Weekly Review<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

After two up weeks, the price of gold and silver fell for the second week in a row, with the biggest daily declines occurring on Friday after the monthly employment report. Gold gave up $26 (2%) for the week, while silver fell 35 cents (1.6%). The silver/gold price ratio hung around the 60 to 1 level, midway between a very tight trading range of the last several months. I still can't see how the ratio won't tighten dramatically over time, as silver outperforms gold, but that has nothing to do with the short term. Everything I look at tells me this is an artificial price ratio between silver and gold, much like the overall artificial price level of silver.

Artificial is also how I would describe the price action yesterday, as gold and silver nose-dived as the employment report was released. I don't mean to imply that the price of gold and silver is artificial in what it has done to the value of investors' holdings and the fortunes of those companies that mine the metals. The losses in value are as real as rain and painful to endure. What is artificial is the mechanical process by which gold and silver prices have been brought to their current levels. The mechanical process is the dysfunctional price mechanism on the COMEX.

I would have thought it would be crystal clear by now to the majority of precious metals observers (and not just subscribers) that gold and silver prices are rigged and artificially set on the COMEX. The game is simple big speculators that we call commercials (and are lead by JPMorgan) trick other speculators (mostly technical funds) into buying or selling futures contracts, by rigging short term prices through the means of computer algorithms (HFT). The commercials rig prices lower to induce the tech funds into selling so that the commercials can then buy and then reverse the process to the upside. That's it; that's the price rig.

Proving COMEX price rigging is the mechanical process of artificial pricing is easy; all you have to do is look at the government-published trading data in the COT and Bank Participation Reports. On big price declines, the technical funds are always the sellers and the commercials are always the buyers. On price jumps, the technical funds are always the buyers and the commercials are always the sellers. Because the commercials are always buying on sell-offs and selling on rallies, they appear to many to be operating legitimately. But when you glimpse slightly beneath the surface and see that the commercials control short term pricing, it should be clear that the commercials are nothing more than puppet masters; controlling how the technical funds will dance.

Sometimes the technical funds get lucky and latch on early to a price move that lasts a while, like those tech funds who got short early in the year and held through the lows at the end of June. But mostly it turns out that the commercials can trick the funds into buying and selling frequently and racking up losses in choppy trading range markets, like we've witnessed over the past few months.

The important point is that the mechanical process of the commercials tricking the tech funds is what sets the price for everyone. I don't care if the commercials or tech funds win or lose; I don't have a dog in that fight. What I do care about is that this private and closed-club price rigging on the COMEX is setting the price for gold and silver worldwide; in the process creating losses for metal investors and mining companies not involved in the COMEX shenanigans. Not only is that preposterous, it is against commodity law which holds that futures trading should "discover" prices and not set them. One need only look at Friday's price action to see that price gets set on the COMEX.

Gold prices fell $20 in minutes (or seconds) as the employment report was released and were down another $10 over the next hour. Trading volume on the COMEX for the day was 150,000 contracts after removing spread volume. That's the equivalent of 15 million oz of gold, with a total notional (face) value of $20 billion. In contrast, the total trading volume in GLD, the world's largest gold ETF was the equivalent of less than 850,000 oz (8.5 million shares) yesterday. Even though the gold holdings in GLD are roughly four times larger than the gold in COMEX approved warehouses, the trading volume on the COMEX was more than 17 times larger than the trading volume in GLD on a gold equivalent ounce basis.

When it comes to dictating and setting price, the highest volume market is always the big dog in charge. Only a fool could fail to see that the COMEX, by virtue of its trading volume dominance, is dictating prices to GLD and every other gold market in the world. Certainly, no one could suggest that there was more than 15 million ounces of real gold that changed hands yesterday, pushing the COMEX into second place.

What this means is that the private high frequency trading club of the COMEX is dictating the price of gold (and silver) to the rest of the world. What's crazy is that the players on the COMEX aren't really interested in gold or silver as metals or commodities; they only care about gains or losses on paper futures contracts which they trade back and forth with little or no connection to the real supply and demand fundamentals. This is in severe conflict with how regulated futures markets are supposed to behave.

If, as I contend, this absurd COMEX trading scheme has created a pricing mechanism that artificially distorts the price of gold and silver, how does this end? In my opinion, it ends with a boom, especially in the price of silver. Because the artificial pricing has carried prices to the ridiculous level of being below the cost of production for many silver miners, the real world is adjusting to the artificial COMEX pricing the only way possible □ by reducing future production.

Paper games can succeed only as long as real supply is sufficiently available. In the case of silver, available supply has been sufficient, but not by a wide margin and not indefinitely. At some point, physical will trump the increasingly obvious COMEX paper scam. One thing that can be said about artificial pricing or anything artificial is that when reality returns, it usually does so suddenly and violently. While artificiality reins on the COMEX currently, when the artificial price regime is overthrown, it cannot be a gradual process. Based upon everything I study, the return to reality is closer than ever.

