

## Weekly Review

Gold and silver (and other CME Group metals) ended higher for the first time in a long while this week, with gold bouncing \$32 (2.7%) and silver finishing 55 cents (3.3%) higher. For silver, it was the first weekly rise after 12 weeks of lower closes, although it seemed more like 12 months (or years). That all the COMEX/NYMEX metals bounced in unison this week after swooning in lockstep lower over the past months would suggest that a common cause was responsible as there is little commonality on the surface between gold, silver, platinum, palladium and copper (other than they are all metals). The commonality, of course, is futures positioning on exchanges owned and operated by the CME Group.

Also for the first time in a while, the silver/gold price ratio tightened in very slightly, but still remained over 70 to 1, the highest level in four years (save for last week). The higher the ratio, the more silver is undervalued to gold and, in turn, the better the relative bargain one gets for switching gold positions to silver. I don't profess to know the short term direction of prices or price ratios, but I would rule out reading too much into short term price movements as an accurate reflection for what will develop over the long term.

Silver's recent relative weakness compared to gold is not, to my mind, a harbinger for what will evolve over time. In fact, it seems almost impossible to me for silver not to vastly outperform gold over time (although I am solidly bullish about gold's immediate price prospects). The compelling relative factors revolve around how each metal is used (silver being consumed, gold being held for wealth and jewelry) and the resultant mismatch over how much of each exists in the world, particularly in dollar terms.

I would be overstating the case if I declared that even as many as one-tenth of one percent of the world's inhabitants actually know that there was vastly more gold in the world than silver, especially in dollar terms. Most people logically assume that an item 70 times more expensive than another similar item would be much rarer. Not only is this not the case with gold and silver in terms of physical ounces, where there is more gold than equivalent silver by a factor of two or three; when the comparison is made in terms of dollar value, the total amount of gold exceeds the amount of silver by as much as 200 times. Yes, I am saying that there is as much as 200 times more gold in the world than silver in terms of the total dollar value of each. All the world's gold is valued at more than \$6.5 trillion (5.5 billion oz x \$1200) compared to the value of the world's silver of \$35 billion (2 billion oz, including coins, x \$17.50).

I don't think that even one out of every ten million people on earth recognizes that much gold exists relative to silver or would even believe it if so informed. That's due to the power of the current price on one's perspective. The current price is the first thing we all see and, like it or not, it is the base from which all opinion then follows. Gold is over \$1200, while silver is under \$18? □ Well then there must be vastly more silver in the world. For most people, even a detailed explanation of the facts would not persuade them that the price relationship might be wrong. If that explanation was complicated (the COMEX manipulation), then forget about it.

But it is precisely such circumstances of the majority being completely misinformed that can result in vast fortunes being made. I think gold is undervalued in price, but I also think that the price of silver is beyond mere undervaluation □ its price is wrong. When gold is valued properly (in COT terms), its price will be higher; when silver is valued properly, the world will be amazed.

Turnover or the physical movement of metal into and out from the COMEX-approved silver warehouses □cooled□ a bit this week as □only□ 4 million oz were

moved, slightly below the 4.5 million oz weekly turnover average year to date. Total silver inventories rose 1.7 million oz to 183.6 million oz, near the highs set earlier this year. I continue to focus on the movement and not the totals as a sign of physical tightness. I've also noticed a pickup in movement in the COMEX gold warehouses, which have mostly been out movements, but I am unable to conclude what the activity may represent.

There was some unusual activity in the big silver ETF, SLV, this week as 4 million oz were withdrawn. I say unusual because deposits into and withdrawals from SLV have been somewhat counterintuitive recently, namely, deposits have come on price weakness and withdrawals on (relative) price strength. One would normally expect the opposite to occur. The most plausible explanation to me is something I have speculated about previously. I don't think that the previous buying and deposits on price weakness and the withdrawals this week on relative price strength are the work of large numbers of traders and investors. I think it may be the work of a single large trader or two. I'll leave it to you to guess who I think it is.

