

Weekly Review

Gold rose for the second week in a row, gaining an impressive \$37 (3.1%), while silver ended the week higher for the third time, adding an even more impressive \$1.08 (6.6%). As a result of silver's relative outperformance, the silver/gold ratio tightened in by more than two full points to 70 to 1; still within the fairly tight trading range of the past six months or so, but definitely close to the least undervalued silver has been to gold over this time. On a longer term basis, I believe silver is still massively undervalued compared to gold, but I remain extremely hesitant to rely on short term price action in an attempt to handicap what will unfold over the near term.

I received an email from a good friend whom I've known for over 35 years yesterday who had suggested that I canvass readers for their explanations as to why the silver/gold price ratio was so wide. Bill wrote that he had devoted an inordinate amount of time recently contemplating the question of why it was that silver, which came out of the ground at roughly 8 to 1 times the quantity than did gold would sell at a discount of 70 to 1, especially considering there was less silver bullion in the world than gold. His twist was that you couldn't use price manipulation as the cause for the extraordinary silver undervaluation; only explanations that excluded manipulation.

Having contemplated this question incessantly for decades, I wrote back to Bill offering the only explanation I thought readers would come up with was that gold is still considered an official monetary asset, while silver has not been considered as a monetary asset for the better part of a century. But then it occurred to me that if gold was so highly valued relative to silver because of central bank monetary dictates that was just another form of price manipulation that caused gold to be valued much higher than it would be without the monetary explanation relative to silver.

I know many feel that central bank policy has suppressed the price of gold and that the price will soar once the suppression ends. Perhaps this will turn out to be true (I'm a devout agnostic on this issue), but at a minimum, it is hard to deny that at least in regards to silver, existing central bank policy has resulted in a higher price of gold relative to silver than it would be if gold wasn't considered a monetary asset, or both metals were considered monetary assets. In any event, if anyone has a non-manipulative explanation for the current relative price relationship for gold and silver, please forward them to me. One warning however ☐ you may drive yourself stark raving mad trying to come up with a non-manipulative explanation and I deny any responsibility for that. Kill Bill (instead).

Unless I missed something very basic, the break out in gold and silver over the past three days wasn't related to any general news developments and must be traced to the strongly bullish market structure on the COMEX that I have written extensively about recently. Over the past three trading days, silver and gold prices penetrated and moved up and away from the key 50 and 100 day moving averages and even penetrated the important 200 day moving averages (more decisively in silver than in gold). This was the first time silver had penetrated its 200 day moving average to the upside since last summer.

As I indicated on Wednesday, I would have preferred a much bigger price advance and on much lower trading volume than what actually occurred. In truth, I had imagined a much bigger price pop in my recent articles suggesting that the "big one" might be at hand in silver. Nor am I particularly encouraged by very recent commentary by those now turned bullish by the breakout who were bearish before prices advanced. But, as I re-discover regularly, things rarely turn out exactly as I expect and it is too soon to declare the rally over based upon the actual evidence to date. I feel it is certain that silver has a very long way to go to the upside in time and it is still possible that time is now despite my feeling somewhat underwhelmed by the nature of this week's advance. I'll come back to this later.

Turnover or the physical movement of metal brought into and taken out from the COMEX-approved silver warehouses picked up a bit this week thanks to two strong days to start the week (followed by three very slow days). Close to 3.7 million oz were moved, mostly in, as total inventories rose 2.6 million oz to 177.5 million oz. I don't have much to add about movement this week, except it still appears to be slowing down; even though this week's movement when annualized is close to 200 million oz, still a shockingly high figure.

Once again, the standout physical development for the week was what occurred in the big silver ETF, SLV. After a one million oz deposit to start the week, close to 4.5 million oz were withdrawn from the trust over the past two days. Particularly in light of the very high trading volume, mostly on Wednesday but extended into Thursday, the two days in which silver prices advanced the most, the big withdrawals must be considered shocking. I've been using the word counterintuitive to describe the unusual metal withdrawals from SLV on price strength and deposits on price weakness for a number of years now, but once again, that description is inadequate. Interestingly, the shocking two day withdrawal in SLV connects many things I've discussed recently, including my speculation that JPMorgan has amassed a mountain of physical silver.

Common sense dictates that there is a methodology and mechanism in silver price movement. On the COMEX, it has everything to do with technical funds and bookmaking commercials. In SLV, it has everything to do with net investor buying and selling. When there is strong net investor buying (high volume) in SLV, the price rises as new investors bid the shares higher. If there was net investor selling, prices would fall, not rise.

Because of the unique open-ended feature of SLV (and GLD), when there is net new investor buying in SLV that causes the price to rise, the prospectus dictates that actual new metal must be deposited that day to match the amount of new net investor buying of shares. (Short selling may frustrate and prevent the deposit of new metal, but wouldn't result in a withdrawal of metal. I'll touch on this in a moment). To keep it simple □ net new investor buying in SLV causes the price to rise and requires the appropriate amount of new metal be deposited to back up the newly created shares. If there wasn't net new investor buying to begin with, it is very unlikely that prices would have risen, particularly on a repeated basis (as has been the case in SLV for the past few years).

