August 16, 2014 – Weekly Review

Weekly Review

A Friday sell-off helped send silver lower for the fifth week in a row, while pushing gold down slightly for the week. Gold ended $4 (0.3%) lower, while silver finished down 35 cents (1.8%). As a result of silver's continued relative weakness, the silver/gold price ratio widened out to nearly 67 to 1, the highest (weakest) reading in months and at the top of the one year trading range. While it is easy to imagine silver getting even more oversold relative to gold in the short term, it is easier to visualize the current relative silver undervaluation as an attractive level to switch gold positions to silver for the long term.

I must confess to being somewhat baffled (as I am usually) at the popular commentary explaining price movement in the precious metals (and copper). Invariably, the explanations involve various world or economic developments of one sort or another. I admit that such developments should be responsible for pushing prices around if metals prices were set in a free market environment. But that is so far removed from what actually determines price change that I can't quite understand why more can't see it (subscribers excepted, of course).

Not only is the real cause for price movement documentable in hindsight, the cause is highly predictable. Of course, I am referring to the ongoing price manipulation in COMEX silver, gold and copper. Yes, I wrote recently how remarkable it is that so many have come to recognize that price manipulation exists in silver (and gold) as a result of position changes on the COMEX, but the evidence of manipulation has become so clear that I wonder how anyone could not see it (aside from simply refusing to see it regardless of the evidence).

What moves metal prices is not developments in the Ukraine, Iraq or anywhere else; all that matters is what the moving averages are and the collusive COMEX commercials rigging prices above and below those moving averages in order to induce technical fund buying or selling. I know it seems like world events may be responsible for price changes, but that's only because most people perceive that to be the case. But collective perception is not necessarily the same as the real cause and effect of price movement. The fact is that the technical funds (led by the nose by the collusive COMEX commercials) decide to buy and sell massive quantities of COMEX metals contracts, not by studying the news or reacting to world events, but by whether prices are higher or lower than the moving averages.

Since the commercials can put prices above or below the moving averages at will, that means the commercials control the technical funds' behavior. Gold prices didn't fall by more than $20 in a few minutes around 8:00 AM yesterday because of world events; they fell because the commercials rigged prices sharply lower below the 50 day moving average and after prices were rigged lower, the technical funds sold. Then, after prices rose back above the moving averages, the technical funds bought. What's most amazing is that even after being explained to the point of redundancy, many still refuse to see the scam that this manipulation has become.

A number of readers have asked recently about my opinion on the new Silver Fix, which has attracted much publicity. I thought I had addressed the issue at the time Deutsch Bank quit the Fix, effectively bringing an end to a 117 year old tradition. Then and now, it seemed like a non-event to me because the price of silver (as well as gold and copper) is continuously fixed 24 hours a day on the COMEX. That being the case, I have trouble seeing what difference it could possibly make about what form the replacement fix takes on. I suppose there was a time when the London Silver Fix actually meant something, but that time has long passed. I don't mean to give short shrift to a topic apparently of great interest to many, but I'm not going to pretend something is important if I don't think it is. If it turns out that I am wrong and the new Silver Fix is more meaningful than I believe it would be, I'll acknowledge that in the future. In the meantime, I consider it a non-event.

Definitely not a non-event is the continued physical movement of metal into and out from the COMEX-approved silver warehouses. For the week, some 4.3 million oz of silver were either brought into or removed from these warehouses, as total inventories climbed by 900,000 oz to 176.2 million oz. This physical silver turnover, alone, is miles ahead of the new Fix in importance, yet nary is a word directed at it. I continue to maintain that the most plausible explanation is an unusual demand for physical silver, most likely by industrial users and fabricators, but after three and a half years of soliciting alternative explanations for a phenomenon unprecedented in the world of metals, none have emerged. I don't know if that means there is no other plausible explanation or if I'm missing something very basic. How is it that much commentary can be devoted to things that don't matter (the Silver Fix) than to things that do?

Another one million oz of silver was deposited into the big silver ETF, SLV, this week, bringing to 4 million the number of oz deposited since the last short interest report. It's no secret that silver prices have been stinking up the joint lately, so the deposits are unusual in that they don't appear to be related to plain vanilla investment buying. The only logical alternative is that the metal deposits have been made to reduce the short position in SLV. All things being equal (although they rarely are), it would not be surprising to see another hefty reduction in the short report scheduled for August 26.

