

## Weekly Review

It was a week most precious metals investors, particularly silver investors (and producers), wish didn't occur. Gold fell \$12 (1%) and silver was crushed by 80 cents (4.3%). Almost all the damage occurred on Friday, as gold slid to price lows not seen since early in the year, while silver slid to new 4 year lows. As a result of silver's massive underperformance, the silver/gold price ratio blew out to over 68 to 1 as a result of Friday's pounding, not coincidentally, the widest the ratio has been in four years.

In other words, silver is the cheapest it has been in 4 years on an absolute basis and also the cheapest it has been relative to gold. For value investors, cheapest means best time to buy. If ever one thought it prudent to hold a maximum silver position, buying at the cheapest price in many years would seem most prudent. If one held only gold as a source of funds for which to buy silver, switching at the cheapest relative price would also seem most prudent.

Against the dramatic absolute and relative silver price smash on Friday, one thing any objective observer should strive for is the explanation for the smash.

There were no actual supply/demand or world event explanations available, so don't waste time trying to see what doesn't exist. There was only one explanation and because it can be seen so clearly, I think some real good can come from Friday's price plunge (although I can't tell you precisely when). Friday's rig job in silver was, as it usually is, a COMEX orchestrated affair in its entirety.

For one thing, no one can deny that the 70 cent blast to the downside in silver took place completely within COMEX "regular" trading hours (8:30 AM to 1:30 PM EST). Often times, silver and gold are rigged outside the regular trading hours because the COMEX trades electronically almost 24 hours a day on the GLOBEX platform. But yesterday, all pretense was cast aside and the result was as deliberate and in your face a price rigging as I've ever observed (and unfortunately, I've observed far too many COMEX price rigs).

Over the past month or so, I've commented on how unusual it was for the silver/gold price ratio to have been as flat as it was (around the 66 to 1 level), despite the pronounced downside move in absolute price over the past two months. It just wasn't natural for there to be such a static silver/gold price ratio on the absolute price decline recorded. That silver hadn't weakened more relative to gold was "suspicious" to me and I fought trying to read strength into

silver because of the price action of the ratio. Friday's blast downward in silver reconfirmed to me not to read what may be going on beneath the surface from price signals alone. I'll come back to this later.

Certainly, the signals in silver from everywhere I look are much different than the prices being set on the COMEX. Despite the pronounced price weakness, investment holdings in the big silver ETF, SLV, have grown and not shrunk, both on an absolute basis and relative to the big gold ETF, GLD. Even though the price of silver has gone down and has gone down relative to gold's price, there are no indications of investment selling of physical silver, only indications of buying.

There is no compatibility between price action and the holdings in the two largest public investment vehicles in silver and gold. One would appear to be wrong, either the collective behavior of silver and gold investors when it comes to physical metal holdings or the price-setting mechanism on the COMEX. This is a disconnect that demands an eventual re-connection. The easiest re-connection must involve a radical change in the price of silver and not a change in collective investment behavior. The price of silver is wrong, not public reaction to a price thought too cheap.

<http://www.bloomberg.com/news/2014-09-18/silver-s-etf-demand-outpaces-gold>

[-by-most-ever-chart-of-the-day.html](#)

The main physical signal in silver to me continues to revolve around the turnover or movement of metal into and out from the COMEX-approved silver warehouses. On four days of the past week, turnover was well-below year to date averages, but Wednesday's very large turnover (3 million oz), brought the entire week's turnover to an above average 4.8 million oz. Total COMEX silver inventories declined 1.1 million oz to 180.7 million oz.

I continue to be focused on the physical turnover and not what the total inventory might be. Interestingly, total COMEX silver inventories are up the same amount year to date as the average weekly movement. Stated differently, the increase in total COMEX silver inventories this year is equal to just 1 of the 36 average weekly movements this year. The less than 5 million oz increase in total inventories compares to the more than 160 million oz moved in and out for the past eight and a half months. I'm convinced the physical movement of 160 million oz of silver seems much more important than the increase of 5 million oz over the same time.

During Friday's silver price pounding, I couldn't help but think that I was about to be surprised and disappointed when the new COT report came out later in the day. Considering the extent of the price decline and the huge surge in trading volume, I began to think that my previous expectations for a sharp increase in the gross managed money short category in gold and silver must be wrong and the technical funds hadn't added to the short side as I anticipated. Even though there were three new slices to the downside in silver and four in gold during the reporting week that ended Tuesday, I began to think that maybe the technical funds hadn't sold short as expected and were only selling short after the cut-off and particularly on Friday.

