

May 17, 2014 – Weekly Review

Weekly Review

An initial rally fizzled out by week's end, but gold and silver did managed to hold onto slight gains. Gold finished higher by \$3 (0.2%), while silver ended up 20 cents (1%). Silver's slight relative outperformance resulted in the silver/gold price ratio tightening in by a half point to just under 67 to 1. While I'm still convinced that silver is wildly undervalued compared to gold, I do watch in amazement at how closely each trade to one another on a tick by tick basis on the defective price-setting mechanism of the COMEX.

I'm also amazed that anyone still pays attention to any world or financial news that are reported to be causing precious metals prices to move day to day. The more I observe, the less a connection I see between prices and events. While in a tight trading range for months, the volatility day to day is incompatible with what is occurring in the world. The supposed reasons given to explain a one-day price jump are dashed by the next day's price fall. Prices fluctuate with no regard to what's unfolding in the world.

There's a very good reason why gold and silver prices (along with other CME metals) don't respond to developments as most would imagine. The reason is because the price-setting mechanism, which is the COMEX, doesn't have anything to do with supply or demand or world events. Instead, the COMEX sets gold and silver prices on its own terms, namely, by who is zooming who among an incredibly small circle of traders isolated from the rest of the world or any influence from actual metal supply and demand.

I'm not telling you anything new here, but it is amazing how gold and silver pricing has become so effectively captured by a private club of paper traders that anyone who follows the market could fail to see it. The rally early in the week was exclusively the result of technical fund buying/commercial selling and the sell-off on Thursday and Friday was the reverse. There was no other explanation or real world influence on price this week or any other week. And for certain, future price action will be due to positioning by the traders in the COMEX's private club.

One of the real world developments not reflected in price is the continuing unusual turnover or movement into and out from the COMEX-approved silver warehouses. This week, 3 million oz either came in or left the warehouses, while total inventories rose by 800,000 oz to 175.7 million oz.

If I didn't believe there is an important message in the near frantic turnover of physical silver in the COMEX warehouses, I would drop the matter. After all, my main goal is to identify the most important factors in silver, not to waste anyone's time on less important matters. Here's an exercise I just did that may help explain the significance of the rapid silver COMEX warehouse turnover. I quickly reviewed the turnover data since the beginning of 2014 by referring to the weekly reviews from January 4. This didn't take much time as I usually mention the turnover towards the beginning of each weekly review.

Here's what I found: for the 20 weeks of 2014 thru today, approximately 90 million oz of silver were physically removed from or brought into the six various COMEX warehouses. That's an average weekly turnover of 4.5 million oz (and not the 3 million oz average I had assumed), or 234 million oz on an annualized basis. Interestingly, total COMEX silver inventories are nearly the same today as they were on January 4 and total inventories have fluctuated only a small amount over the past 20 weeks. Certainly, at least for the first 20 weeks of this year (and for the past three years), total inventories are not newsworthy compared to the movement of metal, a theme I admit to repeating.

The equivalent of 30% of world mine production has physically entered and exited the COMEX silver warehouses over the past 20 weeks; that is a massive amount and something that has never occurred in any other commodity to my knowledge. Since I believe that investment holdings make up the vast bulk of total COMEX silver inventories and no more than 35 million ounces are available, the 4.5 million oz weekly average movement represents a stunningly higher effective turnover. On any basis that could be imagined either compared to silver's actual supply and demand or compared to other commodities, the COMEX silver warehouse movements must be considered highly unusual.

I can think of no good reason to explain the turnover in normal trading or investment terms; meaning that the movements can't have much to do with traders or investors. There are plenty of opportunities for investors to trade silver (on the COMEX or in ETFs) without moving metal physically. It doesn't make sense to incur unneeded expenses when they can be easily avoided. By process of elimination it would appear that the physical metal movements are motivated by industrial or other fabrication needs. The long period of time over which these silver movements began (three years ago) adds to this being due to physical fabrication demands.

What makes this so potentially significant is that at the heart of my long term premise in silver is the inevitability of an eventual physical shortage. What could be more indicative of a developing shortage than shipments of metal to users and fabricators being demanded more frequently? Also stuck in my head is that the unusual movements started at the same time that silver seemed poised to erupt into a full-blown world shortage (April 2011).

The US Mint hasn't updated its report on sales of Silver or Gold Eagles for the past three days, but it did indicate some type of unspecified reporting "glitch." I'm still confused about the subtraction of about a million Silver Eagles from April and the addition of that amount into May. But this is not a particularly big deal; much more important is if the blistering pace of Silver Eagle sales continues, both on an absolute basis and relative to sales of Gold Eagles.

I wasn't sure what to expect in this week's Commitments of Traders Report (COT), considering that there was both a high volume sell-off and rally within the report week. As I indicated above, we've already had a rally and sell-off in the new reporting week that began Wednesday. I think the technical funds that likely bought on Wednesday, likely sold Thursday and Friday, keeping positions intact; but I'm getting too far ahead "let's stick to the reporting week reflected in yesterday's COT report.