Rapid turnover in the COMEX-approved silver warehouses continued unabated this week, as more than 4 million oz were moved in and out. Total inventories fell a slight 200,000 oz to 169.3 million oz. The story of tightness is still apparent in the massive churn in COMEX silver inventories, a churn not obvious in any other metal.

It's hard to predict what the rest of the year will produce in sales of Silver Eagles from the US Mint, as the changeover to producing 2014 coins always seems to disrupt expected patterns. Suffice it to say that 2013 will go down as the strongest year in history for sales of Silver Eagles, both on an absolute basis and relative to sales of Gold Eagles.

As was the case last week, there were two Commitments of Traders Reports (COT) published this week. One came on Wednesday, just a half-hour or so after I published the mid-week article and the second was published as originally scheduled yesterday. Somehow, the CFTC messed up and forgot to publish the Bank Participation Report yesterday as originally scheduled. I say messed up because the data for the BPR is the same as the data in the COT report and that report was issued. In a moment I'll peg JPMorgan's concentrated positions in gold and silver which I always recalibrate when the BPR is released. If the new BPR renders my pegging as off, I'll mention that in the next article.

Like last week, it was a tale of two reports. In the first COT report, as of the close on Tuesday Oct 29, there was a significant increase in the total commercial net short position in COMEX gold of 24,600 contracts, to 106,800 contracts. This was the highest amount of total commercial shorts since the end of April and, obviously, was what led to the $60 sell-off in gold prices from Oct 29 thru yesterday. While the increase in commercial shorts was higher than expected, for four of the five trading days in the reporting week of Oct 29, the price of gold closed above the critical 50 day moving average for the first time in two months. Therefore, it was a classic case of the commercial puppet masters pulling the strings and getting the tech fund puppets to buy.

The standouts in the Oct 29 gold report were that technical fund short-covering of more than 17,000 contracts was the big buy feature, with more than 4000 new long contracts also purchased. On the commercial sell side, the big 4 shorts sold almost 6000 new contracts short and the raptors sold more than 18,000 contracts. The biggest standout to me was that JPMorgan only sold less than 1000 contracts of their long market corner, only slightly reducing that corner to around 71,000 contracts as of Oct 29.

In contrast to gold, for the week of Oct 29 the total commercial net short position only increased by 1300 contracts, making detailed analysis unnecessary. The standout was that JPMorgan reduced its concentrated short position by 500 contracts to 17,500 contracts.

For the COT report issued yesterday for the week ended Nov 5, gold prices were lower each day, fell as much as $50 for the week and traded below the 50 day moving average. That combination would dictate tech fund puppet selling and commercial puppet master buying; which is exactly what occurred. The total commercial net short position declined by 12,900 contracts, to 93,900 contracts. The tech fund sellers accounted for more than 10,000 contracts of the selling, fairly evenly divided between long liquidation and new short selling.

By commercial category in gold for the week ended Nov 5, the big 8 shorts bought back nearly 5,000 short contracts and the raptors bought 8,000 contracts. JPMorgan used the contrived sell-off to add 4,000 contracts to its long gold market corner which I would peg at 75,000 contracts as of Nov 5. This is approximately 23% of the entire net open interest in COMEX gold and well beyond any definition of it being a market corner.

As was the case in the first COT report published on Wednesday, the total commercial net short position in silver hardly changed for the week ended Nov 5, falling 300 contracts to 25,800 contracts. JPMorgan looks to have reduced its short market corner in silver down to 17,000 contracts as of Nov 5. At 17% of the true net open interest in COMEX silver, this short market corner meets every reasonable definition of the term market corner; it just happens to be slightly smaller than JPMorgan's long market corner in gold.

Surely, the total commercial net short position should be significantly reduced as a result of the artificial sell-off and price rig since the cut-off on Tuesday. The big down days in gold and silver were Thursday and Friday and the trading volumes were high (as indicated earlier). If the COT report were cut-off as of yesterday, there should have been a 25,000 contract reduction in the total net commercial short position in gold and more than a 3,000 contract reduction in silver. As far as JPMorgan, thru yesterday, I'd peg their long market corner to be 80,000 contracts in gold and their short market corner in silver to be 16,000 contracts or so.

While gold and silver prices are still subject to further artificial pricing to the downside to accommodate more commercial buying, the set up has gotten more bullish as a result of the contrived lower prices since Oct 29. The commercials will buy whatever the tech fund puppets will sell to them, but there is a limit to tech fund selling and we are now much closer to that limit as a result of the latest sell-off.

More on Position Limits

A reader sent me an article I had written eleven years ago that doesn't appear in the archives. In first reading it, I thought I made an error in stating the accountability limit in silver as 7500 contracts until I realized that was so long ago that the COMEX subsequently lowered the accountability limit in silver at the time of the article (and maybe due to the article). Since I haven't written many general articles about position limits recently and because this article does accurately represent how I felt about position limits then (and now), I offer it in reference to recent developments.
http://www.investmentrarities.com/ted_butler_comentary08-27-02.shtml

A decade is a long time in some ways, but can also seem to pass by in a heartbeat. One of the wonders of the Internet is that it preserves what was written (for better or worse). It is still unreal to me that what I once butted heads with the CFTC about has just been proposed by the agency. I don't think it is possible for there to have been a bigger about face and on a more substantive matter than for the CFTC to go from adamantly denying the need for position limits to embracing them. While I made the case for 1500 contracts the best I was capable of, if the higher limits (around 5000 contracts) are legitimately enforced, the silver manipulation should end. At some point and much sooner than another decade, we'll look back and observe that end as well.

