## September 19, 2015 – Weekly Review/Hardest Part

## Weekly Review

As a result of the strongest three day rally in months, the price of gold finished higher by \$30 (2.7%), while silver ended the week up 55 cents (3.8%). Due to silver's relative outperformance in percentage terms, the silver/gold price ratio tightened in by nearly a full point to just over 75 to 1. This ratio attracts a fair amount of attention, I think, because there are a good number of devout believers in either gold or silver who tend to look down their noses at whatever metal they favor least. I suppose this is natural.

This results in conclusions being reached every time the ratio fluctuates (which is constantly), with partisans proclaiming the price movement proves the superiority of either metal. In reality, we are close to dead center in the price ratio's tight trading range over the past year. There is no question that silver is undervalued relative to gold based upon the history of the price ratio, but considering the actual circumstances of how much of each metal is available to the market, the historical price record is woefully inadequate in even coming close to portraying just how undervalued silver is relative to gold.

This week's price action may illustrate silver's relative undervaluation to gold. I was disappointed that silver was only up 55 cents considering that gold was up \$30, as I thought (all things being equal), that on a \$30 gold rally, silver would have been up a lot more than it was. Therefore, I was surprised when I did the percentage calculations and discovered silver was up more on a relative percentage basis. Then it dawned on me Â? silver is so darn cheap on every relative and absolute basis imaginable that even a somewhat disappointing rally results in an outsized percentage gain. In other words, silver is so cheap that even small gains are big in percentage terms. That's a perspective that should be most appealing to a silver investor.

Of course, this week's price action in gold and silver didn't result from anything other than positioning in futures contracts on the COMEX and nothing to do with actual changes in real metal supply/demand fundamentals. Gold and silver are different enough metals that one would think that over the past year their relative price might change more as fundamentals changed. Certainly, no one would argue that actual conditions haven't changed quite drastically in silver and gold this year, what with a retail shortage occurring (again) in silver and not gold and with JPMorgan not even trying to hide its accumulation of silver. Gold proponents might have a different take pointing to unique circumstances favoring gold over silver.

I know of no one who would argue that the circumstances in gold and silver were the same (except in COMEX price setting) over the past year. Yet the silver/gold price ratio has declared that nothing has changed. So either all the circumstances that one observes daily are wrong or the price is wrong. The good news is that those who profess that there's nothing wrong with prices being fixed on the COMEX are starting to sound awful silly. Yes, I continue to think silver is massively undervalued to gold and just about everything else, but ask me what the price ratio will do in the short term and I'll tell you to ask the crooks on the COMEX instead, starting with JPMorgan.

The most visible and verifiable circumstance pointing to wholesale physical tightness in silver continues to be the turnover or physical movement of metal being brought into or taken out from the COMEX-approved silver warehouses. This circumstance also continues to be the most ignored by commentators, for some reason, even though it has been continuous for four and a half years and is unique to silver among all commodities.

This week, more than 8 million ounces of silver were physically shuffled in and out of COMEX warehouses as total inventories rose 2.2 million oz to 168.6 million oz, following mostly weeks of reductions. As is almost always the case, total movement vastly overshadowed any net increase or decrease in total COMEX silver inventories. Illustrating the lopsided nature of the physical turnover in COMEX silver inventories to changes in total inventories is that more than 25 million oz of silver were moved in the last three weeks on a net reduction in inventories of 2.6 million oz.

A big part of this week's, as well as the past three weeks' physical turnover in the COMEX silver warehouses can be traced to JPMorgan. I thought JPMorgan was done with depositing silver in its own COMEX warehouse with last week's 3 million oz deposit based upon my back of the envelop calculation figured on its previous futures deliveries, but an additional 3 million oz came into the JPM warehouse this week. It would be an understatement to say that JPMorgan is conspicuous in its COMEX silver activities, somewhat to my surprise. These guys do what they want, obviously.

JPMorgan's warehouse is now, by far, the largest COMEX silver warehouse with nearly 70 million oz or more than 40% of total COMEX inventories; holding twice as much as the next largest warehouse and more than ten times as much as the now smallest COMEX warehouse, run by the Bank of Nova Scotia (which is somewhat surprising seeing what a large role Scotia has in COMEX futures and delivery activities).

Most remarkable is that JPMorgan's warehouse was only restarted 4.5 years ago (why do so many things go back to April 2011?) and it has, therefore, become the largest holder of silver in that relatively short time. This fact, of course, was one the reasons I gave for my belief that JPM was the big accumulator of physical silver starting last year and its COMEX inventories have only grown since.

http://www.silverseek.com/commentary/perfect-crime-13944

I feel fortunate to have made the allegation that JPMorgan was accumulating physical silver early on (but still years after its accumulation began) for a different reason. I had been estimating JPMorgan had accumulated at least 300 million oz and have increased that number to 400 million oz as time and new evidence have dictated. But I'm glad I did so before this year's incredibly transparent evidence indicated by the bank's taking of deliveries on futures contracts in its own name and subsequent physical movement of that metal into its own warehouse.

