

## October 26, 2013 – Weekly Review

### Weekly Review

For the second week running, precious metals finished higher; gold by \$35 (2.7%) and silver by 65 cents (3%). As a result of the fairly even relative performance, the silver/gold price ratio stuck around last week's 60 to 1 finish, although this is the second week running that silver has failed to outperform on absolute higher prices. I wouldn't read anything into that as short term price movements in markets manipulated by JPMorgan shouldn't be micro-analyzed due to the risk of misinterpreting long term value.

It is also interesting that gold and silver prices (and obviously the silver/gold price ratio) have risen to their 50 day moving averages after spending nearly the past month below that key moving average. I'm not a chartist or technician, but I have observed the influence of technical fund behavior for too long, not to conclude the impact of that trading on price. The set up exists for technical fund buying to emerge as and when prices move higher from here. The rub is that JPMorgan and other collusive commercials control the price mechanism short term so they will decide what and when the tech funds do next.

Since JPMorgan holds a long market corner in COMEX gold and a greatly reduced short market corner in COMEX silver, logic would dictate this is as good a time as any for JPM to let her rip to the upside; but it usually goes beyond just logic in manipulated markets. The overall set up looks great for higher prices, but even if those prices don't materialize in the very near future, the set up, by definition, remains intact. As has been the case since late June, gold and silver prices are not structured to decline meaningfully and instead are structured for meaningful advance, the short term notwithstanding.

My prime indicator of wholesale physical tightness, turnover in the COMEX-approved silver warehouses, continued this week (as it has for 2.5 years). On a weekly movement in and out of over 3 million oz, total silver inventories increased 2.2 million oz to 167 million oz. Additionally, there was a big 2.5 million oz deposit in the big silver ETF, SLV, following the 7.5 million oz withdrawal over the previous two weeks. This metal turnover is unique to silver, as the patterns in other COMEX metals and ETFs are different, including gold and copper.

A quick word about COMEX gold inventories, as much continues to be written about them in great detail. Let me admit it openly ^? I don't get it. I think too much is trying to be inferred from COMEX gold warehouse statistics than can be substantiated. Basically, there are too many unanswered explanations and unknowns to derive great meaning from the daily reports on COMEX gold inventories.

Gold prices more than doubled from \$800 in late 2008 when total COMEX gold inventories were at 7.5 million oz to 2011 as those inventories had risen above 11 million oz. Since late last year, total COMEX gold inventories have fallen to 7 million oz as prices have fallen more steeply than any time in history. There may be some connection with rising COMEX gold inventories and rising gold prices and vice versa; but that's not what the current analyses focus on. Instead, there seems to be a preoccupation with the declining COMEX gold inventories implying shortage and potential default. That's what I don't get (although I do acknowledge that temporary shortages can exist as appears to be the case in India due to government restrictions).

The gold that has come out of the COMEX still exists and hasn't been consumed out of existence; it's just in a different and unknown place. That doesn't mean shortage to me and the only way we can have a COMEX gold delivery default is if JPMorgan decides there will be a gold contract delivery default. That's because JPMorgan is holding a long market corner in COMEX gold futures (more in a moment). If JPMorgan demands delivery, I suppose that could cause a delivery default on the COMEX, but considering the legal hot water this crooked bank is already in, I doubt it is in the bank's interest to rile up the gold market (although it is to JPM's benefit for gold prices to rise).

Finally, I think it is important to put things in perspective. The 7 million ounces of gold in total COMEX inventories represents one to two-tenths of one percent of the more than 5 billion ounces of gold in existence. How important is one to two-tenths of one percent of anything? To me, this is trying to read too much into the data; kind of like estimating total world corn production from the production of one county in Kentucky. I think the real loss is that it detracts from the real issue ^? JPMorgan holding a long market corner in COMEX gold futures.

The short position in SLV (and GLD) grew in the latest reporting period through October 15. The short position in SLV grew by nearly 1.2 million shares (oz) to 17.8 million shares. This represents 5% of total shares outstanding, still way too high because there shouldn't be any short position; but it is down from 12% at the peak a couple of years ago. The short position in GLD rose nearly 2 million shares (200,000 oz) to almost 24 million shares, or more than 8.2% of total shares outstanding. <http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%2599>

Sales of Silver Eagles appear to be trailing off a bit, albeit from a very high level, and it will be hard not to set a new record this year. Gold Eagles sales seem to be reviving, lending credence to comments that previous extreme weakness in Gold Eagle sales was due to a fund sale of 130,000 gold coins a few months back. Overall, domestic retail demand for silver and gold still appear weak, but it is important to remember that retail sales have little influence on prices short term.

