

May 14, 2016 – Weekly Review

Weekly Review

One good thing about a weekly review is that it tamps down the rapid-fire price and emotional changes experienced daily and, certainly, intraday. After spiking to yearly highs a fortnight ago, gold and silver prices have retreated over the past two weeks. This week, gold fell by \$15 (1.2%), while silver fell by 32 cents (1.8%). As a result of silver's relative underperformance, the silver/gold price ratio widened out by half a point to 74.5 to 1.

A few observations before the usual weekly format. There have been some notable changes in the precious metals since yearend. In just four and a half months, gold and silver prices have risen by 20% or more, with mining shares jumping many multiples of that. It would be an understatement to say that there has been a sea change in the collective investor sentiment that exists today from what prevailed into yearend and even into the first weeks of the New Year. In fact, I am hard-pressed to recall a previous period where investor sentiment has changed as much as it has this year.

I understand why investor sentiment was extremely depressed into yearend, as gold and silver prices were at lows not seen in more than four years. More were bearish on the prospects for gold and silver prices than ever before, to the point where scorn was heaped on those advocating higher prices. (I'm certainly not suggesting everyone was bearish). It was understandable because price drives sentiment. But what drives price? I admit that sentiment drives price once it picks up momentum (as it has recently), but I believe there has been an underlying mechanical explanation behind the turn in gold and silver prices that got the ball rolling on the stark change in sentiment.

A remarkable number of commentators and analysts which happened to be bullish into yearend, unless I've lost my memory completely, cited the market structure that existed in COMEX gold and silver futures at the time as a reason to be bullish. Certainly, any commentator who relied on my brand of COT analysis, namely, be bullish when the managed money technical funds are most short, cited the COMEX market structure as a reason to buy. Maybe not the only or even the principle reason for buying gold and silver, but a big reason nonetheless. In retrospect, it must be said that those citing the then-bullish COT market structure were absolutely correct, given the massive buying by managed money traders over the past four and a half months. Now what?

Now that we have witnessed the greatest amount of managed money technical fund buying (and commercial selling) in history, what comes next? I'll try, as always, to lay out the possibilities or probabilities, but given the extreme level of COMEX futures positioning just recorded over the past four months, I believe I can say with certainty that future positioning changes will dominate gold and silver price action. More on this in a moment.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses surged this week, punctuated by a very large (3.2 million oz) movement yesterday. For the week, 7 million oz were physically moved as total COMEX silver inventories rose an unremarkable 0.6 million oz to 153.1 million oz. The standout feature in COMEX silver warehouse inventories, just as has been the case for five years running, is the churn, which has, in essence, existed only in silver of all commodities. I continue to maintain the churn equates to physical tightness.

Other features of the COMEX silver warehouse inventories is that of the six warehouses over the past few years, the inventories have fallen in four of the warehouses (three sharply), remained steady in one (the Delaware Depository), and have grown sharply in only one (the JPMorgan warehouse). From zero holdings five years ago, JPMorgan's warehouse holds nearly 44% of all the COMEX silver warehouse inventories (67.8 million oz of the total 153.1 million oz). The obvious conclusion is that JPM is the big kahuna in silver, as I have been contending for years.

In addition, 1.2 million oz came into the JPMorgan COMEX warehouse this week, reversing a pattern of recent withdrawals. I would guess this might be related to the 5 million oz that JPM took in delivery on the March futures contract (that never came in), but could even be related to the 5 million oz the bank has taken delivery of in this month's May futures contract. The most obvious conclusion is that JPMorgan is acquiring physical silver to the maximum extent it can without causing prices to rise — the hallmark of a price manipulator.

In the previous two traditional COMEX silver delivery months (December and March), JPMorgan had to settle for less than the full 1500 contracts (7.5 million oz) it was positioned to stop (take), for the most plausible reason that there wasn't enough silver available to demand without causing problems. Now it appears nip and tuck for May as well, as JPMorgan has stopped 1016 contracts and just 750 or so May contracts remain open. JPM appears in position to take the 484 contracts needed to hit the 1500 contract limit, but if the issuers can't provide the physical silver without disrupting the wholesale market, the bank will undoubtedly accept less rather than upset the physical silver apple cart. As always, I speak only of what this crooked bank stops in its own name and not for clients.

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

The COMEX May gold contract delivery process still appears tight, with around 1100 contracts (110,000 oz) still remaining open, but there appears to have been enough gold shipped in recently to satisfy those demanding delivery (JPM included). Of more concern is the looming traditional June COMEX delivery month, with first notice day just a couple of weeks away. With near record high open interest and so much talk about physical overwhelming the paper market, COMEX gold and silver delivery periods have become more tense and of increasing attention.

