September 7, 2013 – Weekly Review

Weekly Review

Continuing the volatile daily trading pattern, which featured day to day price ranges of $20 in gold and 50 cents in silver, the trading week finished mixed on Friday's strong showing. Gold ended $7 lower (0.5%) for the week, while silver finished higher by 40 cents (1.7%). As a result of silver's stronger relative showing, the silver/gold price ratio tightened in by a full point to under 58.5 to 1. The ratio has remained just below 60 to 1 for the past month, after spending the prior three months considerably above the 60 to 1 level. I still believe we will look back at the current levels in the not too distant future and marvel at how many ounces of silver could be acquired by the sale of one ounce of gold.

While silver and gold prices surged the instant the monthly US employment report was released yesterday morning, to my mind, the connection between the report and the instant price reaction was as unrelated as would be a local weather forecast and metals pricing. It's simply amazing that we all brace ourselves for big movement in gold and silver when this report is released (and we usually get that movement), even though no intelligent connection could possibly be made. Instead, the usually sharp price movements prove that the gold and silver pricing mechanism, aka the COMEX, is one sick puppy, due to High Frequency Trading gone mad and the price control of JPMorgan's market corners.

Weekly turnover of metal in the COMEX-approved silver warehouses hit the 2 million ounce level again, as total inventories fell 600,000 oz (for the second consecutive week) to 163.2 million oz. Yesterday, the COMEX reported that metal movement, in or out, occurred at every one of the six approved silver warehouses. http://www.cmegroup.com/trading/energy/nymex-delivery-notices.html

After spiking to over 160 million oz earlier this year, which was the highest level in 15 years, total COMEX silver warehouse inventories have fluctuated by a few million ounces above and below the 165 million oz level for the past six months. Despite the flattening in the total inventory pattern, the weekly movement has remained torrid, maintaining the frantic turnover pace since April 2011 (the price high and near outright physical shortage). I suppose there are many reasons for total inventories to go up, down or stay the same; but I can only think of one reason for there to be continued rapid turnover Â? overall physical tightness necessitating constant inventory replenishment.

There isn't much to report regarding sales of Silver and Gold Eagles from the US Mint, as the Mint usually reports on Silver Eagles on Mondays and there haven't been many updates on Gold Eagles recently. A standout feature is the recent low sales in Gold Eagles, especially relative to Silver Eagle sales. But since reports from the domestic retail front indicate low demand for either gold or silver, an additional puzzle is who is buying Silver Eagles so aggressively?

The changes in this week's Commitments of Traders Report (COT) appear to fully reflect the big up move on Monday and Tuesday, as the headline total commercial net short position increased in both gold and silver. What was a little different this week was that even though Monday was a holiday in the US (Labor Day), there was fairly active trading all day on the COMEX electronic trading platform. HFT computers never sleep or go to the beach, I suppose.

Since the COT companion report, the Bank Participation Report, was also released yesterday, I'll do some monthly recalibrations of JPMorgan's market corners in COMEX gold and silver. Both reports, of course, are as of the close on Tuesday. As I indicated in Wednesday's update, any deterioration in the COT report was likely reversed on the price weakness after the cut-off.

In gold, the total commercial net short position increased by 4800 contracts to 92,500 contracts, the highest level of commercial net shorts since the end of April (shortly after the two-day price slaughter of mid month). That the total commercial net short position has increased by more than 73,000 contracts on the $200 price increase is not surprising in COT terms.

As always, a sense of history is required to put things in proper perspective. While we are up big in terms of price and commercial short contracts from the lows, we are still below 100,000 contracts in the total commercial short position, as has been the case since the end of April. Before that, the commercials last held less than 100,000 contracts net short only back in late 2008, with gold priced near $700. My point is that, despite the large increase in the total commercial net short position recently, in historical perspective, it is still very much on the low (bullish) side.

By gold commercial category, the raptors accounted for all the selling in that they sold 4700 contracts from their net long position. The big 4 shorts added a bit of short contracts and the big 5 thru 8 bought a few shorts back, so the big 8 didn't do much net. The speculative buying by the technical funds was still largely short covering, although the tech funds did add 2000 new long positions. My guess is that those contracts were sold in the price weakness after the cut-off.

