

October 22, 2016 – Weekly Review

Weekly Review

Amid continued lower price volatility for a second week, gold finished \$15 (1.2%) higher, while silver added a thin dime (0.6%) for the week. As a result of gold's relative outperformance, the silver/gold price ratio widened out by half a point to 72.5 to 1.

Of course, changes in the price ratio, as have been the case for years, have little to do with physical developments in both metals and everything to do with pricing on the COMEX, which I contend is artificial and manipulative. While the price of both metals are controlled in COMEX paper dealings, by every objective physical measure silver is artificially depressed relative to gold and, therefore, offers the best long term investment value. Nothing new here. Let me run through the usual physical developments before dealing with paper developments.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses amounted to 4.1 million oz this week, as total COMEX silver inventories rose to 174.6 million oz, just under the one year peak of two weeks ago. This is the lowest weekly turnover since mid-July, but still comes to an enormous 200 million oz annualized rate. As a reminder, I follow the inventory turnover of other commodities, especially those traded on the COMEX/NYMEX, and find no similar pattern of the frantic silver inventory turnover of the last five and a half years. That's why I keep commenting on it. There were no further deposits into the JPMorgan COMEX warehouse since Wednesday's article.

If there is anything to be gleaned from the October gold and silver deliveries on the COMEX, other than there was a very large number of total gold contracts (9163) issued, it still escapes me. JPMorgan took close to 2000 gold contracts over the month for a client(s) and itself and that does suggest continued gold accumulation by the bank. The other standout feature was that Macquarie Futures turned around and issued more than 1250 contracts late in the month after stopping nearly 6000 contracts in August and October combined, which sort of suggests it may have changed its mind after taking so many gold contracts (all in its house account). November is a non-traditional delivery month for gold and the nearly 2700 open contracts look somewhat unusually high, but beyond that I can't add much.

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

There were some very unusual withdrawals/deposits of physical metal in the two big precious metals ETFs reported yesterday. In GLD, there was a whopping withdrawal of 534,000 gold oz reported yesterday, nearly completely erasing the increase in deposits over the past month. In the big silver ETF, SLV, there was a very large deposit of 3.2 million silver oz also reported yesterday, putting the total number of silver oz in SLV at just over 366 million, which is either a new record or back to the old record in April 2011.

What makes both the large gold withdrawal and silver deposit unusual is that they came against a backdrop of little real price change and very subdued trading volume. This eliminates the likelihood of either broad net investment buying or selling, which is usually what results in deposits or withdrawals of metal in these two ETFs. So if the regular pattern of broad investment buying or selling wasn't responsible, what was? By process of elimination, it had to be the work of a large entity.

Here's my best guess. The large withdrawal in GLD represented a conversion of shares for metal by a large entity to avoid SEC reporting requirements, the same process JPMorgan has employed regularly in SLV for more than five years. Such a conversion results in a reduction in shares outstanding and a corresponding reduction in the amount of metal held for the trust. By converting shares to metal, the metal doesn't even have to be moved as all the conversion does is put ownership of the metal in a non-reporting status – perfect for concealing ownership.

As far as the large deposit in SLV, my best guess is that a large entity (I'll let you guess who) has accumulated shares stealthily which required the big metal deposit and that the transaction will also eventually result in a conversion of shares to metal to avoid reporting requirements. At the very least in both, none of this is related to broad investment buying or selling and is the work of a large entity.

Sales of Silver Eagles have maintained the very recent surge following months of tepid sales and Gold Eagles have continued to chug along, not having experienced the sales slowdown witnessed in silver over recent months. Broad retail demand has picked up only slightly for Silver Eagles and has remained tepid in Gold Eagles all along. This begs the question who is buying? You probably know my answer – (JPM), mainly because I have seen this movie before, namely, JPMorgan backs off in buying Silver Eagles just before it engineers a price smash and then resumes buying at lower prices.

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

But there's another, even more compelling argument — broad retail investment demand, since it represents a mass of individuals, doesn't stop and start in short term spurts. That's the whole meaning of broad. On the other hand, there's nothing preventing a single large entity from suddenly withdrawing from buying and just as suddenly begin buying again, especially if that entity controls price, as I contend JPM does in silver. I recognize that I may seem myopic in my attention to JPMorgan in silver (and gold) since 2008, but my attention is data driven. Should the data change, I may change my opinion; but the data continue to point to JPMorgan as the big silver accumulator and crook. And yes, I take some small pleasure out of being able to call the bank crooked in its silver dealings.

The changes in this week's Commitments of Traders (COT) Report made me wish I stuck with my expectations of last Friday, before I weened out on Wednesday. No guts, no glory. Price change was quite subdued during this reporting week compared to the prior two weeks. At least it wasn't the opposite of what I expected.

In COMEX gold futures, the commercials further reduced their total net short position by 18,500 contracts, to 202,700 contracts. This is the lowest (least bearish) headline number in seven months (since March 22); even lower than it was at the end of May, just before the \$150 gold rally into July. As such, it would be foolish to automatically rule out another rally based upon market structure analysis, considering more than 110,000 net contracts (11 million oz of gold) have been bought back by the commercials over the past three reporting weeks, the most in years. In no other venue have such quantities of gold or gold equivalent been exchanged.

