November 30, 2013 – Weekly Review

Weekly Review

It wasn't much of an up week, but it was the first up week for gold and silver in a month. Gold added $8 (0.6%) for the week, and silver tacked on 15 cents (0.8%). As a result of the same relative percentage performance, the silver/gold price ratio remained at 62.6 to 1. With so many different factors boiling beneath the surface for each metal, the lockstep price performance would seem to be the clearest proof that pricing emanating from the COMEX is artificial. I still maintain in terms of relative price artificiality, silver remains more manipulated than gold. One of the surest signs that the manipulation has finally ended will be silver's blast-off in price relative to gold.

One of the factors potentially boiling beneath the surface is the data from the first two days of delivery notices on the big December COMEX delivery month. This is the only traditional contract delivery month of the year shared by all COMEX metals (gold, silver and copper) and NYMEX metals (platinum and palladium). Generally speaking, the first few days of any delivery month should witness the greatest number of deliveries against existing delivery month open interest for the simple reason that it is in the seller's best economic interest to deliver quickly in order to receive payment. Since the price is locked in and the seller decides when and where to deliver (within the delivery month and contract terms), it doesn't benefit the seller to wait until the end of the month to deliver.

It's not just that delivery notices were unusually light in COMEX gold and non-existent in copper as the first two days data can be too fine a focus; but taken with all the other data available, the results make you sit up and ponder what comes next. I know that a tremendous amount of commentary is spent on close examination of COMEX gold warehouse statistics (registered vs. eligible) and the level of remaining open interest in the nearby gold contract. I don't choose to focus on a detailed analysis of such data because in my experience with making and taking deliveries for many years, I know there is more involved that can be known for certain. That said, some things do jump out in the first two days' data.

While the very small number (80) of gold delivery notices issued for the first two days was surprising small against some 7700 contracts remaining in the December delivery month; what wasn't surprising was that JPMorgan stopped (accepted) 55 of the 80 contracts issues in their proprietary trading account. After all, I have alleged that JPMorgan has a long market corner in COMEX gold, so it's not shocking that the bank would take a lion's share of the few contracts delivered so far. Additionally, the way contracts are generally assigned for delivery (by total size of position and date acquired), JPMorgan looks in position to continue to be assigned many more gold deliveries issued from here.

There is always talk of contract delivery default as big delivery periods come into play in gold and silver. Even though JPMorgan has, in my opinion, a strangle hold on the long side of COMEX gold (that's what a market corner is), it is hard for me to imagine JPMorgan presiding over such a default. Don't get me wrong Â? JPMorgan is certainly capable of causing such a delivery default – but after all the regulatory disasters the bank has been involved in recently, I can't see how this crooked bank would dare do so at this time. Then again, you can't put anything passed JPM.

Even though the number of delivery notices for COMEX silver weren't particularly light at 1328 contracts; what did stand out was that JPMorgan stopped 710 of those contracts in their proprietary (house) trading account. While not unprecedented (JPM took over 80% of the July silver deliveries), unlike in gold, JPMorgan has been net short silver. Obviously, the only way JPM can take deliveries and be short the silver market is by being long in the delivery month and short more deferred trading months.

What I think this proves is that JPMorgan has an inordinate dominance on just about every aspect of COMEX gold and silver (and copper and platinum and palladium). Add to this the fact that the lion's share of deliveries in COMEX gold and silver over the first two days aside from JPMorgan were issued or stopped in other banks' proprietary trading accounts and it's hard not to conclude that these banks treat the COMEX as their own private playground for price manipulation. This is about as far away from the Volcker Rule as is possible and shows why gold and silver are increasingly considered to be manipulated despite regulator assurance to the contrary.

Although extremely early in the December delivery process, the developments so far have a distinctly bullish flavor. The only significant rally this year in gold and silver took place in July and August (when JPMorgan stopped 75% of the August COMEX gold deliveries). With JPM's long gold market corner firmly in place and their short silver position at what should be a new low; JPMorgan stopping the lion's share of delivery notices so far can't be considered bearish. All this just adds to a spectacularly bullish market structure. If you want to delve into the COMEX delivery stats here's a good source
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

The turnover in the COMEX-approved silver warehouses topped 3 million oz again, as total inventories fell a slight 300,000 oz to 170.2 million oz. This rapid turnover pattern is still unique to COMEX silver and points towards tightness, rather than surplus. COMEX gold inventories have been mostly static for nearly six months, after dropping sharply earlier in the year. In COMEX copper inventories (as well as LME copper inventories) there has rarely been a day when inventories haven't declined. I keep mentioning copper because its COT set up and inventory profile suggest a sharp rise in price and I have a sense all the metals will move upward in unison (and soon).

