

Weekly Review

Prices fell again this week for gold and silver, a not uncommon occurrence since the highs of late January. For the week, gold ended \$10 (0.9%) lower, with silver off 26 cents (1.6%). (By the way, I use Globex prices at the close Friday, around 5:15 PM NY time). As a result of silver's relative underperformance, the silver/gold price ratio widened out by a half point to just over 74 to 1.

The fact that the ratio has been close to this reading for six months and that silver is more undervalued to gold as it has been in 5 years, just means (to me) that silver has been severely undervalued for that whole time and when the inevitable reversion to non-manipulated relative values occurs, it will seem like a fairy tale that one could have switched from gold to silver at such give away silver under valuations.

Admittedly, the popular sentiment is not bullish for silver or gold at this time and how could it be? Unless my eyes have deceived me, this weekly close for gold may have been the lowest in five years, and silver is only barely above setting new lows. Despite a minor rally on Friday, gold and silver prices were

lower each day for nearly two weeks. Izzy's old term, salami slicing, was the apt description because this was a classic display of the commercials luring the technical funds to the sell side by rigging prices lower, as the commercials gathered up all speculative contracts available for sale on the COMEX. This is the reason and the only reason for the \$150 decline in gold and near \$3 drop in silver over the past seven weeks.

I recognize that such price declines, particularly since they began at such low price levels to start with, especially in silver, naturally create gloom and even despair among many precious metals investors. For sure, the dismal price action has brought out those disdainful of precious metals in droves, even though "I told you so" is among the most repugnant human traits of all.

Interestingly, those most hostile to precious metals never come close to truly explaining why prices declined, they just revel in the celebration of low prices.

Of course, I'm speaking of the sole reason for the price drop – COMEX positioning. Ironically, that is the also the main reason to be optimistic about future price prospects for gold and silver.

On a personal level, the recent price weakness and why it occurred is nothing but good news. While it is outrageous and terrible that the COMEX commercial crooks have prevailed again, we're talking about that which is behind us, or

mostly behind us. To me, this is the good time. The bad time was into late January, as the commercial short position grew very large and I had to point that out.

This is the good time because there has already been a massive reduction in the commercial net short position in gold and silver and now it's more a case of trying to determine if and how much the commercials can get less short. That doesn't mean that new lows can't occur because they can, particularly since new price lows are so close. But this is the market structure (if I had a choice) that I would prefer to exist for the simple reason one can be bullish both on a long term and short term basis, instead of being forced to talk out of both sides of one's mouth. More on this in a bit.

I was all set to report another quiet week in the physical turnover or movement of metal into and out from the COMEX-approved silver warehouses, but yesterday's 2 million oz movement brought the turnover for the week to 3.4 million oz. Total COMEX silver inventories fell 2.3 million oz to 176.3 million oz. Still running below the average weekly movement of the past year, the jury is still out if a change is afoot in the extraordinary and unprecedented physical movement of silver in the COMEX warehouses that began four years ago. However, I can't help but feel it is directly related to the accumulation of silver

by JPMorgan over that same time.

There wouldn't appear to be too much speculation about JPMorgan acquiring physical silver by way of stopping deliveries on the March COMEX futures contract. Through yesterday, JPMorgan has now taken delivery of, for its proprietary or house trading account, 1041 contracts (5.2 million oz) of the total 1883 total contracts issued for the month so far. With around 700 contracts still remaining open in the March contract, it would be expected that JPM will take 350 to 400 more deliveries. Since JPMorgan is still one of the biggest net shorts in COMEX silver (although no longer the largest), the fact that this crooked bank is taking physical delivery at depressed prices brought about by its large paper short position is not only criminal; it demonstrates exactly what I have speculated JPMorgan has done over the past four years, namely, artificially depress prices via COMEX futures positioning to pick up real silver on the cheap. http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

I still detect the presence and lack thereof of JPMorgan in the reported sales of Silver Eagles from the US Mint. By that I mean I can almost tell when JPMorgan is buying in the erratic nature of the Mint's daily reports. When the Mint reports Silver Eagle sales in large numbers as it did very early in the past week, those

numbers suggest the Mint is selling coins at close to full production capacity. Then sales will trail off markedly for days on end. This is not likely the behavior of the public, which doesn't generally alternate between strong daily buying to no buying. It is more likely the work of a single big entity. I get the feeling JPMorgan lets the Mint build up unsold inventory for a few days (or longer as was the case last summer) and then comes in to take all that's available. That's not a prediction of what JPM will do in the future, it's simple an observation of what I think it's done in the past.