My reasoning is that a large trader this week was responsible for the 4 million oz withdrawal due to a conversion of SLV shares into physical metal for the purpose of avoiding the 5% reporting threshold that the SEC mandates. Since

there is no reporting requirement for holdings of physical metal (as there is for futures and stock ownership), by converting shares of SLV into actual metal holdings, a single entity could use SLV as a vehicle to acquire a significant silver position without having to publicly reveal ownership. One needn't even have to move the silver, just transfer from shares to metal. If this is the case, then the withdrawal can hardly be considered bearish to price. Alternatively, the metal being withdrawn from SLV could have been needed more urgently elsewhere, also hardly a bearish development.

One thing I've been meaning to report on is the movement in other silver ETFs, such as SIVR and the Swiss ZKB. Over the past month, more than 11 million oz of silver have been withdrawn from these two ETFs alone, despite an overall growth in total silver holdings in all visible sources. To me, this is further proof of increased physical turnover in silver pointing to wholesale tightness. Total visible world silver holdings are near the record 900 million oz level, which is mirrored in the holdings of SLV which are up 10% for the year and within 5% of the record highs of early 2011.

In stark contrast, world ETF and exchange holdings of gold are down more than 30% since the beginning of 2013 and holdings in the big gold ETF, GLD, are still down more than 40% from the start of 2013 and at 5 year lows. Since the world

has added, thru mining, more than 400 million oz of gold over the past five years, it's certainly not the case that we have less gold in the world than we had 5 years ago; it's just that investment holdings in gold ETFs are lower.

I do believe that gold has moved from the West to the East, as we have demonstrably less gold in western holdings and it is reasonable to assume it flowed to the East. The real puzzle (along with the COMEX warehouse turnover) is why Western visible silver holdings have not declined like gold. Without getting overly complicated, it appears silver has been more desired and strongly held, which considering the current price ratio, makes silver even more an outstanding relative bargain.

The new short interest report released this week indicated an increase of almost 1.3 million shares, to just over 15 million shares (oz) in SLV. I never like seeing any increase in the shorting of SLV, but I'm not overly alarmed by the size of the increase and the timing - as of September 30, near the nadir for the move down. The increase of 1.3 million shares equates to 260 COMEX contracts, hardly an amount that causes one to sit up and take notice. If the SLV short interest starts to increase by 5 or 10 million shares, I'll change my tune, but not at this point. <http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Sales of Silver Eagles are gaining wide attention, as they have increased notably recently (as have sales of Gold Eagles). I have a different take than most public reports in that while retail demand has increased in response to the markdown in metals prices, this is not the demand behind the surge in sales. With each report from the US Mint, I become more convinced that there is a Mr. Big behind the pop in sales. I still think it is JPMorgan in the role of Mr. Big, as it is also JPM behind the buying in SLV and in COMEX dealings. By my count, some 4 to 5 million Silver Eagles were held in US Mint inventory as a result of Mr. Big stepping away from buying starting in June. By my calculations, Mr. Big has purchased 3 million of those coins in inventory, leaving only a million or two left to be purchased (aside from normal new production). When JPMorgan buys silver, they buy it in any form possible and I can't see how this wouldn't be extremely bullish.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

I wasn't sure what to expect in this week's Commitments of Traders Report (COT) since the reporting week featured both new price lows and a sharp rally following those new lows. When the dust settled for the reporting week on Tuesday, gold was a few dollars lower and silver was a bit higher for the reporting week and the changes turned out to be marginal following 12 weeks

of nothing but commercial buying and technical fund selling.

In COMEX gold futures, the commercials were slight net sellers, increasing their total net short position by 2700 contracts to 63,400 contracts. This is the second lowest (bullish) reading since June and still roughly 100,000 contracts (10 million oz) less of a commercial short position than two months ago. By commercial category, it was mostly a raptor affair as the big 4 and big 5 thru 8 bought back a few hundred contracts. The only standout feature in the commercial camp (in association with the monthly Bank Participation Report) was that JPMorgan reduced its net long gold position by 2000 contracts to 21,000 contracts.

The good news in the gold report was that the technical funds (in the managed money category) remained near record levels in gross shorts in only buying back 140 contracts of their 80,000+ contract gross short position. This leaves the rocket fuel buying potential intact. The measure from this point forward is what type of price gain will be seen in gold versus how many technical fund short positions are bought back. At previous such points, one could usually count on a hundred or two hundred dollar gold price pop, but it could easily be more this time.