Earlier in the week, the short interest figures for stocks were released and there was an increase in the short position of the big silver ETF, SLV, of 1.5 million shares (ounces) to 18.7 million shares. I'm never happy to see an increase in the short position for SLV because it means that some shareholders do not have the required metal backing their shares. But I also want to keep it in proper perspective. 1.5 million shares are the equivalent of 300 COMEX silver contracts and the 18.7 million share total short position is equal to 3740 contracts. No doubt the SLV short position has an influence on the price and is basically fraudulent in nature (my wife is still a share holder), but the silver (and gold) manipulation is primarily run on the COMEX.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%2599

Since the Commitments of Traders Report (COT) won't be released until Monday afternoon, we can only anticipate what the report will indicate. Depending on the data in the report, I may have some brief comments late Monday. Since the reporting week ended November 26 featured sharp price declines of as much as $50 in gold and $1 in silver on high trading volumes, there should have been more technical fund selling and short selling and commercial buying in both gold and silver. This has been the distinct pattern on the price drop over the past month. This is also why prices have dropped, as the commercials have rigged prices lower to get the technical funds to sell so that the commercials could buy.

I believe Monday's COT report will show that the technical funds are about as heavily short as they were before the $200+ gold and $5+ silver rallies of the summer. I further believe that technical fund short covering was what drove the summer rally. The same set up appears to be in place now; down to the remarkably similar COMEX delivery patterns of summer and currently. My conclusion is that we are at or close to an important price low in gold and silver (and other metals).

The important point is that slightly lower price lows from here will not impair the strongly bullish set up. In fact, such fresh price lows (should they occur) will only strengthen the bullish set up, as more technical fund short selling will undoubtedly have come into gold and silver. Any fresh price lows will result in a chorus of bearish commentary, but commentary is not what moves prices. What moves gold and silver prices are what JPMorgan decides as to timing and extent.

Since we are already at such extreme COT bullish readings in COMEX gold and silver by virtue of JPMorgan's long market corner in gold and historic low short silver position, there's not much value in dwelling on how much more bullish the readings may get. Instead, it's time to look ahead and focus on the nature of the coming rally in gold and silver (and copper and other metals). It all boils down to what JPMorgan does on that rally.

In the summer rally, JPMorgan sold out roughly 30,000 contracts of a long gold position I estimated at 85,000 contracts at its peak. In addition to pocketing $350 million on that trade, JPMorgan put a cap on the price of gold at $1420 in late August. What will JPM do in gold on the next rally? Only they know, but how aggressively JPMorgan sells out its long gold position will be the main determinant to how far a gold price rally travels.

While it's hard to find a clearer example of market manipulation than the price control evidenced by JPMorgan in COMEX gold; selling out an existing long position (at a profit) is also hard to outlaw. The real crime by JPMorgan was the manner in which it established its long market corner in COMEX gold, namely, by rigging the price dramatically lower thru the first half of 2013. If the regulators are going to look the other way at the illegal manner of acquisition, then there's no way the do-nothing CFTC will object to the manner in which the position is liquidated.

With silver, it's different. JPMorgan has never been able to get net long the COMEX silver market, despite the bank rigging the market lower even more viciously than in gold. The simple reason is that there were obviously more sellers uncovered in gold than in silver. Because JPMorgan was able to get big net long in gold and not in silver, the prospect of the bank selling contracts to cap and contain the price is different in gold and silver. With gold, there's not much one can complain about when JPMorgan sells out long contracts at a profit (other than as evidence of market control).

In silver, it is very different than in gold. With JPMorgan still net short in COMEX silver, any selling done by the bank must be in the form of new short sales. This kicks the evidence of manipulation in silver up a very big notch. That's why I harp on this constantly as being the key feature in silver, namely, what JPMorgan does on the next silver rally. If JPMorgan adds new fraudulent and manipulative short sales in COMEX silver on the next rally, the bank will likely contain and cap the price. If this crooked bank doesn't add new short sales, the price will likely fly to the heavens. I believe it is that black and white.

In the summer rally of almost $6 in silver, JPMorgan added around 6000 new contracts of COMEX silver short. There was not one legitimate economic reason for JPMorgan to add shorts, as the bank's selling always seems to be in their house (proprietary) trading account and not for clients; so that rules out legitimate hedging. That leaves only market making as a potential legitimate justification; but when market making is done by only one trading entity, the appropriate term is market manipulation. You may recall that JPMorgan was the only commercial to have added new short sales in the summer rally.

I don't know what JPMorgan intends to do on the next silver rally, but I do know what they do or don't do will be what determines the price of silver. If the bank doesn't add to silver short positions, silver investors will marvel at the price. If JPMorgan does add to short positions and succeeds in capping the price yet again, all I can do is harp on that more forcefully than I've done before. That JPMorgan has a manipulative grip on silver (and gold) has become more obvious as time has gone by.

It is nothing short of amazing that it has been and is still possible to distill JPMorgan's illegal acts with such specificity in advance and for the bank to remain silent in the face of them. Something has to give here and I'm expecting JPMorgan to cease their illegal activities in gold and silver and hoping it won't be me giving in instead under legal duress.

Ted Butler

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Silver – $20

Gold – $1252

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