

Weekly Review

Gold and silver prices fell for the second week, although there was a temporary move up mid-week. Gold fell \$22 (1.7%), while silver ended 28 cents (1.8%) lower for the week. As a result of the lack of any relative change between the two, the silver/gold price ratio ended unchanged at 73.5 to 1, still stuck in the middle of the tight yearlong trading range. I'm sure you also know what comes next – the short term notwithstanding, I do expect silver to vastly outperform gold on a long term basis.

The temporary price pop mid-week was attributed by many to be related, as it usually is, to the most recent pronouncement by the Federal Reserve. I continue to be from a distant planet in not understanding the connection, other than some explanation is needed to explain sharp price moves and this week's move continues a series of such moves in precious metals pricing at Fed time.

I still contend that price moves in gold and silver are almost always caused by COMEX trading and the traders quickest to buy and sell, the managed money traders, look exclusively at price and not news of any type. Being a technical

fund means not looking at fundamentals or news; just price change. Now, if you want to tell me that the commercials use whatever news that comes along to rig prices up or down, in order to induce the technical funds into buying or selling, then you'll get no disagreement from me. The Fed as the cause of precious metals price moves? No way. The Fed (or any) news used as an excuse for the commercials to rig prices and make the managed money traders dance? Yes way.

The physical turnover or movement of metal brought into or removed from the COMEX-approved silver warehouses increased by one million oz this week from last week's low levels, to 2.75 million oz, but that's still down from the recent stretch of 8 million oz turnover weeks. Still, that's close to 150 million oz on an annualized basis and far from chump change. Total inventories dropped 0.2 million oz to 162.1 million ounces, another new two year low.

Total COMEX silver inventories are now down more than 20 million oz from peak levels several months ago. As a reminder, COMEX silver inventories are the second largest in the world. In addition, there have been some smaller reductions in the holdings of the largest visible silver stockpile in the world, the ETF SLV, although they are more flat than anything else over the past five years. Still, looking at the grand total of all visible silver (1000 oz bars) in the

world, total silver visible inventories have more or less flat lined for the past five years and currently sit at 833 million oz. (Courtesy of Nick Laird at sharelynx.com)

Since I believe the world has produced close to 400 million oz more silver than it has consumed in total fabrication demand over the past 5 years, I would have expected an increase in total visible silver inventories over this time, not a flat line. Among the possible explanations for no increase in visible inventories would be silver being accumulated on an unreported basis (say by a big US bank which has happened to have paid more fines and settlements for doing sleazy things than any other bank). I suppose it is also possible that maybe the world didn't produce as much silver over total fabrication demand as I've believed, but that explanation is far too bullish, even for me.

Sales of American Eagle bullion coins from the US Mint appear to have ended the month in the manner previously suggested, namely, with a dramatic cooling off in demand for Gold Eagles and perhaps a less dramatic fall off in demand for Silver Eagles. Gold Eagle sales fell off by 75% from the average sales of the prior four months. It's harder to tell if sales of Silver Eagles fell off much or if the Mint reduced the amount of coins it had allocated for the last week of October, but sales of Silver Eagles relative to Gold Eagles exploded to a rate of more

than 100 to 1 this month.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

In trying to come up with the most plausible explanation for the sharp decline in demand for Gold Eagles during October, I'm stuck with my big buyer premise. Sales of Gold Eagles exploded in June and remained very strong thru September, with virtually no signs of strong retail buying. Retail demand for Gold Eagles is still very soft, only now that is reflected in reported sales from the Mint. I would contend that in the absence of strong retail demand all along, the only explanation must be that a big buyer suddenly appeared in June for Gold Eagles and continued buying through September. In October, that big buyer stepped aside and that was reflected in sales this month.

The only real question is why the big buyer stepped aside this month? In keeping with my observation that no buyer, large or small, buys any investment asset in the expectation that prices will fall; I can't help but conclude that the big buyer of Gold Eagles over the prior four months (JPMorgan) stepped aside because of expectations of falling prices near term. This is the same scam that JPMorgan pulled off in Silver Eagles on previous occasions, namely, refraining

from buying when the COMEX COT market structure dictated that prices would fall and when those lower prices were achieved, then buying all the Eagles available at the new lower prices. This is not the prime component of the manipulation, just another related scam by the sleazebags at JPMorgan.

Speaking of JPMorgan, the now concluded delivery month in October COMEX gold futures shows that the bank, effectively, took just about 100% of all the net gold deliveries this month (net deliveries defined as deliveries taken and not redelivered during the month). The number of gold deliveries taken by JPMorgan came to 836 contracts out of a posted total of 950; but a closer examination indicates others taking delivery (HSBC) redelivered during the month. These aren't large numbers in terms of contracts, but close to 100% is the largest possible number in terms of percentages.