Despite my fears on Friday, the Commitment of Traders Report (COT) came in remarkably close to my expectations. In COMEX gold futures, the total commercial net short position declined by 21,700 contracts, to 76,200 contracts, the lowest (most bullish) level since June 10 (when gold began a \$100 rally). All three commercial categories participated in the collusive \$35 orchestrated decline in the price of gold, with the 4 big shorts buying 4000 short contracts back, the 5 thru 8 largest traders buying back 2000 shorts, and the raptors (smaller commercials) buying 16,000 contracts. Somewhat surprisingly, JPMorgan stood pat with 25,000 contracts net long.

Interestingly, the concentrated short position of the 4 and 8 largest COMEX gold shorts is now lower than any time since May 2013 and may now be lower (since the cut-off) than any point in years. In time, good things always seem to happen to the price of gold when the largest COMEX commercial shorts hold record low short positions.

On the sell side in gold, it was mostly technical fund selling, as net selling in the managed money category was nearly 20,000 contracts, with nearly 15,000 new short contracts added. With more than 73,000 contracts in gross shorts, the technical funds did achieve the June extreme I hoped and expected. On the unexpected (by me) sharp price decline since the cut-off, technical fund shorts in gold now may exceed the all-time managed money extreme short position of almost 83,000 contracts on Dec 24, 2013. Of course, I can't rule out further new lows in gold (or silver) if the technical funds continue to pile on new shorts.

In COMEX silver futures, the total commercial net short position declined by 6400 contracts, to 23,600 contracts, the lowest level since June 17. By commercial category, it appeared to be the same collusive effort in silver as it was in gold. The big 4 bought back 1000 short contracts and the 5 thru 8 bought 1300 short contracts back, with the raptors adding 4100 contracts to a net long position now totaling 35,100 contracts.

Although the 4 and 8 largest shorts in COMEX silver are holding close to their lowest levels of silver shorts this year, those levels are not at the lowest levels for years, as seems to be the case in gold. Still, the lower the concentrated short position, the better that bodes for eventually higher prices. JPMorgan appears to be down to 13,000 contracts net short, also the lowest level of this year and should be even less short as a result of trading since the cut-off. It goes without saying that the less JPMorgan and the other collusive commercials are net short, the better.

On the sell side in silver, the technical funds were net sellers of more than 5900 contracts, including more than 5100 new shorts. At more than 42,200 contracts gross short in the managed money category, for all intents the technical funds now hold close to the record short position I hoped for (despite Friday's doubts). Considering the price bombing after the cut-off and especially on Friday, it's almost impossible that the technical funds aren't 5 or 6 thousand contracts more short thru today.

A perfect COT set up must be defined as being comprised of the least amount of commercial shorts and the maximum amount of technical fund shorts.

Unfortunately but realistically, it would be impossible to achieve such a perfect COT set up on anything other than a pronounced and persistent sell-off of the kind we've just experienced. There is simply no way for the commercials to reduce their overall net short position or for the technical funds to increase their gross short position on anything other than successively lower prices.

### A Buyer for Every Seller

It's one of the oldest market clichés and impossible to argue with □ every market transaction involves a buyer and seller; otherwise there would be no transaction possible. Some similar market clichés, however, are not quite as true, such as, □prices declined because there were more sellers than buyers.□ There may be more sellers than buyers at times, but the total quantity of what's being transacted must equal, even if the number of participants are unequal. After all, if there was one very large seller dumping a massive position, more sellers may not be necessary to account for lower prices.



The sentiment of more sellers than buyers would be better stated in saying that when prices decline, the sellers were more aggressive or motivated than the buyers. The corollary is also true □ prices rise when the buyers are more aggressive or motivated than the sellers. Sorry for the grade school lecture, but I wanted to start at a basic level in discussing recent price action. And I want to point out this is more a discussion on short term prices and not on the long term supply/demand fundamentals for silver and the prospects for a physical shortage. All attention is currently focused on the short term price decline.

Obviously, the sellers in COMEX silver, gold and other commodities have been more aggressive or motivated than the buyers recently; otherwise prices would not have fallen. But just as many silver and gold contracts have been bought as was sold, as no other circumstance is possible. For every futures contract sold - and please understand that the futures market is what is determining price □ there is a futures contract bought.

Because the amount of futures contracts actually changing hands far exceeds the amount of equivalent material transacted elsewhere (the cash market), the futures market automatically becomes the chief price sled dog. It shouldn't be that way, but a lot of things shouldn't be as they are. And I'm not just talking about total futures trading volume, which is primarily self-cancelling HFT day

trading; I'm referring to positions held overnight and reflected in official open interest as recorded in the COT reports. Let's look at yesterday's price action and likely positioning changes.

Volume in COMEX silver futures was very high on yesterday's price plunge, more than 65,000 contracts or the equivalent of 325 million oz. But most of that volume was split-second, in and out trading that cancelled each other out by the close of trading. As such, we're not about to see a change in open interest of 65,000 contracts or anything close to that. But I wouldn't be surprised if 4000 to 5000 contracts actually changed ownership and, most likely, that means 4000 to 5000 contracts of new technical fund shorts were added. That's the equivalent of 20 to 25 million oz of silver, or more than ten days of world production.

