March 23, 2013 – Weekly Review/Good, Bad, Ugly

Weekly Review

Despite a Friday sell-off, gold managed to finish $17 (1.1%) higher for the week, while silver struggled to finish unchanged. The overall precious metals price performance this week must be called disappointing as world events and market structure both suggested a much stronger price showing. As a result of gold's outperformance, the silver/gold ratio widened out to 56 to 1, at the higher end of a tight trading range for the ratio that has lasted for more than a year. There was some commentary during the week suggesting that silver will not measure up to long term price gains in gold, but as usually is the case, no hard facts or figures were offered supporting such a prediction. Price predictions with little factual background seem to be more prevalent than previously.

Since silver is the most manipulated market in the world, it is highly possible that JPMorgan can orchestrate further sell-offs, despite what must be considered strong signs of physical investment demand and an almost universal understanding in the precious metals community of the price manipulation. As such, no one should be surprised if those deliberate sell-offs occur, including a further short-term widening of the silver/gold ratio. Then again, no one should be surprised on the day silver takes off like a scalded cat to the upside when least expected. That's the nature of manipulated markets.

The signs of tight conditions in the wholesale physical silver market continue unabated. My prime indicator of physical tightness, turnover of metals in the COMEX-approved warehouses continued as Â?usualÂ? with a weekly movement of 2 to 3 million oz and an overall increase in total inventories of 500,000 oz to 164.1 million oz. Although this is the same type of weekly movement witnessed for the past two years, it is as far from usual, in commodity terms, as it gets. Quite frankly, it is another unprecedented circumstance in silver, as I am unaware of it ever occurring in any other commodity. I remain open to alternative explanations, but can't find one other than the turnover indicates an alarmingly tight supply indicator.

The unusual silver movement appears to have extended to the big silver ETF, SLV, where following a large one day withdrawal of 5 million oz, nearly 3.5 million oz were added over the past two days. What makes the metal movement in SLV all the more unusual is that it is occurring under a stable but weak price environment amidst low trading volume. Most unusual is that the SLV has gained nearly 20 million oz of silver, while its gold ETF counterpart, GLD, has lost 4 million oz, or 10% of its holdings since the beginning of the year. Perhaps there is some hidden explanation for the relative in and out flows in these big ETFs, but the main one staring us in the face is that silver is much more in physical demand than gold currently. As to why silver has been relatively weaker in price than gold, if it isn't the blatant price manipulation we see almost every day on the COMEX, then I am at a loss to come up with anything more plausible.

On the retail side, sales of Silver Eagles from the US Mint continue strong, both on an absolute basis and relative to sales of Gold Eagles. In addition, I've read some credible reports that supply and demand for other retail forms of silver has tightened up and delivery times have been stretched out. It is wholesale supply and demand that will drive silver prices, but strong retail demand can have some influence on wholesale attitudes.

Simply put, I see no justification from the wholesale and retail physical silver markets to account for the price weakness year to date. As I hope is clear by now, all silver price weakness explanations can be traced to the COMEX paper market, led by the biggest silver crook of all Â? JPMorgan. The prime purpose of US commodity law is to prevent the paper futures markets from setting and dictating prices to the real world of supply and demand. That prime purpose has been clearly abandoned by the CFTC and the self regulatory organization, the CME Group and will soon bring much shame to both regulators as physical tightness gives way to pronounced shortage.

The changes in this week's Commitment of Traders Report (COT) were surprising in that gold and silver parted ways, even though I wasn't sure what to expect given the price changes in the reporting week ended Tuesday. Perhaps the increase in the headline number of the total commercial net short position for gold and the reduction in same for silver shouldn't have been that surprising in that during this time gold acted better price-wise than did silver.

After all, it is a fact of life that tech funds buy and commercials sell on higher prices. Gold was up around $20 for the reporting week and all of that gain came on Monday and Tuesday, following the surprise news from Cyprus over the weekend. In addition, gold did penetrate the 20 day moving average decisively to the upside during the reporting week and that is the prime motivator for tech fund players. Silver, in contrast, sort of stunk up the joint pricewise during the reporting week, falling more than 50 cents at times. The flip side of miserable price performance is that it usually indicates tech fund selling and commercial buying and that was the case in silver.