Therefore, even though I am the only one raising this issue, any observer of the silver scene should be asking out loud □ how the heck can there be a massive withdrawal of metal in SLV on a high volume price advance.

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While I solicit any and all alternative explanations, the only explanation I can come up with is that whoever was responsible for the net new buying of SLV shares these past few days was immediately converting the new shares purchased into actual metal which resulted in both a reduction in shares outstanding along with a corresponding withdrawal of metal from the trust. It may look like shares were sold and metal redeemed, but if that were the case, prices wouldn't have advanced sharply. And this is not a one-time event, as I've written of this counterintuitive pattern in SLV for the past few years.

Who would undertake such an unusual trading approach of buying shares in SLV and immediately converting those shares into metal and why? The only explanation I can come up with is a large entity seeking to accumulate silver without the accumulation becoming widely known. If the newly purchased shares of SLV weren't quickly converted into metal then it would quickly be revealed by SEC reporting requirements for acknowledging large share ownership (over 5%). Leave it in the form of accumulated shares and the buyer would soon need to reveal ownership; convert the accumulated shares to metal and no revelation is required.

I continue to believe that the large buyer of shares of SLV which is quickly converting those shares into metal is JPMorgan. Additionally, if there is one

entity uniquely qualified to pull off this operation it is JPMorgan which is a qualified Authorized Participant and the sole official custodian of the trust. If it isn't JPMorgan behind the repetitive counterintuitive withdrawals of metal in SLV on strong price advances, then I am at a loss for who the big silver buying entity might be.

Recently, a bit of attention has been placed on my speculation about JPMorgan acquiring hundreds of millions of ounces of silver over the past four years. More seem to think my speculation is on the mark from what I can tell, but some observers disagree, often demanding concrete and incontrovertible proof about my claims. However, if unquestioned proof was available, there would be no speculation necessary on my part and everyone would have seen what JPMorgan was up to.

The key feature for JPMorgan or anyone accumulating hundreds of millions ounces of silver at extremely depressed prices would be to do so without the public knowledge and the reaction that would cause silver prices to rise before the accumulation was complete. Is there any reason to think that JPMorgan could pull off what I claim they pulled off if everyone was aware of it from the get-go? As it is, I have fully admitted that it took me years to figure out what this crooked bank was up to. To those that claim what I suggest is impossible,

how about an alternative explanation for why we just had a massive withdrawal of metal from SLV on strongly surging prices and trading volume?

I failed to mention the two million share increase in the short position of SLV, to more than 20.5 million shares (oz) on Wednesday, so let me do so now.

Compared to the quantities of equivalent metal that get positioned and which set prices on the COMEX, the shorting in SLV has been minor.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

But that's not to say it is insignificant. In fact, I am expecting a big increase in the next short report on SLV for the two week period ended yesterday. That report won't be out until May 27 and if it grows large enough, I may have to stick my head back in the lion's mouth and write to BlackRock, the trust's sponsor once again, even if it means riling up their Park Ave lawyers again. At least I get threatened by BlackRock, a pretty sure sign of basic innocence, unlike the silence I get from the crooks at JPM, the CME and the CFTC.

There were no sales of Silver Eagles reported over the past few days, even though sales for the month so far are way ahead of Gold Eagles, as has been

the case this year and for the past few years. Retail sales may have picked up a smidge on the silver price strength this week, but this is still a JPMorgan buying affair to my mind, as the Mint's reporting strongly suggests. I'd like to think JPMorgan has bought enough Silver Eagles and silver in general, but then again, I'd like to think a lot of things.

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

By the way, JPMorgan continues to take (stop) silver deliveries on the May COMEX futures contract in their house or proprietary trading account. The bank is up to 700 contracts (3.5 million oz) in its own name this month and slightly more than that in customer accounts. It still looks like JPM is in position to take an additional hundred contracts each in its house and customer accounts before month end.

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

As I indicated on Wednesday, the changes in the new Commitments of Traders Report (COT) released yesterday weren't likely to tell us much and that turned out to be the case. We did break the pattern that had been developing of price weakness immediately after the Tuesday cutoff, followed by strength on the

following Monday and Tuesday. This week we surged in price after the cutoff and it's anyone's guess what prices do early next week. Let me run through the changes this week for those who follow it closely and get into speculation about what transpired after the cutoff.

In COMEX gold futures, the headline number of the total commercial net short position increased by a modest 3300 contracts, to 77,500 contracts. This is still a decidedly low (bullish) headline number, but clearly this number is much different when extrapolating from the Tuesday cutoff. By commercial category, the 4 biggest shorts added 900 new shorts, the big 5 thru 8 shorts added 1700 new short contracts and the raptors sold 700 longs, reducing their net long position to 55,100 contracts. If, by some miracle, we were close to these numbers after the last three days, it would be, well, a miracle.

