October 1, 2016 – Weekly Review

Weekly Review

Still stuck in a three to four month trading range, gold prices fell $21 (1.6%) on the week, with silver ending 50 cents (2.5%) lower. As a result of silver's relative underperformance, the silver/gold price ratio widened out by half a point to 68.5 to 1, still within a trading range extending back years.

It was a news-dominated week, from US presidential election developments to fresh concerns about Deutsche Bank, the giant financial institution. But the remarkable thing is in how little the news seemed to match up with gold and silver price performance. Something was certainly moving gold and silver prices, but it didn't appear to be the news.

A case in point was yesterday's sharp early rally in silver which was completely reversed by the day's close. The price of silver surged a quick 50 cents and then proceeded to lose all those gains by the end of the trading day. It's reasonable to ask what explained the erratic price pattern, particularly since such rapid price moves have become the norm over these past few months. I can find only one plausible or even possible explanation Â? COMEX futures positioning amped up by rapid fire computer trading.

I know my answer is repetitive and many must be sick of hearing it. Truth be told, I'm tired of giving it. The problem is that despite the repetition, this remains the only legitimate explanation for why gold and silver and a whole host of other commodity prices move in the short term. So the choice for me is to keep on explaining in a repetitive manner or make up stories that aren't really relevant but sound interesting. Actually there is no real choice since the flow of verifiable data leave little question about what's really going on in gold and silver pricing.

The early price rally yesterday in silver penetrated its key 50 day moving average to the upside, mandating managed money technical fund buying and commercial selling. Later, prices fell well below the same 50 day moving average, mandating technical fund selling and commercial buying. My best guess is that yesterday's trade was little more than a handful of commercials causing both the upside and downside moving average penetrations to successfully day trade against the technical funds.

Putting actual numbers on it, I'd estimate 5 or 10 commercials pickpocketed the technical funds to the tune of $10 to $15 million yesterday alone (50 cents on 5000 contracts. The overall bearish market structure in silver didn't change much when all the dust settled; the net result was that the commercial computer rigging of price allowed a handful of traders to skim money from the pot. We can argue until kingdom come about why the technical funds continue to buy the breakouts and sell the breakdowns to no avail Â? it is simply how they behave. Likewise, seeking alternative explanations for short term price movements is futile. I don't say this will last forever, just that this is the way it is now.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained active this week as nearly 6 million oz were moved. Total COMEX silver inventories rose again, by 3 million oz to 173.3 million oz, another one-year high. This week more than 900,000 oz came into the JPMorgan COMEX silver warehouse, indicating that while JPM seems to have been Â?holding backÂ? in its acquisition of metal lately (in Silver Eagles and COMEX deliveries), it hasn't kicked its silver accumulation habit altogether.

To my mind, the real story is still the turnover of COMEX physical silver inventories and not the total level. It is now more than five and a half years that the turnover of COMEX silver inventories has been going on with no similar movement in the inventories of other commodities. The world mines less than 2.5 million oz daily, so to see 6 million oz of silver moved in a typical week on the COMEX is extremely noteworthy, although I've given up on expectations it would be noticed by others. I'm still convinced the frantic turnover represents tightness, because no one moves such a large quantity of metal for such a long period of time unless it was required.

Separately, I've continued to hear some question where all the silver is coming from, but I don't think I understand the question. Those questioning increases in the known world inventories of silver point to reports of a silver Â?deficit.Â? I know some data providers use that term, but it is not being used correctly. A deficit, in my definition, is when more of a commodity is consumed than is produced, necessitating a drawdown in existing inventories. That was the case in silver for 65 years (from 1940 to 2006), as world inventories were depleted by more than 90%.

But since 2006, silver production has exceeded industrial demand and world inventories have grown on balance as investment demand has grown. Considering how low existing silver inventories still are after more than a half-century of depletion, particularly in dollar terms, the current and prospective levels of world inventories can hardly be considered bearish and, in fact, must be considered wildly bullish. I would expect world silver inventories to grow, but for that to exert no downward pressure on price, all things considered. Any downward pressure on price will come from COMEX futures market positioning and not from world silver inventories.

