Weekly Review

Although the pace of the month-long decline appears to have abated somewhat, prices for gold and silver fell for the fifth straight week, which also put them at fresh multi-year lows. For the week, gold ended $6 (0.6%) lower, while silver finished off by 8 cents (also 0.6%). Naturally, the silver/gold ratio finished unchanged at 76 to 1; although there is nothing in the least bit natural about silver's incredibly and persistent undervaluation to gold.

One can't help, when looking at a chart of the price action in gold and silver over the past month, but to notice the unusually persistent decline □ perhaps the most pronounced in history. Nowhere near the biggest price decline, of course, just the most persistent and pronounced. After all, a $100 move in gold or a $2 move in silver is not earth shattering. But silver and gold are different commodities, making the lockstep daily decline in the price of each day after day an occurrence in need of a credible explanation.

The fact that the price charts for other metals, like platinum, palladium and copper, as well as the biggest commodity of all, crude oil, are also quite similar to the pattern in gold and silver, would seem to underscore the need for a credible explanation that would explain the cohesive decline of the past month or so. Common sense would tell you that it's impossible for all these diverse commodities' actual supply and demand fundamentals to have suddenly changed in lockstep to account for the collective price swoon. There has to be an obvious and overriding price influence to explain why all these commodities declined at the same time and in the same manner.

There is such an obvious and overriding price influence – CME futures contract positioning. Specifically, the collective decline in all these varied commodities is connected by one common denominator, namely, an excessive amount of managed money (technical fund) selling to the downside, as documented in government issued COT reports. Also verified in this same government data is the fact that the traders classified as commercials (but who are only speculators in reality) have been buying every contract that the managed money traders sold. Still a puzzle to most, is how the heck the commercials can keep pulling it off, that is, in being able to buy on the downside in massive quantities? Regular readers know that is the prime focus of my attention and this whole sick price scheme is nothing more than an ongoing manipulation.

But I continue to be amazed at the growing attention to the premise that

COMEX futures positioning is responsible for price movement in gold and silver. Precious metals are a tiny subset of the financial world in general, but in that subset I don't think I'm exaggerating to say that the premise of the COT market structure has come to dominate the debate concerning price movement. More write about it and more discuss it daily. Perhaps I should not be so amazed to witness this development and, in fact, I believe it will hasten the coming demise of the silver manipulation. Once you recognize why prices move, the inevitable further recognition that the process is manipulative to prices is a direct and simple conclusion.

Before I turn to yet another fabulously bullish COT report issued yesterday, let me run through some other things that occurred this week. The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses was decent this week as a total of 4 million oz were moved and total COMEX inventories declined by 1.7 million oz to 160.3 million oz. This is another new two year low water mark and comes at a time when there would normally be inflows ahead of the approaching big December COMEX delivery period.

Published reports from the Silver Institute indicating that the silver market is in deficit, but my definition of deficit is different than theirs in that they count investment demand as consumption. I agree that investment demand is the most important price factor in silver, but it does not remove metal from future supply. In the old days, from 1940 to 2006, we had less silver in the world every year due to industrial and total fabrication demand exceeding current total supply and that's my definition of a deficit. Net investment demand, which didn't exist until the early 2000's doesn't destroy silver. We have slightly more silver each year now, so why the term deficit is used is beyond me.

That said, world visible silver stockpiles of 1000 oz bars have not grown in five years, suggesting someone is accumulating silver apart from what's in the visible stockpiles (like JPMorgan to the tune of 400 million oz). Thus, despite there not being a true deficit between current silver production and consumption, that doesn't mean wholesale physical market conditions aren't tight; as more indicators continue to suggest, like the frantic turnover of and now shrinking total COMEX inventories.

Even when visible silver inventories grow, as was the case in deposits into the big silver ETF, SLV, this week, a case for tightness can be made. How so? Well this week's inflow of metal of 3.5 million oz into the SLV was strange and counterintuitive on its face. Since silver has declined progressively in price, it would be expected that metal would be redeemed and removed from the trust, as has been the case in the big gold ETF, GLD. Instead, significant silver metal deposits were made in SLV this week and the only plausible explanation is that someone (JPMorgan) made deposits of metal to receive SLV shares and then used those newly acquired shares to reduce their short position in SLV.

