Weekly Review

In a trading week best described as choppy, the price of gold fell $8 (0.6%) and silver managed to hold on to unchanged for the week. As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in a bit, to just under 81 to 1. But make no mistake, silver is still massively undervalued relative to gold on an historic basis and there is nothing I see in the available data involving actual metal fundamentals to justify why silver is so depressed in price. The only evidence for silver's super-depressed price comes from COMEX futures trading, which seems to be an increasingly accepted fact of market life.

While I and many others point to the COMEX price manipulation, it still amazes me that battle lines still exist between those that acknowledge the manipulation and those that deny its existence. One question, in particular, raised by the manipulation deniers simply astounds me because the answer would appear to be obvious. The deniers always seem to ask – "why would anyone invest in or hold an item thought to be manipulated in price?"

I think the question is not well thought-out and is based upon a faulty foundation, namely, that a manipulation can only result in an artificial high price. I understand that most market manipulations throughout history have been to the upside and those that bought at the artificial higher prices came to regret buying. But, wait a minute, no one has argued that silver is too high in price as a result of the COMEX price-fixing; the manipulation proponents universally declare that prices have been fixed too low.

There's a world of difference between artificial high prices and artificial low prices. I would contend the principle reason I hold silver and envision it soaring in price is precisely because it has been manipulated downward in price too low and for too long. Further, I firmly believe the manipulation must end and that eventuality will be celebrated when it occurs by all silver investors. Certainly, I hope I have conveyed that the silver manipulation's demise will be the big pay day for long term silver investors. I'm trying to figure out why such a silly question gets asked in the first place. The whole idea in investing is to buy low and sell high — what could put a price too low better than an artificial scheme?

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained torrid this week as just over 8 million oz were so moved. This week, total COMEX silver inventories rose sharply, by 5.2 million oz, to 155.6 million oz, up from last week's multi-year low total level. This week's increase in total COMEX silver inventories represents a change in the pattern of such inventories falling by as much as 35 million oz from peak levels of 8 months ago. A reasonable explanation for the metal inflow this week would be due to continued delivery demands against the COMEX March contracts, where a similar amount of metal still remains to be settled before month end.

While I have noted the generally declining level of COMEX silver inventories over the past year, I hope I have conveyed that my prime interest is in the incredibly frantic turnover. It is the motion, not the ocean that grabs my attention. This turnover, unique to COMEX silver of all commodities, points directly to a tight wholesale physical market as its prime cause. Moreover, the rapidly expanded degree of turnover these past two months, in which the COMEX turnover rate doubled, points to a dramatic intensification in physical silver tightness.

I've brought this up in the past, but let me do so again. Because silver is both an industrial commodity and investment asset, most of the 155 million oz in the COMEX warehouses are held by investors. This goes back a long way, before the popular silver ETFs were introduced a decade ago and investor storage in the COMEX warehouses was one of the best ways to store metal. Today, JPMorgan owns close to half the total COMEX silver inventories in its own warehouse. I wouldn't be surprised if more than 90% of the 155 million oz held in COMEX warehouses were held by long term investors (including JPM).

That means, if I am correct, that the real working silver inventories on the COMEX may be in the 15 to 20 million oz range. Please compare this amount to recent COMEX silver inventory turnover of more than 8 million oz a week, or more than 400 million oz annually. If the real working silver inventory is close to 15 million oz (as I believe it to be), that means the working inventory is turning over 25 times a year. That's like supersonic inventory turnover. If the real working inventory is more than I suggest, then the annual turnover rate would be somewhat less, but still in the stratosphere compared to any other commodity.

A reasonable person would ask why this incredible turnover exists and, further, why it is unique to silver; and this is where I usually end up asking why there is a lack of commentary on data that are easily verified and quite remarkable on their face. But, I've grown tired of asking and will not do so today. Instead, I will state clearly that this highly unusual physical movement is an important window to what is an almost impossible to imagine tight physical supply in silver. And I don't care if I'm the only one speaking of it.

The ongoing resolution of the COMEX March silver delivery month progressed as described on Wednesday and previously, namely, it has remained an exclusive JPMorgan production, as do most, if not all important factors in the silver market. JPM is still taking nearly all the more recent deliveries in its own name, continues to let existing March silver shorts off the hook by liquidating some of its long positions in March, and at least in the current COT reporting week, adding to short positions in other COMEX delivery months (May). When it comes to silver, JPMorgan is like a giant octopus, with its tentacles firmly entrenched in everything important.

