November 2, 2013 – Weekly Review/Two Reports

Weekly Review

As a result of price weakness late in the week, gold and silver gave up all the gains of the previous week. Gold ended $37 (2.7%) lower, while silver finished 75 cents (3.3%) lower. Over the past few weeks and no matter the absolute direction of prices, the silver/gold price ratio has remained around the 60 to1 level. My only takeaway for the static nature of the ratio given the increased daily and weekly price volatility is that there is more artificiality to gold and silver prices than ever before.

I would place the blame for the price volatility and artificiality squarely on JPMorgan and the COMEX (owned by the CME Group). There's no legitimate reason for enhanced price volatility and the direction of prices away from High Frequency Trading (HFT) and computer trading scams on the COMEX; and those reasons are far from legitimate. As I'll try to show in reviewing two new COT reports (still issued on a delayed basis) the blatancy of the daily price rigs on the COMEX has reached ridiculous proportions. Currently, there is no apparent connection between gold and silver price changes on the COMEX and real supply and demand, other than outright scamming and price control by JPMorgan.

Thursday and Friday were a case in point. On Thursday, the largest gold miner in the world, Barrick Gold, announced an even tighter shutdown of their big gold and silver mining project, Pascua-Lama. In the earnings conference call, Barrick's CEO confirmed that the earliest production could possibly commence was in 2017. In addition to being a significant producer of gold, the project has been predicted to produce 35 million ounces of silver annually, fully 5% of expected world production. The main reason for the tighter shutdown? Â? Low prices for gold and silver.

While short term gold and silver world production would not be impacted, markets are discounting mechanisms and big changes in future production expectations would influence prices in a free market. By any measure, the potential loss of the future production of 5% of any world commodity would have a bullish impact on the price of that commodity. So what happened on Thursday? Gold and silver prices were smashed. Additionally, the advancement in the Mexican Senate of a proposed mining tax of 7.5%, while admittedly negative to the prospects of miners there, should have also been bullish to the price of metals as it promises to restrict future production. But it was time for JPMorgan to take gold and silver down and the news be damned.

More and more, the manipulative and disruptive HFT and computer algorithms seem to be concentrated in COMEX gold and silver. The otherwise inexplicable daily price volatility infecting COMEX gold and silver would not be tolerated in any other market, especially stocks and bonds. I've come to consider HFT in gold and silver as existing solely for purpose of price manipulation. I genuinely can't find anything redeeming in HFT.

Claims that HFT enhances liquidity are nonsensical. True liquidity involves positions being transacted with the least amount of price change and volatility; HFT in gold and silver is designed to cause maximum price change first to then force position change. Gold and silver prices, even though they are severely depressed from the highs are more volatile and counterintuitive now on a daily basis than ever before. And the only reason for the depressed prices, high volatility and the counterintuitive nature is HFT. If someone wanted to create a more disruptive (to real producers, consumers and investors) market environment than HFT, it would be impossible.

Let me run quickly through the weekly format to get to this week's two Commitments of Traders Reports (COT). Turnover in the COMEX-approved silver warehouses was particularly active, with over 4 million oz coming and going, as total inventories rose by 2.5 million oz to over 169.5 million oz. This is the highest level of COMEX inventories since 1997. The total level of inventories is still not that important to me as these inventories should be growing as time goes on. It is also still my opinion that the daily and weekly coming and going of these inventories is what really matters and the frantic movement connotes tightness to me. I don't know what else it could mean.

I'm still amazed at the disparity in the pattern of metal holdings in the big gold and silver Exchange Traded Funds (ETFs). The big gold ETF, GLD, continues to bleed inventory while the big silver ETF, SLV, hasn't lost an ounce on a net basis. The levels of gold in the GLD must abate at some point, given how much has been removed since year end (15.6 million ounces or 36%). I read somewhere this week a commentator asking publicly for any plausible explanation for the disparity in the metal flows between GLD and SLV. That struck me as odd as I believe the only plausible explanation is that the investors holding these funds were more inclined to hold silver than gold on a value perception basis.

Confirming that relative stronger valuation bias towards silver versus gold was the month end and year to date summary by the US Mint for Silver and Gold Eagle sales. Sales of Silver Eagles did seem to trail off for the month, while Gold Eagle sales perked up for the month (apparently having absorbed a big summer sale of existing coins by a fund). Still, with two months to go, Silver Eagle sales should set a new annual record, both on an absolute basis and relative to Gold Eagles. I'm still not sure who is buying all the Silver Eagles, as domestic retail demand seems weak, but sales are sales, I suppose.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I don't usually mention it, but the reason I highlight the relative developments in ETF holdings and US Mint sales is not to denigrate gold, but to point out that the artificial pricing pattern in both metals is deformed both on an absolute and relative basis. In other words, everything about COMEX pricing seems to be at odds with everything else in the real world. Never a paragon of integrity and free market behavior in the past, JPMorgan has managed to transform the COMEX into a mockery of what a free market should be. As an American citizen, I'm shamed and enraged with how crooked both JPMorgan and the COMEX have become.