Sales of Silver Eagles continue subdued, as do sales of Gold Eagles, as the former big buyer has apparently stepped away. I did hear from long-time subscriber and coin expert, Richard Nachbar, following my comment that the recent stories about high demand for gold coins as being related to specialty low-mintage coins, rather than to a pronounced pickup in demand for gold coins in general. Richard described how the process was similar to a hot IPO (Initial Public Offering) in stocks where a limited number of coins were offered on a first-come, first-served basis which guaranteed a substantial premium profit due to the manner in which the US Mint released the coins. He described how some dealers hired straw buyers by the busload to wait in line to get first crack at buying the coins for resale. It was definitely the quick certain premium responsible for the demand and not retail demand for gold coins in general.

I took the opportunity to ask Richard about the state of 90% old US (junk) coins, since I had previously quoted him at a time when premiums of the coins to the metal were high (15%). He indicated that the premiums had evaporated and how a slight discount had developed as retail demand had collapsed. He advanced (and I agreed) that this was a sign of a pending important bottom in silver and was quick to note there was not much actual liquidation, just a reluctance to buy given the rotten price performance of silver over the past year.

That's one of the key factors in place at previous important price bottoms for silver – buyers are reluctant to add to positions because prices have been moving lower, but neither was there much selling because prices were considered too cheap to sell. The important takeaway here is that at price bottoms it feels like there is a surplus of silver available for sale when there is no great supply, just an unwillingness to buy. Eventually, a price bottom is made and as prices begin to climb and buyers regain their confidence on the higher prices, it becomes clear that there was not a lot of silver available to begin with. In other words, the oversupply was only perceived to have existed.

The changes in this week's Commitments of Traders Report (COT) were pretty close to what I predicted on Wednesday. I didn't put an amount on the number of contracts I thought were sold by the technical funds in COMEX silver and copper futures on the lower prices in those markets, but I did speculate that the technical funds (in the managed money category of the disaggregated COT report) bought close to 18,000 gold contracts. As it turned out, there was substantial technical fund selling in silver and copper, while there was hefty technical fund buying in gold. I must point out that I am not clairvoyant, I am only able to make such predictions because the mechanics of the manipulation are that obvious.

In COMEX gold futures, the normal headline number of the total commercial net short position increased by a whopping 29,000 contracts to 160,700 contracts. This is the highest level of total commercial net shorts since July 8, which in turn was the highest (most bearish) commercial net short position in gold for a year and a half. In bouncing strongly off of key moving averages to the upside, the technical funds bought and the commercials sold aggressively in gold during the reporting week, exactly as expected.

By commercial category, it was a coordinated all for one, one for all commercial selling effort as the four biggest shorts added 7000 new shorts, the big 5 thru 8 added 1500 new shorts and the raptors sold a bit more than 20,000 contracts. This week, JPMorgan continued to sell out of its long gold position aggressively by peeling off 5000 long contracts, thus reducing its long gold position to 15,000 contracts, the lowest in more than a year. Clearly, JPMorgan is not behaving as if it is expecting higher gold prices dead ahead.

A year ago, JPMorgan had amassed a net long COMEX gold position of 85,000 contracts, a documented long corner on the COMEX gold market, after holding a short corner of 75,000 contracts at the beginning of 2013. It was reasonable to assume that might result in gold prices taking off to the upside from the sub-$1200 level. We did get a lift in gold prices to $1400, but that can hardly be described as ?taking off.? In hindsight, it is clear that the crooks at JPMorgan were more interested (for reasons of your choice) in containing and capping gold prices, rather than in going for an upside score (after scoring big on the downside from over $1600). Again, that's the problem with a manipulated market ? you never know what the manipulators intend because you can't read a criminal's mind.

On the buy side in gold and reflected in the new managed money headline COT number, the technical funds bought a bit more than 25,700 contracts (where I had guessed 18,000), comprised of more than 14,500 new longs and 11,200 contracts of short covering. I know these funds sold aggressively when prices were rigged lower early Friday, but because they rebought as gold prices bounced back above the 50 day moving average (now at $1304), it's hard for me to get a handle on how much net selling occurred. I may have a better idea in Wednesday's report.