In gold, the total net commercial short position expanded by a significant 20,200 contracts, to a total of 162,400 contracts. This puts the headline number up 30,000 contracts from the recent low point and still down almost 100,000 contracts from the bearish extreme in November. While still bullish overall, this does increase the odds of a short term retracement; but the markets are so manipulated that please don't take that as me predicting short term prices. If you want to predict short term precious metals prices, you must know what the intentions are of the big commercials and I don't pal around with any of them or have any way of knowing what's on their mind. By category, it was an all-raptor show, as the smaller commercials apart from the big 8 did all the selling and then some. The raptors sold more than 28,000 contracts and flipped what had been a 6000 contract net long position into a net short position of 22,700 contracts. There are not many weeks that come to mind for bigger gold raptor positioning. The big 4 actually bought back 4000 short contracts and the 5 thru 8 largest traders did likewise. This was a surprise to me.

I hope everyone knows that this dinosaur character depiction is something that I came up with about a decade ago to describe the COT market structure in simple terms. I remember some public chiding at the time for the reptilian characterization, but the truth is that I think it describes what is happening in COMEX silver and gold better than any COT analysis I have run across. I actually feel sorry for those who don't consider it. Please remember, for a variety of reasons centering on the pronounced market concentration on the short side in these markets, the T.rex and raptor characterizations only apply to COMEX gold and silver and not other markets. That's because almost all of the time, the 8 biggest traders in silver and gold are almost always commercials, although the biggest trader category is open to speculators and commercials. Ironically, we happen to be at a time when some speculators are probably in the 5 thru 8 categories in gold and silver, based upon elevated tech fund short positions, but this doesn't detract from my raptors analysis.

In gold, the big buyers were the tech funds, both in adding new longs (8000+) and in buying back shorts (12,000). This confirms the prediction that tech fund shorts (the managed money category of the disaggregated COT report) would run like jackrabbits on the first upturn in price. What can't be determined at this time is whether this is the start of a complete short covering exercise or if this is a temporary respite before the commercials attempt to lure the departed tech fund shorts back onto the short side on lower gold prices. Events in Cyprus would seem to indicate higher gold prices, but in a manipulated market such considerations are secondary to the power of the manipulators. That's another way of saying it's up the commercial crooks.

In silver, the commercials reduced their total net short position by a hefty 3000 contracts, leaving that position at 26,400 contracts, another new low-water mark since last summer. This week, it was a big 4 and raptor affair, as each category bought 2000 contracts each. This reduced the big 4 net short position to just below 40,000 contracts, the lowest since August, while the raptors built up their net long position to 26,500 contracts, the second highest in history. At first, I was puzzled that the big 5 thru 8 added 1000 new shorts, but then I realized that the tech fund gross short position had grown so large that one or two of these speculative shorts had entered the big 5 thru 8 category traditionally reserved for commercial traders.

I had indicated last week that the gross short position in the managed money category of the disaggregated COT was at a record high and this week 3000 more contracts were added, pushing it up to a never witnessed level of near 21,000 contracts. We know now that the rotten price performance in silver during the reporting week was a result of the commercials luring in record numbers of tech fund shorts. That means 3000 more rocket-propelled jackrabbits have been added to the coming silver price explosion, only awaiting JPMorgan's and the raptors' signal for ignition. That these tech fund shorts will cover aggressively at some point on higher prices is a near-certainty, even though the day of ignition is unknowable.

I would estimate JPMorgan's concentrated short position to now be 21,500 contracts, down 2000 for the week. That means their short position is down 13,500 contracts from the 35,000 contracts JPM held short on Feb 5. That puts the most important price-deciding position closer to previous rock-bottom levels of 12 to 14,000 contracts than to the Feb 5 highs. Since I had previously characterized any take down in price to feature buying competition (with attendant collusion) between JPMorgan and the raptors, I can't help but note that since Feb 5, the raptors bought just over 14,000 contracts of new longs compared to the 13,500 short contracts bought by JPM. In addition to the even contract match, please remember that the combined 27,500 contracts are the equivalent of more than 137 million oz of silver, or more than the actual physical silver available for a full year to all the world's investors. In other words, JPMorgan and the raptors came together in order to colluded and fix prices on the COMEX and succeeded to buy an amount of silver equal to the amount of total silver available for a full year and – get this – they did it on a price sell-off of nearly $4. I would submit that what the government data in the COT indicate cannot possibly be anything but blatant price manipulation. Any regulator that doesn't see this just refuses to see it.

