Weekly Review

In a break from the recent pattern, silver finished higher for the first time in five weeks, ending up 35 cents (2.2%), while gold finished lower for the third week in row, ending a slight $2 lower for the week. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly two full points to 73 to 1; but to call silver anything but extremely undervalued relative to gold would be wrong in my opinion.

Of course, the week's finish masked quite a bit of intra-week price volatility, as both metals surged upward on Monday and Tuesday (gold by more than $30 and silver by nearly a dollar), before falling back sharply, particularly on Thursday. The price surge at the beginning of the week, beyond a doubt, can be directly traced to the extremely bullish COT structure, especially in silver, that I wrote about in last week's review. The question then became how much speculative fuel was expended on the early week price rally and that would be reflected in yesterday's new COT report.

As it turned out, my hope that the report would indicate an unchanged net commercial total short position in both gold and silver (two strong up days and two strong down days in the reporting week) was so close as to be scary, but there were changes under the hood in silver that shocked me. More on that in a moment.

A word about the sharp price plunge early Thursday, in which gold fell by nearly $30 and silver by a full dollar in minutes on the COMEX traditional opening. No, your eyes didn't deceive you and no, there was absolutely no legitimate news to account for the sudden plunge. This was pure HFT and spoofing, aka price manipulation, in full view. It seems that COMEX gold and silver are among the few markets where this outrageous and illegal price setting is still encouraged by the CME. Even the sacrificial offering by the crooked CME of two low level gold spoofers in order to protect the big traders' price setting scam should not deter you from the obvious the COMEX is still illegally setting the price of gold and silver in defiance of commodity law.

Having penned a very bullish article on silver on Wednesday, the next day's sharp selloff, which continued into Friday, prompted a number of subscribers to write to me asking if the sudden price downdraft negated my take that the big silver up move might finally be at hand. My answer was absolutely not, but not due to any stubborn false pride of not wanting to admit to being wrong. Let's face it □ no one can pinpoint the exact day of the big liftoff in advance. But more importantly, the late week selloff came on very high volume and a plunge below the key 50 day moving average in both gold and silver, mandating that the technical funds were big sellers and the commercials were big buyers. Such action guarantees that the market structure strengthened and enhances the prospects of an inevitable sharp turn up.

I've noticed that my premise that JPMorgan has acquired upwards of 350 million oz of physical silver (including Silver Eagles) over the past 4 years has garnered some recent attention, including inevitable doubts by a few. One denier went so far as to claim what I allege is impossible and that I give silver bulls a bad name. I hope subscribers realize that I haven't engineered any type of promotion to advance my premise and that I would never write anything without a full presentation of the facts, even when I speculate. That doesn't mean I can't be wrong, but I don't think I am in this case. Besides, I've been writing about JPMorgan and silver for a long time and, quite frankly, I am somewhat surprised the story hasn't been picked up sooner. I suppose if you don't have critics, you are not doing your job right.

Turnover, or the physical movement of metal brought into or removed from the COMEX-approved silver warehouses increased a bit this week to 2.8 million oz, as total inventories fell 0.5 million oz to 174.7 million oz. Aside from the big two week turnover a little while ago, it still looks like the big weekly movement may be behind us. However, no sooner have I made this statement on a number of occasions recently, when the movement accelerates.

The deliveries on the COMEX May silver futures contract for the first three days has featured JPMorgan as having taken 481 contracts (2.4 million oz) of the 1926 total contracts issued to date in its own house or proprietary trading account. With roughly 1100 contracts effectively still remaining in May open interest and considering what JPM has taken for the first three delivery days, I would guess the bank might stand for 200 to 300 additional contracts, or less than half of what it took in March. That can change, but I am still taken back a bit that JPM has been so open about taking COMEX silver deliveries at this stage, with allegations swirling about its accumulation of silver.

Please remember, of all the various ways that I claim JPMorgan has come to acquire 350 million ounces of silver over the past 4 years, the out in the open taking of deliveries on COMEX futures contracts has only been mentioned by me for the past month or two. If anything, I would have expected the bank to issue COMEX deliveries in an attempt to quash reports about their silver acquisition.
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pd

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Final sales of Silver Eagles from the US Mint for the month of April were strong overall, but trailed off in the last few days. Despite the trailing off at month's end, sales of Silver Eagles relative to sales of Gold Eagles came in close to 100 times greater and much more money was expended on Silver Eagles than on their gold counterparts, a simply astounding fact. While there has been some reported pick up in retail sales, my big buyer premise appears firmly in place. In fact. I would attribute the trailing off in sales at month's end to JPMorgan simply refraining from buying all the Silver Eagles available. All told, over the past four years, I would estimate JPMorgan has purchased 75 million Silver Eagles, or close to half of all the Silver Eagles produced by the Mint.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

On to the changes in this week's Commitments of Traders Report (COT). As I indicated above, the headline number of the total commercial net short position came in little changed in both gold and silver, just as I had hoped. Under the hood, however, there were some slightly notable changes in gold, but nothing short of shocking changes in silver. The changes in silver may have been due to misreporting by the CFTC, perhaps related to data not being recorded on a timely basis, but I'll analyze the report as if it is correct, as always.

In COMEX gold futures, the total commercial net short position increased by a modest 1900 contracts, to 106,900 contracts. This is the fourth consecutive week we've hugged this level. Of course, as a result of the price pounding gold took at week's end, there has been a marked reduction in the headline number of perhaps 30,000 net contracts thru the close yesterday. But just like last week at this time, whether this reduction (improvement) in the market structure is visible in next week's COT report is dependent on what occurs next week into the Tuesday cut-off.