I feel fortunate about the timing of my allegation because it came before this year's COMEX deliveries and warehouse movements by which even a blind man could see the bank was accumulating silver. Had I waited to finger JPM as the big silver accumulator until after the very transparent COMEX data became obvious, I'm sure critics would say that I was just exaggerating the amounts that the bank took and moved this year. By declaring that JPMorgan had accumulated 300 to 350 million oz before it started taking delivery on the COMEX in March, no one can say I arrived at those amounts by hyping up the COMEX deliveries this year (since they hadn't occurred). These COMEX deliveries and subsequent warehouse movements by JPMorgan are the clearest confirmation possible that the bank is acquiring physical silver and I feel lucky to have made the case well before the confirmation was obvious.

I don't have much to report on Silver and Gold Eagles since Wednesday due to erratic reporting by the US Mint, but it still appears to be pedal to the metal as the Mint struggles to keep up with demand. Certainly, however, there appears to be no letup in the high premiums and delivery delays in retail forms of silver. Ditto for major developments in the big gold and silver ETFs, GLD and SLV (although there was an early week reduction of holdings in SLV (a million oz or so).

The changes in this week's Commitments of Traders (COT) Report were constructive in both gold and silver, with the biggest surprise in silver. In last week's review I had assumed further managed money shorting in gold on dismal price action thru last Friday, but had concluded managed money traders would continue to hold off in shorting silver due to its low price. I'm happy to report I was wrong and there was notable new managed money shorting in silver.

In COMEX gold futures, the total commercial net short position declined by a sizable 23,000 contracts to 33,000 contracts, not the lowest number on record but close enough to call extremely bullish. This extremely bullish market structure has to be the prime suspect in the strong rally in gold (and silver) that erupted immediately after the Tuesday cutoff for the report. Undoubtedly, the market structure in COMEX gold and silver looks much different as of today, but let's finish the reporting week that was first. However, I assure you that gold and silver prices fell (during the reporting week) and rose (since the cutoff) primarily on COMEX futures positioning and the price pattern of many commodities is similarly determined.

By commercial categories in gold, the biggest shorts accounted for more buying than typically seen and this could prove to be an important Â?tellÂ? as I'll explain when I get to silver, where the pattern stood out even more. Of the 23,000 commercial contracts bought in gold, the 4 biggest shorts bought back more than 12,500 and the big 5 thru 8 bought another 4,000 shorts back, with the raptors accounting for the balance. As constructive as is the low headline number of total shorts, the very low number of concentrated shorts held by the big 4 and big 8 appears even more constructive. Of course, this is all as of Tuesday; but a big key going forward is the behavior of the biggest shorts in gold and silver.

The managed money traders did add to short positions in gold as expected, by adding 9,634 new short contracts, but I was surprised that managed money longs liquidated almost 8400 longs since the technical funds didn't appear to be long enough to sell that many longs. No matter, as of Tuesday, we can now say safely there wasn't much additional room for managed money short selling or long liquidation. What we can't know is how many managed money contracts were bought on the rally in both long and short categories since Tuesday.

In COMEX silver futures, the headline total commercial net short position declined by a hefty 4200 contracts, to 21,400 contracts, the lowest (most bullish) reading in six weeks. Under the hood, the biggest surprise was that the managed money shorts added 6000 new shorts. Silver price action was pretty rotten in the reporting week, but this number of new managed money shorts was a very welcome surprise, given that it represented rocket fuel buying at some point. Undoubtedly, most, if not all (and then some) of this fuel was expended in the rally on Wednesday and Thursday. The less than 700 contract increase in managed money longs to just over 42,000 contracts looked fine and still not subject to meaningful liquidation on lower prices as of the reporting week cutoff.

I went out of my usual order in discussing the changes in the commercial categories intentionally. The big four shorts bought back a sizable 2600 contracts and the big 5 thru 8 shorts bought back an additional 1300 contracts, meaning the raptors added only 200 or so new longs. As was the case in gold, the concentrated short positions of the big 4 and big 8 in COMEX silver are the lowest in months and very much at the low end of historical levels.

Don't get me wrong Â? the concentrated short positions of the big 4 and big 8 in COMEX silver are still off the charts compared to actual world production relative to any other commodity and that can't be explained away in legitimate terms, so please know I'm looking for clues not easily seen by the naked eye. What stands out to me is the recent pronounced pattern of the concentrated short position being infiltrated by managed money shorts is not apparent in the reporting week.

Up until this reporting week, for the past several months it was obvious that some managed money traders' short positions had grown large enough to warrant inclusion in the big 5 thru 8 and even big 4 short categories. In other words, in past recent reports the concentrated short position of the 8 largest traders in COMEX silver would increase as managed money short positions increased. You may recall me commenting on not being able to pinpoint either JPM's or the true commercial concentrated short position because the ranks of the big 8 shorts in COMEX silver had been infiltrated by managed money traders.

That recent pattern was broken this week, as the managed money short position increased by 6001 contracts (the largest increase in months) while the concentrated short position of the 8 largest shorts decreased by nearly 4000 contracts. This is a stark and abrupt change in pattern. What does this mean?