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

There were no big surprises in this week's Commitments of Traders Report (COT), although the changes were rather large. Because prices were lower for every day of the reporting week ended Tuesday and established new low readings along the way, it was expected there would be large reductions in the headline number of the total commercial net short position in COMEX gold and silver futures. During the reporting week, gold fell about \$50 and silver by 70 cents, including the very large and high trading volume selloff on the Friday of the monthly employment report.

In COMEX gold futures, the commercials reduced their total net short position

by 34,000 contracts to 89,300 contracts (I had guessed 40,000 contracts, up from a prior guess of 30,000 to 40,000). This was the largest weekly reduction since Nov 4 and is the lowest (most bullish) commercial short position since Nov 25. The total commercial net short position in gold is undoubtedly lower (and more bullish) since the cutoff, although not to the extent of this week's reduction.

By commercial category, the big 4 bought back 8000 short contracts, with the big 5 thru 8 buying back 2000 shorts and the raptors adding 24,000 new longs. The raptors now hold a net long gold position of 53,700 contracts the largest (and most bullish) since Nov 25 and the big 4 and 8 largest shorts now hold their lowest (and most bullish) short position since January 13. It would seem certain all those readings are more bullish since the Tuesday cutoff.

On the sell side of gold, as is usually the case, it was largely a technical fund affair as traders in the managed money category of the disaggregated COT report sold 24,300 contracts, including more than 8200 contracts of long liquidation and over 16,000 contracts of new shorting. The current 107,000 contracts held long in the managed money category is just about the lowest long position of the past year and not that far from the lowest level in two years. This strongly suggests not much further selling from this source on lower

gold prices.

Likewise, the current short position held by managed money at more than 58,000 contracts, particularly when adjusting for the additional short contracts likely added since the cutoff, is also quite close to the extremes of almost 80,000 seen last November. This is another way of saying that we should be close to the exhaustion point of technical fund (managed money) selling, both in the form of long liquidation and maximum new short selling. The simplest definition of a price bottom in gold or silver is when there are no more technical fund contracts to be sold.

In COMEX silver futures, the commercials reduced their total net short position by 6400 contracts to 33,200 contracts. (Versus my guess of 10,000 contracts, up from a prior guess of 5000 to 10,000). This was the still the largest weekly reduction in the headline number since Sep 23 and the lowest (most bullish) total short position since Dec 2.

By commercial category in silver, the big 4 bought back 2000 short contracts, the big 5 thru 8 bought back less than 200 contracts and the raptors added

4300 new longs to a net long position now totaling 24,100 contracts. This is the largest raptor long position since November, at the time of the unprecedented raptor long bloodletting. If I'm correct that a number of raptors bit the dust back then, it would appear the raptors won't be adding many new longs.

The 8 largest shorts in COMEX silver now hold the lowest (most bullish) concentrated short position since Dec 16. Since this is unquestionably the heart of the silver manipulation, it is worth noting that at 57,333 contracts (286.7 million oz), the position is down more than 8500 contracts (42.5 million oz) from the peak in this manipulative short position since Feb 3 (just as prices started to crater). I'd peg JPMorgan's short position to be in the 13,000 to 15,000 contracts range, down from a recent peak of 21,000 contracts.

On the sell side of COMEX silver, the technical funds in the managed money category added nearly 6600 new shorts to a total short position now standing at more than 26,500 contracts. It's no real surprise that the bulk of the selling in silver and gold this week was in the form of new short selling in the managed money category, as I have been consistent in holding that prices would only go lower if the technical funds added to short positions. While it is likely even more technical fund shorts were added since the cutoff, unless the 20,000 or more contracts that the technical funds covered profitably back in November come

back onto the short side, it appears we may be at the limit of managed money short selling.

The biggest personal relief in this week's report was that there were 1600 new longs added in the managed money category and that long position now stands at 42,000 contracts. Since the managed money long position was around 40,500 contracts in the previous report and had every reason to move lower still in the reporting week covered, I was expecting somewhat of a reduction in this long position, but hopefully not much below 40,000 contracts. That the long position increased instead solidifies my premise of this core position.

As you know, I have postulated that there may be a core non-technical fund long position in the managed money category of 40,000 contracts, not likely to be liquidated on lower prices. I base this on the fact that this core long position was gradually established over the last year and longer as silver prices were declining and not as prices were rising as is typical technical fund behavior. Since technical funds usually buy only when prices are rising (with last Nov being the notable exception) and sell when prices are falling, it's easy to conclude that these new buyers in managed money weren't technical funds.

A subscriber just inquired “who are these guys?” and how are they likely to behave in the future? Burt also wanted to know if they were likely to demand delivery and would that matter? Let me be clear – I have no personal knowledge away from the COT data about these traders. But the data tell us a lot. We know they meet the definition of managed money, meaning they are trading on behalf of other investors not in control of trading decisions.