As a result of JPM's highly visible machinations in COMEX silver, the physical tightness has been reflected in the spread differentials involving the March delivery month. On Friday, the COMEX March contract settled in price at a very slight premium to the May contract, an unusual, but not unprecedented circumstance. The reason I bring it up is not to set off the screams of backwardation that have occurred far too frequently in the past (mostly surrounding gold), when slight premiums in the nearby delivery month prompted predictions of a developing physical shortage. Because JPMorgan controls everything related to silver and because it doesn't seem that the bank is ideally positioned for an immediate liftoff for silver, it's hard for me to label the very slight premium of the March silver contract to the May as the flash point for the coming silver shortage.

Instead, my point is that the spread tightness does indicate overall physical silver tightness and all the published data point to the unmistakable role of JPMorgan in everything silver and that JPM is setting the stage for a price liftoff in the not too distant future. Just like a silver investor should embrace the manipulation and its eventual demise as the best reason to hold silver, JPMorgan's involvement, as criminal as it may be, is quickly becoming another best reason to hold silver. What's good for JPM is good for silver in the end, because there is little way JPMorgan will profit if all silver investors don't profit, considering how much silver the bank owns (more than 400 million oz).

This week more than 3 million oz were deposited into the big silver ETF, SLV, along with comparable quantities of gold deposited into the gold ETF, GLD, following previous price gains and strong trading volumes. This followed even stronger deposits into SLV of more than 11 million oz the previous week (on the highly unusual volume of Tuesday a week earlier). My sense is that whatever metal was owed to SLV and GLD has largely been deposited. New deposits would come on further price gains and high volume, should those gains evolve. Likewise, there was no big surprise in the new short report of late Wednesday, as the short interest in SLV fell 1.4 million shares to 12.1 million shares (ounces) and in GLD by one million shares to just under 11.9 million shares (1 million gold ounces). Not much to see or report here.

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

Sales of Silver Eagles from the US Mint still seem to be at the maximum level of production capacity, while sales of Gold Eagles appear to have cooled off a bit. I've noticed that the total OF Silver Eagles sold amounts to a very even 12 million coins so far this year and in increments of a million coins for the past several weeks. This points to the maximum production situation.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Just about every day, I read a new article describing in detail just how many Silver Eagles have been sold, either this week, month or year along with fancy graphs and charts comparing current sales to times past. Because the Mint is and has been selling record amounts of Silver Eagles over the past five years, there is always a universal conclusion in every article that sales are driven by record overall retail demand from the public. From everything I can uncover, that is simply not the case.

I don't doubt for a moment that the US Mint is selling the exact number of Silver Eagles it claims to be selling; I disagree that the public accounts for all the buying. In light of all the evidence, I find it preposterous that anyone who checked wouldn't uncover that it is impossible for the public to fully account for buying all the coins that the Mint produces and sells. Reporting on data is not the same as analysis. Yes, the Mint is selling the number of Silver Eagles it claims to be selling, but where is the evidence that the public accounts for all the purchases?

In fact, the evidence suggests the opposite, namely, that the public can't be buying all the Silver Eagles being sold because if the public had been buying the record number of Silver Eagles sold over the past 5 years (more than 200 million coins) that public demand would have been evident in other forms of silver, including the publicly held and traded ETFs. Sure, there have been brief bouts of public buying demand in Silver Eagles and other retail forms of metal, but it would be impossible not to observe that broad public investment demand for silver has not existed. Over the past five years, there has been no overall growth in the silver holdings in the ETFs and no reports of a landmine demand by retail dealers which sell to the public.

My point is that while Silver Eagles have been sold in record amounts and, therefore, someone had to buy them; the public has not been the exclusive buyer based upon all the evidence. That evidence suggests the presence of a large buyer, perhaps accounting for half of all the Silver Eagles sold over the past 5 years or more than 100 million coins. Further, the evidence clearly suggests that the big buyer has been JPMorgan for the simple fact that this bank has its hands in everything else in the world of silver. Silver Eagles represent such a significant factor in silver on a cumulative basis that it would be impossible for JPMorgan not to have been the principle buyer. I guess, just like other matters related to silver (such as the COMEX warehouse turnover), this is another case of me being alone in an important matter. I can live with that easily.

The changes in this week's Commitments of Traders (COT) Report came in mostly as expected under the normal horseshoes and hand grenade throwing accuracy standards (where close enough is good enough). Based upon volume and price surges during the reporting week ended Tuesday, in which gold rallied as much as $50 and silver by as much as a full dollar, big technical fund buying and commercial selling were expected. "Expected" is not the right word because prices rose due to technical fund buying, which has always been met with commercial selling.

In COMEX gold futures, the total commercial net short position increased by 23,900 contracts, to 195,400 contracts. (I thought the increase would be at least 30,000 contracts and likely more, so I was shy, but wouldn't have been disqualified in a game pitching horseshoes or blown myself up were I tossing hand grenades). This is the largest (most bearish) headline number in a year and one of the largest commercial net short positions in several years.