On the buy side in gold, although the numbers are out of date already, it was pretty good. The managed money longs did add more than 5200 new longs, but at just over 104,200 contracts long, this is still a very low and bullish number; or that was the case as of Tuesday. More remarkable was that there was no reduction at all in the managed money short position, which was still close to 76,500 contracts and near the all-time, nearly fully loaded rocket fuel tank high.

The question, of course is what we look like through yesterday, after the high volume gold price bust up through the moving averages. If I had to pick a number, I'd say at least 40,000 net contracts were bought by managed money traders (both to get long and cover shorts) and sold by the bookmaking commercials (raptor long liquidation mostly with an undetermined amount of big 8 short selling). There haven't been many weeks where we've seen a greater than 40,000 net contract change in gold, but I will be astounded if this next week isn't one of them. As always, I'll update my calculation on Wednesday, after we complete trading for the reporting week thru Tuesday.

In COMEX silver futures, there was a slight 900 contract increase in the total commercial net short position to 38,100 contracts. I'd be tickled pink if I could say this thru yesterday's trading, but that is not possible. By commercial category, it was strictly a big 4 affair as they increased their short position by 1200 contracts, although I am unsure whether to pin the new short selling on JPMorgan, so I'll peg their net short position at 15,000 contracts. The big 5 thru 8 shorts bought back 200 short contracts and the raptors added 100 longs to a net long position now (as of Tuesday) at 31,000 contracts.

On the buy side, the managed money longs only added 200 contracts and at 46,306 contracts, still wasn't large by recent historic standards (thru Tuesday). The managed money shorts did buy back more than 2300 contracts and I regret seeing them leave before larger price gains. Certainly, the 31,600 remaining shorts as of Tuesday are greatly reduced at this point. Guessing how much deterioration to the market structure occurred since the cutoff, you can be sure it was a big number, anywhere from 10,000 to 20,000 net contracts, although I'm not sure we've ever had a change of 20,000 net contracts in any one week in history.

That's why I can't help but feel disappointed that we didn't truly explode in price, given the amount of managed money buying that I estimate has occurred. Had the commercial raptors not been as aggressive on the sell side as they appear to have been, instead of jumping a dollar, silver could have easily jumped five dollars or more. Hoping this doesn't sound egotistical, but I don't think I could have analyzed and predicted the abrupt upturn in price that we experienced these past few days in silver and gold and the reasons behind the expected upturn.

Yes, the timing and magnitude of the upturn was unknowable in advance, but at least I did describe in advance why we would get the upturn, namely, the

managed money traders would suddenly turn aggressive buyers as the bookmaking commercials rigged prices higher through the moving averages. That played out exactly as forecast with the only variable being how aggressive the commercials would be in selling to the technical funds who would buy at any price demanded by the commercials. Why the commercials have continued to let the technical funds off the hook so easily, when they could have, quite literally, demand any price desired has confounded me for some time.

That doesn't mean the move up is over and please don't take my ramblings as such. Of course, it could be over and if it is, it will not only be one of the smallest silver advances on record (although larger than the move up immediately preceding this one), but definitely the shortest move time wise, at only a few days duration. But the move being over is only a possibility and, for what it's worth, I am not adjusting any existing personal positions unless and until I see documented proof that the biggest COMEX silver shorts, particularly JPMorgan have aggressively added to short positions.

This could just as easily be the start of the big one in silver, even if it is not unfolding exactly as I hoped. All that is needed is some combination of increased physical investment buying and/or no aggressive new short selling by the biggest COMEX commercial crooks. In fact, one or the other could do the

trick. The real silver story and how the price is manipulated on the COMEX is becoming more widespread as are the specific allegations concerning JPMorgan.

It seems only a matter of time before a few large investors, in addition to literally throwing vast sums at every conceivable asset class in the world turn some attention to what is, certifiably, the world's cheapest asset. Perhaps the realization that JPMorgan has taken an historic position in physical silver might be the catalyst. None of this is automatically negated by the collusive COMEX commercials aggressively selling over the past few days.

More than anything else, it should be more obvious that nothing matters in the price of silver than does COMEX positioning; not what happens with interest rates, currencies, the stock market, or in Greece, China, Russia or Timbuktu. The price of silver (and gold) is simply a function of what occurs on the COMEX and not in any other market (until the physical shortage hits). This includes London or any of the new precious metals exchanges being bandied about that never get off the ground.

Underscoring this point is a new study that asks the question □Who sets the

price of gold □ New York or London?□ You'll have to read the story yourself (it's very long and somewhat confusing) to be sure, but my interpretation is that the study concludes that even though the COMEX is one-tenth the size of the London market, the COMEX sets the price.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2606587

Although the study seems to closely confirm my contention that the COMEX is everything when it comes to price-setting in gold (and silver) and London nothing, it does so for reasons away from the obvious. In a sense (and I don't mean to be insulting) the study is like trying to uncover where fresh water comes from while ignoring the rain. With all the fancy formulae and esoteric data the study outlines, it ignores the most basic reason of all, namely, that COMEX trading data is highly quantifiable and published by a US Government agency (the CFTC), while London gold and silver data is nothing more than an announcement once a month of unaudited supposed trading volume with no breakdown of who may be long or short.