

Weekly Review

Although it didn't feel that way to me by the end of the week, gold and silver registered gains for the second week running; gold ending up \$16 (1.4%), with silver finishing 24 cents (also 1.4%) higher. As a result of the flat relative performance, the silver/gold ratio remained under 71 to 1.

There were some unusual developments in the issues I generally focus on, but before I get to them, the standout feature of the week was the shocking Commitments of Traders Report (COT) for COMEX gold futures. I know I have never been as far off in guessing what a COT report in gold or silver would indicate in all the years (30) I have studied this data, but aside from the personal embarrassment of missing so badly, I am more pleased with how bullish the report was for gold. Kind of like striking out at a clutch moment of a baseball game but having your team win anyway. I'll come back to this shortly.

As was the case in the previous week, a big movement on Friday brought the weekly turnover of metal into and out from the COMEX-approved silver warehouses to 3.85 million oz. The only difference was that this week the

movement on Friday was a deposit and total inventories rose by 1.6 million oz to 176.5 million oz. Despite there being more days of zero silver warehouse movement year to date (including one day this week) than all of last year combined and that the average weekly movement this year is 25% lower than last year's weekly average, the physical turnover is still enormous and unprecedented in COMEX silver. Particularly when combined with other happenings in the physical world of silver, it's hard to arrive at different conclusions other than physical tightness or determined accumulation by a large entity.

The unusual physical movement in the COMEX silver warehouses was joined this week by the unusual withdrawals in metal in the big silver ETF, SLV. Close to 3.5 million oz were removed from the trust's holdings over the past week or so. What makes it unusual is that silver prices were notably strong over this period, most plausibly caused by net new buying. (If the rise was caused by short covering, there would be no change in metal holdings). The mechanical structure of SLV dictates that net new buying must result in additional deposits of metal into the trust (unless shares are sold short). The only possible explanation that comes to mind for the net new buying of shares resulting in metal being withdrawn would be if the net new buyer quickly redeemed new shares purchased into actual metal. That's exactly what I think occurred this week and what has occurred frequently in the past in SLV. And my best guess is

that JPMorgan is the big SLV buyer.

The frequent and extremely counterintuitive circumstance of apparent net new buying of shares of SLV resulting in withdrawals (instead of deposits of metal) seems motivated by the large buyer desiring to avoid disclosing ownership when the 5% share ownership is exceeded and must be reported by SEC rules. By converting shares of SLV into actual metal, the metal ownership can grow to any large level imaginable and remain unknown and unreported to the rest of the investment world. And no one would be in a better position to pull this off than JPMorgan. I suppose that's why I'm the only one to point out that JPMorgan holds a larger physical silver position than ever held privately in history.

I should mention that over the past week or so and as gold prices were rising fairly sharply, large withdrawals of metal took place in the big gold ETF, GLD. This is just as counterintuitive as I described above in SLV, but whereas metal deposits/withdrawals in SLV have been consistently counterintuitive for years, up until now, GLD metal movements have behaved as expected, namely, withdrawals on price declines and deposits on price advances. I would probably not have mentioned this week's GLD withdrawals were it not for the shocking gold COT report just published.

Another recent standout feature in physical silver is the just completed delivery process in COMEX March futures contracts. As I have been reporting for the past month, JPMorgan has been the largest stopper (taker) of total silver contracts delivered in its house or proprietary trading account. The bank also issued and stopped some silver deliveries for customer accounts; I am only talking about the silver deliveries that JPMorgan took for its own benefit and ownership. As I've mentioned in the past, COMEX deliveries are only reported by clearing member, not by the specific customer of the clearing member making or taking delivery. But there is a designation made on all deliveries as to whether the clearing member involved was making or taking delivery on behalf of one of its customers or whether it was doing so for its own house account. Under certain circumstances, the customer or house account designation can be a blinding ray of transparency. It seems to me that the COMEX March silver futures delivery provided such vivid transparency.

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

For the month, JPMorgan stopped (accepted) exactly 1500 contracts of physical delivery, or 7.5 million oz, out of a total of 2583 total deliveries issued, or 58% of total silver deliveries. Because JPMorgan took these silver deliveries in its house account, we know it was for the bank's own benefit and risk and not on

behalf of clients. While I believe JPMorgan was behind the 3.5 million oz of silver that was withdrawn from the SLV (described above), there is no question that the bank took in 7.5 million oz of physical silver in the COMEX March deliveries. The 7.5 million oz is certain, the 3.5 million oz is likely and suggestive that JPM just got hold of another 11 million oz of physical silver.

Interestingly, 1500 contracts happens to be the limit imposed by the COMEX as to the maximum number of silver contracts that any one speculator may stop in any one delivery month. Therefore, we also know that JPMorgan, as a speculator for its own account just took the maximum number of silver contracts allowed for the month. At the very least, this would be in conformity with my consistent speculation that JPMorgan has acquired a massive amount of physical silver and, apparently, is not yet finished with that accumulation. And it appears clear that JPMorgan held all 1500 contracts prior to the start of the March delivery process and simply waited (until the last delivery day) for the sellers to deliver. In other words, this wasn't a haphazard or impromptu development, and is in keeping with JPM's deliberate role in the silver price manipulation.