In COMEX silver futures, the commercials increased their total net short position by a scant 800 contracts, the first such increase in three months. As was the case in gold, the raptors (the smaller commercials) accounted for all the selling, by reducing their net long position by 1700 contracts, to a still large 39,300 contracts. The big 4 shorts bought back 700 contracts and the big 5 thru 8 the balance. In conjunction with the Bank Participation Report, JPMorgan is now short 10,500 contracts or less, its lowest (most bullish) position since it began running the COMEX silver manipulation upon acquiring Bear Stearns 6.5 years ago. That is no small statement.

In fact, of all the remarkable current circumstances in silver (warehouse turnover, ETF holdings and changes and the incredibly degree of undervaluation) none may be more important than JPMorgan having reduced its concentrated short position in COMEX silver to its lowest levels ever. I can't help but believe that this crooked bank may have decided to wash its dirty hands clean of manipulating the price of silver. Of course, I may be mistaken and that will be determined by JPM's behavior on the next silver rally.

If JPMorgan refrains from adding to silver short positions in the future, for all

intents the silver manipulation should end. If not, I guess I'll have to use stronger language to describe how crooked this bank is, although I thought I've been pretty strong all along. I'm getting used to it after the past six years, but before that I never imagined anyone calling such a large and powerful financial institution by such terms (and getting away with it). Yes, I still send them (and the CME and CFTC) everything I write.

As was the case in gold, the short position of the technical funds in COMEX silver remained largely intact, thus preserving the extremely large reservoir of rocket fuel buying potential. The tech funds' short position was only reduced by 835 contracts and remains at its second largest level ever at 43,700 contracts, exceeded only by last week's record. At a minimum, at least 35,000 of these short contracts will be bought back, plus 15,000 to 20,000 contracts of new longs added on any move above 19.50 to 20 dollars. The question is not will these technical fund contracts be bought, but only how aggressive the commercials will be on the sell side (or, in the case of JPMorgan, will there be any new short selling).

We have been in this situation many times in the past, most recently in early June. (Please see ["The Set Up"](#) June 4, 2014 in the archives). On all those previous occasions, the technical funds bought exactly as predicted, only to be

overwhelmed by aggressive commercial selling (including by JPMorgan). I know I am tempting the market gods to embarrass me, but it just feels different this time. This is beside the point that we will get some sort of a rally, so it must be played from the long side. I'm thinking the commercials (and JPMorgan) will let it rip this time. Why?

For one reason, the manipulation and commercial dominance has gotten out of control, not just in silver and gold, but in many other commodities as well. In addition to COMEX copper and NYMEX platinum and palladium, the technical fund/commercial price dominance has come to effect too many important commodities, like crude oil and currencies. Just this week, crude oil accelerated its price decline to two year lows, all based upon crooked NYMEX dealings. In fact, there are major commercial/technical fund imbalances in more important markets than not. The hard commodities are configured for major price advances as are the currencies (lower on the US dollar index). I don't recall an overall similar set up to this extreme.

These paper market manipulations are causing severe dislocations in the real world and it is only a matter of time before someone notable (not me) makes the connection between the futures markets and prices of the actual commodities. Countries are starting to notice that prices have become irrational

and not in synch with real world supply and demand facts (Russia and South Africa in platinum, for example). Sooner or later, the actual functioning and legitimacy of the regulated futures markets will come under scrutiny. When that occurs, more will come to see what I (and most of you) know to be the case, namely, that the CME Group, along with major banks are running the world's largest bucket shop, where prices are what they alone decide them to be □ nothing more, nothing less. This should prove particularly advantageous to silver, where I believe the whole sick scheme started more than 30 years ago.

Lastly, this spreading manipulative scheme can't continue indefinitely and will cause its own demise by how it distorts the real world of supply and demand. The level of legitimate hedging in all markets is rapidly shrinking (despite CME Group's non-stop commercials to the contrary) and has been replaced by unbridled speculation, thus undermining the whole concept of why futures trading exists. Thus, the crooks at the CME have sowed the seeds of their own destruction. Silver should prove to be the star performer as this process unwinds because it has the best set up of all. The CME (and the CFTC) should have never allowed such a large technical fund short position to come into existence, but now that it exists, it has become the silver investor's best friend.

Ted Butler

October 11, 2014 - Weekly Review

October 11, 2014

Silver - \$17.40

Gold - \$1223