The data suggest that for the past two weeks, JPMorgan, effectively, holds the entire gold raptor net long position. Stated differently, without JPMorgan's 57,000 contract net long position in COMEX gold futures, the total commercial net short position would be 57,000 contracts higher (more than 60% greater) or almost 150,000 contracts instead of 92,500. Hopefully, this might more clearly convey the market dominance and price influence JPMorgan's outsized position commands.

Down 3000 contracts for the week and 28,000 contracts from the 85,000 contract peak gold market corner held by JPM, the bank's 57,000 contract net long position still represents 17.3% of the total net open interest in COMEX gold (minus spreads). Before JPMorgan succeeded in sponsoring legal action to throw out position limits, the CFTC formula for markets the size of COMEX gold called for no entity to hold more than 3% of a market share. Even after a 28,000 contract reduction in JPMorgan's gold market corner (and approximately a $350 million profit), the bank still holds a position almost six times greater that the position limit formula approved by the CFTC.

In silver, the total commercial net short position increased by 3000 contracts to 27,400 contracts. This is the largest commercial net short position since March. But just as was the case with gold, the total commercial short position is not large in historical terms and, therefore, not particularly bearish. Also as has been the case in both gold and silver, the increase in the total commercial short position for this week and on the price rally of the past month has largely come as a result of the selling of commercial long positions and not the addition of new short positions.

In terms of changes in commercial categories in silver, the raptors accounted for all the 3000 contract increase and then some, by selling 4300 of their long positions and reducing that net long position to 27,200 contracts, also the lowest since March. My guess is that the raptors may have sold on the price spike to $25 early in the reporting week, if not on the sharp Labor Day rally. The big 4 shorts (JPM) reduced their net short position by 2000 contracts, but 1000 contracts were related to JPM's first day delivery against the September COMEX futures contract.

The technical funds added less than a 1000 contracts of new longs and they bought back another 1800 short contracts. Like in gold, the actual tech fund long position in silver has been conspicuous in that it has not grown by any measureable manner. The longer this continues, the better, as it argues against a major downside long liquidation event. That's not to say that daily price volatility will go away or that the HFT dirty tricks will cease to exist; it just means that the market structures in silver and gold do not point to major sell-offs (he said guardedly).

By recalibration with the Bank Participation Report, I'd peg JPMorgan's short silver market corner to be 17,000 contracts, or 17.4% of the total net open interest in COMEX silver futures (minus spreads). This is almost the exact percentage that JPMorgan holds on the long side of COMEX gold. The truth is that, according to the Bank Participation Report alone, JPMorgan may be short 2 to 3 thousand contracts more in silver (as if that makes much difference) than the 17,000 contracts I estimate.

The bottom line is that the current market structures in COMEX gold and silver continue to allow for further movement to the upside with continued volatility. So far, relatively few new long market participants have established positions, making this rally in gold and silver different from past rallies. My sense is that this may prove to be important, particularly in silver.

I'd like to discuss feedback from two subscribers that are somewhat related. One had forwarded to me email correspondence between his local congressman's office and a senior official in the CFTC's legislative affairs office. The subscriber had written to his congressman concerning my allegations of market corners by JPMorgan in COMEX gold and silver. One thing that I've always held is that my allegations are serious as well as substantive and that should be reflected in any congressional/CFTC correspondence that occurs. I've always stated that these are the issues that lawmakers and regulators should be most interested in and no one is going to ridicule you for raising them.

This particular exchange was only different in the level of detail contained, including an assertion by the CFTC official that the agency was well aware of my newsletter and the issues that I raised. This was encouraging as I knew that I sent my articles to appropriate officials at the CFTC, JPMorgan and the CME Group; I just never knew if they were read. Since I don't know why the CFTC official would misrepresent such a matter, I have to assume the agency is aware of my allegations of market corners by JPMorgan. If this is the case (as I believe it to be), then the question becomes why is there no response to my allegations? The email exchange concluded with the staffer in the congressman's office suggesting that if I have proof of a market corner, I should forward it to CFTC officials.

The proof of the market corners by JPMorgan in gold and silver lies in the definition of a market corner. This isn't complicated; a market corner is for a single entity or a few entities working in concert to hold a disproportionately large enough position so as to influence and manipulate the price. In regulated commodity futures markets, like COMEX gold and silver, the primary mission of the CFTC is to prevent market corners. The agency's own data, in the form of COT and Bank Participation Reports, shows that a large US bank held short market corners in COMEX gold and silver in December and now holds a long market corner in gold, while maintaining a short market corner in silver.