No doubt the vast majority of the June gold open interest will be rolled over before first notice day for the simple reason that the vast majority of the longs are the managed money technical funds which have little interest or even capability to demand physical delivery. I haven't mentioned this before, but COMEX gold and silver deliveries are mostly dominated by the big bullion banks for their own house accounts. It's not that some large customers of these banks don't make delivery on a regular basis, particularly in silver, but those customers appear to be engaged in regular and ongoing physical business for the most part. If you study the link above for year to date deliveries (admittedly somewhat confusing) you'll see that the bulk of gold and silver deliveries are made between the bullion banks in their house accounts. My point is just that COMEX gold and silver deliveries are mostly made between these big banks and have never involved the managed money technical funds in any way. I wouldn't expect that to change.

Away from the COMEX, there has been one recent development involving physical gold that is somewhat puzzling. There has been a recent string of deposits into the big gold ETF, GLD that is quite notable. Some 1.5 million ounces of gold has been deposited, worth close to \$2 billion, into GLD over the past two weeks (part of the 7 million oz, worth \$8 billion, deposited this year into the trust). What makes the recent deposits somewhat strange is that the price action and, particularly, the trading volume in GLD has been rather average over this time. I find this somewhat strange because deposits into GLD and SLV, the big silver ETF, usually occur when prices and trading volume are surging, with any break in that pattern more evident in SLV than GLD.

What I'm torn between is that the recent sizable deposits into GLD suggest strong physical demand, yet the regularity of the deposits (as opposed to an increase in short selling) also suggest ample available physical supply. Complicating the matter is the apparent tightness in the COMEX May gold delivery as just discussed. I've also learned that just because you have good questions, does it mean you have good answers. As puzzling as these recent deposits into GLD may be and fully acknowledging that there is a difference between paper and physical, it is still true that since yearend, while there have been close to 7 million oz of gold deposited into the GLD, there have been four times that amount bought by the technical funds on the COMEX.

Sales of Silver Eagles from the US Mint fell very slightly (27,500) short of the one million coins available for sale this week. Maybe it's just me, but it seems somewhat strange (there I go again), for the Mint to sellout 97.5% of the Silver Eagles it had for sale and not 100%, particularly considering it reported the sales on just one day, Thursday. Did the remaining 2.5% not get sold due to a sudden lack of demand after initial surging earlier demand? It's either the Mint getting (staying) real sloppy in its reporting or JPMorgan gaming the system (as it does in everything related to silver) by taking as many coins as possible but stooping just short of an official weekly sellout. I'll let you guess which I would pick.

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

A week or so ago, the Royal Canadian Mint reported it sold 34 million Silver Maple Leafs for 2015, which when added to the 47 million Silver Eagles sold by the US Mint for last year brought to 81 million oz of silver sold in the two coin series. While there can be no doubt that these coins were produced and sold, the question remains as to who bought all these coins? I continue to read reports that it is North American investment demand that accounts for the record coin sales. That's nonsense, unless one defines JPMorgan and North American investment demand as one and the same. It's hard to get retail coin dealers to admit that business stinks because they don't want to project such to prospective buyers, but the simple truth is that retail demand for silver (and gold) products has largely stunk over the past five years. It is simply astounding how few see this.

The changes in this week's Commitments of Traders (COT) Report found me very wide of the mark in gold, but pretty close in silver (at least as far as managed money was concerned). The broader perspective, however, is that not much changed overall, as we are still at extremely bearish readings.

In COMEX gold futures, the total commercial net short position decreased by 9,900 contracts, to 285,000 contracts. (I had the number right, but had expected an increase — a nice way of saying I hit a bystander with my horseshoe toss). Gold prices fell about \$20 during the reporting, so in retrospect I should have focused on that and not the increase in total open interest. But make no mistake — this week's reduction in the headline gold number leaves the market structure the most bearish it has been in many years in just about every way; just slightly less extreme than it was last week.

By commercial category, the big 4 shorts did buy back pretty close to a hefty 13,000 short contracts, following last week's even heftier addition of 24,000 shorts. The raptors (the smaller commercials apart from the big 8) also bought back 2600 short contracts, meaning the big 5 thru 8 added 5700 contracts of new shorts. While the concentrated net short position of the eight largest traders is now slightly lower than last week's historic high water mark, the portion held by the 5 thru 8 largest shorts has never been larger (or more dangerous and manipulative).

Although hardly anyone (aside from Ed Steer) even mentions the concentrated short position, it is the most important issue in gold and, especially, in silver. It is the issue at the very core of any price manipulation and the only reason the CFTC has repeatedly been forced to investigate and subsequently deny a price manipulation exist in COMEX silver. Despite those repeated denials, the issue of concentration has grown more extreme. I suppose this must be a complicated matter for most market observers, but those adopting the COT analysis must strive to learn about concentration.

Simply put, the fewer the number of participants on one side of any market, the greater the likelihood that a manipulation exists. That's why the CFTC includes concentration data in the COT reports in the first place. The problem is that is all the regulator does — report and observe. There is a current TV commercial that makes fun of a bank security guard whose job it is to report bank robberies but not to stop any robbery in progress, just report it. As customers lie on the floor as a robbery occurs look up to the guard to do something, he explains he just monitors and reports. In gold and silver, the CFTC and CME are the real life embodiment of the useless bank security guard. Eight traders hold 84% of the entire net short position in COMEX gold and more than 100% of the net short position in COMEX silver. If you feel like a bank customer lying on the floor during a robbery when the price of gold or silver is suddenly smashed lower on the COMEX, then you have the —monitor only— CFTC to thank.

