April 12, 2014 – Weekly Review

Weekly Review

Gold prices finished $16 (1.2%) higher for the week, while silver finished unchanged. As a result, the silver/gold price ratio widened out to just over 66 to 1; still within the broad trading range of the past year or so, but definitely at the top end of a range signifying pronounced relative undervaluation of silver to gold. If there are any reasons why silver should be undervalued relative to gold, other than position maneuvering on the COMEX, I am unaware of those reasons.

While silver can continue to get more undervalued in the short run compared to gold, as and when COMEX positioning runs its course as being the dominant influence on metals pricing, that relative undervaluation must change. The timing of that change is unknowable, but recent Commitments of Traders Reports (COT) indicate some unusual patterns that might suggest some type of change. I'll get into that in a moment.

Turnover or movement of metal into and out from the COMEX-approved silver warehouses cooled from the torrid pace of the past two weeks, but still came in higher than the 3 million oz average weekly movement of the past 3 years. Total silver movement for the past week slightly exceeded 4 million oz, as total inventories fell 700,000 oz to 177.2 million oz. While it Â?feelsÂ? bullish that COMEX silver inventories have declined by 5 or 6 million oz over the past month, I remain convinced that the total level is not particularly relevant and that the movement is the key.

There is no indication that the world is consuming more silver than is being produced, so any decline in COMEX silver inventories represents metal shuffling, not a return to a deficit. That's not necessarily bearish either, as world inventories of gold have increased just about every day for thousands of years and that hasn't prevented gold from rising in price over time. Considering how little silver is being added to world inventories (in dollar terms) compared to gold and compared to growing world buying power, any eventual growth in COMEX silver inventories should be expected to have no negative impact on price. In the meantime, the churn in COMEX silver inventories is the main issue to me, as it suggests a persistent tightness in the wholesale physical silver market.

Sales of Silver Eagles finally appeared to trail off slightly late in the week from the record pace of the previous month, but I suspect that I am looking too closely at the data from the US Mint. Year to date, sales of Silver Eagles relative to sales of Gold Eagles are still running at an almost impossible to believe rate of near 95 to 1, the highest rate by far in the 27 year history of the program. (By the way, I use year to date comparisons to smooth out what can be erratic intra month changes). For some perspective, last year's pace of 50 to 1 was the previous highest rate.

Since this is one of the purest relative comparisons one can make about investment demand for silver and gold, it almost single-handedly shows that real metal supply and demand is secondary to COMEX positioning when it comes to pricing. Admittedly, demand for Gold Eagles is not the most important indicator of gold investment demand, but the use of silver for Silver Eagles appears to be currently the single largest use of silver in the world, even exceeding the use of silver in solar power.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The most recent report on short interest for stocks as of March 31 indicated another decline in the short position of the big silver ETF, SLV, of 600,000 shares to less than 12.7 million shares (oz). At 3.7% of total shares outstanding, we are certainly far away from the peak of short selling of more than 12% three years ago. I'm still convinced there should be no short selling allowed in hard metal ETFs, but the current level of shorting in SLV is not suggestive of overt manipulation.

The real concern, of course, is if the crooks at JPMorgan resort to shorting shares of SLV in the future in the face of growing investment demand. If and when that occurs in the future, we'll cross that bridge and deal with it then as best as possible. Also, the short position in the big gold ETF, GLD, continues to decline dramatically, falling nearly 3 million shares to under 11 million shares (1.1 million oz). That's less than half the short position in GLD of a few months ago and at 4% of total shares outstanding is back to a Â?reasonableÂ? range, if such short selling could ever be considered reasonable. In any event, the short positions in SLV and GLD are not at the top of the price manipulation hit parade at the moment, although they have been in the past, particularly in silver. http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Before getting into what I feel are some unusual developments in the COT report, I read an alternative analysis this week which focused on the change in the total open interest in COMEX silver and gold since the end of the year and what that portended for price. I don't comment on others' price predictions because I don't think anyone can accurately and consistently predict short term prices; at least I know I can't. After all, if anyone could accurately predict short term prices on a consistent basis what would be the point of sharing that information and not using it to amass a fortune in today's world of unlimited leveraged opportunities? What I am more concerned with is the methodology or reasoning behind any price prediction.