By commercial category, all three groups bought back short positions. The big 4 bought back 6400 short contracts, the big 5 thru 8 bought back 3900 short contracts and the raptors were the largest buyers in covering 8200 short contracts. All the commercials once again behaved as one, just as they have for three straight reporting weeks on the \$100 gold price smash. I'm sure all the commercials were operating independently of each other, engaged in very legitimate hedging operations and were not at all engaged in any collusive effort to rip off the technical funds, no matter what this looks like. Just ask the CFTC and the CME, they'll swear everything is on the up and up. Honest. And the \$5 billion net swing in bottom line improvement for the commercials over the past few months? Just the result of legitimate hedging and, I'm sure, clean living as well. (Forgive my sarcasm).

On the sell side of gold, the managed money technical funds sold 17,839 net contracts, just about as many contracts as the commercials bought, proving once again that there are only two actors on the price stage. The selling included 13,025 contracts of long liquidation and 4814 contracts of new short sales.

In COMEX silver futures, the commercials reduced their total net short position by 2700 contracts to 74,900 contracts, the lowest level since June 7. Unlike the case in gold, only the raptors were buyers as they added 3800 long contracts to a net long position now amounting to 19,900 contracts. The big 4 (read JPM) added 1000 contracts of new shorts and the big 5 thru 8 added 100 new shorts. I'd peg JPMorgan's short position to be at 24,000 contracts, up a grand from last week. For someone who believes that silver prices revolve around JPMorgan, I didn't take this as good news.

On the sell side of silver, the managed money technical funds sold 4480 net contracts, including 3469 contracts of long liquidation and the new short sale of 1011 contracts. The gross long position of the managed money traders is now just over 68,500 contracts, meaning there are only 8500 to 18,500 contracts left to be liquidated if the core non-technical fund long opposition is still in the 50,000 to 60,000 contract range it appeared to be previously. Then again, there is no way of determining if any of the non-technical fund managed money traders may have sold out at the summer's price highs (booking big profits). If such sales took place, then the core position may be lower, meaning potentially greater long liquidation on lower prices.

I'm still of the opinion, both in silver and gold, that the greatest amount of managed money selling, should it occur, will come from new technical fund short selling. In other words, is there something fundamentally different about technical fund behavior in COMEX gold and silver as a result of this year's price rally? Specifically, should the commercials succeed in rigging prices lower, is there any indication that the managed money technical funds won't sell short to the extent they have in the past? Although the answer will only be knowable after the fact, this is the central question over which I wrestle.

One of the few ways in which the question can be attempted to be answered is by observing the pattern of the technical funds in other related markets. Here, there is no great reassurance that the technical funds won't add to the short side in silver or gold. In COMEX copper, the managed money technical funds seem to add aggressively to short positions whenever the commercials put prices lower, almost in Pavlovian fashion. And very recently, technical fund short selling has increased markedly in NYMEX platinum, in addition to heavy long liquidation.

I don't follow the supply/demand fundamentals in platinum closely, but doubt that they have changed markedly of late. I do know that nearly 40,000 net contracts of platinum have been sold by the managed money traders on the price decline of more than \$250 over the past two months. Astoundingly, the gross total open interest in NYMEX platinum futures is around 70,000 contracts, making the net sale of 40,000 contracts by managed money traders in such a short time as the unarguable reason for the price plunge.

While there can be little dispute that copper and platinum are just two more markets manipulated by the commercials (banks) on exchanges owned and operated by the very crooked CME Group, that is separate from the question I am attempting to answer — does this suggest the commercials can induce aggressive now managed money technical fund selling and short selling in COMEX gold and silver? If it was just a case of actual supply/demand fundamentals (as it should be), the downside in silver and gold would appear minima. But add in the increasingly obvious paper market price manipulation and fundamentals get cast aside. That's the problem.

The improvement in market structure in COMEX gold and silver is impressive enough over the past three reporting weeks and since the summer price highs to suggest price rallies can easily occur. At the same time, the COMEX gold and silver market structures were so extremely bearish into summer that despite the recent sharp improvements, we are at current market structures that must be considered bearish going back a good number of years. It is not impossible or even improbable for the commercials to rig additional managed money selling on a scale comparable to what occurred over the past three reporting weeks, although precise timing and price change can't possibly be known beforehand.

I don't want anyone to rely on my short term feelings or premises, particularly when silver is already priced at bargain basement long term levels. At the same time, it would be a disservice not to share the reasons behind my concerns. I believe the COMEX price manipulation, as well as the price manipulations in other markets have become so blatant and egregious that it is only a matter of a relatively short time before they self-destruct.

Since the commercials, led by the uber-crook JPMorgan, see the coming end of the manipulation clearer than anyone and because they have complete mastery over the mechanical technical funds, they will likely arrange for the market structures to be as favorably configured for the commercials as possible before we go boom to the upside. Barring a double cross by JPMorgan or some impossible to predict outside factor, it appears likely that we will witness much more managed money selling ahead at some point. Should that occur, there will be no reason not to be more than fully invested.

Ted Butler

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Silver – \$17.55 (200 day moving average – \$17.27)

Gold – \$1267 (200 day moving average – \$1266)

Date Created

2016/10/22