By commercial category, it was a big 4 and raptor affair, as the four largest shorts added 12,100 new shorts and the smaller commercials added 13,900 new shorts, leaving the 5 thru 8 largest shorts buying back 2100 short contracts. This left the 4 big commercial shorts holding just over 124,000 net short contracts, not far from the number of short contracts these price-influential traders held at the gold price peaks of late October and also of a year ago.

On the buy side in COMEX gold futures, it was primarily a typical managed money affair as these traders bought a bit over 23,000 gold contracts net, including the purchase of 26,494 new longs and the somewhat surprising addition of 3437 new short sales. I say "somewhat" because the short position of the managed money traders, at just under 33,000 contracts is still very low historically and not subject to big short covering.

If there is a COT report standout in gold, aside from the large commercial short position, it is the very large managed money long position. At just over 160,000 contracts, the managed money long position is also at the highest levels of the previous gold price tops of late Oct and a year ago, leaving a large number of potential sales on lower prices. Not to rub potentially bearish salt in the wound, I must mention something that makes the large managed money long position in gold perhaps even more bearish.

Towards year end, I remember commenting on the large number (around 25,000) of gold contracts that were apparently liquidated, not by technical funds, but by a different type of managed money traders – the index funds. You may remember it as me being surprised that the long position of the managed money traders dipped below the 100,000 contract level that hadn't been breached for a number of years. Into year end, the managed money long position dipped as low as 76,000 contracts on index fund liquidation.

The bottom line is that the unexpected liquidation by the gold index funds (there was a lesser index fund liquidation in silver as well) has caused the current level of managed money longs in gold to be understated by around

25,000 contracts when compared to prior extreme historical levels. In other words and unfortunately, one should add 25,000 contracts to the current 160,000 contract managed money long position to get a more accurate historical comparison and gauge of potential liquidation and selling pressure to the downside.

In the two month and greater than $200 gold rally, the commercials have sold 180,000 net COMEX contracts of gold, the equivalent of 18 million oz and managed money and other speculative traders have bought that same amount. This amount of equivalent metal towers over the combined gold buying in the world's gold ETFs and as such earns the title of being the main price driver. The concern of course, is how such COMEX buying by the speculators can be replicated, fueling large increases in the price of gold from here. Also looming is the eventual sale of all these purchased contracts at lower prices.

In COMEX silver futures, the total commercial net short position increased by 5600 contracts to 70,800 contracts, which also must be labeled as extremely bearish. (I had predicted an amount approaching the 7500 contract increase in total open interest over the reporting week, so I was real close in horseshoe tossing terms). By commercial category, it was a combined effort on the sell side, as the big 4 (read JPMorgan) added 3300 new shorts, the big 5 thru 8 added 1000 new shorts and the raptors sold out 1300 longs.

The standout was additional shorting by the big 4 and I would estimate that JPMorgan accounted for 3000 new short contracts, increasing its net short position to 21,000 contracts. I know I expressed surprise with last week's release of the monthly Bank Participation Report which indicated that JPM had not increased its silver short position over the last month as I had expected, but that was then and this is now. With the next Bank Participation Report nearly a month away, it will be some time before JPM's silver short position can be accurately calibrated. But before you rush to conclusions that this changes anything, please hear me out.

While I am convinced that JPMorgan added 3000 new shorts this past reporting week, my sense is that the bank didn't have much choice and had to revert to its traditional role as the silver short seller of last result. In other words, had JPM not personally capped silver prices, there was no one else capable of doing so and prices would have exploded otherwise. Yes, I was encouraged that prior to this week JPM had not added shorts, but I am not discouraged with its shorting this week, as it doesn't change the equation much.

The equation, as I saw it, was largely that JPMorgan was likely to rig prices lower to induce managed money technical fund selling so that JPM could buy back large numbers of its existing short position; much more than what this crooked bank could continue to acquire in terms of actual physical metal. The new short sale of 3000 contracts not only doesn't change the equation, it actually makes it more likely to occur. I think that JPMorgan tipped its hand in not previously adding to its short positions in signaling the approaching big move higher, but that it still had unfinished business to the downside and the new selling was required to contain prices. Once JPM finishes with the price rig lower to come and covers as many of its short contracts as possible, including newly added shorts, the stage will be set to the upside.

Finishing up on the silver COT report, the managed money traders accounted for less of the buy side, at just over 3000 net contracts than I would have anticipated. These traders added 1186 new long contracts and bought back 1832 short contracts. With less than 10,000 contracts held short, there is little historical room for further short covering by the managed money traders. Managed money long positions are high at over 59,300 contracts, leaving a decent number of contracts at risk of sale on lower prices, but it would seem that new managed money shorting would hold the biggest potential for the largest number of contracts to be sold. That said, it's hard to imagine the technical funds getting snookered into selling short yet again.

In essence, not much has changed as a result of the new COT report and the extremely bearish