April 1, 2015 – It’s a Bizarre World

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No, I'm not referring to the whole world, or even the entire financial world (because those worlds are unquestionably strange); I'm talking about the very narrow world of gold and silver. And not even the whole world of gold and silver at that Â? just the part having to do with pricing. Admittedly, pricing has a huge impact on most other aspects of gold and silver, including actual production and consumption and investment decisions. There's no getting around the importance of the price on the entire world of gold and silver, but please remember it is only one factor in that world.

If one were talking about the very narrow topic of price in gold and silver, of all the influences that could be included in the discussion, one would think the single most blatant and provable influence would make the list. Further, if an important representative from the most blatant and provable influence on gold and silver pricing were addressing this very topic, one might think reference to the prime influence would be made. But, as I said, it's a bizarre world.

Case in point is this recent interview with the director of metals trading for the CME Group, which happens to own the COMEX and NYMEX and which trades gold, silver, copper, platinum and palladium. The topic of the interview was a discussion on the factors influencing gold prices. However, not one word was spoken on the most important factor that causes gold and silver (and other metal) price movement Â? futures contract positioning on the COMEX.
http://www.kitco.com/news/video/show/Kitco-News/950/2015-03-27/Gold-Is-A-Fantastic-Commodity—CME-Group-Head

In other words, there was not a single reference in this interview given to the price influence of HFT, technical fund snookering by the commercials, the extreme concentrated short position in COMEX silver futures or the role of JPMorgan on the COMEX since it rescued the former big COMEX gold and silver short, Bear Stearns. Instead, all talk was about the dollar and the Fed and everything under the sun except COMEX positioning. And I would remind you that it has become obvious, from the amount of commentary on the subject, that more understand the COMEX's role in the gold and silver manipulation than ever before. I would have been less surprised if the CME director had been led into or initiated a defense of why the COMEX isn't instrumental in setting gold and silver prices, than in the complete avoidance of subject.

I understand that the CME director would not, in any circumstance, readily acknowledge the obvious that gold and silver prices are set on the COMEX, as her continued employment would seem improbable. Instead, I marvel at the spectacle of a seemingly intelligent discussion avoiding the central feature of the topic at hand. I could see this discussion avoiding the influence of COMEX positioning if a representative of the CME wasn't being interviewed, but it's just bizarre to me how anyone from the CME would sidestep the opportunity of strongly rebutting that which is becoming more prevalent daily Â? the growing awareness of gold and silver price fixing on the COMEX.

In fact, it's not just this particular CME director avoiding the obvious, it appears to be CME official policy, at least in my experience. Just like I send all my articles to key officials at the CFTC and JPMorgan, I also send them to the head of the CME and to its top regulatory officer. As is the case with JPMorgan, I feel and have stated that the COMEX is fostering illegal price fixing in silver and gold. Still, I have yet to hear a word of outrage or disagreement, even though this concerns the core of legitimacy for the CME and JPM. Having been raised in a world where you can't say or write anything suggesting major financial institutions are violating the law without being rigorously challenged, the silence from JPMorgan and the CME is, well, bizarre.

I can understand why the CME and JPMorgan would ignore the allegations that they are manipulating precious metal prices, namely, not to be drawn into a detailed discussion on a topic this close to home. I would expect that approach to continue. After all, does anyone expect JPMorgan to acknowledge that up until very recently, it has been the big concentrated short in COMEX silver since acquiring Bear Stearns exactly seven years ago? And that it has used the depressed prices it created through its concentrated short position to buy physical silver in massive amounts? Or for the CME to explain why COT data doesn't prove that speculative trading between technical funds and commercials sets the price for gold and silver with no regard to actual metal supply/demand fundamentals. Let's face it Â? neither JPMorgan nor the CME will ever engage willingly in any meaningful discussion addressing any of the pertinent issues.

While remaining silent seems to be the only choice to deflect allegations of manipulation, will it prove to be successful for the CME and JPM? Please consider the explosion of interest and commentary on an issue I have long focused on Â? the COT report on COMEX positioning. I am both relieved and astounded about the large and increasing level of attention given to the COT reports. I know this from intense personal observation. I read everything I can about silver and gold with the primary objective of learning something new and meaningful.