Not from the report itself, we also know the difference between a technical trader and a non-technical trader since it is as basic as the difference between a man and a woman. If you are a large reporting trader (holding 150 or more contracts of silver) or any other trader, you either trade on technical (price) considerations or from value considerations (supply/demand, etc.). I can't know if these non-technical fund traders holding a core 40,000 long contracts will liquidate on lower prices, but since they have been given every opportunity of doing so over the past year and have built up the long position instead, I'm assuming they will not liquidate on lower prices in the future. I'm not guaranteeing that, of course, just observing what they have done up until this point and what that likely means in the future.

Burt asked a good question about delivery, because if these traders are not going to liquidate on lower prices, then that leaves only two possibilities –

selling on higher prices or converting long contracts into physicals (as JPMorgan is doing this month). My guess, and that's all it is, is that these traders will sell at higher prices, although I have no idea what those higher prices are in actual price terms. While they could take delivery and that would definitely accelerate a physical silver shortage, I don't think they would intentionally try to squeeze the market by demanding delivery for the sole purpose of driving prices higher.

But what makes Burt's question a good one is that 40,000 contracts are the equivalent of 200 million silver oz and since I talk about how the physical purchase of 100 million oz in a fairly short period of time would necessarily greatly impact the price, I can't minimize the impact that a good number of the managed money longs being converted into physical deliveries would have on the price of silver. Physical is physical and it wouldn't matter where it was bought. I think the regulators at the CFTC and the CME would work overtime to prevent too large of an amount of silver from being demanded for delivery, but that just underscores my premise that the silver resolution lies in the physical realm. At the very least, a large demand for physical delivery on COMEX futures contracts would bring the manipulation matter to a head.

I spend so much time and detail on what is transpiring in the managed money category is because this category is the main counterparty to the commercials.

If the commercials could buy as many silver (and gold) contracts that they fully desired at current prices, I have no doubt they would have already done so. If the commercials could buy the equivalent of billions of ounces of silver in any form, they would have done so already. That is almost a personal guarantee. But with barely more than one billion oz of silver bullion in existence, there's no way anyone could buy billions of physical ounces. And the only way the commercials or anyone else could buy large quantities of silver derivatives is if someone else would sell or go short to them. A seller for every buyer, as it were. That's what COT analysis is all about, in essence.

So it comes down to not how many COMEX silver contracts the commercials want to buy, but how many they can buy. And what the commercials can buy is what others, mainly the technical funds will sell to them. According to my analysis, if the technical funds don't ramp up short positions to the peaks of last October, we're getting down to the dregs of what can still be sold to the commercials. Again, once the last technical fund contract is sold, the bottom is in.

However, I could be wrong in my calculations, so let's look at what happens in the event I am wrong and the technical funds add the 20,000 short contracts I suggest won't be added. Or the non-technical fund longs in the managed money

category liquidate longs well below the 40,000 contract level that has held to date. In that case, I look like a jerk and we go lower in price than I believe. Then what? If that were to occur, namely, massive new quantities of technical fund and non-technical fund silver contracts were sold and prices fell accordingly, we would then be in such a bullish set up in silver that it would then be impossible for prices not to explode because the commercials would then force prices to the heavens. In other words, a bullish set up far beyond anything I've ever contemplated.

Since I believe we are close to the maximum point of technical fund selling and, therefore, maximum commercial buying, more attention should be placed on what the next rally will look like, rather than how much more we have to go to the downside. I know that market sentiment is so depressed, as a result of the non-stop deterioration of price these past four years, that it is natural for most to expect that the next silver price rally will be in the mold of all previous rallies, namely, anemic and capped by aggressive commercial selling. That may turn out to be the case, but that outcome is not written in stone. The possibility of a price explosion, instead of a manipulated price capping, looms as large as ever; perhaps more than it ever has before.

The analogy that comes to my mind is that of Russian roulette; you know, the

nutso gun game that features only one chamber of a revolver being loaded and the chamber being spun before firing. I suppose the odds that the hammer will hit on an empty chamber are always much better than on hitting the live chamber; but play the stupid game long enough and one is bound to spin the live chamber eventually. Odds aside, the difference in impact should the live shell be hit is quite disproportionate to hitting an empty chamber. The reasons behind the coming silver price explosion are many and the odds of a price explosion have been growing, unlike, I suppose, the static odds of spinning a gun chamber. The similarity lies in the very different reaction should the unexpected but inevitable event occur. In the case of silver, should this next rally be the big one, today's prices will quickly become only be a memory and being able to buy at current prices will be as likely as avoiding the consequences of hitting the live gun chamber.

Ted Butler

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Silver – \$15.64

Gold – \$1158