Why would anyone (JPM) do this? The simple answer is that by accumulating physical silver at prices determined by COMEX positioning (manipulation) and then delivering and converting the metal into shares of SLV in order to cover SLV short positions has less of an upward price impact than for JPM to just buy SLV shares in the open market. This is also seen in the dramatic short covering by JPMorgan in this week's COT report. My point is that the metal that was deposited into SLV this week is not the result of some oversupply of metal or even plain vanilla investor buying, but rather an indication that JPMorgan was covering short positions in devious and cunning ways because there isn't an abundance of metal, but an actual tightness instead.

I'd like to comment on another factor pointing to tightness in silver. On Thursday, there was an unusual transaction on the COMEX in which an entity bought around 30 contracts or so of the nearby November COMEX futures contract. Given the lack of liquidity in this contract month, the transaction was undoubtedly executed as a spread transaction against the very active

December contract. Actually, the transaction itself wasn't unusual, as to anyone looking to secure physical metal by way of accepting (stopping) actual delivery by the end of November, this would be what you would do. What was most unusual, at least to this old-time former spread trader, was the price reaction of the transaction.

That day (Thursday), the November COMEX contract jumped by a full two cents over the December contract and settled there, an absolutely stunning move on a relatively small number of contracts (30 contracts equals 150,000 oz). Some of the contracts appear to have been delivered via an EFP (exchange for physical) yesterday, but 25 contracts remain open and need to be delivered before the end of November. Also, the price of the November contract came back in by a penny to the December contract yesterday, but there was only one November contract traded yesterday, so the yesterday's settlement price seems somewhat arbitrary and suspect.

I raise this issue because the sudden and unusual jump in the November contract on Thursday compared to the December contract would suggest, all things being equal, physical tightness in wholesale silver supplies. I'm not necessarily looking for any fireworks in the November contract next week, but I have been anticipating possible tightness in the upcoming December COMEX delivery period.

Let me explain why I am writing about a two cent spread move. As and when a physical shortage in silver first appears, it is most likely that if anyone who needs silver to use in manufacturing or fabrication applications is told by his supplier of a delay in a silver shipment; the entity who must wait for delivery may instead try to buy the silver elsewhere to get a quicker delivery. Since the COMEX is a contract market with rigid delivery quality and time covenants, almost everyone in the silver industry knows that you can get metal via futures contract delivery. If this transaction on Thursday was along these lines and indicates any type of delay in non-COMEX silver deliveries, all I can say is boy oh boy. I remember Izzy always saying that the silver shortage wouldn't be kicked off by a 1000 contracts but only by a few. Please understand that I can't know if this transaction is of this type; but I also can't know if it's not. In any event, I certainly have no choice but to write about it.

It looks increasingly clear that the big buyer has returned to buy Gold Eagle in force, now that the price has been knocked down in COMEX dealings. The big buyer never stopped buying Silver Eagles. What's so astounding about the strong recent sales of Gold Eagles and the persistently strong sales of Silver Eagles (over the past 5 years) has been that the retail public has not been buying in earnest. Particularly in Silver Eagles, the only plausible explanation for the phenomenal sales over the past several years is that some very big entity (JPM) has been the buyer. Most astounding of all is the small number of commentators taking notice of this.

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

On to the changes in this week's Commitments of Traders (COT) Report. A one word summary would be Wow. After the stunning changes in the two previous reports, I admit to wimping out in my predictions for the report issued yesterday; as I questioned myself as to how many more commercial contracts could be bought and managed money contracts could be sold after the prior reports. The answer was plenty and I'm quite happy to have under-guessed.

In COMEX gold futures, the total commercial net short position was reduced by a stunning further 43,500 contracts, to 28,500 contracts. (I'm almost embarrassed to have guessed a 15,000+ net contract change; embarrassed but jubilant). This is the lowest (most bullish) headline number since Aug 11, near the very bottom of the gold price then and before a hundred dollar rally.

By commercial category, it was once again a Three Musketeers' collusive affair. The big 4 bought back 8000 short contracts, the big 5 thru 8 bought back 6000 short contracts and the raptors added more than 29,000 new longs. The big concentrated shorts are near a record low short position and the raptors are not far from a record net long position and that adds to a powerfully bullish structure in gold.

On the sell side in gold, it was mostly, once again, a managed money affair as these traders accounted for more than 30,000 gold contracts sold, including new short sales of 29,422 contracts and 1370 long contracts liquidated. There was only one prior occasion where the managed money traders were net short in COMEX gold (this past July-August) and the current net short position of nearly 14,000 contracts is close to the summer extremes. Having the managed money traders this net short is about as bullish as it gets.