In this case, I can't understand why anyone would look at total open interest, when the COT report offers exquisitely detailed data by net, concentration and specific trader category measures. To my knowledge, I've never referred to total open interest changes with an expectation for future prices. Changes in total open interest can reflect a myriad of factors which can distort the message of true position changes, particularly including spread trading.

For instance, in this week's COT report, total open interest for COMEX silver futures increased by almost 9,000 contracts, a very large amount, yet there was only a net change of less than 500 contracts in both the total commercial net short position and the technical fund net long position. In COMEX gold, the total open interest increased by less than 2000 contracts, yet the total commercial net short position deceased by more than 12,000 contracts. Clearly, focusing on the total open interest would have been misleading this week and since year end. I guess what I'm saying is if someone predicts prices on a faulty premise, the price prediction could turn out to be correct even though the premise was still faulty. Since predicting short term prices is almost impossible as it is, deploying a faulty premise wouldn't seem to make things easier.

For the reporting week ending Tuesday, silver prices were flat to higher, finishing about 30 cents higher but remaining below the key 50 and 200 day moving averages. The increase in the headline total commercial net short position of less than 500 contracts was in the expected range. On the other hand, since gold rose by $30 during the reporting week, closing above its 200 day moving average for three days, I would have expected some increase in the total commercial net short position and not the decrease reported. Perhaps, as Ed Steer speculated, this reduction was carryover from the previous week's report which ended precisely at the extreme low price point of gold's recent $100 sell-off.

In COMEX gold futures, the commercials decreased their net short position by 12,300 contracts to 101,700 contracts. Over the past three weeks, the commercial net short position has declined by a hefty 44,000 contracts. In keeping with this week's reduction in total commercial shorts, the 8 largest shorts accounted for 9,000 contracts of that reduction in buying back that many short positions. Also in conformity with the commercial short reduction was that the technical funds sold almost 10,000 net gold contracts, including almost 1700 new short contracts.

What was definitely not in conformity this week in gold was that JPMorgan appeared to sell a hefty 7000 contracts, reducing their long market corner in COMEX gold to 36,000 contracts. This is the smallest amount of long gold contracts JPMorgan has held since the summer of last year. For those who follow the COT report on their own, my calculation rests upon a 7400 contract reduction in the concentrated long position of the four largest gold traders since last week. It is a very precise number, but one you must hand calculate by multiplying total open interest by the net percentages given for each week (total open interest is good for some purposes).

Assuming the COT data is accurate, it does stand out that JPMorgan would be such a large seller while all the other commercials were buyers of gold futures. Again, if accurate, the immediate conclusion is that without JPMorgan's selling, gold would have surely have risen more than it did, but I guess showing that JPM is a market crook is no great revelation. Things were even stranger in silver.

In COMEX silver futures, there was an increase of less than 500 contracts in the total net commercial short position, to 28,900 contracts, as might seem fitting on the slight increase in price during the reporting week. Likewise, there wasn't much of a change in the technical funds' position, other than them adding 400 new shorts. But under the hood, things got a lot stranger.

For starters, the concentrated short position of the four largest shorts increased by nearly 1900 contracts. Accordingly, I would peg JPMorgan's short corner in COMEX silver to now be 22,000 contracts, up from the 20,000 contracts the bank held last week. After removing spreads (as must be done), JPMorgan holds 16.6% of the short side of the entire COMEX short position in silver futures. If the 4 and 8 largest shorts in COMEX silver added shorts (which they did to the tune of 2200 contracts combined) and the commercial short position increased by less than 500 contracts that means the raptors (the smaller commercials apart from the big 8) had to buy 1700 new longs, which was the case.

Here's what is so strange Â? even as the raptors have built up their net long position by almost 18,000 contracts to 37,500 contracts since March 4, JPMorgan and the other 7 big silver shorts have added 7,000 new shorts in that same time (with JPM accounting for 4000 new short contracts). In fact, the concentrated net short position of the 8 largest COMEX silver shorts is now at the highest level in three and a half years; 66,435 contracts or the equivalent of 332 million oz. Huh? Silver prices are stinking up the joint and near the lowest levels in 3.5 years and the concentrated short position is the largest it has been in that time. What other evidence is required to prove that silver has been manipulated lower by JPMorgan and the other concentrated COMEX shorts?

And there is not the slightest indication that any of this concentrated selling is linked in any way to legitimate hedging, as no mining producer would dare lock in current low silver prices. The concentrated selling of silver futures on the COMEX has one purpose and intent Â? to put and keep prices lower. I don't think it has ever been clearer.