I have long advocated the adoption of legitimate position limits as the certain cure and prevention of concentration, market corners and manipulation (all one and the same). There is another point to be made in the CFTC doing a 180 degree change from fighting those limits to adopting them against industry opposition. This turnaround adds credence to allegations that silver has been manipulated, as do the three separate silver investigations since 2004. The anti-manipulation advocates like to characterize those alleging manipulation as conspiracy advocates, story tellers and all around nut jobs. Unfortunately, sometimes commentators stretch the truth a bit in describing the gold and silver manipulations.

However, there was and is nothing nutty about position limits and the CFTC vote to propose them to be instituted proves that. There were nine CFTC public meetings (mostly contentious in nature) on position limits, more than in any other issue. Position limits were the only measure passed under Dodd-Frank to be challenged in court by the industry (JPMorgan). There were more public comments on position limits than on any other matter in CFTC history; 15,000 in one public comment period and several thousand on other occasions. By far, more public comments were made about position limits in silver than for any other commodity. The vast majority of those many thousands of public comments asked the CFTC to set a specific limit of 1500 contracts in COMEX silver. I don't remember a single public comment requesting a specific level of position limits for any other commodity. When you step back from that, it must be considered extraordinary.

Even though the CFTC and Chairman Gensler and Commissioner Chilton pushed for the right thing in adopting position limits, they both completely ignored the specific will of the people when it came to the level of silver position limits. That's not what honorable civil servants should ever do. But more than anything else, the actions the Commission did take in adopting position limits and continually investigating silver should show that those who deride the suggestion that silver has been manipulated in price are ignoring the clear handwriting on the wall. Position limits were always a critically important issue and last week's vote proves it.

There is one thought that I haven't written about recently that could be particularly important regarding position limits in silver. Since I believe the price of silver has been manipulated for 30 years due to excessive and concentrated short selling on the COMEX, it is obvious that any limitation to that heretofore unlimited short selling should help elevate price. But there is a separate bullish feature embedded in position limits that is specific and almost unique to silver, namely, the implications to the long side.

Position limits are intended to apply to both those on the long and short side of every regulated market; as in what's good for the goose is good for the gander. If the concentrated short sellers in silver (centered on JPMorgan) can't cap and depress prices with unlimited additional short sales, they have limited alternatives to short silver elsewhere (except perhaps in SLV). But there's potentially a much different story for longs that may be restricted in the number of contracts they can hold long in COMEX silver. Any silver buyer constrained by position limits for futures contracts can always buy as much silver as desired in the physical market, including silver ETFs.

There is no mechanism for shorting silver in the physical market (away from SLV) and at the same time there exists a universal and age-old mechanism for buying as much physical silver as one can afford. This creates a potentially enormous advantage to silver buyers versus silver short sellers in the physical market. The act of physically buying silver is as easy as it is hard to physically short sell, providing an underappreciated bullish force. There's no doubt in my mind that the big silver shorts were always aware of this fact and it was a big reason for the bitter opposition to position limits. Again, if position limits are enacted and legitimately enforced, this is another reason why it could be a game changer in silver. Please consider the following.

What makes silver unique in this regard is that if any investor wants to buy more than the equivalent of the full speculative position limit in soybeans or crude oil or natural gas or any other commodity (away from precious metals) that investor would probably be stymied in trying to buy those commodities in the physical market. After all, the vast majority of investors can't readily hold or store physical cargoes of oil, corn or most commodities. Not only is buying silver in physical form the ideal way to hold silver, it is easy to do. This makes silver special. Yes, gold can also be bought in any quantity in the physical market and this special quality applies to it as well (along with platinum and palladium). But there is still something very special about silver.

That special factor is in how little physical silver exists that could be bought. The roughly one billion ounces of total silver bullion (1000 oz bars) in the world is currently valued at less than $25 billion, thanks to the artificial COMEX pricing. All the gold in the world is worth some $7000 billion, or more than 280 times more. If position limits restrict paper silver buyers and divert them to the physical market (as I hope and expect); the tiny relative amount of physical silver available for sale should have a profound impact on the price. I'd be lying if I tried to tell you that wasn't on my mind for the past 20 years that I have advanced the idea of position limits in silver.

(Two housekeeping notes. We are resolving the email alert problem, but it still seems to be affecting att and bellsouth addresses. We are trying to fix the problem and suggest not relying on the email alerts to check for new articles on Wednesdays and Saturdays. I am returning to Florida shortly and there is an outside chance this Wednesday's article may be delayed by a few hours.)

Ted Butler

November 9, 2013

Silver – $21.50

Gold – $1289