A Tale of Two Reports

There was a COT report released less than an hour after I published Wednesday's article, as the CFTC continues to catch up on the backlog created by the shutdown. Wednesday's report covered the trading week ended Oct 15 and the report issued yesterday is through Oct 22.
The COT reports are complicated enough for most readers on the normal once a week schedule that I would imagine the catch up on delayed trading twice a week might also put one over edge in confusion.

But the fact is that the reports tell a fascinating story at this time and I will try to keep it as simple as possible. I've always maintained that it is primarily my responsibility to convey my analysis in a manner that can be understood. That means if you are unclear on anything I write or if you want an explanation for any fact or number given, you must let me know so that I can make myself clearer or provide backup. Let me run through the specifics before getting into what makes the story of these reports so fascinating.

The COT report through Oct 15, showed a reduction in the total commercial net short position in silver and gold, with gold's reduction being particularly large. This was no surprise as prices during the reporting week ended Oct 15 were sharply lower, by almost $70 in gold and $2 in silver at the lows of the week. Since it is written in the scriptures that the commercials always buy on their self-created HFT sell-offs, this COT report merely confirmed the obvious. It would have been nothing short of shocking had the commercials not bought heavily on the sharp price decline during the reporting week. After all, gold traded as low as $1250 and silver $20.50 on the Oct 15 cut-off date, their lowest levels in months.

In Wednesday's article, I wrote, in anticipation of what the next COT would reveal – Â?Â the sharper price falls in the next reporting week, ended Oct 15, should have reversed the short commercial increase.Â? That turned out to be the case in spades because the nearly $70 decline in the gold price for the week (thru Oct 15) reversed a three-week build in the commercial short position.

Here are the highlights of the Oct 15 report. In COMEX gold, the total commercial net short position was reduced by 25,600 contracts to 64,800 contracts, the lowest since mid-August. There were two standouts in the report. One was that the speculative selling necessary to accommodate the commercial buying came in the form of new short selling, mostly by technical funds but including a slug of non-reporting trader shorting. Since we've been below the 200 day moving average in gold (and silver) for most of this year, the tech funds have been more comfortable in adding new short positions when the commercials rig lower prices, rather than sell out existing long positions. Speculative long positions in gold (and silver) have appeared washed out for months.

The second stand out in the Oct 15 gold report was that almost all the commercial buying was in the form of new long positions being added by JPMorgan and the other commercials I refer to as raptors. JPMorgan accounted for more than 10,000 of the new long contracts, pushing the bank's gold market corner up to 82,000 contracts. After reported spread positions have been deducted from total open interest, JPMorgan's true market share of the entire COMEX gold futures market came to 25.2%. I must stop and ask you to reflect on this.

It is not possible for a single trading entity to hold fully one quarter of any large regulated futures market and for that not to constitute an obvious market corner and manipulation. Please remember, US regulated futures markets are supposed to be open and diverse marts with many hundreds and thousands of participants. It is the wide diversity of many participants meeting in an openly competitive environment that underscores the purpose of futures trading.

In essence and simply put, the whole thrust of US commodity law is to prevent any one entity from holding more than 3% to 5% of any large futures market. This is what the CFTC staff proposal for position limits advanced. Yet JPMorgan held 25% of the COMEX gold futures market on Oct 15. And if anyone suspects that the bank was hedging for clients, please be aware that roughly a year ago, JPMorgan held more than 20% of the COMEX gold market on the short side. It is not possible for JPMorgan (alone) to have clients that needed to short hedge that much a year ago and to buy hedge that much today.

All that is possible is that JPMorgan is rigging the markets for its own benefit and profit. And as will be seen in a moment, JPMorgan benefitted to the tune of $50 million dollars within a week on the 10,000 contracts it added thru Oct 15. This, of course, in addition to the more than $3.5 billion this crooked bank made in COMEX gold and silver year to date.

In COMEX silver, for the Oct 15 report, there was a 2000 contract reduction in the total commercial short position to 19,300 contracts. The raptors were the main commercial buyers, increasing their net long position to 32,100 contracts. As in gold, the tech funds added shorts to account for the weekly change. JPMorgan maintained its 15,000 contact short position and market corner, which in net percentage terms came to just over 15% after spreads are deducted.

A market corner of 15% seems a lot less significant than the 25% market corner in gold on the same date, but on any other basis is off the charts in terms of market history. That both such market corners Â? short in silver and long in gold Â? are held by the same entity is almost of science fiction mindset. That the most important US bank, JPMorgan, is the entity in question is other worldly.

The COT report issued yesterday, covering positions as of the close on Oct 22, was the mirror image of the previous week's report in just about every way. Prices were up as much as and more sharply than they were down the previous week. Gold finished $60 higher on a closing basis and almost $90 higher in terms of intraday lows and highs. Silver was up more than $2 measured from the extremes. With such price gains, it is axiomatic that speculators bought and commercials sold; any other outcome would indicate a severe dislocation in the earth's orbit and rotation. The only question was how much and what type of speculative buying and commercial selling occurred.

