

March 8, 2014 – Weekly Review

Weekly Review

Despite a sharp sell-off on Friday, ostensibly related to the monthly jobs report, gold finished higher for the week, ending up \$12 (0.9%). The Friday sell-off put silver down for the week by 30 cents (1.4%), causing the silver/gold price ratio to widen out by another point and a half to just over 64 to 1. While still within the broad trading range of the past year or so, silver has weakened notably relative to gold the past couple of weeks. I don't think that's accidental.

I think little that happens in silver or gold is accidental because that would imply these markets were free markets that fluctuated in price based upon actual supply/demand developments. But there was nothing in yesterday's employment report that had anything to do with gold or silver, just like there is usually little in free market terms to explain price movements over longer periods.

While it's true that many will attempt to invent plausible free market developments to explain sudden and unusual price movements like yesterday in gold, silver and copper, that's because human nature demands such explanations. Collectively, we demand to know why gold and silver dropped sharply within seconds yesterday or why copper had one of its worst one day sell-offs ever. So we accept made up stories about the employment report or weakening in Chinese copper demand. The alternative is to accept that the markets may be manipulated in price, which is very disturbing to many people.

But the manipulation premise remains the most plausible, whether disturbing or not. To not deal with it in an objective manner would be wrong. In the case of silver, the manipulation explains everything, particularly whether you should hold or buy silver. The only reason silver has been so weak and is priced so cheaply (and may get cheaper temporarily) is because it has been manipulated on the COMEX, mainly by JPMorgan along with other collusive traders. That's also what makes silver the investment bargain and opportunity of a lifetime. The only real question is whether the price manipulation by JPMorgan and other collusive COMEX traders will ever be broken. Let me state it in terms I don't think I have ever used previously.

I think it has come down to this – someone should hold silver only if he or she believes the manipulation will be broken someday. In other words, if someone believes JPMorgan, the COMEX or the US Government can maintain the silver price manipulation forever, I don't think that person should hold silver as an investment. Of course, I also find that anyone who doesn't see the manipulation after considering all the facts to not be thinking rationally. There is little shame attached to concluding that the crooks at JPMorgan and the COMEX will always prevail, as little else matters to the price long term. Based upon how things have evolved over the years, I remain certain the manipulation jig will be up one day.

And even if you decide the manipulation will never truly be broken that still doesn't mean you should rush out to dump your silver at current price levels (or lower). Based upon past history, even if the manipulation does live forever that doesn't mean the price of silver can't and won't climb substantially in price in the long term; just like it has in the past. After all, the manipulation existed when silver was over \$30 and \$40, so there is nothing ruling out those prices or higher in the future even if the manipulation is with us in perpetuity.

For me, there is no question that this scam will come to an abrupt and sudden end; there's just no way of predicting exactly when. Either that or JPMorgan and the COMEX will emerge from the shadows and explain in clear terms why a controlling market share and intentionally disruptive HFT pricing is not manipulative to silver (and other) prices. I believe the only thing that has prevented my allegations from being considered libelous is that they are largely, if not completely, true. Otherwise, how could I get away with calling JPMorgan and the COMEX crooks?

The turnover or movement of metal into and out from the COMEX-approved silver warehouses accelerated this week to 4 million ounces, even as total inventories fell half a million ounces to 182.3 million oz. Particularly in weeks like this, where the churn overshadows the change in total COMEX inventories, does the movement stand out. This unrelenting physical silver movement is not present in other COMEX metals, like gold (mostly static for the past 8 months) or copper (with sizable and steady outflows, including on the LME). If the COMEX silver inventory turnover is not due to overall supply tightness, then I am reading it all wrong and am open to alternative explanations.

Sales of Silver Eagles continue match US Mint maximum capacity, despite what might be a marked increase in production/blank supply capacity. The weekly announced allotment (yes Silver Eagles are still being rationed) of 1.1 million coins was reported sold as of yesterday. This implies a fairly big increase in production capacity or coin blank supply to more than 150,000 oz per day for Silver Eagles. Formerly, the daily run rate was closer to 125,000 coins.

I don't know who is buying all these Silver Eagles, as reports from the retail front do not suggest broad demand. As such, if it is one big buyer, perhaps that buying could end. On the other hand, it could continue, particularly if the buyer is well-informed. What I do know is that Silver Eagles are outselling Gold Eagles by an amount never witnessed in the 27 years of the Mint's bullion coin program. One would think that this demonstrable and heavy relative demand for silver over gold would be reflected somewhat in price, instead of the pronounced relative weakness seen in silver. But one would think that only if he was unaware of the COMEX and JPMorgan. Yes, I know — this is only one slice of the supply/demand equation; but then again more silver is, effectively, consumed in Silver Eagles than in any other single demand component.

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

The changes in this week's Commitments of Traders Report (COT) weren't especially significant relative to the past few weeks' changes. That's another way of saying the changes in the companion monthly Bank Participation Report told a more complete story. Obviously, the same source data are used in each report, it's just that one needs to look back more than this past reporting week to sense what has transpired. Let me review the COT first.