In COMEX gold futures, the commercials reduced their total net short position by 8200 contracts, to 102,300 contracts. Basically, the four and eight largest commercial shorts accounted for the net change, in buying back and reducing their combined short position by almost 8000 contracts. The sellers were mostly technical funds to the tune of the same 8000 contracts, including more than 3300 contracts of new shorts.

The only anomaly in the gold report was that JPMorgan appeared to swim against the commercial tide for the second week running; this time by selling 5000 contracts of its long position while the other commercials bought. This reduces JPMorgan's long corner in COMEX gold to around 36,000 contracts and leaves me with the distinct impression that JPM capped gold prices single-handedly during the reporting week. Since I don't think I said it yet in this review, this is another data point indicating that JPMorgan is crooked in gold and silver trading. By the way, for those following the COT statistics closely, changes in the concentrated net long position of the four largest traders indicate what JPMorgan may up to in COMEX gold.

In COMEX silver futures, the commercials reduced their total net short position by 900 contracts to 19,400 contracts. This is another low water mark extending back to February 4. Whereas the overall COT structure in gold is more neutral than anything else, the COT structure in silver is in bullish mode since the lower the total commercial net short position, the better. JPMorgan stood pat and continues to hold 20,000 silver contracts short.

Although the change this week was minor, the smaller commercials I call the raptors (apart from the big 8 commercial shorts) bought 600 contracts, increasing their net long position yet again to 44,600 contracts. This is the largest raptor net long position in silver since June 25, 2013 and the third highest raptor net long position in history. Silver prices were basically the same last summer as they are now and the COT structure back then was the cause of the rally to \$25. The main difference between the silver market structure last summer and today is that the concentrated net short position of the 8 largest shorts is markedly higher today than it was back then (64,000 contracts today, under 50,000 contracts back then). I'm going to return to the current concentrated short position in silver in a moment.

Finishing up on the silver COT report, there was some short covering by the technical funds to the tune of less than 700 contracts, but the bulk of the potential rocket fuel type of buying is still largely intact at just under 31,000 contracts. Also of note is that there was no selling on the long side in the managed money category of the disaggregated COT report. That long position still amounts to 35,000 contracts of which 10,000 contracts were established over the past six months or so that can't be attributed to technical funds.

We touched the 50 day moving average in silver for the first time in two months on Wednesday, before falling back on Thursday and Friday. That moving average is down to \$19.90 and will be violated in time, setting the stage for what could be an impressive rally. The 50 day moving average in gold is also rather close at just under \$1310.

What we don't and can't know is how long before the moving averages are penetrated to the upside and how much more of a move to the downside the commercials will arrange before then. As I indicated previously, the near record raptor long position in silver, coupled with a near record tech fund short position and an unusually large non-technical fund long position makes the set up in silver more bullish than the set up in gold. That will matter in time, although not necessarily in the very short term. Let's face it, the silver COT structure is better because the commercials have rigged prices lower more egregiously than they have in gold. There's nothing stopping the commercials from continuing to rig silver prices lower in the very short term except an inability to induce more technical fund selling. I don't know how much more technical fund selling can come into silver, but when you are close to record extremes, there wouldn't seem to be large amounts left.

I'd like to comment further on the just-released Silver Institute annual review (by GFMS), as well as the recent release on silver by CPM. As I indicated previously, I feel it is important to balance each report, as there are wide differences in many areas, including mine production, scrap recovery, demand and inventories (did I leave anything out?). Obviously, with such sharp differences (78 million oz or 10% in mine production alone, for example) at least one of the reports must be incorrect: although I suspect both are probably off \hat{A} ? hence the need to balance or average. If you asked either provider of the reviews about the differences, you'll likely get the response that we are right and the other guy is wrong.

That said, I review both reports as I try to read everything silver related. I've always relied on these reports as a fairly accurate assessment of silver supply and demand. But I look at the statistics and any subjective opinions about what those statistics might mean for price quite differently. Plus, there is much subjective discussion in each report about the goings on in the markets that trade silver and how silver investors behaved, including in markets where there is little transparency (London and OTC). Most particularly, the discussions in the reviews concerning developments on the COMEX and in the COT reports are always interpreted differently than I see them.

But if there are differences in the two annual reviews, there is one thing in which both are in complete agreement, namely, that there is no trace of a price manipulation existing. I'd ask you to think about this. There can be little question that if a price manipulation did exist in COMEX silver (as I contend) nothing could be more important to the price. An active price manipulation would have more influence on price than any supply demand circumstance (apart from a shortage). Yet, the subject is not even broached in either the GFMS or CPM reviews. I'd like to point out why that may be the case.

The first thing that comes to mind is the human condition. Both GFMS and CPM have been adamantly opposed to the idea that silver (and gold) may be manipulated in price for more than a decade, despite the idea growing and not shrinking overall during this time. Since people and organizations are reluctant to admit to a miscalculation (particularly for those in the opinion-giving business), there is a natural reluctance to ever admit error. How does GFMS or CPM possibly admit they were wrong about the manipulation in a face-saving manner? Accordingly, it would seem better to not even bring it up. But there's more to it than that.