In the COMEX gold COT report of Oct 22, the total commercial net short position grew by 17,300 contracts to 82,100 contracts. Although I would expect a further increase in the commercial net short position for gold (and silver) in the next delayed COT report, the price smash starting on Thursday would indicate the commercials have begun buying again.

The standout features of the Oct 22 gold report were also the mirror image of the previous report. The big 8 shorts (not JPM) added 5000 new short contracts, but the biggest commercial selling was by JPMorgan which liquidated the 10,000 additional long gold contracts they added in the previous week. Since the world's most crooked bank pocketed $50 from where they bought the 10,000 contracts in the previous week, that comes to a cool $50 million; not bad for a one-week price rig, first down then up.

It is nothing short of unbelievable that JPMorgan's presence and dominance is so extreme and obvious in the COT data that I can make these calculations and report on them. If anyone wants to drill down to how I calculate, please ask. Of course, I will send this article to the few JPM email addresses that haven't been blocked to me (yet), and the bank is invited to comment or challenge my analysis. It goes without saying that while I'm disappointed by what JPMorgan has done, I am still grateful the COT data appears accurate.

This manipulative profit-taking by JPMorgan reduced its long market corner in gold to 72,000 contracts, or to a 22% long market corner. The difference between a 22% and a 25% market corner is similar to the difference between being boiled at 10,000 degrees or 8000 degrees; there's no practical difference. What's truly amazing is that JPMorgan reduced its gold market corner by 3% in a week (for a $50 million gain), while the CFTC's proposed maximum position limit in gold is less than 3%. In other words, just the one-week change in JPM's gold position exceeded what the CFTC would hold as the maximum position. And even after dumping a 3% share of the COMEX market, this crooked bank still holds a position that is more than seven times the proposed limit. My only question is do the illegal metals trading profits go directly to JPM's lawyers to protect the bank for their other myriad regulatory problems?

In the COT report for COMEX silver thru Oct 22, there was a significant 5,600 contract increase in the total commercial net short position, to 24,900 contracts. The raptors peeled off 3300 long contracts, reducing their net long position to 28,800 contracts. Since the big 5 thru 8 shorts bought back a few hundred contracts, the big 4 shorts (JPMorgan) added almost 2800 contracts to their short position.

Accordingly, I would peg JPMorgan's concentrated short position and market corner in COMEX silver to be 18,000 contracts as of Oct 22. This computes to an almost 18% market of COMEX silver futures. Since Oct 1, JPMorgan has increased its concentrated short position by 50%, from 12,000 to 18,000 contracts. Not only is this a brazen act of manipulation on its face, but it turns out that JPMorgan has been, effectively, the only commercial short seller since Oct 1. The raptors have sold 3500 long contracts since Oct 1, but JPMorgan has been the only commercial adding short positions in silver. With the price of silver hovering at and below the cost of production for many miners, I'd like to see JPMorgan try to claim this shorting was for hedging on behalf of clients.

Recently, and over the past few years, I have emphasized that the key to the future price of silver was whether JPMorgan added to short positions on the next silver rally. I didn't think it would be revealed as clearly as it has with the COT reports thru Oct 22, namely, that JPMorgan would be so brazen and reckless as to, once again, single-handedly manipulate the price of silver. Clearly, JPMorgan felt compelled to contain the price of silver to leave such strong evidence behind.

There can be no question that had JPMorgan not sold an additional 6000 contracts (the equivalent of 30 million oz) COMEX silver short over the past few weeks; the price of silver would have gone substantially higher than it did. How much higher is not the right question. The right question is what would have likely occurred to the market structure if JPMorgan had acted differently that it has in the past? How would have other participants reacted if JPMorgan changed its manipulative stripes? It is that reaction that would have triggered an historic price advance in silver; an advance that still remains ahead of us.

The evidence against JPMorgan in silver and gold is so overwhelming that one is momentarily reminded that there is a federal regulator that in addition to publishing the evidence of manipulation, is supposed to root it out. Momentarily is the operative word, because it quickly becomes apparent that the CFTC is not about to do anything; recently declaring it was unable to find any evidence of wrongdoing after supposedly investigating silver for the past five years. As enraged as one should be at JPMorgan's illegal market behavior, the CFTC's continence of that behavior must rank even higher.

As you know, I have attributed the CFTC's failure to uphold the law in regards to JPMorgan in silver and gold to a number of reasons. One was due to the vulnerability of JPM and the financial system to a charge that the bank had manipulated the price since its takeover of Bear Stearns. Another was the embarrassment and ridicule the agency would have endured should it admit it missed the silver manipulation despite being warned about it for more than 25 years.

An interview late this week with the outgoing director of the CFTC's enforcement division brought to mind a previous reason I had writt

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