Secondarily, since the COT market structure approach always made the most sense to me, I take particular note of what others say about this approach. I can tell you I see a proliferation of COT analyses like never before, including in newswire reports, like Reuters and Bloomberg, to brokerage house research reports and to independent web sites and commentators. There is very good reason for the growing attention being placed upon COT data Â? the data show detailed information on who is buying and selling and who is long and short in the futures market. Think about that for a moment. This buy and sell, long and short information is generally not available in other markets, like the stock and bond markets (except where there are overlapping futures markets).

Because all futures contracts are zero sum, meaning there must be a long holder for every short holder and because a relatively small number of large traders in every futures market control a large share of each market, it is easy for the regulators to keep track of all positions by specific categories. This is made possible because there are rules mandating that large traders (over 200 contracts in COMEX gold and 150 contracts in silver) report any change in positions on a daily basis. Not only is the data exquisitely detailed, it is very timely Â? reported weekly with only a three day delay. To my knowledge, aside from perhaps weather reports, there are no other government reports, market-orientated or otherwise, that come close to COT data for timely information.

One of the greatest contributions to the growing COT attention is that the data can be displayed graphically and there are numerous sources for those graphs (although I don't reproduce them, preferring to express my analysis in words). Of course, just because the COT reports are timely, number specific and, therefore, objective, doesn't mean that everyone analyzing them agrees as to what the data mean for the future price. The opinion of what the data indicate is necessarily subjective, even though the data are objective. For example, the newswire and brokerage reports generally interpret technical fund (managed money) buying as purely bullish, even though at some point that buying becomes overdone and bearish.

But the best thing about the growing attention placed upon the COTs and the very point of this dialogue is that more observers than ever before recognize that positioning in the futures markets is a prime price influence and, I would say, the prime price influence. Certainly, those analyzing and commenting on the COT data in COMEX gold and silver believe it is an important price influence, otherwise there would be no reason for them to analyze or comment on the reports. Therein lies a big problem for the CME's silent treatment on the matter.

Even those who insist there is no price manipulation in gold or silver, if they study or comment on the COT reports, must admit futures positioning influences the price. And any objective COT analysis of gold and silver must uncover that the categories of traders most responsible for position and price change are the traders in the managed money and commercial categories (including the producer-merchant and swap dealer category). Even those who reject my premise that the commercials lead the technical funds around by the (price) nose, accept that the managed money category is the Â?hot moneyÂ? category. In fact, most analyses feature the managed money category the most because of its unquestioned influence on price. But since this category is purely speculative by definition, the conclusion is inescapable that speculators are greatly influencing, if not setting, prices.

For the CME to remain silent and intentionally avoid this factual aspect of pricing in gold and silver is understandable, since it cannot deny the impact of managed money/commercial positioning. And it seems clear that just as growing numbers of observers, participants and commentators are embracing the COT reports like never before, it is only a small distance from there to recognize that this influence is, by definition, price manipulation. Let someone argue that a small group of speculators buying and selling in unison and unquestionably driving prices up and down is not price manipulation pure and simple. At the very least, such an argument would be bizarre.

In market developments since the Saturday review, standouts include further withdrawals of metal from the big silver ETF, SLV, and final sales of Silver Eagles from the US Mint for March. Close to two million additional ounces of silver were withdrawn from the Trust yesterday on top of the 3.5 million oz withdrawn last week. To be clear, when I speak of the turnover or movement of metal in the COMEX-approved silver warehouses, I am speaking of the physical movement of metal either coming into or leaving those warehouses. That's not necessarily the case with SLV deposits or withdrawals; it may represent actual physical movement, although it doesn't have to be actual movement of metal.

When metal is withdrawn from the SLV (or GLD), the only certain known effect is a corresponding reduction in the proportionate number of shares outstanding, no more, no less. When metal is deposited into the trust, shares outstanding grow proportionately. There's no way of determining whether the metal withdrawn or deposited actually moves out or into the warehouses where the metal is stored or if the metal stayed where it was after the withdrawal or was moved. Likewise, there's little easy way to know if metal deposited was brought in for that purpose or was previously already in position at the relevant custodian warehouse when a deposit is made. There can be movement involved in a metal ETF deposit or withdrawal but that is not mandatory.

