Weekly Review

Following two weeks of fairly strong gains, the price of gold eased this week, ending $7 (0.6%) lower. Silver, with only a weekly gain from two weeks back, finished lower again, down 7 cents (0.4%). As a result of the flat relative performance, the silver/gold price ratio remained just under 72 to 1, after trading above that level during the week. That level is still the highest the ratio has been in years and underscores my conviction that this is a great time to switch gold into silver (no margin ratio trading, mind you, just a cash on the barrel straight swap). Later on, I'll give you a new reason for switching gold for silver based upon one of the week's key developments.

The remarkable and unprecedented (before April 2011) physical turnover or movement of metal into and out from the COMEX-approved silver warehouses continued this week, thanks to an extremely active day yesterday, when 3.3 million oz were moved. For the week, more than 6.7 million oz were physically moved (into and out of trucks), as total inventories rose 1.4 million oz to 181.1 million oz.

Annualizing this week's turnover, silver either came in or was moved out of the COMEX warehouses at roughly a 350 million oz yearly rate, or close to 45% of annual world silver mine production and ten times US mine production. This is a remarkable occurrence that continues to be almost unmentionable in precious metals commentary. I would think there would be wide debate for this unusual and easy to verify development, but for some reason, that's not the case. If there ever is a wider discussion, I would be interested in explanations away from my "silver is tight" version.

On the other hand, much discussion was directed at the 321,500 oz of gold that was reported withdrawn from JPMorgan's COMEX gold warehouse on Thursday. I had promised to report on unusual warehouse movement in gold or other COMEX/NYMEX metals should they develop. This gold withdrawal certainly qualifies as unusual, with an approximate $400 million value and I wouldn't begin to argue that it was headed East, as it appeared to involve 10,000 kilo bars (as noted by Ed Steer). Activity does appear to have picked up in the COMEX gold warehouses and there continues to be notable declines in the holdings of gold in the big ETF, GLD. But I'm still not sure what it all means as there is simply not enough data available to draw firm conclusions. There's certainly enough info to fuel speculation, but not much more than that, at least at this time.

The new short interest report indicated another increase in the short position of the big silver ETF, SLV, for positions held as of October 15. More than 1.6 million shares were added to a short position now totaling more than 16.6 million shares (oz). There was a similar increase in the short position of GLD. I'm never happy to see increases in the short positions of these two hard metal ETFs, as shares sold short in these ETFs are not backed by metal and the short positions represent a possible evasion of the prospectus that a fixed amount of metal back every share. Still, at around 4.6% of total shares outstanding for SLV we are far from peak historical shorting levels.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Sales of Silver Eagles still appear headed for a strong month and year, although I am still convinced that the erratic sales reporting pattern points to a single big buyer being involved (as opposed to broad retail demand). Gold Eagle sales are also stronger, but 2014 will go down as having the highest level of Silver Eagle sales relative to Gold Eagles in history and by a very wide margin. If someone told me earlier that in late October 2014 that the US Mint would have sold more than 83 times more ounces of Silver Eagles than Gold Eagles for the year, I wouldn't have believed them. (I also wouldn't have believed $17 silver).
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were largely expected, namely, not much change in silver, but a notable increase in technical fund buying/commercial selling in gold. On Wednesday, I doubted there was much technical fund buying in silver (or the other COMEX/NYMEX metals), but I was expecting at least 15,000 contracts and perhaps more than 20,000 contracts in COMEX gold of technical fund buying/commercial selling. During the reporting week, gold prices rose more than $20, including a one day upside penetration of the 50 day moving average for the first time in months, while silver didn't come close □ hence the reasoning for my COT predictions

In COMEX gold futures, the total commercial net short position (the headline number) increased by 26,100 contracts to 104.900 contracts, the highest level since the end of August. By commercial category, it was largely a big 4 and raptor affair; with the four largest shorts adding 7500 new short contracts and the raptors (smaller commercials) selling 18,500 gold contracts. JPMorgan appears to have off-loaded another 2000 of its long gold contracts, reducing the position to 16,000 contracts, another new low going back a year or so.

On the buy side of gold, the technical funds did the heavy lifting, in buying more than 20,000 contracts net, including the buyback covering of more than 11,000 short contracts. There are still more than 70,000 contracts held short by technical funds in gold, but the gold rally used up 11,000 contracts of sure-fire buying fuel. The good news is that weaker gold prices since the Tuesday cut-off preclude any further technical fund buying and probably indicate technical fund selling, but not to the extent that the technical bought over the past two reporting weeks.

On the two week, more than $60 gold price rally, the technical funds bought 33,000 contracts and the commercials sold more than 41,000 contracts (other traders made up the difference). Technical funds and commercials are the two price setting categories and while the two-week tally is close to be evenly matched, most other times it's even a closer fit. There can be no question, despite anything else that may be transpiring in the world of precious metals, that the price is determined by the ongoing trading war on the COMEX between these two groups of pure speculators. When the technical funds buy, prices go up and vice versa when they sell. If this wasn't the case, I'd never be able to predict changes in the COT structure and would have quit trying long ago.