Following last week's big drop (nearly 25,000 contracts) in the managed money gross long position to an historic low water mark, I wasn't particularly surprised that only a further 1370 long contracts were liquidated in this reporting week. It seems to me that 90,000 contracts may be the most sold out this gross long position will get. Likewise, with more than 104,000 managed money contracts gross short, it seems hard to imagining that short position growing much from here.

In COMEX silver futures, the headline commercial net short position was reduced by 14,600 contracts, to 35,500 contracts. (I was a bit closer in my guess on Wednesday of 5,000 to 10,000 contracts, but I'm still happy to have come in under). By commercial category, the big 4 (read JPM) bought back a hefty 5600 contracts and the raptors added 10,300 new long contracts. That means the big 5 thru 8 added 1300 new short contracts, but it appears certain that managed money traders were the sellers and not commercials.

I'd peg JPMorgan short position to be no more than 16,000 contracts, down more than 5000 contracts for the reporting week and down close to 10,000 contracts over the past two reporting weeks. Thus, the crooks at JPMorgan just did it again – buying back at a profit every one of the short contracts it added on the silver rally to the end of October.

On every single silver rally over the past seven years, JPMorgan not only sold enough additional short contracts to cap every single rally (maybe 20 rallies in all), but succeeded in buying back every short contract it added at eventually lower prices and realized profits. No one is that good of a trader unless they are cheating. JPMorgan is the ultimate cheater and crook by virtue of singlehandedly manipulating the price of silver. On the other hand, I'd be lying if I said this development wasn't bullish for silver prices from here.

On the sell side of silver during the reporting week, the managed money traders sold nearly 14,000 net silver contracts, including 12,193 new short contracts and the liquidation of 1629 long contracts. I indicated on Wednesday that whatever the managed money long position that was reported this week, that would be my new minimum level of the non-technical fund core long position.

For more than a year, there existed a core non-technical fund managed money gross long position of 40,000 contracts. I described this core long position as unlikely to be liquidated on lower prices, as a purely technically motivated fund would most certainly do. That's because the core long position was acquired on declining prices, which is very much not in keeping with how technical funds would buy. By and large, the core non-technical fund long position rarely dipped below 40,000 contracts and held important market structure and analytical insights into the COT report.

This week's level of 51,627 contracts of gross managed money longs persuades me that the core level of non-technical fund long positions has now risen to at least 50,000 contracts, a very quick bump up of 10,000 contracts. The main reason for my calculation is the simple observation that any market that declines in the manner that silver just declined, including the record and pronounced three week salami slice to the downside plus the establishment of a series of multi-year lows, would cause any purely technical trader from even thinking about going long. By process of elimination, the 10,000 new and 50,000 silver total contracts on the long side of managed money aren't technical funds and are unlikely to be sold if prices fall from here. I can't guarantee this, but neither could I guarantee that the former level of 40,000 contracts would hold and that did turn out to be the case.

If there were an additional 10,000 contracts added to the core non-technical fund managed money long position in COMEX silver, now totally 50,000 contracts, I can't help but interpret that as bullish. After all, any market that gains a significant number of participants not likely to sell at lower prices and only, apparently, at much higher prices, how could that be bad? How could that not be considered bullish?

The real message of the past 3 reporting weeks in COMEX gold and silver is the massive number of contracts that the commercials were able to trick the managed money traders into selling; close to 130,000 net contracts in gold and 40,000 contracts in silver. That is the equivalent of nearly 13 million oz of gold and 200 million oz of silver — all sold by a few dozen purely speculative traders and bought by even fewer speculative buyers (masquerading as commercials). There were no real gold or silver miners selling (or buying) and that makes the COMEX as crooked and manipulated as is imaginable.

But it also makes the market structure uber-bullish. And the fact that the repositioning took only three weeks to accomplish implies an urgency to get the job done quickly. I don't recall a quicker complete repositioning. I also can't help but believe that suggests a quicker than normal up cycle and, as I’ve been suggesting, the start of the big silver move. With all the other clues of tightness in physical silver (discussed above), there is ample additional reason to suggest the big move is at hand. And as extreme as the managed money selling has been in copper, platinum, palladium and crude oil, it's not hard to imagine a robust across-the-board rally similar to the across-the-board recent selloff. Such is essence of manipulated markets.

Ted Butler

November 21, 2015

Silver- $14.15   (50 day moving average – $15.14)

Gold – $1077   (50 day moving average – $1130)