The most plausible explanation I can come up with is that the big commercial shorts bought back many more short contracts than the already impressive amount (nearly 4000 contracts) published. How else could the managed money shorts add 6000 contracts and the concentrated short position decrease by so much? This pattern can be seen in COMEX gold as well, just not as prominently as in silver.

My sense is that the big commercial shorts in COMEX silver and gold pulled out all stops in covering short positions during this reporting week, to an extent much greater than the already bullish position changes indicate. I focus on the big concentrated short positions is silver and gold for the simple reason that if these markets are manipulated (as I contend), then they are manipulated by someone big. And this pronounced big commercial short covering (somewhat camouflaged by an actual increase in managed money shorting) took place right up until the day before the biggest price rally in months.

The actual timing of a pronounced, yet somewhat hidden big commercial short covering right up until the day before a notable price rally raises my suspicions. It appears to me that this may be beyond the usual rinse and repeat cycle of the commercials taking the managed money traders for a ride. Then again, perhaps I'm looking too closely.

What it comes down to is if the rally over the past few days is just another garden variety rally of limited dimension and after the managed money traders have bought as many contracts as the commercials deem enough, back down we will go in price. Only a fool would say that is impossible. However, it is not impossible that this could turn out differently. No doubt that managed money traders bought aggressively over the past few days (both covering shorts and adding longs) in both gold and silver as the 50 day moving average was penetrated decisively in both markets. Also not in doubt is that the commercials sold. The only thing in doubt, at least in my mind, is whether the big commercial shorts added to their short position aggressively, or if the smaller commercials which I identify as the raptors sold out long positions.

I hope this doesn't sound terribly repetitive, but whether the big commercial shorts added to short positions on this rally is what matters most, same as it ever was. There's no way of knowing that now, but it will be revealed in future COT reports, possibly as soon as next week. The bottom line is this Â? if the big commercial shorts don't add to short positions, the price of silver will fly. If they do add aggressively, the rally becomes suspect and it's likely to be business as usual. Based upon the data in this week's report, it may not be business as usual.

I've often remarked that someday, the COT market structure won't matter as much to the price of silver as it has through the present. That day will come when the forces of the physical market overcome the price setting of COMEX positioning, specifically when a wholesale physical shortage in silver hits in earnest. Although it's impossible to predict a wholesale physical shortage in silver as to timing, it is also impossible to hide such a shortage once it occurs.

I'd like to explain why a true physical shortage in silver will be impossible to hide and why it must profoundly impact the price higher. It has to do with the old Tom Petty song, Â?The Waiting is the Hardest Part,Â? first released in 1981. No, I'm not talking about the waiting silver investors have been subjected to these past four years for higher prices; I'm talking about a waiting that will prove beyond hard to the point of impossibility. I'm talking about the coming wait for silver by industrial users and other fabricators.

https://www.youtube.com/watch?v=uMyCa35\_mOg

Right now there is (yet another) shortage of retail silver, although this one looks more intense than previous retail silver shortages. This current retail shortage, therefore, has the potential to migrate to the wholesale silver market; or as I have frequently remarked in the past, of jumping the firebreak between retail and wholesale. After all, it stands to reason that a wholesale shortage in silver, whenever it arrives, will most likely occur after a retail shortage has been in place, rather than having a wholesale shortage erupt out of the blue and with no retail shortage.

Because premiums on retail forms of silver have exploded and delivery delays have been greatly extended, it is reasonable to think that more retail investor interest would migrate to larger forms of silver, including the largest form of all Â? 1000 oz bars. If, as and when this pattern intensifies to the point where it sets off a scramble for 1000 oz bars similar to the scramble currently in force in smaller retail forms of silver, the pricing structure in silver will and must be radically turned on its head.

For more than 30 years I have been waiting for a specific event to occur in silver Â? a rush by industrial users of the metal to build physical inventories because of developing delivery delays. If there was one thing that my silver mentor and missing friend, Izzy Friedman, agreed on it was the inevitability of an industrial silver user panic. Now, more than ever, the preconditions of a wholesale silver shortage are in place. We know there is a unique dual demand aspect in silver, industrial and investment, and it is investment demand much more likely to quickly develop and influence price. But there are also some unique differences between investors and industrial consumers of silver.

The biggest difference is that to silver investors, timely deliveries are of much less concern than they are to industrial users, particularly in our just-in-time manufacturing world. Silver investors are much more concerned with the price and the reliability of the entity they buy silver from than the actual delivery date of any silver they've bought. I'm not saying when they get their silver is not of any concern to silver investors, but that concern is way behind the concern of what they paid per ounce and whether their dealer eventually delivers.

For industrial users of silver, it's almost completely the opposite. Of course, the price is a consideration, but because the cost of silver makes up such a small part of the total finished product cost in most cases, the price is not the big concern Â? getting the silver on time is everything. Without timely delivery of any critical ingredient, a manufacturer's entire assembly line and mission is threatened. I haven't written about this in years, as I assumed this was widely appreciated, but I better be safe than sorry later for not emphasizing perhaps the most important feature in silver.

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