The CFTC official wrote that the agency wasn't allowed to reveal the identity of traders, but as a market analyst, I don't see why I should be held to what the agency is allowed to reveal. Besides, JPMorgan is a legal powerhouse and, I assume, is quite capable of defending itself against false accusations, as is the CME Group. Most people would bristle at being falsely accused of anything, unless the accusations weren't false.

The CFTC official didn't rule out that the agency wouldn't take action at some point and made it clear that was not something that would be acknowledged beforehand. Thus, there exists some small possibility that the CFTC would act against any manipulation the agency could prove. While I'm not holding my breath waiting for the agency to act, I'd like to point something out.

I am screaming, with all the force I can muster, the equivalent of Â?FIREÂ? in a crowed theater. If there is no fire and I have no proof that there is a fire, I should not be allowed to do so and, further, I should be reprimanded for doing so. Let me be the first to say that I should be stopped immediately from making allegations against JPMorgan (and the CME) for manipulating and cornering the COMEX gold and silver markets, if it can be shown I am acting in bad faith in any way or that sufficient proof doesn't back my allegations.

It's time for the regulators and/or JPMorgan to put this issue to rest. The easiest way of doing that is for one (if not all) of the parties involved to openly address the issue and fully explain why the allegations are false. Market corners and manipulation are the most serious market crimes possible and the proof of their existence lies in government published data. The flip side is that there is a fire raging in gold and silver in the form of market corners at the hand of JPMorgan and I would be the most irresponsible citizen for not alerting everyone. Hey, if there is a fire in a crowded theater, someone should scream it.

The second subscriber comment was related to the above and was one I should have conceived myself. By the CFTC refusing to publicly address or acknowledge the current COMEX gold and silver market corners, the agency is, effectively, overturning and proving wrong all past manipulation findings and settlements. Since the public data indicate that JPMorgan holds or held more intense market corners in COMEX gold and silver recently than were ever held in any previous manipulation, how can the past findings stand? JPMorgan has held more of a market corner in COMEX gold and silver than existed in any previous market corner and if they can pull it off why should others be found guilty in lesser corners?

By not prosecuting JPMorgan for cornering the COMEX gold and silver markets, the CFTC, effectively, is ruling that manipulation is not possible and their primary mission can't exist. If 17% to 25% market shares weren't proof positive of a market corner, what about the 40% short market corner held by JPMorgan in COMEX silver in December 2009? By sitting on their hands, the CFTC is overturning the whole concept of market manipulation. If I were the Hunt Brothers or the Sumitomo copper trader, Mr. 5%, I'd feel discriminated against as it would appear that actual market share had nothing to do with manipulation, only the specific parties involved. Obviously, the CFTC holds JPMorgan to be above and more important than other market participants in the agency's failure to rely strictly on market facts and percentages.

In this sense, the CFTC is actually undermining the thrust of Dodd-Frank. I'm not the only one making that accusation. Here's a story from Platt's that highlights the CFTC's refusal to do the right thing when dealing with the Federal Energy Regulatory Commission (FERC).
http://www.platts.com/latest-news/natural-gas/washington/feinstein-wyden-blast-us-cftc-on-lack-of-information-21525212

I can't help but think that the unspoken commonality here is Â? you guessed it Â? JPMorgan. FERC, you may recall, is the federal agency that settled civil manipulation allegations against JPMorgan for close to $500 million for rigging electricity prices and in the process coming close to charging JPM's head of commodities with lying under oath. Now, the Department of Justice is in the preliminary phase of determining if criminal charges against individual JPMorgan employees should be brought.

While JPMorgan is not mentioned in the above article, it appears to me that the dispute between the CFTC and FERC revolves around the CFTC's refusal to provide FERC with the specific identity of traders in the CFTC's Large Trader Report. This is the same antiquated law that prevents the CFTC from publicly acknowledging that JPMorgan holds market corners in gold and silver. It would be one thing if the CFTC kept the identity of large traders confidential, as long as the agency made sure market corners didn't exist. But for the agency to keep the names confidential and not move against market corners is the worst of all worlds, as it allows market corners to exist with impunity. If I was down to my last dollar, I'd bet it on JPMorgan being the trader that FERC is trying to identify in the futures trading in question.

Ted Butler

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Silver – $23.90

Gold – $1390

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