In COMEX gold futures, the total commercial net short position grew by 4500 contracts to 121,100 contracts, yet another high water mark since last April. Gold prices during the reporting week were mixed, but had established a new multi-month high intraweek. By commercial category, it was all JPMorgan on the sell side as the eight largest gold shorts actually bought back 1000 contracts. JPM sold about 5000 contracts of its long market corner, reducing that corner to 53,000 contracts, still more than 16% of the total net open interest (minus spreads).

On the buy side in gold it was all the technical funds which bought a total of nearly 5000 contracts, including more than 3800 short contracts. The standout feature on the buy side for the nearly \$100 gold rally since early February was technical fund short covering of 36,000 contracts and new buying of 20,000 long contracts. That the technical funds would buy this much when the moving averages were penetrated was as widely expected as is possible; it's just that the price was expected to rise more than \$100. And it would have, in my opinion, had JPMorgan not exerted its dominant control.

In silver, the headline total commercial net short position rose by 800 contracts to 39,800 contracts, yet another yearly high point that, as is the case in gold, can hardly be considered bullish in any conventional sense. The raptors (the smaller commercials apart from the big 8) accounted for all the selling in liquidating 2200 long contracts of a net long position now down to 19,600 contracts. JPMorgan bought back 500 contracts of its manipulative concentrated short position that now totals 18,000 contracts or 16% of the entire net open interest. While down sharply from former peaks, JPMorgan's 16% long market corner in gold and identical 16% short market corner in COMEX silver are well above any threshold signifying market control.

With such a small weekly COT change in silver, the technical funds couldn't have done much and on the lower prices of the reporting week these funds sold short almost 1200 contracts. As I just indicated, the real market structure story was not so much in this week's COT report but in the Bank Participation Report, or the combined COT reports since February 4.

On the nearly \$100 rally in gold from the beginning of February, approximately 55,000 net COMEX gold contracts were bought by the technical funds and sold by the commercials. The buying by the technical funds caused prices to rise and the selling by the commercials prevented prices from rising further. Please remember that there are only about 30-40 traders on either side, none of which are miners or users. I would note that there is not the slightest hint that real gold miners or gold fabricators participated in any way. The 5.5 million oz of gold equivalent changing ownership on the COMEX was what moved the price.

It is interesting that the 8 largest COMEX gold shorts didn't add any new shorts from Feb 4 to March 4 and all the commercial selling was by the smaller commercials and JPMorgan. JPM accounted for 13,000 contracts of the 55,000 commercial contracts sold or more than 23.6%. At the heart of the gold and silver manipulations there is one glaring feature — JPMorgan's dominant market share in every aspect of listed and OTC markets. Some may argue that JPMorgan should be allowed to sell what the bank holds. I understand that but would point out that the bank should not be allowed to dominate and control markets regardless of what it holds.

I've stated previously that I would have expected gold prices to have rallied more than \$100 with 55,000 contracts being bought by the technical funds. But if you had told me that JPMorgan would have accounted for almost a quarter of the commercial selling, my price expectations would have changed. That's because without JPMorgan's significant selling contribution other commercial sellers would have emerged only at higher prices (otherwise they would have emerged). It is this simple statement that proves JPMorgan is the manipulative crook I allege it to be. It's actually clearer in silver.

On the \$2.50 silver price rally from Feb 4 to March 4, 25,000 net silver contracts changed ownership in COMEX futures. As was the case in gold, almost all the buying was by technical funds which added to longs, but mostly bought back short contracts and all the selling was by commercials. Also as was the case in gold, the smaller commercials (the raptors) accounted for almost all (23,000) of the 25,000 total commercial contracts sold.

One difference in silver was that JPMorgan accounted for 4000 new short contracts over the past month and the bank may have been the only commercial adding short silver positions. If JPMorgan hadn't added new short positions, the price of silver would have climbed more than it did. It's one thing to sell out what is owned (as was the case with JPMorgan and gold) but quite another to influence and control prices by adding short positions, as JPM did in silver.

But the biggest difference in silver were the enormous quantities involved. 25,000 silver contracts is the equivalent of 125 million oz. Whereas 55,000 COMEX gold contracts is the equivalent of 5.5 million oz or almost 70% of the world's total monthly gold mine production of 8 million oz; the 25,000 silver contracts changing hands over one month on the COMEX is almost 200% of the world's monthly silver mine production of 65 million oz.

Because no silver mining company or legitimate fabricator had anything to do with COMEX trading over this time, there was no connection between actual silver production or consumption and pricing on the COMEX. Technical funds do not produce or consume silver and neither did their speculative counterparties over the period in question. We call them commercials, but there is no legitimate commercial function being performed. Yet their interaction is what determines silver prices. That is so far removed from the purpose of regulated futures trading as to be incomprehensible.