Finishing up with the gold COT, the managed money traders sold just over 7700 contracts, but only 2060 of those contracts sold were of the long liquidation variety (the bulk being new shorts). This means (to me) that there was little real long liquidation in the managed money category and with more than 246,000 contracts still long in this category the potential for massive liquidation on lower prices still exists. As a reminder, on December 29, there were only 76,000 long managed money contracts in gold. Meaning 170,000 new longs have been added over the past four and a half months.

In the interest of objective analysis, I received a very interesting email this week from a subscriber who raised the question if the massive number of new longs in the managed money category could be of the type of the core non-technical funds I've written about in the past and not garden variety technical funds buying only because prices are rising. Philip was asking more in regards to silver than gold, but talk about a billion dollar question. If, in fact, the bulk of the new managed money longs were non-technical funds and instead more of the value investor type, that means these buyers would be unlikely to sell on lower prices and change the dynamics of the COT analysis radically.

My answer was we could not know until we experienced lower prices and observed how these new managed money buyers reacted. If we didn't experience any downward penetration of the moving averages, we likely wouldn't see any such selling until much higher price levels. What I didn't say was that the concentrated commercials shorts would be screwed royally if that turned out to be the case and the nature of the gold and silver market would be changed forever. I'm certainly not opposed to that outcome because it would unquestionably validate my decades of alleging that silver was manipulated in price. However, I still think that if it walks, talks and looks like a duck, it is likely a duck and the managed money buyers have been likely technical funds because they seem to have followed past patterns; but Philip's question was profound and I thought it would be a disservice not to share it with you.

In COMEX silver futures, the total commercial net short position increased by 1100 contracts, to 91,700 contracts, another new record. (I had guessed a 5000 contract increase, but came closer in terms of the managed money category). With such a minor total change, there couldn't have been much change by commercial category. The big 4 added 600 new shorts, while the raptors actually bought 1300 contracts and are now back to a small net long position of 1100 contracts. As was the case in gold, the big 5 thru 8 shorts were the big sellers, adding 1800 new shorts.

Also as was the case in gold, the big 5 thru 8 in silver now hold their highest net short position in history, as do the total 8 largest silver shorts. I'm not sure what JPMorgan did until I get the next Bank Participation Report on June 3, but with the expansion of the big 8 concentrated position, I'm inclined to think JPM is still around 25,000 contracts net short and my double cross premise is alive and well. The most important point, again, is that the concentrated net short position of the big 8 is now at a record 92,837 contracts or 464 million oz.

That means 8 crooked traders on the COMEX, mostly banks, domestic and foreign and including no legitimate producers, are now short more silver than ever before. On average, each of these 8 traders hold more than 11,600 silver contracts short, or 58 million ounces each. As way of comparison, no single mining company in the world produced more than 43 million oz of silver in 2015.

<http://news.sharpspixley.com/article/lawrie-williams-top-world-silver-producers-countries-companies-and-mines/249626/>

Not that I am aware of any mining company hedging significant quantities of silver in the first place; it's just that the 8 traders short so much on the COMEX can't possibly be hedging production or stockpiles of silver. They have just sold short because the managed money traders have bought. Without this concentrated short sale, it would be impossible for silver to be under \$18. Heck, without any concentrated short position on the COMEX, it would be impossible for silver to be under \$100.

On the buy side of silver, the managed money traders bought nearly 4574 net contracts, including 5720 new longs (this is where I was much closer) and 1146 new shorts. The managed money long position is now 86,732 contracts or the equivalent of 433 million oz. The big difference between this position and the concentrated short position is that 63 different managed money traders are long, or an average of under 1400 contracts per trader, as opposed to the 11,600 contracts held net short by the 8 largest shorts.

Just to remain consistent, I still believe the CFTC will have to adopt my long held suggestion of treating traders in the managed money category which trade under the same technical programs in the aggregate in terms of position limits (should position limits ever be adopted as required by law), but that's chicken poop compared to allowing 8 speculative traders to each hold 58 million ounces of silver short under any circumstances. But like the bank security guard who only reports when there is a bank robbery, the CFTC has no concept enforcing commodity law.

So where to from here? In the very short term, no one knows, certainly not me. But unless the powers that be sit by and let the big shorts get what should deservedly be coming their way and if the new managed money longs are strictly technically motivated (as I believe), then the probabilities still favor an eventual downside resolution. If we do get that resolution, I still believe it is very likely to be the last move lower before the big move up, particularly in silver. If the resolution comes instead to the upside, considering how financially exposed are the big shorts, it is hard for me to see how it won't shake our market system (the COMEX) to its roots. Either way, there will be a COT resolution.

Ted Butler

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Silver – \$17.13 (50 day moving average – \$16.21)

Gold – \$1273 (50 day moving average – \$1251)

Date Created

2016/05/14