In accordance with continued reports of weak retail demand, negative collective market opinion and the erratic day to day reporting of sales of Silver Eagles from the US Mint, it still appears to me that a big buyer is behind the elevated

level of Silver Eagle sales. Weak relative sales of Gold Eagles only adds to the big silver buyer observation.

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

One of the things that was so shocking about the gold COT report and how far it was from my expectations was that the COT report on silver was completely as expected and my guess for not more than a 10,000 contract increase in the total commercial net short position was remarkably close to the 9000 contract increase reported. In gold, I thought we would see an increase in the headline number of no more than 40,000 contracts and actually missed by more than that amount, as the commercial short position declined by 3600 contracts. That was something I stated was almost impossible. What the heck happened?

I suppose it's possible that there was a major reporting error and if there was, then the following discussion is wasted and not applicable. But I want to remain consistent that I hold the COT report to be one of the most reliable of all government reports, mainly because of how it is compiled. There are only 315 large reporting gold traders (in this week's report) and all those traders electronically file position data daily. In addition, if one or more traders file incorrect position data, that is fairly easily uncovered because of the zero sum

nature of derivatives contracts mandating a long for every short contract held.

Therefore, I am going to treat the current gold COT report to be accurate, even though it was completely unexpected by me. None of this I was right, they were wrong. The fact that the data as reported was extremely bullish for gold tends to eliminate suggestions that the report was deliberately misreported, as why would bullish data be presented by those thought to be in control and negative towards the price of gold and silver?

The reason I expected a large increase in the commercial short position in COMEX gold (and silver) futures was because of the strong price gains during the reporting week ended Tuesday March 24. Gold and silver prices rose every day of the reporting week, something quite unusual and total reporting week gains equaled \$45 in gold and \$1.50 in silver. These are among the largest reporting week gains in history. As such, one would think there was strong technical fund buying and commercial selling, as is almost always the case on sharp price increases. This certainly was the case in silver, but not in gold. Why not?

The best I can offer in way of explanation is that even though gold prices rose every day of the reporting week and were up sharply for the reporting week overall, gold prices did not penetrate the 50 day moving average, although silver prices did. From continued observation over the years, I have consistently reported that the key moving average for the technical funds was the 50 day moving average. I'm not a technical fund so I am not trying to convince you why the 50 day moving average is the key moving average; instead I have merely observed and reported that more technical fund contracts are bought on upside penetrations of the 50 day moving average and more technical fund contracts are sold on downside penetrations of the 50 day moving average than any other single moving average.

Since gold prices didn't penetrate the 50 day moving average (and still haven't), while silver prices did, might explain the lack of technical fund buying to the upside in gold. But, as it turned out, not only did the technical funds not buy on rising gold prices, they actually added a decent amount of new shorts on higher prices, something very much out of character for technical funds in general. What could explain why the technical funds sold short more gold contracts on rising prices? The same 50 day moving average.

On the \$160 gold price decline from \$1305 at the end of January, the technical

funds sold roughly 150,000 net contracts of COMEX gold futures, the equivalent of 15 million gold oz. This is almost the exact same amount of the 150,000 contracts bought by the commercials over that time. As I've explained both before and during the large recent gold price drop, the technical fund selling (both in the form of long liquidation and new short selling) was what caused the price drop (all engineered by the commercials). So steep was the gold price drop that prices dipped sharply under the 50 day moving average, by as much as \$75 or so until the recent rally.

Because the gold price was so far under the 50 day moving average at the recent lows that meant that any new technical fund short sales would necessarily entail a much greater than usual risk. That's because the 50 day moving average would also be used as the buyback and close out point for any new technical fund short sales below the moving average. The further below the 50 day moving average, the greater the risk to new short sales based upon that indicator. The \$45 rally in gold during the reporting week, in effect, reduced by that amount the risk for a new technical fund short position intended to be closed out on an upside penetration of the 50 day moving average.

In other words, it now looks like the technical funds wanted to sell a lot more COMEX gold contracts short than what they had sold at the recent lows but

were hesitant to add to short positions because the 50 day moving average was so far above the then current prices that a new short sale entailed much greater risk. The recent sharp gold price rally removed much of the risk and it appears the technical funds really loaded the boat on the short side of COMEX gold on that rally. Traders in the managed money category of the disaggregated COT report now hold a record short position. That is unabashedly bullish. Let me dig into both gold and silver.

In COMEX gold futures, the total commercial net short position declined by 3600 contracts to 52,900 contracts, the lowest (most bullish) since November 11. Beyond that, the lowest level in the headline number was in January 2014 and there haven't been many weeks in past years of such a low total commercial net short position. All prior such occasions resulted in notable gold rallies. Of course, it wasn't the size of this week's reduction in the total commercial net short position that was notable, but that there wasn't a very large increase. Therefore, the breakdown by commercial category wasn't large.