The September COMEX gold and silver delivery periods ended without fanfare, meaning no big delivery demands from JPMorgan. The October gold delivery was very active over the first two delivery days, with 5475 contracts issued, but featured JPMorgan as a minor participant, after months of being the dominant stopper (and issuer in September). This month, Goldman Sachs and Macquarie (once again) have been the big gold stoppers (acceptors), with Goldman taking around 2500 contracts (customer and house account combined) and Macquarie taking nearly 2300 contracts in its house account. With only around 1000 contracts still open in October, unless aggressive new buying comes into the October contract (always possible), no delivery fireworks seem apparent.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Trying to divine deep meaning from COMEX deliveries is always dicey, since the data usually result in more questions than answers. The data are reliable, just not robust enough. I've come to look at COMEX deliveries through the perspective of JPMorgan and when the bank is not actively involved, like now, the message is not compelling, at least to me. When JPM is taking the maximum allowed (or more) in silver and gold, I sit up and take notice; otherwise not. That's because I'm convinced JPMorgan is the key player in gold and silver.

The deposits and withdrawals in the two big precious metals ETFs, GLD in gold and SLV in silver, seem to be in line with price changes, namely, deposits on rising prices and withdrawals on lower prices. This week, there were withdrawals in each on mostly lower prices and net investor selling. On a broader view, physical metal holdings in each have been mostly steady (higher in SLV) for the trading ranges of the past few months. Not much to see or report on here.

Likewise, the short report for SLV was mostly uneventful for positions held as of September 15, although there was a pretty big reduction in GLD. The short position in SLV was reduced by nearly 700,000 shares to 11.94 million shares (ounces). The short position in GLD was reduced by nearly 3.5 million shares to just under 9 million shares (900,000 oz).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2

In terms of total shares outstanding, the percentage of shares held short in SLV and GLD is on the low side historically and there's nothing alarming about that. Also, it's instructive to convert the short positions in both to COMEX contract equivalents to gain a measure of perspective. The total short position in SLV is the equivalent of 2400 COMEX silver contracts and in GLD the equivalent number of COMEX gold contracts is 9000. In other words, compared to the COMEX, the short positions in SLV and GLD are currently close to meaningless price wise. Where the short position, particularly in SLV, takes on significance is when it is two or three times larger than currently and the shorting occurs because no physical metal is available. That's not the case now.

Sales of Silver Eagles from the US Mint continue to languish, despite more coins being sold in September than the prior two months. In contrast, sales of Gold Eagles picked up noticeably for the month. I can't help but feel the explanation is JPMorgan stepping back from purchasing Silver Eagles after five years of nearly non-stop buying. In fact, current sales look to be nearly pure retail buying and tend to confirm that JPMorgan had picked up two million Silver Eagles each month for more than 5 years. In other words, the cessation in buying by JPM confirms what it bought previously.

https://competition.usmint.gov/bullion-sales/

When I reviewed the changes in this week's Commitments of Traders (COT) Report, my first thought was that they could hardly be any closer to my published expectations of a 25,000 contract increase in commercial shorting in gold and a 7000 contract increase in silver. Only then did I realize I used the word Â?reductionÂ? instead of increase in Wednesday's article.

Clearly, I became tongue-tied and used the wrong word, as I was originally looking for a 40,000 contract increase in gold and a 10,000 contract increase in silver as of last Friday and before the price plunge into Tuesday. Sorry for any confusion and if, in fact, I did expect a 25,000 contract reduction in gold and an increase of that amount was reported, I promise you that I would stop offering COT predictions altogether. But my faux pas may provide a teachable moment.

Admittedly, this COT stuff is complicated and I would imagine most peoples' eyes glaze over when I go through the details. And the situation is made more complicated when we experience a rash of 50 day moving average penetrations, both up and down, in the reporting week, as has been the case recently. Then again, if the COT reports weren't difficult to understand, the artificial price setting that defines the manipulation almost couldn't exist because it would be obvious to all. In a very real sense, the complicated nature of the report provides cover to the manipulation in force.

The good news is that with more following and commenting on the COTs than ever before, the fog of complication gets lifted in time. The bad news is that that time has not yet arrived. Finally, the whole purpose for me making predictions about prospective reports is, more than anything else, a means of objectivizing and measuring the market structure premise itself. Let's face it, anyone able to accurately and consistently predict short term price changes is unlikely to share such information openly. Following an approach that explains price moves and can be measured objectively has to be best alternative approach, complexity notwithstanding.