It's nearly impossible for 25 million ounces of actual silver to change hands on any particular day because very few entities, if any at all, own that much silver aside from the various silver investment funds and ETFs, which are, in turn, owned by many separate public owners. But because derivatives trading can be technically unlimited since such trading is in contracts on silver and not contracts of silver, it is little wonder that COMEX silver trading has come to be many times the size of actual silver changing hands. That's what makes COMEX

the silver price setter.

It's not just the cash market that COMEX trading towers over, as it is also many times greater than the next biggest silver market – shares of SLV, the largest silver ETF in the world. Where COMEX silver futures trading was over 325 million ounces yesterday, volume in SLV came to less than 21 million shares (ounces). Even though this was the highest volume in SLV in three months, COMEX futures volume was 15 times greater than trading in SLV. Which one do you suppose has the greatest impact on price?

Incidentally, yesterday's gross COMEX volume was roughly equal to all the accumulated metal that SLV has attracted over its 8 years of existence. One day of crooked COMEX trading was almost equal to the total metal holdings in the world's largest silver stockpile. The standout feature is that trading between the commercials and technical funds on the COMEX has absolutely nothing to do with real silver with one notable exception – COMEX trading sets the price of real silver because the trading is so large. While the scandal is that US regulators allow demonstrably speculative trading to dictate prices to the real world of silver, I want to focus on a different aspect of there being a buyer for every seller.

With the silver price collapse, it is instructive to examine the motives and mechanics of the buyers and sellers. The motive of the principle sellers on this decline, the technical funds, is to make a profit and these funds do that by trying to catch a developing price trend, either up or down by buying into uptrends and selling into down price trends and by continuing to add positions as and if the trend continues.

Technical funds are fairly easy to understand and to predict their behavior on price movements. If prices trend down, these funds will add to short positions until full exposure is reached and/or the price turns up. Due to their massive collective size, the technical funds exert great price pressure when they buy or sell which creates a self-fulfilling effect. It's no mystery or surprise that the technical funds would now be holding a record short position in COMEX silver and I'm certainly not the only one to notice or write about this.

The motivation for the commercials, the counterparties to the technical funds, is to achieve profits, the same as the tech funds. By definition, the commercials have to take the opposite position of the technical funds, since both groups are the biggest traders in COMEX silver, by far. It is impossible for the commercials

to hold the same position as the technical funds, since there must be a buyer for every seller. Since the technical funds are now extremely gross short in COMEX silver, this has to be reflected in the commercials' counterparty long positions in some way.

Currently, the commercials long silver position is reflected in the reduced concentrated short position and net long position of the raptors. It would appear that the commercials can never be truly net long on a collective basis; it's more a measure of how little net short the commercials can become.

If the technical funds keep adding positions on trends moving their way (as they have in silver), they can only make a profit if they can buy back and close out their current extreme short position in silver on prices less than they sold short at. But since the technical funds can only buy back if the commercials agree to sell to them, the single most important question is what price the commercials will sell at?

Based upon the history of trading in COMEX silver, the commercials will only sell at prices higher than what they bought at and, at the very least, higher than

silver prices are today. If it turned out that the technical funds could buy back their current massive short position in COMEX silver at current prices or less, based upon decades of actual trading history, that would be the equivalent of the earth suddenly stopping and reversing its orbit and rotation around the sun. In other words, the commercials suddenly and collectively selling the silver contracts they bought over the past two months and last week at current prices or lower is as impossible as anything I can imagine.

Not only has this never occurred in COMEX silver, the chance of it ever happening is remote, if not impossible. The simple reason is that the commercials are maneuvering the technical funds and not vice versa. The technical funds' motivation is to trade price trends in the hopes of a profit, not to beat the commercials. The commercials' motivation is to profit by beating the technical funds. Therein lies all the difference in the world.

Yes, the technical funds are sitting on large open profits on their collective short silver position on the order of hundreds of millions of dollars, as they have on many past occasions. Yes, the commercials are just as deeply underwater on the silver positions they have purchased on the way down in price. But open profits matter little □ what matters are closed out positions. And to think that the commercials might have margin call problems is to overlook the

commercials' unlimited access to money. This is exactly what makes the current COT set up so exciting □ the commercials will decide when they are good and ready to sell. The technical funds will buy back when the commercials allow prices to rise, which must come at some point.

I confess to being surprised about this last dollar down in silver and any further price declines, as my main consideration was the number of contracts sold short by the technical funds, which came remarkably close to the mark. It's no fun watching investment holdings shrink in value, particularly when every other asset in the world seems to be climbing to record levels. But it would be unbearably more difficult not understanding why silver prices have collapsed.