A notable long-term sponsor of both annual silver reviews is the CME Group, owner operator of the COMEX. I would submit that it is impossible that the CME (or anyone else for that matter) would sponsor any report which accused them of wrongdoing. So not only would GFMS and the CPM deny the existence of a silver manipulation due to avoiding the embarrassment of admitting past miscalculation, both are being compensated by the prime enabler of said manipulation. In addition, the Silver Users Association, arch enemy of higher silver prices, is a sponsor of the CPM review.

To be fair, some have accused me of promoting the idea of a silver manipulation because it suits my agenda (whatever that might be). As a human, I sure wouldn't relish the thought of having to admit I was wrong all along, but I have to live with myself and promise I will admit openly if I change my mind. Instead, the evidence of manipulation gets stronger, not weaker. Certainly no one is paying me to promote the manipulation premise. Again, in the CME's sponsorship of GFMS and CPM, each receive compensation that would no longer exist should the CME be taken to task for running the crooked COMEX.

Here's a list of the world's top twenty silver mining countries and companies as appeared in the Silver Institute report. <http://www.mineweb.com/mineweb/content/en/mineweb-silver-news?oid=241217&sn=Detail> You'll note that there are only 5 companies that produce more than 30 million oz or more per year and none that produce more than 40 million oz annually. Separate in the GFMS annual review is a discussion on how little hedging exists presently by silver miners; the lowest levels of miner hedging in a decade. This makes sense, as what mining company in its right mind would lock in sub-\$20 silver?

Many assert that the giant concentrated short position is just a hedge. The eight largest shorts on the COMEX hold 320 million oz of silver futures net short, or an average of 40 million oz each. The eight largest silver miners in the world produced 255 million oz of silver in 2013 and little change is projected for 2014. I don't think any of that production or future production is hedged. So if the world's largest silver miners haven't hedged their production, what is the legitimate economic explanation for the concentrated COMEX short position?

The concentrated short position is a matter of public record and the mining company data are in both reports, yet neither report made any connection. Let me state the obvious: in having sold more than what the eight largest miners produced, the eight largest COMEX shorts exerted more influence on price than did the miners with their real production. But since the short selling was in no way related to legitimate miner hedging, the price influence becomes illegitimate. COT data indicate a concentrated short position of 320 million oz is held by 8 traders and the annual silver reviews indicate the miners aren't hedging. So what's behind the giant COMEX short position?

For those that may suggest that the concentrated short selling in COMEX silver is a legitimate hedge against actual silver ownership or other silver derivatives, please stop and think this through. A concentrated short position that has the greatest influence on price is not made less of a manipulation because of unsubstantiated and phantom holdings. Other than as a clear attempt to dominate and control price, why would anyone hold massive amounts of physical silver while holding massive short positions at prices that make silver undervalued to every other asset in the world? Besides, the vast bulk of visible silver bullion in the world is in the various silver ETFs and there is no concentration of ownership and, therefore, suggests no reason for a concentrated short position by owners of silver.

The fact that the COMEX is the world's silver (and gold) price setter and that is where the concentrated short position exists negates any suggestion of economic legitimacy for the short position. This is why I can get away with calling the CME and JPMorgan crooks, while those that the CME sponsors can't and won't do so.

From the very beginning, the concentrated COMEX short position has been at the core of the manipulation. On every objective measure concerning production and consumption of silver and compared to every other commodity, the concentrated short position in COMEX silver stands head and shoulders above all. The 320 million ounces held short by 8 traders is 40% of world annual mine production, even though few to no miners are hedging.

The 320 million oz silver short position held by eight traders represents 25% of all the silver bullion in the world (1.3 billion oz). In COMEX gold futures, the 8 largest traders are short just under 14 million oz, or less than one half of 1% of the world's 3 billion+ oz of gold bullion. Why does the concentrated short position in COMEX silver represent 25% of all the silver bullion in the world while the equivalent short position in gold represents less than 0.5% of all the gold bullion in the world? Shouldn't there be a ready explanation? For sure, there is an explanation, just not a legitimate explanation.

Without the 320 million oz COMEX concentrated short position, there would and could be no manipulation. Without it, there would be no commercial short position at all. Without it, I wouldn't have a leg to stand on. Without it, no one could accuse the CME or JPMorgan of any wrongdoing whatsoever. But the biggest factor of all is what silver prices would be without the 320 million oz concentrated short position. Please think this through.

Because the 320 million oz concentrated short position is in the form of futures contracts that means there are 320 million oz held long, although by many more than just 8 traders since there is no equivalent concentration of the long side of COMEX silver. In fact, the concentrated short position in COMEX silver is more than 55% larger than the concentrated long position, perhaps the biggest mismatch between big longs and shorts in any regulated futures market. Besides, with silver prices below the cost of primary mine production and extremely undervalued compared to every other asset in the world, no one can allege a long side manipulation on the basis of price alone.

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