

November 26, 2014 – Best Setup Yet

The Best Setup Yet

It occurred to me that I may have been drilling down to the details in my Commitments of Traders Report (COT) analysis to such a degree that I may have been somewhat unclear in what it suggests for the price of silver (and gold). I reached this conclusion after a colleague said he just read my latest article and wanted to know what I thought of the latest COT report. Since I know I covered the COT report in detail, as I usually do, that told me I was emphasizing the details to the point of obscuring the bottom line conclusion. I'll try and rectify that today.

Before I do, let me try and explain why I drift to providing greater detail than most folks even care about. It has to do with the grave nature attached to anything purporting to suggest how people should invest their money. One of my pet peeves is witnessing commentators boldly predicting what price gold or silver will climb (or fall) to on a rigid timeline based upon facts and logic that are neither. Most times, the predictions are made on the basis of chart patterns. If anyone really knew what prices would do with precision in advance you would keep it to yourself (or offer it for a percent of profits), considering the incredible leverage available in the modern financial world. Why sell for a pittance, what you can employ by yourself?

But just because the certainty of precise future price movement is always unknowable, that doesn't eliminate the need for objective analysis; instead it means a greater emphasis must be placed on the facts and the logic of the analysis. Prices won't always move in lockstep with the facts and logic as we may perceive them to be, but moving away from the facts leaves one rudderless. I guess what I'm saying is that an analyst must stick to the facts that can be fully documented and clear about the reasoning process for an investment proposition. And explain it all in terms that can be understood.

With that preamble, let me state that the current COT structure in COMEX silver is better, in my opinion, than it has ever been in the decades I have studied the report. That doesn't mean I can guarantee an immediate price move up or that the structure might not even get better at some point in the future. It does mean that I certainly expect a big move up soon and, quite frankly, have some difficulty in seeing how such a move won't occur. I take that back ^? I know any move up in silver at this point can only be blunted by aggressive new shorting by the eight largest short sellers on the COMEX, but even that price capping can only occur on some price move higher.

In simple terms, with price capping by the largest eight silver shorts, silver can jump quickly to \$20 or somewhat higher; without such price capping, I can't see how silver doesn't jump by ten dollars or much more in a hurry. Put another way, a little more than 4 years ago, silver ran from close to current levels to almost \$50 in a matter of months. While I had been expecting higher prices back then, the setup today is infinitely better, both on a COT structure basis and what I see happening in the physical market. Regular readers know how reluctant I am to make short term price predictions and I hope I won't be reinforcing my previous reluctance with what I just wrote. Instead, let me lay out the facts concerning the current COT structure as I see them to be.

So what makes this the best COT setup in silver that I recall? After all, there have been other times when the headline number (the total commercial net short position) has been lower; or when the technical fund short position has been higher. There are a lot of moving parts and features of the COT structure in silver and I suppose it would be almost impossible for every single sub-category to be at record extremes simultaneously. And please remember always that while the data in the COT report is highly objective, any interpretation of that data is necessarily subjective – mine included.

Without a doubt, the main criterion for why this is the best COT setup ever to me is the radical change in JPMorgan's formerly concentrated short position in COMEX silver futures. In the six years in which I had first discovered that JPMorgan (as a result of acquiring Bear Stearns) had become the biggest COMEX silver short, the bank has never held a smaller short position than it does now. In fact, considering what I think the bank has accumulated in physical silver over the past three and a half years, it appears to me that JPMorgan is massively net long in silver overall, to the point of perhaps holding the largest silver position in history.

There is no question that a dominant and concentrated position is at the heart of every manipulation; and JPMorgan's concentrated short position in COMEX silver since March 2008 meant that the bank was the big silver price manipulator (and allowed me to get away with calling JPM crooked). But right now, JPMorgan is no longer the big silver short and may, in fact, be the big silver long. It took years and a price rigging that resulted in a sickening drop in the price of silver, but JPMorgan has succeeded in completely reversing its overall position in silver from short to long. This is nothing less than the most radical structural change in silver over the past six years, if not forever.

It does remain to be seen if JPMorgan and/or the other eight largest COMEX shorts will add new short positions aggressively on the next silver price rally, but if that occurs at least we should be able to see it in future reports. Highlighting the importance of JPMorgan's involvement in any future silver short selling, without JPM joining in, I doubt the big eight would succeed in capping prices as they have on every past occasion. And considering the swirl of negative news surrounding big banks influencing commodity prices, it's hard for me to imagine JPMorgan not beating it out of Dodge City and quitting their manipulative control of silver to the downside. If JPMorgan (or the big eight) do cap silver prices ahead, I promise not to be anywhere near as polite as I've been to these crooks until now.