The Good, Bad and Ugly

I've save the good for a moment, but the bad and the ugly seem to permeate the silver and gold and other markets. On Wednesday, I mentioned that one reason gold and silver failed to move higher after the Cyprus news was such a rally would have interfered with a planned takedown in copper, platinum and palladium, which was evident on Monday and Tuesday. For the record, there was the expected substantial commercial buying in copper and platinum, a bit less in palladium. My point is that commercial positioning on the NYMEX/COMEX is the strongest short term price influence, way ahead of anything else, including actual news and developments in the real world of supply and demand. This is so contrary to commodity law that I believe the regulators must be thought of as corrupt.

Even worse is that silver (and gold) investors seem to be confronted on a daily basis with the proposition that the US Government is working against the interests of silver investors. While every conceivable effort is undertaken by the USG to help push bond, equity and real estate markets higher, there appears to be an effort to depress silver prices that goes beyond ugly. It's not that silver investors are asking for or expecting any of the special favors and incentives doled out to investors in other markets; it's more a case of silver investors being discriminated against by the US Government. This discrimination gets old and I sense that is what many must feel. I know I do.

The prime discrimination is the failure of the federal regulator to address credible allegations of wrongdoing by JPMorgan in the COMEX silver market. No one has asked the CFTC for any special favors or that is outside their direct jurisdiction. Market concentration is not something I invented or suggested be included in COT and Bank Participation Report data; it is the main safeguard of the CFTC against manipulation. For anyone to raise legitimate questions about existing bedrock regulatory matters shouldn't result in silence behind a phony 4.5 year investigation. By the CFTC not speaking up or ending a continued silver price manipulation brought about by JPMorgan's controlling market share, the agency is discriminating against silver investors and undermining trust in the institution. It further undermines everything good that America used to stand for.

Every day, silver (and gold) investors are subject to whatever daily pricing the big COMEX paper hangers decide to dictate, irrespective of what the real supply/demand fundamentals would suggest. HFT and computer-driven algorithms have come to dominate COMEX silver pricing to an absurd and uneconomic level. The reason we are witnessing unprecedented silver investment demand and unusual movements in COMEX silver warehouses and the SLV is because corrupt COMEX pricing has set the price of silver too low. If the price of silver was not set too low by JPMorgan's outsized short position and the daily computers gone mad games, I doubt we would be seeing all the unprecedented developments in silver that I write of constantly.

To experience these unnatural forces of JPM and the computer trading madness on a daily basis over many months and years, all while other investment markets are buoyed by government actions, is debilitating; it wears you down, as it should if you are human and alert. So my first offering is one of empathy and to tell you that I feel it as well. More importantly, an objective analysis of the discrimination by the CFTC and their failure to rein in and terminate an increasingly obvious price manipulation is good beyond measure. In simple terms, the bad and the ugly add up to an overpowering good. The bad and ugly are why silver prices will soar. If silver prices weren't set so low and if the CFTC had cracked down on JPMorgan, there would likely be little reason or urgency to buy silver.

Certainly, I know I wouldn't be pounding on the table to buy silver if the manipulation didn't exist or if the regulators hadn't gone off the rails and into a ditch. I don't think I ever suggested buying silver for reasons unrelated to the manipulation or actual supply and demand. I'm not saying that all the other reasons, like currencies, economic conditions, other markets and money printing, etc, don't have a bearing on silver prices; but I am saying those reasons are not specific enough to silver for me to write about them. As debilitating and painful as the ongoing silver price manipulation has been, if the manipulation didn't exist, neither would the prime reason for buying silver. No pain, no gain and all that jazz.

Therefore, I can't rule out further silver price stabs to the downside before a dramatic and final resolution to the upside because both stem from the same cause Â? the manipulation. What I can say is that while those stabs at new price lows may occur, it is mandatory that silver prices will explode at some unknown point. Considering how far along we are in the silver manipulation in terms of time and considering the emerging signs of physical tightness and developing shortage, I think it's best to concentrate on the certainty of the coming price explosion and not the uncertainty of near term pricing. Don't let the crooks at JPMorgan or the negligent and discriminating regulators convince you otherwise.

Ted Butler

March 23, 2013

Silver – $28.75

Gold – $1609

Date Created
2013/03/23