

March 11, 2010 – An Interesting Timeline

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I'd like to share some new thoughts about a timeline that intrigues me. It's going to be a mixture of facts and speculation on silver and gold as I see it. Basically, that's what an analyst does; take observable facts and then try to divine their meaning about the future course of prices. It's an evolving process.

On January 14, at the public hearing on energy position limits, Chairman Gary Gensler announced that the Commission would hold a public meeting on precious metals, now scheduled for March 25 (BTW, there is a well-written feature on Gensler in today's NY Times). Initially, I was hopeful that the Jan 14 meeting would include some mention of precious metals; therefore, I was genuinely surprised about the proposed hearing on precious metals. I don't think I was alone in my surprise.

On January 14, the price of silver closed at \$18.66 and gold closed at \$1141. On Feb 5, sixteen trading days later, silver hit \$14.60 and gold hit \$1045 intraday, down \$4 and almost \$100 respectively. Was this a coincidence or was it related to the CFTC announcement?

On the January 12 cut-off date for the COT report, the total commercial net short position in COMEX silver futures was 61,700 contracts. On the Feb 9 cut-off for the COT report, after the \$4 price smash, the commercial short position declined by 24,000 contracts to 37,800, a decline representing the equivalent of 120 million ounces. On January 12, the total net commercial COMEX short position in gold futures was 282,500 contracts. On Feb 9, the commercial gold short position declined by 69,000 contracts to 213,400, an equivalent decline of 6.9 million gold ounces.

The combined decline in price and the concurrent reduction in the commercial short position in both silver and gold was the largest since the historic declines of 2008. Since the bottom in price on Feb 5 and subsequent price rally, there has been a 3000 contract increase in silver and a 38,000 contract increase in gold commercial net short positions through the last COT of March 2. Bank Participation Report data on that same date indicates JPMorgan continued to decrease their net short position in both silver and gold, despite additional selling by other commercials.

Where am I going with this? Just as I was surprised about the announcement of a precious metals meeting at the Jan 14 public meeting, it is my opinion that JPMorgan was equally surprised. When they realized that the CFTC finally meant business about position limits and concentration in the precious metals market, JPMorgan swung into action and engineered a sharp sell-off to liquidate the technical funds and other leveraged long holders. That the commercials, and particularly JPMorgan, succeeded in buying tens of thousands of silver and gold contracts on sharply declining prices is a fact evidenced in CFTC data. The only thing for an observer to decide is whether it was accidental or intentional. Whether it was related to the Jan 14 announcement of a precious metals meeting or not?

The answer to that question will become clear in the near future. The answer will depend on whether JPMorgan ever increases its short position in silver and gold substantially again, and what comes out of the coming CFTC public meeting. My guess is that JPMorgan won't increase their short position and the CFTC, under Gensler, will do the right thing and attack the short concentration in COMEX silver and gold. The Commission may not attack the concentrated short position openly, so it will rest on JPMorgan's future actions to judge the outcome.

Here's a way-out speculation, courtesy of my friend and mentor, Izzy Friedman. JPMorgan may be buying, or has bought, the remaining 6 million ounces of gold that the IMF has for sale. Morgan would be a logical candidate for purchase for a number of reasons. It would cover, in one stroke, their entire COMEX short position in gold, estimated by me to be roughly 60,000 contracts remaining. Certainly, JPMorgan could handle the purchase financially. I'm less sure of its impact on the price of gold. It would be bullish that the IMF sale is complete and even more bullish if it indicated JPMorgan had withdrawn as the big gold short seller. It's less bullish if Morgan decides to deliver the gold against its short COMEX position.

Please remember, this is a far-out speculation by my friend Izzy that happens to sound plausible. Also please remember that in the remote event it does come to pass, it does make sense for JPMorgan to close out its gold short position so efficiently. There is no comparable chunk of silver available for sale that JPMorgan can use to offset its concentrated COMEX silver short position. This highlights the great difference between gold and silver. In gold, it's plausible for Morgan to cover its gold short position through an IMF purchase. It's just not possible in silver.

Lastly, while I try to limit these postings to paying subscribers, I've gotten some very favorable feedback on my recent article, "Answering the Skeptics," including a generous offer by one subscriber to contribute to a fund to have it published in the national media. With that in mind, I think it may be appropriate, at least, to release it on the Internet in the hopes it may benefit us all.

Ted Butler

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