In COMEX gold futures, the commercials increased their total net short position by 24,000 contracts to 314,600 contracts. It is now nearly four months that the headline number has been close to the 300,000 contract level, a level never exceeded prior to this year and that historically must be considered bearish. There can be no question that the reason the total commercial net short position is so large in gold and silver is because the managed money long position is so large.

This is not quite a which came first story Â? the chicken or the egg Â? as there is little doubt that the managed money traders have increased the size of their positions in all markets as a result of a documented influx of investment money over the past few years. In turn, this required the commercials to have increased their counterparty exposure to meet managed money demand. This in no way detracts from my long held opinion that the commercials are the real crooks and have continued to snooker the managed money traders, as they continue to do so, just with larger positions. The only possible fly in the ointment for the commercials is that the positions have grown so large that the risk of an overrun exits, also for the first time (as seen in the effective failure of one big 8 commercial gold short).

By commercial category in gold, the big 4 added 12,800 new shorts , the big 5 thru 8 added 1700 new short contracts and the raptors added 9500 new short contracts, as they all received the office memo to sell short. The concentrated short position of the four largest COMEX gold shorts set a new record at 214,020 contracts. It's one thing for me to state that the commercials have had to increase their counterparty positions because the managed money traders have increased the size of their positions, but the increased level of concentration on the short side of COMEX gold goes straight to the core of manipulation.

If it was a matter of more commercials coming onto the short side attracted by a high price, allegations of manipulation would sound hollow. But when one or only a few traders account for the lion's share of additional short selling, the manipulation sirens should be wailing. Maybe that's it Â? the regulators are not only blind, they are deaf as well and can't hear the manipulation alarms.

On the buy side of gold, it was all a managed money affair and beyond, as these traders bought a staggering 42,030 contracts, including 36,032 contracts of new longs and 5998 contracts of short covering. As large a number of contracts that this may be, please remember there was likely heavy managed money selling on the Tuesday cutoff, meaning the managed money traders bought even more as of last Friday and this week's report is after the selling on Tuesday.

In COMEX silver futures, the commercials increased their total net short position by 3900 contracts, to 100,800 contracts. Just like 300,000 net contracts is a drop dead bearish number in gold, so is 100,000 contracts in silver. But as you know, it's always more extreme in silver and the kicker here is that while there are some additional shorts in gold apart from the 8 largest commercial shorts, in silver the 8 largest shorts are the only commercial shorts and then some, as these traders in silver are short nearly 106,800 contracts (6000 contracts more than the total commercial net short position). Just 8 traders are short 534 million ounces of silver and not one of them appears to be legitimately hedging. All the rest of the COMEX commercials are net long and the fact that only 8 traders hold a record and exclusive net short position is other worldly. Perhaps the regulators might hire some of the political commentators spinning tales presently to explain why a major market with only 8 traders on one side is natural and normal. Maybe Bagdad Bob is available.

The four largest shorts in silver increased their concentrated short position by 1000 contracts to 74,751 contracts another all-time extreme. The raptors sold off 3300 longs and the big 5 thru 8 bought back 400 shorts. I'd peg JPMorgan as being short 33,000 contracts and next Friday's Bank Participation Report will help clarify matters.

On the buy side in silver, the managed money traders came closer to my 7000 contract prediction, in buying 5571 net contracts, including 3745 new longs and the buyback of 1826 short contracts. The gross and net long position of the managed money traders may not have established fresh new records in silver and gold, but are at record extremes in every real meaning of the words record extreme. This, as you know, represents the sole risk of a serious selloff. No one can know if that selloff will be realized, but it's hard to see a selloff without managed money selling.

Last Friday, the running open and unrealized loss to the commercials on their collective gold and silver short position came to $2.3 billion. On yesterday's close and including the interim scam within a scam positioning to the commercials' advantage, I'd peg the commercials as having regained around $900 million this week, putting their running loss down to $1.4 billion.

Ted Butler

October 1, 2016

Silver – $19.25 (50 day moving average – $19.53)

Gold – $1317 (50 day moving average – $1333)

Date Created
2016/10/01