It also enables me to call the COMEX (CME Group) as crooked with little (although some) fear of repercussion. To make the allegations of enabling and facilitating price fixing go away, all the CME has to show is how the technical funds and their speculative counterparties have anything to do with legitimate hedging. The CME can't do that so instead it spends millions of dollars advertising how it is the world's center for laying off price risk by corporations. The only problem in gold and silver (and copper, as I'll show in a moment) is that no legitimate hedgers transact business on the COMEX; it's all about speculators against speculators, the real producers and consumers have prices set for them, not by them.

I'd be shocked if the CME could prove that even 1% of the gold and silver traded over the past month had any legitimate producer or consumer connection. These crooks enabled double the world's silver production to change hands and, thereby, set the price without the slightest real world connection. That the CME won't even attempt to refute any of this should be taken into account when considering if the manipulation can last forever. These are no lightweights, the CME and JPMorgan and their silence in the face of these direct allegations are unprecedented. (Yes, I'll send them this and every article in which I mention their names).

Copper prices got hammered yesterday, falling more than 4%, or the most in one day for quite some time. (For the record, I have no involvement in trading copper). Such a large move requires an explanation; therefore, the explanations were quick, mostly settling on some type of economic slowdown in China or elsewhere. In reality, the price drop was COMEX-centric, as were the moves yesterday in silver and gold. The commercials, led by JPMorgan, smashed prices through technical fund sell signals and ignited an orgy of technical fund short selling. The technical funds were already moving decisively to the short side of COMEX copper and yesterday's waterfall decline undoubtedly brought them to the short side in droves.

While it's impossible to pick precise bottoms and tops in markets or timing based upon the COT structure approach, the selling in copper appears to approach climatic levels. There is a limit as to how much the technical funds can short in any market and COMEX copper is no different in that regard than silver or gold. Therefore, at some point in the near future the technical funds will be fully sold short in COMEX copper and the only question will be how high the commercials will rig the price to the upside to force the technical funds to buy back.

I'm certainly not commenting on copper to induce anyone to trade it. My sole purpose in raising the issue is because COMEX copper has also contracted the dreaded manipulative disease that infects silver and gold. That this disease infects all the commodities traded on the COMEX is another testament to the broken price discovery process fostered by the CME. Simply put, the rest of the real world, particularly the world's producers, would be infinitely better off if the COMEX ceased to function.

There were reports this week about the new chairman and commissioners of the CFTC being in favor of position limits. I'm sure they are also in favor of Mom, apple pie and the flag as well. In fact, except for JPMorgan and the CME, I'm not sure if anyone is opposed to position limits. But if it was just a matter of favoring them, position limits would already be in place. The simple fact is that position limits, particularly in COMEX silver and gold, do not exist. Otherwise JPMorgan wouldn't be holding opposing market corners in COMEX gold and silver. Yes, the enactment of position limits and the legitimate enforcement of them would end the manipulation. But given history and the facts and while I believe the silver manipulation will end, I'm not holding my breath that the CFTC will end it through position limits. I think the end will come in another way.

Reading the newspaper and drinking coffee this week, I happened to watch a top notch money manager discussing market issues on CNBC. He caught my attention because he was introduced as having a name sounding just like the CEO of JPMorgan, only it turned out to be Jamie Dinan of York Capital Management. I'm a commodity guy as opposed to being a securities guy, but that doesn't mean that there aren't some incredibly talented people in all walks of life. Certainly, this guy stuck me as being at the highest levels of professionalism. But what struck me the most was something he mentioned when he was asked about specific stocks he had an interest in. One stock was a bank in Denmark (or maybe Finland) whose name I can't recall. Mr. Dinan sounded like he knew it cold and presented a compelling and detailed case for investment. But what made me sit up was when he mentioned its total market capitalization of \$28 billion, a market cap held by many hundreds or thousands of different companies around the world, most of whose names I probably would not recognize.

\$28 billion happens to be the market cap for the world's total inventory of 1000 oz silver bars. In fact, there are just less than 900 million oz of visible and recorded 1000 oz bars of silver in the world, but I add another 400 million oz to account for the growth in world silver inventories over the past six years or so. At 1.3 billion ounces in the form of 1000 oz bars (the industry standard), the current price dictates a total worth of those bars at just less than \$28 billion. That's the same as the Danish or Finnish bank and maybe thousands of other companies.

But what's different is that silver is not like any of these thousands of companies. Silver is unique unto itself and commands a role unequalled in terms of history and utility and desirability. To think that it would be valued at such a mediocre market cap given the facts surrounding it can also only be explained in terms of the JPMorgan/COMEX silver manipulation. All the world's silver valued at such give away prices is much more likely to result in the price manipulation's end well before the regulators ever react. Just like was the case with the Hunt Brothers and Warren Buffett, 34 and 17 years ago respectively, it's only a matter of time before a big buyer realizes how little silver exists in the world and decides to do something about it. Hey, maybe there's a 17 year cycle that comes due this year.

Ted Butler

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Silver – \$20.90

Gold – \$1340

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