We finally got new Commitments of Traders (COT) and Bank Participation Reports, but due to the government shutdown, the data is only through the October 1 cut-off date. The CFTC plans to release more reports over the next couple of weeks and be completely caught up and current by the November 8 previously scheduled release date. While the data are obviously out of date in yesterday's reports, there is still much to be observed. You will remember that I have been estimating all along what I thought the changes had been even though no reports were published.

Practically speaking and all things being equal, I should have come closer in my estimates of the weekly changes in the reports yesterday than in the catch up reports to be published because the longer the time covered, the greater the chance of miscalculation. As it turns out I was extremely close in most estimates, with one wide "miss" in yesterday's reports.

As of October 1, the total commercial net short position in COMEX gold increased by 6600 contracts to 78,100 contracts. This was my big miss as I was estimating that the commercials would have reduced their total net short position by 10,000 contracts. Remember, there was an extreme and high volume sell-off in gold of \$40 (more than \$1 in silver) on the Oct 1 Tuesday cut-off and that was the basis for my estimate. I suppose it's possible that the big change on the cut-off date was missed (as has been the case at times like this in the past), but the funny thing is that other estimates of mine were on the money. (By the way, there is a point to all this and I have not reduced the analysis to what I guessed correctly or not).

Even though the commercials increased their total short position in gold as of Oct 1, JPMorgan did increase its long market corner by exactly the amount I estimated for the week and month. I had estimated that JPM had increased its gold long position by 7000 contracts for the week and by 13,000 for the month (since the September Bank Participation Report) to 70,000 contracts from 57,000 contracts on September 3. (Please see Weekly Review of October 5 in the archives). After removing spread positions from total open interest, JPM's 70,000 contract net long position represents 22.2% of all positions in COMEX gold. If there is possibly such a thing as a market corner in a major regulated futures market (there is), a single entity holding a 22.2% market share would meet and exceed any definition of how a market corner was defined.

It would seem to be a contradiction that JPMorgan would increase its long position in COMEX gold while other commercials added to shorts but that's how the data read. I am more convinced the JPM data are correct because of cross confirmation in the Bank Participation Report which showed an increase in the net long position of US banks of 13,000 contracts for the month and because of appropriate increases in COT concentrated positions by the four big longs.

I guess the surprise was that the technical funds only sold moderately on the \$40 price plunge and that the biggest 4 shorts (not JPM) in gold added 6000 contracts. Previously, I had opined that the key to any substantial down move in gold would be determined by whether the technical funds could be lured into selling heavily on lower prices. If the COT report is correct, the technical funds appeared reluctant to sell aggressively on lower prices and that's constructive to my mind.

In silver on the Oct 1 cut-off, the commercials reduced their total net short position by 3000 contracts (versus my guess of 3000 to 4000 contracts), to 16,600 contracts, the lowest commercial net short position since August 6. By commercial categories, the big 4 (JPM) bought back 1000 short contracts, the raptors added 1400 contracts to a net long position that totaled 32,300 on Oct 1. The big 5 thru 8 big shorts bought back the balance.

Based upon the COT and Bank Participation Report data of Oct 1, I would estimate JPMorgan's net short position to be 12,000 net contracts; down 5000 contracts from the 17,000 contracts I pegged them at in the September BPR. This is back to the lowest levels of JPMorgan's silver short position for the five and a half years of JPM's manipulation of COMEX silver (since the 2008 acquisition of Bear Stearns). If JPMorgan ever intends to quit the silver manipulation game, it would seem logical they would do so when they hold the fewest number of shorts possible.

Of some interest is that the concentrated long position of the four largest COMEX silver traders is higher and closer in size to the concentrated short position of the four biggest shorts (obviously different traders) than any time in my memory. I'm not sure what this means, but I am always sensitive to anomalies and changes in COMEX silver as it might signal an end to the manipulation. The four big longs in COMEX silver hold 29,040 contracts long and the 4 big short traders are short 35,378 contracts. Never have these respective concentrated positions been so evenly matched.

Over the years, the big 4 shorts' position was anywhere from 2 to 4 times larger than what the 4 big longs held in COMEX silver. To see them this evenly matched is a very big change, along the lines of seeing JPMorgan holding an unprecedented long market corner in COMEX gold — something way out of the ordinary. It would seem the big 4 longs in silver are in the commercial swap dealers category (with perhaps a managed money long thrown in). One thing that comes to mind is that either someone big may be taking JPMorgan on, or that JPMorgan is the buyer in a different reporting name. Is there anyone remaining who doesn't assume the worst when JPMorgan is involved?