But because there is a mandatory and proportionate increase or reduction in total shares outstanding as a result of any metal deposit or withdrawal gives rise to my conclusion that the most plausible explanation for the unusual and counterintuitive withdrawals in SLV shares are due to shares being redeemed or converted into metal by a big buyer shielding its identity while accumulating physical silver. If anything, the accumulation of physical silver seems to be heating up as a result of the recent withdrawals in SLV.

Likewise, sales of Silver Eagles from the US Mint also seemed to heat up over the last two days of March, as 600,000 coins were sold and total monthly sales exceeded 3.5 million oz. Sales of Gold Eagles picked up for the month as well, but Silver Eagles outsold Gold Eagles in ounces by a factor of 75. Incredibly, converting into dollars spent on each and received by the Mint, more money was spent on Silver Eagles than Gold Eagles both for March and for the quarter (please remember to add $2 to Silver Eagles to account for the Mint's premium).
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

More money being spent on Silver Eagles than Gold Eagles continues a phenomenon witnessed last year and just because the phenomenon has continued makes it any less incredible. Gold is the unquestioned king of precious metals and there is at least 300 times more gold in the world in terms of currency than silver bullion. I'm not suggesting that means there should be 300 times more money spent on gold than is spent on silver, but in an important category like the 29 year old program of American Eagle bullion coins from the US Mint, the fact that more money is being spent on Silver Eagles is stupefying. With plain vanilla retail demand so bad it is stinking up the joint, the hand of a big buyer in Silver Eagles must be at work. As for who that big buyer might be, look to who took the maximum amount of physical silver in COMEX deliveries for March Â? JPMorgan.

After last week's epic miss in predicting what the gold COT report would indicate, you'll forgive me if I am somewhat hesitant to guess what occurred in the reporting week that ended yesterday and that will be reported on Friday (even though many markets are scheduled to be closed for Good Friday). Best as I can tell from price action and volume I would guess marginal changes in both gold and silver and let me explain why (aside from the hesitancy caused by my previous wide miss).

During the just-concluded reporting week, we did jump higher in price on last Wednesday and Thursday (and technical fund buying occurred), but traded lower on the last three days of the reporting week ended yesterday (suggesting technical fund selling). Two up, three down suggests an offset to the week overall. We did trade and close below the key 50 day moving average in silver on Monday and yesterday, so I wouldn't be surprised if there was a reduction in the total commercial net short position, particularly considering the large increase in that position in the current COT report.

I am still stunned by last week's lack of a big increase in commercial selling in COMEX gold and continue to consider it shockingly bullish. I'm more hoping that this week's gold report won't reverse last week's report more than anything else. I explained on Saturday the historical and observable significance of the 50 day moving average and noted that gold's 50 day moving average had not been penetrated (although silver's had) and that may have led to the (lack of) changes in the gold COT report. Regardless of what Friday's report will indicate, the matter of gold's 50 day moving average still looms large.

The fact that gold has yet to penetrate its 50 day moving averages only strengthens the odds that when that average is finally penetrated, the price reaction is likely to be greater rather than weaker. At the time of this report, the 50 day moving average for gold is around $1216, or only ten dollars or so above current prices. Also possibly aligned with the favorable COT structure in gold are the results of the first two delivery days in the COMEX April gold futures contract. Only four contracts have been tendered and close to 5000 contracts remain open. If I had to choose which is more important, the gold COT structure or the lack of deliveries, I'd pick the market structure; but that's not to say both aren't bullish.

When I began this report today, metal prices were under pressure, continuing the trading pattern since Friday. Nonetheless, I was prepared to point out that the most salient feature to me was still the shockingly bullish gold COT market structure. I was preparing my standard lecture about how a bullish market structure as existed in COMEX silver and, especially, gold didn't mean prices had to rise immediately (although they could). The COT market structure analysis doesn't explain or try to predict day to day price movements and one shouldn't read in too much importance to short term price change. Fortunately, the price action that developed as the day wore on meant I was spared writing and you from reading my standard sermon.

While I want to remain consistent in preaching the need to avoid an overreliance on short term pricing for analysis, at some point the price should react to how the market is structured. I don't know if today's turnaround is the start of the up move already structured to occur, but neither do I know that it's not. To me, that means it should be played as if the up move is here and now.

Ted Butler

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Silver – $16.96

Gold – $1204

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