Up until very recently, the raptors and JPMorgan and the other big concentrated silver shorts generally worked the same side of the street, but with different agendas. Usually it was the raptors and the big shorts aligned against and milking the technical funds; the raptors for pure profit, the big shorts in order to contain the price first, with profits a secondary objective. That meant that the raptors and JPM and the other big silver shorts all bought and sold in harmony. These past four or five weeks have featured a very different pattern with the raptors buying big and JPM and the other big shorts actually selling pretty heavy. I don't think I've ever seen the raptors adding long contracts while JPM and the others added shorts. What does this mean?

On its face, the largest concentrated short position of the 8 largest shorts in three and a half years could not be considered bullish for the price of silver. Therefore, no one should be shocked should JPMorgan and the other 7 silver short crooks succeed in rigging price lower. But there are some offsetting circumstances that suggest it might turn out differently this time (although I cringe at ever saying it could be different this time about anything).

For one thing, the technical funds are only 5000 contracts or so away from what has been a maximum gross short position in COMEX silver for them (and the tech funds may have been further heavy sellers on the Wednesday after the cut-off). Even if the technical funds can be tricked into selling more than they have ever sold historically, there is a definite limit as to how much these funds can sell on lower prices. In other words, with the current configuration, technical fund selling is much closer to being completed, apparently limiting fuel to the downside.

The other thing is that the raptors appear poised to keep buying if prices do move lower and are more than capable, based upon recent historical measures, of absorbing all the technical funds could possibly be induced to sell. In turn, this would limit how much JPMorgan and the other big shorts could buy back on a silver price decline. And with the current concentrated short position the highest it has been in 3.5 years and looking like the only reason for why silver prices are so cheap, the concentrated short position would look even more manipulative at lower prices.

If silver prices rally enough from here in the short run (always a 50-50 proposition), the technical funds can be expected to buy and the raptors can be expected to sell and take profits. Usually the raptors need a rally of a dollar or more to begin to sell. Where does that leave JPMorgan and the other big shorts? Normally, the big commercial shorts sell on rallies, but since they just, effectively, sold on the way down, will they just keep adding silver shorts regardless of price direction?

The good news is that regardless of what JPMorgan and the other big concentrated shorts do in COMEX silver, it should be reflected in upcoming COT reports. But the bad news is that the silver manipulation has just turned so obvious that I am unsure what to expect. I know that JPMorgan is the most crooked entity in COMEX silver, along with the crooked exchange run by the CME Group, but it appears the manipulation is spreading. It now appears to me that the Â?broadening-outÂ? of the concentrated short position, in which more of the position is held by the 7 other traders of the big 8 than used to held by JPMorgan alone, may involve an intentional new twist.

This is especially troubling because if my suspicions that more banks have been induced into the silver manipulation that not only implicates these new big shorts in the silver manipulation, but also virtually rules out any chance that the US Government is not behind the scheme. We have reached the point in silver prices becoming so cheap as to render as nonsensical a concentrated commercial short position of any size, to say nothing of the highest concentrated short position in years.

I'm not the only one who can analyze COT data; surely the originators of the data, the CME and the CFTC, certainly should be able to recognize how such a large concentrated short position at such low prices is uneconomic, manipulative and a real danger to the silver market. To call JPMorgan and the CME crooked has become second nature to me; to realize this now extends to elements in the government is painful. Nobody in the CFTC could be incompetent enough to misread their own concentration data.

Unless the raptors can also be convinced to go along with the manipulation and behave differently than they have in the past, it would appear that while we can go lower in price, any silver sell-off should be of limited duration, at least in the number of contracts sold by technical funds. However, these new developments introduce a potential bullish factor not previously in place; the prospect of a commercial vs. commercial slugfest.

With a raptor net long position closer to historical record levels and a concentrated short position at the highest level in years, this is a very unusual set up. If you superimpose over the unusual set up the fact that physical silver seems destined to end in shortage at some point, the odds could suddenly shift against the big shorts. In the meantime, we must be prepared for anything, including temporarily lower prices before sharply higher prices eventually. As always, the best protection against the manipulation on the COMEX are physical positions.

Ted Butler

April 12, 2014

Silver – $19.95

Gold – $1318

Date Created
2014/04/12