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

My sense is that JPMorgan went into October with an expectation to take much more than the 836 gold contracts it eventually stopped, but the COT market structure changed so much to the bearish side that it aborted the plan to take more COMEX gold deliveries (or buy more Gold Eagles). I'm still of the opinion

that wholesale conditions are tight enough in gold (and even more so in silver) that JPMorgan could have easily exerted enough pressure in demanding deliveries so as to cause prices to rise and that it chose not to because of the deterioration in market structure (with JPM also responsible for contributing to the deterioration).

The deterioration in market structure over the past month or so is clearly visible in the just-released Commitments of Traders (COT) Report; although this week's changes fell within the broadly unchanged predictions I made on Wednesday. There was some further deterioration, or increase in the headline number of the total commercial net short position, but this week's combined change for gold and silver was the smallest change in months.

In COMEX gold futures, the total commercial net short position increased by 2500 contracts, to 165,800 contracts, the largest (most bearish) since early February. Although the net change wasn't notable, there was a departure from the recent collusive pattern by commercial categories. The four largest shorts bought back nearly 5000 short contracts and the big 5 thru 8 bought back an additional 500 short contracts; meaning the raptors smaller commercials) sold off 8000 long contracts.

There did appear to be something "hinkey" (Internet slang for strange) about the managed money traders category in that they liquidated more than 8500 longs and also about the other reportable traders category in that they bought back more than 7000 shorts. But if it was some type of reporting error, it will get washed out in time and doesn't warrant deep analysis at this time.

In COMEX silver futures, the total commercial net short position increased by 2500 contracts to 69,400 contracts. This is the largest (most bearish) headline number reading since early 2008. By commercial category, the big 4 added nearly 600 new shorts, while the big 5 thru 8 bought back 2000 short contracts; meaning the raptors sold off another 4000 long contracts. The raptors now hold their lowest net long position since February. By the way, I'd peg JPMorgan's net short position to be around 25,000 contracts, with next week's release of the monthly Bank Participation hopefully clarifying matters.

On the speculative buy side in silver, it was all the managed money traders and then some, as these traders bought over 5400 contracts, including 2282 new longs and further short covering of 3169 contracts. Last week, I thought we were close to empty in how much additional short covering could come from the

managed money technical funds; this week even more so, as total managed money shorts are now less than 10,000 contracts.

It was only a few months ago (July) when there were 56,000 contracts of managed money short positions, meaning we did get the short covering that I was certain would come from these traders; only I would have expected a much bigger rally than the barely noticeable rally of \$1.50 or so that followed. I remember writing not that long ago that we were setup for net buying by the managed money technical funds of as many as 60,000 contracts of net buying, between short covering and new longs.

As it turned out, in the COT report as of July 21, the managed money traders were net short nearly 15,000 silver contracts, a record. This week, these purely speculative traders are net long 53,000 contracts, also a record. In setting these records, this means that the managed money traders bought 68,000 net silver contracts, or even more than I thought possible. In little more than three months, the CFTC has reported that a small number of traders (around 50) that are designated as pure speculators have bought the equivalent of 340 million oz of silver, roughly double the amount of real silver mined in the world in that time. I must ask you to stop and think this over.

First, we know that traders designated as commercials, but not including any real silver producers, sold an almost equivalent amount to the managed money speculators. Since the sellers don't include any real silver producers and are, therefore, only taking market making counterparty positions against the managed money traders, the commercial sellers must be considered speculators as well. As such, it must be concluded that massive speculative positioning in amounts almost too massive to fully comprehend, is what drives the price of silver (and gold). No wonder the CFTC can't address this, as everything about this is contrary to commodity law.

Please allow me to stop here and pass along a new thought that occurred to me this week. Although it's a new thought, it has evolved over a considerable period of time, as in decades. So obvious has become the dominance of the managed money traders versus the commercials on the price of silver (and gold) that it is being analyzed and commented on like never before. Each day seems to bring additional new commentary on the great price force that COMEX positioning represents. I even observed a "food fight" on an Internet chat site this week with the argument revolving around who called the new COT report bearish first.

Over the years, I have heard from many readers who suggested that I lighten up on my emphasis on the COT market structure analysis. Instead, they suggested I concentrate more on silver and less on the COTs. I understand the suggestions, but as a silver analyst, I have a responsibility to identify what I believe to be the most important influences on the price. As time has progressed over the years, not only have I come to emphasize the COTs more, I have definitely noticed more observers doing the same thing. And for almost every observer, there is a broad consensus that when the managed money traders get net long and the commercials get net short to the degree they are now, that is strongly indicative of lower prices to come.