Again, the whole exercise of analyzing the Oct 1 COT and Bank Participation Reports is not to make book on my previous estimates, as there is little practical purpose in such an approach. Instead, the purpose is to monitor and recalibrate the most important measurement on market structure. What moves and explains prices more than anything else in gold and silver is the change and level of positions held on the COMEX. Everything else (with the exception of SLV and GLD) comes in a distant second. In fact, we've seen irrefutable evidence that what happens on the COMEX determines what happens elsewhere; from the massive liquidation in GLD this year to the massive buying in India and China. First the price is set on the COMEX and then everything else reacts. It's always about the sequence.

So where do we stand now (not as of Oct 1) in the COMEX market structure? It's hard to be precise given the span of time, but general price action suggests to me that things are not radically different from positioning on Oct 1. In other words, we are bullishly structured in COMEX gold and silver. With price volatility still extreme and with JPMorgan and other collusive commercials still controlling the pricing mechanism thru HFT, there will likely be sell-offs, but we are still positioned for much higher prices. Last time JPMorgan took profits on their long market corner in gold, it seemed to be in the hundred dollar profit range. Therefore, I wouldn't be surprised to see a \$100 or \$200 pop in gold to accommodate JPM. The key in silver is whether these shysters add to short positions; same as it's ever been.

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Every week reveals new insight into the regulatory quagmire JPMorgan finds itself in. This week it looks like last week's \$4 billion settlement with Fannie Mae and Freddie Mac has been kicked up a billion, but the estimate of \$13 billion for settling all mortgage issues with the Justice Department hasn't been revised higher (yet). But a new matter caught my attention as well Â? the Bernie Madoff Ponzi scheme.

I had been under the impression that JPMorgan had largely escaped liability in the Madoff affair, as the bankruptcy trustee, Irving Picard, had sued JPMorgan in 2010 for \$6.4 billion, but that case had been dismissed. Now, it turns out that case is being appealed to the US Supreme Court. JPMorgan had been Madoff's banker for 20 years and it was felt the bank knew or should have known about Madoff's fraud and taken steps to end it.

This is very much along the lines of JPMorgan sitting mute as allegations are hurled at them for manipulating silver and gold prices. You'd think as a good corporate citizen and member of the business community, JPMorgan would take the initiative to investigate and end fraud around them without being forced to do so by government threats. As it turns out, the US Attorney in New York has been investigating JPMorgan's role in the Madoff scandal with a possibility of criminal charges. What could possibly be next for this bank?

[http://dealbook.nytimes.com/2013/10/23/madoff-action-seen-as-possible-for-jpmorgan/?\\_r=0](http://dealbook.nytimes.com/2013/10/23/madoff-action-seen-as-possible-for-jpmorgan/?_r=0)

If you are feeling overwhelmed by the seriousness of JPMorgan's transgressions and are conflicted by the talk of the government setting up and shaking down the bank versus those who claim the Feds are letting JPM off too easily, then you might want to kick back and enjoy Jon Stewart's take. This is one of the funniest skits I've experienced. (You can skip the opening advertisement). [http://www.youtube.com/watch?v=\\_PknodCIKAY&feature=youtu.be&t=1m36s](http://www.youtube.com/watch?v=_PknodCIKAY&feature=youtu.be&t=1m36s)

I still remain in a state of surrealism when it comes to the legal developments of JPMorgan. When I first started accusing the bank of manipulating silver (and gold) prices five years ago, JPMorgan had a squeaky clean image as one of the heroes in the financial crisis. Today, it's hard to imagine the bank doing anything on the up and up. And what are the odds that JPMorgan could do so much wrong in so many different lines of its business and not be guilty of manipulating silver and gold? Is it possible that JPMorgan is only aboveboard and legitimate in COMEX gold and silver and not in anything else?

I am still convinced that the CFTC and the Justice Department has incontrovertible evidence and proof that JPMorgan has manipulated silver and gold prices as I have outlined for five years. The only reason the government is not charging JPMorgan is because of the knockout blow it would land on the bank and, by extension, the financial system. But that blow is coming one way or another.

In the housekeeping department, I am hoping to have the email alert system fully functioning next week, or at least, that's what I've been told. Sorry for any inconvenience and please remember to check after 3 pm (NY time) on Wednesdays and Saturdays whether you get an email notice or not.

Ted Butler

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Silver – \$22.60

Gold – \$1352

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