In essence, the raptors (the smaller commercials apart from the 8 largest traders) did all the buying in adding 5300 new long contracts while the big 5 thru 8 added 2000 new shorts and the big 4 shorts bought back 300 short contracts. The gold raptors now hold their largest (most bullish) net long

position, at 80,700 contracts, the most since early last year.

On the sell side of gold, the standout selling came in the managed money category as the technical funds added more than 8700 new short contracts increasing their short position to more than 87,000 contracts, the highest (most bullish) ever. There wasn't any further long liquidation in the managed money category as the long side increased by less than 1000 contracts. To the naked eye, the net managed money long position looks as low as it has ever been which strongly suggests not much further long liquidation and a tremendous amount of potential short covering. Regardless of the unexpected nature of the gold COT report, it is one of the most bullish setups ever in gold.

In COMEX silver futures, the total commercial net short position increased by 9,000 contracts to 39,200 contracts. The 9,000 contracts that the commercials sold is the equivalent of 45 million oz, or three full weeks of world silver mine production. And even though it was very close to what I expected, it was one of the largest weekly increases ever. It's safe to say that not one contract of commercial selling was related to legitimate hedging and all the contracts were sold to satisfy technical fund buying. This goes to the heart of the disconnect between trading in COMEX futures contracts and real world production and consumption of actual silver. Quite simply, had the equivalent of 45 million oz of

silver not been sold by the commercials during the reporting week, the week's price gain would have been much greater than \$1.50. As such, this coordinated commercial selling was unquestionably manipulative. Unquestionably, of course, if any legitimate regulators were doing the questioning.

By commercial category, it was fairly evenly split between the raptors and the 8 big shorts. The raptors sold out 4400 long contracts and now hold 24,000 contracts net long. The bad news was that the big 8 sold 4600 new contracts short, with the big 4 selling 2800 new shorts and the big 5 thru 8 adding 1800 new shorts. I would guess that JPMorgan added 2000 new short contracts and now sits at 15,000 contracts net short, although I'll have to wait until the new Bank Participation Report due two weeks from yesterday for confirmation.

While I firmly believe that the commercials, raptors and big 8 alike, operate collusively against the technical funds, the raptors were selling and liquidating long positions and that's somewhat different than the 4600 contracts (23 million oz) that the big 8 sold short during the reporting week. Since there is little conceivable economic legitimacy behind the aggressive short selling of 23 million oz of silver below \$17 an ounce, the new short selling must be considered for what it actually represented – a blatant attempt to cap a silver price rise.

On the buy side of silver, it was mostly a technical fund affair, as traders in the managed money category accounted for more than 8,000 contracts (40 million oz) purchased during the reporting week, including more than 5,000 contracts of short covering and nearly 3,000 contracts of new longs. On the cutoff day, there were still more than 26,000 contracts held short in the managed money category, suggesting at least 15,000 contracts of potential buying power on higher prices and much more than that in potential buying should the technical funds add new longs on higher prices as they have in the past. With 46,000 longs in the managed money category, it appears there is still not much room for liquidation to the downside, should I be correct in my assessment of a core non-technical fund managed money long position of 40,000 contracts.

There is no question that I am disappointed that the concentrated commercial shorts added so aggressively on the \$1.50 rally during the reporting week. Unquestionably, silver prices would have risen much more without this manipulative selling whose only plausible purpose was to cap the price. This is the essence of the market equation I have laid out – the nature and extent of the silver rally will be determined by the level of aggressive concentrated short selling. For the reporting week just ended, there was very aggressive concentrated short selling and price capping.

However, it is important to recognize that this was only one week and the first to indicate coordinated concentrated short selling following many weeks of the concentrated short position being reduced. And considering that the silver price gain during the reporting week was disproportionately large compared to the previous four \$3 silver rallies since the beginning of 2014, I'm still of a mind that this could morph into the big rally in silver, despite my disappointment at the extent of concentrated short selling.

I would also point out that at the same time JPMorgan may have increased its concentrated short position in COMEX silver by 2000 contracts (10 million oz), it definitely took in 7.5 million oz of physical silver by way of COMEX deliveries for the month, as well as perhaps 3.5 million oz from the SLV over the past week. Two thoughts come to mind – how can it possibly be legal to sell short derivatives contracts to cap the price while picking up physicals on the cheap and what if JPMorgan did not participate in the concentrated short selling during the reporting week? We should know the answer to that question in two weeks.

Ironically, I believe the shockingly bullish gold COT report bodes well for silver. While I would have preferred a silver COT surprise instead of (or in addition to)

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the gold surprise, it's hard for me to see how a sharp gold rally won't help push silver higher as well. I hope and believe that if the market structures in silver and gold do turn decisively bearish, as they have on many past occasions, including into late January, I won't hesitate to say so. That's not the case currently and I am still playing it for a major silver move higher.

Ted Butler

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Silver - \$16.97

Gold - \$1198