while the raptors went the other way completely in selling out 11,700 long contracts, reducing the raptor net long position to 75,200 contracts, still quite large and bullish. The big 5 thru 8 bought back 2000 short contracts, but that mostly looked to be possible managed money short covering. It's not often that you see such a wide disparity in what the 4 big shorts and the raptors do in gold and my first reaction was to joke that they might have mixed up the commercial office memo of what to do that week.

But then I looked a little closer at the disaggregated version of the report and what I saw was nothing less than shocking; or at least it was not something I recall seeing previously. Most typically, I characterize the important positioning changes as being between the managed money traders and the commercials (with other large non-commercials recently joining with the commercials and against the managed money traders). That's another way of saying that I don't usually dwell on the two separate commercial categories, namely, the producers/merchant category and the swap dealer category. To be blunt, the commercials are all crooks to me, running the managed money traders into and out from positions, regardless of which of the two categories they are broken into. Not this week.

This week, the commercials in the producer/merchant/processor/user category bought nearly 40,000 net gold contracts, while the commercials in the swap dealer category sold nearly as many net gold contracts. By comparison, the changes in the other non-commercial and non-reporting categories were negligible. I suppose it's possible that this is some type of monumental reporting error by the CFTC and if it

is, there is little chance the agency will admit to that; although it may show up next week or in subsequent reports. As always, I have to take the reported data as accurate, until proven otherwise.

If the data are being reported correctly, there is little question that the largest shorts in COMEX gold futures, of which JPMorgan is most likely the very largest, bought back and covered a large number of short contracts in the current reporting week. Coming back to the large number of gold deliveries made by JPMorgan as discussed above (4000); many more gold contracts would appear to have been bought back by JPMorgan in short covering during the reporting week, perhaps three times as much or more. If this is the case, which is surely what the data indicate, then the 400,000 oz of gold that JPMorgan apparently lost weren't lost at all, since JPM bought back much more in short gold contracts while it was delivering the physical gold. If anyone could pull such a stunt off, who better than the boss of bosses?

Finishing up on the gold COT, the managed money traders sold 3121 net gold contracts, including the sale and liquidation of 7855 long contracts and the short covering of 4734 contracts. Compared to the reported changes in commercial categories, the managed money changes are hardly worth commenting on and based upon price action since the Tuesday cutoff, it's hard to imagine big changes since then. Obviously, that's not the case in silver.

In COMEX silver futures, the commercials increased their total net short position by 2300 contracts to 37,500 contracts. This is the largest commercial total net short position since late January, but on a historical basis would still be solidly in the bullish range through Tuesday. Unlike the drama in gold in commercial categories, it was kind of ho-hum in silver in that regard. The big 4 added exactly one new short

contract, while the raptors sold off 2500 longs, reducing their net long position to 56,700 contracts and the big 5 thru 8 bought back an insignificant 200 short contracts.

The release of the monthly Bank Participation report was most noteworthy in that it essentially confirmed that JPMorgan was the big short seller in silver over the past five weeks (although not in the most recent reporting week). There was a chance that I would have to sharply revise my reporting that JPMorgan had added 12,000 new short contracts since May 1, but any recalibration doesn't amount to more than 1000 contracts and I would peg JPM as being short 32,000 net contracts as of Tuesday. It may not seem worth worrying about now, but I was concerned I would be forced to sharply revise my take on JPMorgan as I reported originally over the past several weeks.

The other noteworthy feature of the Bank Participation report was a rather large increase in the short position held by non-US banks of around 7000 net contracts over the past month. While pegging JPMorgan as the biggest short and obviously in the US bank category, the identity of the big foreign short selling bank is more difficult. Normally I would say that it was ScotiaMocatta and perhaps it is, but there were new reports published this week confirming that Scotiabank is proceeding with its expected shutdown of its precious metals unit amid key employee departures since the failed sale of the unit some time back. It would seem to be particularly reckless for Scotiabank to add aggressively to its COMEX silver short position at this particularly time, but reckless actions by banks are not unprecedented occurrences.

On the buy side of silver through Tuesday, the managed money traders bought 3828 net contracts, comprised almost exclusively on new longs of 3721 contracts and the

buyback of 107 short contracts. The managed money long position, at 63,720 contracts is now the largest (least bullish) since earlier this year, while the managed money short position of 59,101 contracts, while down from recent high water marks by 17,000 contracts was still quite large as of Tuesday. The problem is that Tuesday seems like years ago based upon what I think transpired since the cutoff.

As I indicated earlier, I think as many as 40,000 net managed money silver contracts may have been purchased on Wednesday and Thursday. Total open interest in COMEX silver has grown by close to 20,000 contracts on those two days, but new managed money buying and managed money short covering would have resulted in no increase in total open interest, all other things being equal; so the increase in total open interest suggests a much bigger managed money net change.

In a very real sense, I am sick about what I perceive to be truly massive managed money buying and the tepid price result. The only possible explanation for the tepid price reaction to what was likely the buying of 200 million oz of paper silver in just two days was the absolutely intense selling of that many paper ounces by mostly commercial interests. I would imagine that there was heavy raptor long liquidation as these traders are usually very quick to book profits with the intent of reestablishing long positions on price setbacks. But here's the problem – such raptor long liquidation would (all things remaining equal) result in a decline in total open interest, not an increase.

So the most likely trading that occurred on Wednesday and Thursday, namely, managed money short covering and raptor long liquidation would result in reductions in total open interest. New managed money buying would result in an increase in total open interest as new long contracts were being established, but

minus managed money short covering. Unless a bunch of phony spread positions were established to artificially boost total open interest to send a false flag, the only way total open interest could grow was if new commercial short positions were added, also known as JPMorgan adding new shorts.

The data in the COT reports over the past month, plus the data in the new Bank Participation report indicate that JPMorgan as well as at least one foreign bank have added substantially to silver short positions through Tuesday. Of the 25,500 contracts by which the commercial net short position has increased since May 1, JPMorgan and at least one foreign bank are responsible for 17,000 contracts of new shorting and likely more since on May 1 there was a managed money trader in the big 4 category. Therefore, the bulk of the selling over the past month has been of the concentrated short selling variety, the most manipulative by CFTC definition.

Since Tuesday, it's hard to argue that the concentrated short position of JPMorgan and whoever might be a partner in crime hasn't further exploded, creating a most dangerous market set up. Of course, it greatly enhances the possibility or even probability of a sharp selloff in silver to anyone who has paid attention to what moves price; but at the same time, it also creates the possibility of a disorderly market to the upside, because JPMorgan is still net long to the tune of 500 million oz minimum by virtue of its massive physical silver hoard. Throw in the strange goings on in gold by commercial category this week and it's safe to say these are most unusual times.

To be sure, the CFTC should be ashamed by its actions or lack thereof to this point in allowing such a dangerous market set up to evolve; gold, platinum and palladium look set to explode at some point; copper and silver look like they could go either way. What the CFTC should have done and should do now is limit the excessive

speculation by both the managed money traders and the speculators euphemistically called commercials which haven't come close to legitimately hedging in years.

I can't say I would rush out to buy speculative call options on silver based upon what has transpired on Wednesday and Thursday, but neither would I abandon existing calls, all of the kamikaze variety, due to the extreme positioning of late. Should the supreme market crooks at JPMorgan and their ilk cause silver to sell off again, I'll reposition expiring call options at that time, while continuing to maintain full exposure to silver on a fully paid for basis.

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Silver - \$16.80 (200 day ma - \$16.79, 50 day ma - \$16.56)

Gold - \$1303 (200 day ma - \$1309, 50 day ma - \$1319)