In COMEX silver futures, there was a somewhat surprising decrease in the total commercial net short position (I was hoping for unchanged, so this was a good surprise); as the total commercial net short position decline by 1700 contracts, to 14,600 contracts. This is the lowest (most bullish) commercial net short position since June 10 and stands in stark contrast to the increase in the commercial short position in gold. If one were looking for the reason why the price of gold has been much stronger than the price of silver recently, then look no longer. The technical funds have bought gold aggressively over the past two reporting weeks and have not done so in silver. That's a good reason to switch from gold to silver, but not the new reason I alluded to above, but which I'll get to in a moment.

By commercial category in silver, the raptors did most of the buying as they added 2800 new long contracts to a net long position now at 41,400 contracts, also the highest level since June 10. The big 5 thru 8 shorts also bought more than 700 of their short contracts back, which left the big 4 as adding 2000 new shorts. It would appear that JPMorgan added 2000 new short contracts, somewhat out of kilter with what normally occurs since silver prices were flat during the reporting week. I'd peg JPMorgan as holding 12,000 net shorts in silver, but I'm hoping for further clarification in the upcoming Bank Participation Report in two weeks. The possibility exists that it wasn't JPM adding all those new silver shorts.

What made the reduction in the total commercial net short position more remarkable was that the technical funds basically did almost no selling during the reporting week, although the managed money gross short position eked out another slight new record of more than 45,000 contracts. This week, traders other than the technical funds sold to the commercials. Where some amount of gold rocket fuel buying has been expended; the certain technical fund buying power of short covering fuel is still untouched in silver.

There were a number of developments this week that I would like to comment on. First was the passing of Bunker Hunt who was at the center of the first great silver price run to $50 at the beginning of 1980 and its subsequent collapse. Portrayed as both a hero and villain, I've come to reflect on Mr. Hunt in both roles as well. He did illustrate at a time when there was much more silver bullion in the world than there is today, how a small group of buyers could cause the price to soar. I've also come to appreciate that Hunt did manipulate the price with intent.

On a personal note, in the late 1980's, I chatted briefly with Mr. Hunt (I called him, he didn't call me). I had recently discovered that silver was manipulated on the COMEX by concentrated short selling and, in addition to alerting the regulators, I reached out to anyone who I thought would have an interest in my findings. Bunker Hunt seemed a logical choice considering his disastrous experience in COMEX silver dealings. While he was polite, it was easy to see that he wanted nothing to do with silver; so I thanked him and went on my way. In any event, Hunt will always be a monumental figure in the history of silver. RIP.

Another development was the release by the Silver Institute of a silver investment paper written by the CPM Group. No, I haven't lost my disgust for Jeffery Christian, but there are not that many silver statistical compilers left, so beggars of silver statistical data can't be choosers. Besides, if you ignore the analysis and interpretation and stick to the statistics, this silver study is very instructive. Most importantly to me, it confirms and verifies the primary data behind my conclusions.
https://www.silverinstitute.org/site/wp-content/uploads/2011/06/CPMGroupSilverInvestmentDemand2014.pdf

I've always had the feeling that the actual data in CPM Group publications was fairly accurate, particularly when averaged out with the other remaining statistical complier GFMS. But CPM's conclusions are often loopy, especially in matters related to manipulation and price control due to a basic refusal to recognize the manipulation. After denying it for decades, there's no graceful way for Christian to ever admit it now (but I am amused how he remains obsessed with denying it). Analysis based upon faulty data is destined to fail, but even when you use accurate data your conclusions may be off if your thinking is biased.

The report correctly states that investment demand is the primary price driver, but falls short in failing to describe and analyze the COMEX price manipulation. In the all-important category of how much silver exists in industry standard 1000 oz bars throughout the world, it actually estimates less metal than I list, namely, 970 million oz vs. my 1 to 1.3 billion oz. The report fails to mention at all the possibility of investors and industrial users alike eventually competing for this very limited amount of bullion in existence and in doing so overlooks the prime reason I hold silver the coming physical shortage.

Finally the report misses, in a big way, the correct interpretation between the fairly steady flow of metal available for investment demand and the potentially erratic flow of investment demand, particularly as silver prices rise. When strong investment buying emerges, it typically emerges as prices rise. Supply of new metal available for investment is nowhere near as responsive to price as is investment demand. This sets the stage for a price spike up at any time investment demand catches on fire and will be greatly exacerbated by industrial user inventory buying. The Silver Institute's announcement of the report stated that as many as one billion ounces may be bought by investors

over the coming decade. What it didn't point out was that it was very unlikely that demand would be as smooth as available supply and how this would impact the price.
http://www.silverseek.com/article/total-silver-investment-may-increase-one-billion-ounces-over-next-decade-13727