Aside from the radical transformation of JPMorgan from being the world's largest silver short to possibly the largest long in history, the recent double cross of the raptors (the smaller commercials who were net long) is remarkable in its own right. The forced sale of more than 12,000 net contracts by around 8 to 10 raptors over the past few weeks has probably knocked those traders out of silver permanently considering the estimated size of their losses (over \$200 million). There is no doubt these 12,000 contracts would have been sold on the next silver rally and now that is impossible. Mathematically, this greatly increases the burden on the 8 big shorts if they intend to cap the next silver rally. These 8 big shorts, with or without the collusive cooperation of JPMorgan, will have to sell many more contracts short than they would have had the raptors not been double crossed. I admit that my reasoning could turn out to be wrong, but I believe the increased short selling burden of the big 8 will persuade them not to even try, or alternatively, if they do try, they may fail in their manipulative intent.

It is no secret that, aside from physical supply and demand, my primary focus is on COT analysis for the simple reason that I am convinced that this is responsible for silver price movement. Looking at the remarkable developments concerning JPMorgan and the raptors and searching for realistic expectations for where enough selling can come from to contain the price (away from the big 8 adding manipulative shorts), I can uncover no such potential selling. Without that potential selling, silver should soar.

As much as I try not engage in hyperbole, I have a hard time imaging how silver won't melt up in price. Regardless of what will occur, I thought I should express that as clearly as possible. And yes, this makes silver the best possible investment of all. While I am more convinced of a silver price melt up, the COT structure supports higher prices in gold, copper, platinum and palladium as well. There are perhaps many factors in place to propel these commodities higher (the Swiss gold vote, the repatriation of gold, etc.) but on a pure COT basis, silver stands alone as the prime melt up candidate.

There doesn't appear to be much new commercial selling and technical fund buying in the reporting week that ended yesterday for silver (or gold) despite the large reductions in total open interest reported today, particularly in gold. There were very large open spread positions in each market and I would guess spread liquidation accounted for the large declines in total open interest. Unfortunately, we'll have to wait until Monday afternoon for the next COT report, due to the Thanksgiving holiday. I'll have a report on Saturday, but, obviously, I won't be analyzing the new COT report in that article.

<http://www.cftc.gov/MarketReports/CommitmentsofTraders/ReleaseSchedule/index.htm>

There was a sharp increase in the short positions of SLV and GLD as of November 14, following a number of recent declines in the short positions. The short position in SLV expanded by 2.6 million shares to nearly 17.5 million shares (oz).

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

You may recall that both silver and gold staged impressive and high volume reversals upward on Friday, November 14. On that day, the volume in SLV was the highest in months and it would be expected that there was net investor buying which would have necessitated a hefty deposit of metal into the trust. There was a 2.4 million oz deposit some days later, but it still felt to me that more metal was owed to the trust. The only other alternative was that many shares were sold short on Nov 14 because the metal wasn't available for deposit. The difference this time is that I don't think it was JPMorgan doing the shorting in SLV, since relevant COT data covering the same period shows JPM as a buyer. If I'm correct, this increase in shorting in SLV is constructive since it doesn't appear to be connected to the big shorts.

Lastly, a word on crude oil in light of the upcoming OPEC meeting. I know the consensus on oil is that it is down for good and that it makes no difference what OPEC does, since everyone knows that they will cheat on any production cuts that may be announced. I have read about OPEC's coming demise for more than 40 years and I am more than a little skeptical of such thought. I still think the recent plunge in oil was NYMEX derivatives related, but that hasn't prevented a series of consequences in the actual crude oil supply and demand fundamentals.

While OPEC's daily production is only 30 million barrels daily out of the world production and consumption rate of 90 million barrels a day, that overlooks that the cartel dominates the export of oil (since most oil production is consumed in the country in which it is produced such as in the US). This gives OPEC, in my opinion, a lot more clout than is popularly perceived. Throw in Russia (whose interests are closely aligned with OPEC's) and the share of exportable oil in the cartel's control is formidable.

In the spirit of trying to keep things simple, I would ask you to consider that with crude oil down more than \$25/bbl. over the past few months that means that the 35 million barrels a day exported by OPEC and Russia is costing the exporters a combined \$875 million per day. I don't think it would take much more than a 1.5 million barrel a day production cut to eventually restore former oil price levels. At \$100/bbl., such a production cut would cost \$150 million a day in lost oil revenue, while restoring \$875 million in increased revenue or a net benefit of more than \$700 million per day to OPEC and Russia.

I have no way of knowing if such production cuts will be advanced in this week's meeting or prove effective in the very short term, but the simple economics are compelling enough to believe that the necessary production cuts will be made in time. In no way am I endorsing or encouraging OPEC and Russia to manipulate the price of oil higher or that such actions are free market oriented; but I would remind you that OPEC is an illegal cartel anyway (according to US antitrust law) and this is the way they have behaved for more than 40 years. The pervasive reports of its demise would appear to be somewhat premature.

Happy Thanksgiving to all

Ted Butler

November 26, 2014

Silver – \$16.53

Gold – \$1197

Date Created

2014/11/26