

## More Signs of Tightness

There has been an explosion of internet commentary about the daily changes in the gold and silver inventories in COMEX-approved warehouses. Particularly in gold, there has been intense scrutiny and commentary centered on the low level of metal held in the "registered" category, said to be the true measure of deliverable supplies (as opposed to metal classified as "eligible"). The prevailing line of thought holds that because the level of registered gold in the COMEX warehouses has dropped to low levels that suggests a developing delivery problem or a short squeeze of some type resulting in higher prices.

As I've indicated previously, I don't think the category classifications should be the primary focus of attention and much of what is written doesn't hold up as completely accurate. That said, I very much welcome the attention being devoted to COMEX dealings as this is where the price of gold and silver is set. I particularly welcome the growing recognition that the price discovery process on the COMEX is manipulative, as I have been postulating for three decades.

It's no surprise to me that more are drawing a bead on the COMEX as being at

the core of the price process. A big reason for that is the large quantity of detailed statistics published daily on everything from warehouse inventories, and price/volume/open interest details to the weekly position changes in the COT report. Such information on gold and silver trading is not available elsewhere. Yes, the COMEX is the root of all evil when it comes to manipulating gold and silver prices, but it does provide exquisite details along the way. Some still contend that everything from the COMEX is a lie (while selectively quoting specific statistics to prove some point), but the case can be made for manipulation based on those statistics. Who lies to deliberately incriminate themselves?

The great irony is that delivery circumstances for gold and silver on the COMEX do look tight and that may be reflected in the fairly low level of registered gold inventory. It's just that other indicators offer stronger signs of tightness, at least to me. The main indicator has been the ongoing delivery tightness in COMEX futures trading, as previously discussed. The recently completed August delivery strongly hinted at a growing tightness in physical gold. Decent quantities of delivery were made by JPMorgan early on in the month by transferring gold from eligible to registered (275,000 oz) and that gold was subsequently removed from the JPM warehouse. Goldman Sachs showed up as a big stopper (taker) of 250,000 oz and had to wait to the very last days of the month to get full delivery. Spread differentials were and are tight.

September 16, 2015 - More Signs of Tightness

We're not in a traditional COMEX gold delivery period currently, so we may see more clues when the October delivery periods starts and December for sure after that. But from what I've seen so far, it looks like a physical delivery demand of 250,000 oz or so on COMEX futures contracts would be seen in the price of gold. I can't prove that, but that's my sense. After all 250,000 oz of gold is equal to \$275 million, not exactly chump change. (By way of comparison, \$275 million is equal to 19 million oz of silver, an amount that would impact the price of silver much more).

My guess is that if gold prices continue to stagnate, it should make it more attractive for a cash buyer of gold and unattractive for a cash seller of gold in quantities of 250,000 oz or more in a COMEX delivery. In other words, at current prices a delivery demand for 250,000 oz or more on the COMEX would have an upward impact on the gold price, based upon what occurred in August. Keeping that 250,000 oz figure in mind, I'm going to jump to something that may not appear to be connected at first, but looks very much connected to me.

The statistics from the US Mint thru yesterday continue to indicate surging sales of Silver and Gold Eagles, to the point of taxing Mint production capacity to its

September 16, 2015 - More Signs of Tightness

limit. Sales of Silver Eagles have been close to production/blank supply capacity for 4.5 years, I believe because of the buying by JPMorgan, to the tune of 100 million coins. But it is the surge in sales of Gold Eagles that interests me today.

[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)

For the 24 months (2 years) starting in June 2013 and ending in May 2015, the US Mint sold roughly 40,000 oz of Gold Eagles each month. Starting in June of this year, sales of Gold Eagles exploded by a factor of three. In the past 3.5 months (thru yesterday), the US Mint has sold Gold Eagles at the rate of more than 120,000 oz per month. Another way of expressing this is to say that the US Mint has sold 280,000 more ounces of gold in the form of Gold Eagles over the past three and a half months than it sold on average for the twenty four previous months.

While there have been continuous reports of extreme tightness and actual shortages in many forms of retail silver, there have been no reports (that I am aware of) of surging retail demand for gold. Certainly I am aware of no big increase in premiums on gold coins or increases in delivery delays as are apparent in silver. Yet there is no doubt that the US Mint sold the amount of

Gold Eagles it reported. So, how can this be? How can there be no apparent rush on Gold Eagles by the retail investment public, yet there be a documented "extra" 280,000 oz of Gold Eagles sold in just 3.5 months?

The answer is simple - the Gold Eagles are being sold alright, just not to the retail public. And if the gold has not been sold to the public, then it was sold to someone big. It was this same reasoning, no strong retail buying demand over most of the past 4.5 years that led to my conclusion that JPMorgan was buying the snot out of Silver Eagles. Was it JPMorgan buying the extra 280,000 oz of Gold Eagles over the past 3.5 months? I think that is the high probability bet, but it could just have easily been some other entity, like Goldman Sachs. The exact who is less important than someone big bought the extra Gold Eagles.

The answer to why JPMorgan or some other big entity would buy Silver or Gold Eagles from the US Mint is as I've explained previously. The US Mint is obligated by law to produce sufficient quantities of Gold and Silver Eagles to meet demand. The Mint sells its coins at the prevailing (COMEX) price of gold and silver daily. Therefore, purchases from the US Mint have no direct influence on the price of either metal.

September 16, 2015 - More Signs of Tightness

Both the US Mint as sellers and the buyers of the Mint's coins are price takers, not price makers. Unless, of course, you happen to be a very large bank which dominates the price discovery process on the COMEX; then you get to set the price on the COMEX via futures positioning and buy the Mint's coins at the price you've set. It's an absolutely perfect scam, as I hope I've made clear in Silver Eagles.