But incredibly, that was not always the way it was. In fact, when I first started considering the COT report as an analytical tool three decades ago, the opposite was true. Believe it or not, the conventional wisdom back then, including what was written in the [textbooks] at the time, had a completely different methodology in approaching the data in the COT reports. The most accepted approach was that the large speculators not only determined where prices were going (it was a given that they got large because they were usually successful), they should be mimicked. The more they bought, the better it was for price.

As it turned out, I happened to have had early hands-on experience with technical funds, as a large part of my commission book as a broker included placing clients with the technical funds. As with anything else, you generally learn more from actual experience than from reading textbooks. Because of that, I gained hands on experience into what made the funds buy and sell. What I learned, among other things, was that there was much truth in the conviction that prices rose as the technical funds bought on higher prices, as long as that buying continued. But once the tide turned and the technical funds started selling, watch out on the downside. This was not something emphasized in the textbooks at the time.

At that time (in the mid to late 1970's), the commodity managed money industry was in its infancy, with the largest individual fund having \$25 million or so of customer assets under management. Today, by contrast, the largest commodity funds are 1000 times larger, holding \$25 billion in customer assets under management. In reality, the methodology of these technical trading funds has changed little, but the size of the pot of money they run has grown by roughly a factor of 1000.

It is my contention that, strictly by hands on experience and practical observation, I came to see that the best way of analyzing the COT market

structure was, instead of buying as the technical funds were buying, to buy before they started buying or to sell when it appeared they were close to concluding their buying. Had I not had the opportunity to actually deal with the technical funds and to consciously try to learn the key to the COT analysis, I doubt I would have become such a strong proponent of this approach.

Nowadays it's different – new observers have a wealth of detailed data at their disposal not available 20 or 30 years ago, along with rich explanations for how to read the COT report and, most importantly, a track record of actual results supporting the new approach compared to the old approach. As I'm sure long time readers would agree, I have varied very little in my approach for the 15 years or longer I have written on the COT market structure.

What's most encouraging about more observers and commentators embracing the "new" COT analysis is that once the approach is fully embraced, it is only a matter of time before the price manipulation comes into full view. Most discouraging to me is that it has taken so long to get to this point, largely I believe because most market participants and observers have an aversion to accepting the general premise that markets can, in fact, be manipulated. But once one sees what really makes silver and gold prices move, concluding that they are manipulated, as proven by the COT reports, is inevitable.

Back to the present, what to make of the volatile price action since the Tuesday cutoff of the new COT report? As I reported on Wednesday, it appears clear to me that managed money technical fund traders plowed aggressively onto the long side of COMEX silver on the price jump most of that day (and perhaps more aggressively into gold than I originally estimated). Technical funds which bought at the higher prices of Wednesday got their heads handed to them and I would guess they have sold most or all that was added that day (at large losses).

Where I guessed last week that there wouldn't be much change in the COT report released yesterday because price action was relatively subdued during the reporting week; through yesterday there might not be much change so far in the new reporting week because the large managed money buying on Wednesday has been liquidated already. But the reporting week still has two days to go, so I'm not predicting what the new COT report will show next week.

Of concern to me is that the crooked and collusive commercials which run the COMEX seem to have the managed money traders over a barrel. In addition to loudly ringing the cash register on trades put on and taken off already this week, the commercial crooks seem ideally positioned to put it to the managed money technical funds from here. On Wednesday, I indicated the commercials had what I estimated was an average price on the 90,000 net gold contracts

sold over the past 5 or six weeks of \$1165 or thereabouts. In silver, I estimated an average price of \$15.85 on what I would up to 50,000 contracts sold (and leaving this week's trading profits for the commercials aside).

Yesterday we closed right on the 50 day moving average for gold (\$1141), so any lower penetration of that average could set off a torrent of technical fund selling and the commercials are already \$25 in the black on their average sale price. In silver, we're still 35 cents or so from penetrating the 50 day moving average, but does anyone seriously think the commercials couldn't achieve that in a heartbeat should they so decide? And as is the case in gold, the commercials are already in the black by 30 cents or so in silver on positions sold over the past 6 weeks. In terms of criminal activity, the commercials have created a potential masterpiece.

To be sure, it pains me to write as I just did, but it would be wrong to write otherwise. And this too shall pass. Assuming the commercials are successful once again in rigging silver and gold prices lower, once they are done we will have perhaps the best buying point ever. There is no guarantee that it will play out as I fear and the risk to the downside is still minor compared to eventual sharply higher silver prices, even if it does. And with more observers focusing on the real state of the price manipulation that will all but guarantee the COMEX

market fraud will end. It's hard to run a scam out in the open forever.

Ted Butler

October 31, 2015

Silver - \$15.53 (50 day moving average - \$15.17)

Gold - \$1142 (50 day moving average - \$1141)