By commercial category in gold, the big 4 shorts further reduced their net short position by a little over 1600 contracts and, once again, hold their lowest net short position since mid-January, always a constructive sign. The big 5 thru 8 shorts added more than 2000 new shorts and the raptors (the commercials apart from the big 8) sold about 1300 long contracts.

The counterparty gold technical funds in the managed money category did the opposite of what they did in the previous reporting week, in that they added both new longs (nearly 6700 contracts) and new shorts (over 4200 contracts). Despite the increase in long positions, the level of technical fund long positions is still historically low and most likely lower on the gold price plunge after the cut-off. On the other hand, the level of shorts in the gold managed money category is historically high and no doubt much higher after the late week plunge. The one thing that can be said about price weakness, particularly when key moving averages and recent price lows are taken out, is that it involves technical fund selling and this is what creates the strongly bullish market structure set up which exists in gold. New price lows, should they come, will only strengthen the already strongly bullish gold set up.

In COMEX silver futures, the headline number of the total commercial net short position increased by less than 200 contracts, to 34,000 contracts. Since this was one of the smallest weekly changes in history and I had been hoping for an unchanged reading, I was immediately relieved and assumed the report's details would reflect the unchanged headline number. That they didn't was what was so shocking. Let me talk about the technical funds in the managed money category first before discussing the commercials.

Managed money longs increased by nearly 1800 contracts to just over 44,200 contracts and was not at all surprising since silver did finish above its 50 day moving average on the Tuesday cutoff for the first time in two weeks. Technical funds do buy when moving averages are penetrated to the upside, after all. In fact, I was somewhat relieved the increase wasn't larger. In an unrelated matter, it left my premise of there being a 40,000 contract non-technical fund core long position intact.

The big, but very welcomed surprise was that the short position in the managed money category grew by a sharp 5441 contracts to 37,724 contracts despite the price close above the 50 day moving average into the Tuesday cutoff. The most plausible explanation (assuming no reporting error) was that the short position was much larger before the rally into Tuesday. That the technical funds would hold such a large short position, the largest since last fall, while surprising, is unabashedly bullish because this is the rocket fuel of buying that comes when the moving averages are penetrated to the upside once again. And I can only conclude that more technical fund shorts were added on the late week selloff.

Just to put this into the perspective of equivalent silver ounces, the technical funds sold short an additional 27 million oz in the reporting week, increasing what is a purely speculative short position by definition to over 188 million oz. I'd like to see anyone try to explain how this could not be an artificial price depressant and how the CFTC and CME should not be put out of business for allowing it. That it will ultimately be bullish for price is almost beside the point.

So large was the increase in the short holdings of the technical funds that it initially sent me in an analytical direction that proved false and that I spent hours writing about before realizing I was headed in the wrong direction. In fact, I wrote paragraph after paragraph before recognizing my error. I was all about to tell you how the 8 biggest commercials drastically increased their concentrated short position until I recognized it wasn't the commercials but the technical funds. I am assuming that the report is correct and I am handling the data accordingly. If there are big revisions, that is beyond my control.

I was all set to tell you how the commercial categories changed this week, but I'm throwing all of that out. Yes, the concentrated short position of the 8 largest shorts grew markedly, to nearly 350 million ounces, the largest level in years. But because the trader count on the short side of managed money dropped so much (from 36 traders in the previous week to 28 traders this week) and the gross short position of these traders increased so much (by 5441 contracts) it now seems clear that a number of managed money shorts have entered into the ranks of the 4 and 8 largest traders, something rarely observed. Usually, this is a commercial only group, but that can't be the case this week.

Therefore, I won't venture a guess as to what the commercial categories did this week. I just now uncovered this and in my conversation with Ed Steer yesterday, I hadn't realized yet any of this and what I told him was markedly different than what I think now. That's one of the hazards of on the spot analysis since we usually discuss the COT report literally minutes after the report is released. Thus whatever Ed reports in his column today will be much different than what I am reporting now and all the blame for that is on me, not him. I did tell him when we discussed the report that I really had to think about it more because it was so strange. How strange, I only came to comprehend moments ago.

While I am embarrassed for not seeing in sooner, let me give you my take now. To complicate matters more, I'm leaving shortly to attend my grandson's first birthday party, so I'm going to make brief what was up to a short while ago a pretty long article that I had to scrub. But I'm sure you'd rather have a brief article that was accurate than a long article that was wrong.

The good news is that I believe what has just dawned on me is even more bullish than I have been imagining recently. How a smaller number of managed money traders came to hold such a large short position just might be the double-cross I've imagined occurring between the commercial traders. Let's face it none of the 188 million ounces held short in the managed money category is remotely related to any legitimate commercial mining hedge. That means these traders couldn't deliver metal under any circumstance and must, at some point, buy back these short positions. I believe that short position may be much larger today as a result of the pronounced price weakness since the cut-off.

Make no mistake, if the silver market is ever to suddenly rip higher, it is hard for me to envision conditions better than in place currently. Of course, that doesn't mean conditions can't get even better and we know that can only occur on further price weakness. One thing I would like to point out is that I sense that no true liquidity exists in silver (or gold). Because the technical funds and commercials both act in unison, it has gotten to the point where there are only two traders in the market technical funds on one side and commercials on the other side.

There may be 30 different technical funds and a like amount of commercials on either side of the COMEX silver market, but if they are each operating in conformity with the other traders in their group, that means we have, in effect, one buyer and one seller. It can't get more illiquid than that. Great moves usually occur in illiquid markets and with silver prices in the gutter, it would seem certain that the biggest move must be to the upside.

Ted Butler

May 2, 2015

Silver – $16.10

Gold – $1178