The 280,000 extra oz of Gold Eagles bought over the last three and a half months is more than the 250,000 oz or more of physical gold that I said would be difficult to take delivery of on COMEX futures without driving gold prices higher. I would contend that is precisely the reason that quantity of gold was purchased in the form of Gold Eagles and not in COMEX deliveries. If my speculation is correct, what does this mean for prospective gold (and silver) prices?

For one thing, no one buys a large quantity of any investment asset without the expectation of higher prices to come. Therefore it's safe to say that the buyer of the \$325 million of extra Gold Eagles over the past 3.5 months expects gold prices to move higher at some future yet undetermined point. But I also can't help but feel that because it looks so obvious to me that the 280,000 oz of extra Gold Eagles were purchased by someone big who was gaming the system that

this slick method of accumulation won't continue for much longer.

Yes, I know that it has gone on for 4.5 years in Silver Eagles, but everything seems to be coming to the point of resolution by many measures. Accordingly, this recent aggressive accumulation of Gold Eagles looks like a finishing touch before a trip uptown in prices. Certainly no one, not even JPMorgan could have purchased an additional \$325 million worth of physical silver over the past 3.5 months (although it did buy plenty) without causing silver prices to surge. Adding this amount of gold was doable without impacting prices in the manner I've laid out. So gold prices go up along with silver and JPM makes money on both (but much more on silver). At the least, if it was JPMorgan behind the purchase of the extra 280,000 oz of Gold Eagles, then they recovered the 275,000 oz they "lost" in making delivery on the COMEX in August.

The most important point is that if I am close to being accurate in my speculation (connecting and explaining verifiable facts), then I am describing a very tight physical circumstance in gold (to go along with an even tighter situation in silver). Unless there's a more plausible explanation for the sharp increase in sales of Gold Eagles than I've just outlined, the physical market appears aligned with the market structure on the COMEX in strongly suggesting higher prices to come.

September 16, 2015 - More Signs of Tightness

Back to COMEX statistics. One thing that continues to puzzle me is that with all the attention given to the level of registered and eligible gold and silver inventories, no mention is made about the most compelling feature of the COMEX warehouse data □ the unprecedented turnover or movement of metal brought into or taken out from the silver warehouses.

Why I'm so puzzled is that the daily warehouse reports are closely followed, otherwise there wouldn't be the explosion of commentary about the level of registered metal. Since the same warehouse report shows that day's levels and movements in incredible detail, it's not like the data are not being looked at, as it's virtually impossible not to see the silver physical movement. I have a hunch as to why the frantic silver turnover is not the subject of wider discussion and would be interested in any suggestions you may have.

One thing that the daily COMEX warehouse statistics point out is the remarkable growth of silver inventories in one particular warehouse □ the JPMorgan COMEX warehouse. I thought we were close to finished with the deposits in this warehouse with last week's 3 million oz increase, but so far this week, close to 2 million additional silver ounces have been added thru today. While the other

September 16, 2015 - More Signs of Tightness

five COMEX silver warehouses are down from peak holdings, as are the total COMEX silver inventories, only JPMorgan's silver warehouse is at record levels of nearly 68.5 million ounces, or 40% of total inventories of 167.5 million oz.

JPM's silver warehouse inventories have increased by nearly 20 million oz since April, as a result of the bank taking delivery of that amount in COMEX futures contracts starting with the March delivery period and continuing thru today. What's so remarkable about this is that I asserted JPMorgan was buying massive quantities of physical silver for maybe a year or so before the bank started taking delivery of metal in its own name this year on the COMEX.

Even though 20 million oz represents only 5% of the total amount I allege the bank has accumulated over the past four and a half years, this is the most transparent of the many different acquisition methods JPMorgan has employed. The fact that it has stopped delivery on and physically then moved to its own COMEX warehouse 20 million oz over the past several months has got to be the clearest confirmation possible that JPMorgan is acquiring physical silver. That this became transparent well after I alleged what the bank was up to is something for which I'm extremely grateful. Saying they were acquiring silver after the COMEX deliveries and subsequent warehouse movements became clear would not have been much of a stretch.

The single biggest factor in the developing physical tightness in gold and silver is that it should be occurring as a direct result of the persistently low price environment. As I discussed in "The Coming Silver Shortage" last week, low prices must lead to supplies being crimped and demand growing. If not, then the age old law of supply and demand must be radically revised. The signs of tightness that I see in silver and gold should be occurring against the low price backdrop we have experienced. It's always good for one's sanity when things that should occur, do occur. If the low price environment didn't lead to increasing physical tightness at some point, the whole concept of analysis should be thrown out the window.

The only thing remaining is price confirmation. At some point, given all the signs of physical tightness the price of gold and, particularly, silver must move higher. That the price hasn't moved higher is the only thing missing from the equation. But of all the actual supply/demand factors in play, price is also the factor that can change quicker and more profoundly than any other. Price is always the one factor of the law of supply and demand most susceptible to manipulation and, at the very least that provides the most plausible explanation for why silver and gold are so low in price despite growing physical demand and stagnant supply.

September 16, 2015 - More Signs of Tightness

The flip side to manipulation is that when a manipulation ends, it ends suddenly and forcefully. That is an historic fact and reality, although the certainty that the current manipulation in silver (and gold) will end is different from when it will end. My sense is it will end soon, due to the continuing flow of data pointing to physical tightness and the bullish COT market structure on the COMEX. I can't know if today's sharp rally (right up to the 50 day moving averages) is the beginning of the end of the manipulation; but then again, it just might be. And as is always the case, it should be treated as if it is the beginning of the end, meaning a full exposure to silver.

Ted Butler

September 16, 2015

Silver - \$14.90 (50 day moving average \$14.85)

Gold - \$1119 (50 day moving average \$1120)