In COMEX silver futures, there was a fairly large reduction in the total commercial net short position of 4,500 contracts to 43,700 contracts. This is the lowest the total commercial net short position has been since June 24 and is 15,000 contracts lower than the peak on July 15, whereas gold's equivalent commercial short position is much closer to its peak. But we still have 34,000 more commercial net short contracts than we did at the low on June 3, so one can't be jumping up and down about a probable COT bottom just yet.

By commercial category, it was all a raptors affair, as the smaller commercials away from the big 8 added 5500 new longs to a net long position now at 20,200 contracts. The big 4 added 1000 new shorts and I would attribute all of them to the crooks at JPMorgan who now hold 19,000 contracts short. The concentrated net short position of the 8 largest commercial traders is still at an obscene level of nearly 320 million oz, even though by the greater evidence of recent earnings reports from silver mining companies that we are at or below the real cost of production for most primary silver miners.

Most obscene of all is that little of the 320 million oz concentrated short position appears mining related, a constant theme of mine. This is the equivalent of 40% of world annual mine production and very little if any appears to be legitimate hedging on the part of miners, as who in their right mind would hedge a loss or breakeven? It is also what enables me to label JPMorgan, the CME and the CFTC as crooks for allowing such an economic travesty to continue without retribution (at least so far).

The technical funds in the managed money category accounted for 6500 contracts of net selling (or more than the total commercial net buying), including 5000 new short contracts. Silver, of course, has been below its critical moving averages for two weeks and did not experience the bounce off its moving averages as did gold. As a result, silver (and copper) is somewhat more advanced than gold in the liquidation cycle, but considering the potential for further liquidation and short selling by the technical funds, that can't be construed as a big advantage at this point.

I've been mentioning COMEX copper more frequently this year because it has become quite clear that copper prices have been involved in the same manipulative scam as is true in COMEX silver and gold. It's the same story in copper that exists in silver and gold, namely a rigging of prices by the commercials to induce technical fund buying and selling. Copper price movement has had nothing to do with real world copper supply and demand fundamentals and everything to do with the collusive commercials tricking the technical funds in COMEX dealings.

Clearly, all blame for this outrageous and illegal copper manipulation must be placed on the CME and the CFTC (and probably JPMorgan). What makes the copper manipulation particularly egregious is that the market is so large, with annual mine production worth upwards of $130 billion, and because it wouldn't seem probable that the manipulation exists for some of the reasons given for the silver and gold manipulations, namely to protect the dollar or some such effect.

Thus, it would appear likely that it's just a game of the collusive commercials stealing from the technical funds for pure avarice, promoted by the CME and protected by the CFTC. The scam is as simple and straight forward in copper as it is in silver and gold, namely, the commercials rig prices higher and lower through important moving averages to sucker the technical funds in and out of massive positions.

Copper prices have moved up and down by 10% or so several times over the past two years solely due to technical fund snookering by the COMEX commercials. If I couldn't prove it, I wouldn't say it; but I can prove by COT data that the CME is a crooked exchange and the CFTC must be involved in the scam because it is so easy to see. I think we have moved too far from blaming incompetence as an excuse for why the CFTC allows the COMEX manipulation to have expanded from silver and gold to now include copper. No one could be this incompetent; there must be some criminal explanation for the CFTC's failure at basic commodity regulation. Of course, if the agency or exchange could explain how many tens of thousands of technical fund contracts are not exerting the primary influence on silver, gold and now copper prices, I would love to hear it, as I'm sure would many of you. How has it gotten to the point where accusations of criminality can be openly made against JPMorgan, the CME and the CFTC and these institutions can turn the other cheek?

The probabilities, unfortunately, still suggest additional technical fund long liquidation and new short selling ahead in all three markets, although the timing and extent is always unknowable. It's more a matter of how many technical fund contracts can be induced to be sold rather than a particular price, although additional technical fund selling is not possible without lower prices. And although the COT probabilities point lower, the fundamentals, particularly in silver suggest the coming bottom to be the bottom.

With silver prices at or below the primary cost of production for more than a year, if we do witness the final washout, it should not persist for long. One must hold silver, in my opinion, because the downside is minimal compared to the upside. If and when we do see the downside potential realized thru crooked activities on the COMEX, there wouldn't appear to be a reason not to load the boat. I respect all the reasons people have for holding silver, including as insurance and as a hedge against future inflation; but my reason is for the spectacular gains to come.

Ted Butler

Gold – $1305

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Silver – $19.55

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