Perhaps the most important development of the week was the urging by the CEO of First Majestic Mining, Keith Neumeyer, for silver miners to withhold metal to break the back of the manipulation. Following First Majestic's own recent withholding of silver, Mr. Neumeyer suggested that silver producers form a cartel similar to OPEC to combat the paper market manipulation.
http://www.futuremoneytrends.com/trend-videos/interviews/mining-ceo-seeks-form-physical-silver-cartel-paper-manipulation

While I understand and fully applaud the sentiment behind the suggestion, the first thing to recognize is that what Mr. Neumeyer proposes is illegal. Perhaps the most basic tenet of anti-trust law is to prevent producers from conspiring to fix prices. I'm sure that Mr. Neumeyer was speaking from the heart and did not really intend to encourage others to act illegally. In all the discussion I've seen on this development, I've heard not a word of its legality. Please don't misinterpret what I am saying. I know better than anyone that silver has been manipulated for more than three decades and I have tried to do everything in my power to end it. So please try to take what I'm saying in the spirit I intend.

Mr. Neumeyer should (and no doubt will) back off on the formation of a silver cartel; but he should not back off one bit on trying to end the manipulation. Nothing could be more important to a producer than the price it receives for its product. Neumeyer just needs to change slightly his approach. Besides, silver is not depressed due to the overproduction of metal, but due to manipulative positioning on the COMEX. Therefore, even if it were legal, the withholding of production by cooperating miners is not directed at the actual cause of artificially low silver prices.

There's no doubt that silver is manipulated in price and Mr. Neumeyer's efforts to end it should continue. To that end, allow me to make some specific suggestions as to how to go about something so important. The one thing in Mr. Neumeyer's favor is that he has the power of the bully pulpit. As the leader of an important silver producer, he has the authority and responsibility to speak out if he believes (as he obviously does) that the price of silver is manipulated. And he will be listened to.

One of the biggest impediments to ending the silver manipulation has been the lack of any silver producer publicly complaining about it. Thirty years ago, when I first uncovered the manipulation, after contacting the regulators, I then contacted the silver mining companies as they would be the most logical and justified in pressing for the manipulation to be terminated. Clearly, a complaint of market manipulation coming from a publicly-owned producing company would hold more weight with the regulators than a complaint from an unknown market analyst. For a variety of reasons, the silver miners were not interested in complaining about the silver manipulation; that is until Mr. Neumeyer came along. That makes this a significant development.

One potential problem with what is an exciting development is that Mr. Neumeyer doesn't appear to me to be well-versed on the facts of the manipulation and what to do about it. Aside from suggesting that other producers engage in an illegal act, he doesn't appear to fully-grasp the nuances of the silver manipulation. He quotes massive trading volume in the paper market, but that isn't at the core of why silver is manipulated. Silver is manipulated due to COMEX futures positioning between two groups of speculators as I try to pound in with every article.

I don't think Mr. Neumeyer reads my stuff and I've certainly never spoken with him. But I would respectfully suggest that he do some homework and I will certainly offer any assistance to that end. I would point out that not only do I refer to JPMorgan and the CME Group and the CFTC as the big crooks behind the silver manipulation, I send them everything I write. I truly believe what I write is factually accurate and because it is my primary objective to end the manipulation and not maliciously attack any of them and that is why I have received no blow back. Mr. Neumeyer should fare even better if he does the same.

This would be a very important and hugely legitimate endeavor for Mr. Neumeyer to pursue and I highly encourage that he do so. But it's also important for him to recognize that he better cross his t's and dot his i's when dealing with the likes of JPMorgan and the CME. You want to make sure you're on highly factual (and legal) ground. Go after these dudes with anything less than all the facts and, figuratively speaking, you'll end up picking your teeth off the ground with a broken arm. Armed with the facts they are reduced to silence.

It's not my place to chastise and correct the misstatements that many seem to make in reporting on precious metals, as I'm not anyone's schoolmarm. But Mr. Neumeyer may be uniquely positioned to do something monumental, namely, bring to the forefront a complaint of manipulation from a producer's perspective. But misquote a single fact and it will all be for naught.

Oh, I almost forgot to mention my new reason for advocating that investors switch gold positions to silver. It's directly related to Mr. Neumeyer's interview this week. Clearly, the artificially depressed price of silver had reached his breaking point and he felt compelled to speak out on it. Good for him. But in thinking about it, it dawned on me that no CEO of any producer of gold or copper or other metal (with the possible exception of Russia and South Africa in the PGMs) had publicly suggested prices were manipulated and that strong actions should be taken; this occurred only in silver.

What this tells me is that silver is being recognized by those who mine it as being extraordinarily cheap relative to all other metals; otherwise the miners of those metals would have also spoken up. When a product is highlighted by one of its producers as being extremely undervalued, the logical expectation is that product will not likely stay undervalued for long. Since the product in this case is silver, it would seem logical to buy it over other similar products.

Ted Butler

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Silver – $17.20

Gold – $1231