# April 13, 2013 – Weekly Review

## Weekly Review

On a day (Friday) that will not soon be forgotten, the price of gold and silver, as well as some other selected commodities, plunged dramatically. For the week, gold lost a staggering $102 (6.5%) and silver was crushed by $1.30 (4.8%). Having cautioned on Wednesday on the folly of reading too much into the meaning of price change in a manipulated market let me note that I don't ever recall such a large decline in gold where silver didn't decline more. Not that it would appear to matter much this week, but the silver/gold price ratio actually tightened in a point to 57 to 1. I'll suspend today the sermon of switching from gold into silver for the long term in order to focus on what an historic day yesterday turned out to be.

There is no doubt that we are at a critical juncture in gold and silver and the first order of business is to drill down to how and why prices plunged so much yesterday. Certainly, more commentary (mostly on gold) is being written about the precious metals currently in regards to the price weakness than I can remember. Unfortunately, much of the analyses and commentary is wide of the mark, in my opinion. But the great thing is that everyone interested in what just took place with gold and silver prices can decide for themselves from the multitude of opinions offered as to what makes the most sense.

For me, explaining what took place is easy, since the price plunge occurred in the confines of how I analyze gold and silver. First, what exactly did happen yesterday? Basically, a neutron price bomb was detonated in certain NYMEX/COMEX markets that selectively targeted gold, silver, copper, platinum, palladium and crude oil prices. On just about every other market, like stocks, bonds, currencies, grains, meats, soft commodities yesterday was non-eventful pricewise. The importance of this distinction that only selected markets experienced unusual price weakness is that it eliminates many general knee-jerk explanations about prices being impacted by broad macroeconomic factors. How could broad economic factors influence certain commodities and not the stock or currency markets? Looking deeper, the commodities experiencing price weakness all have different supply/demand fundamentals relative to one another, so as to eliminate the possibility that all those unique fundamentals changed yesterday in synch. Commodity fundamentals change glacially; it's impossible for the supply/demand equation of many various commodities to change overnight.

So, if it wasn't abrupt change in the fundamental story in the various separate markets that were hit to the downside yesterday, then what the heck accounted for the steep declines in price? Stated differently, what was the common denominator present in the markets that plunged? The most visible common denominator was that the various big price declines occurred on the NYMEX/COMEX markets owned and run by the CME Group. But the most important common denominator was the nature of the buyers and sellers across all the markets that got smashed. Without exception, in any market that declined significantly yesterday, the big net buyers were the traders classified as commercials and the big net sellers were those traders classified as non-commercials, largely technical trading funds. Not only was this true yesterday, it has been true on every single big price decline throughout history, according to US Government data (COT reports).

This may seem elemental, but I ask you to contemplate this anew. In the highly emotionally-charged state of significant price declines, it is tempting to accept fabricated stories as to what may be the cause of the declines. Because of that, it is more important than ever to rely on the known facts and only that which can be substantiated. COT data have and will show without question that the commercials are always the big buyers and the technical funds are always the big sellers and yesterday was no exception. Once you know who the big buyers and sellers are (which is the beauty of the COT), only then can you proceed to the how and why of the big price declines.

Armed with the certain knowledge that in every market that declined substantially yesterday the big buyers were the commercials with the big sellers as the technical funds, how and why fall into place. Why is real easy Â? in order to make money. The way one makes money is by buying low and selling high, although not necessarily in that order. For instance, JPMorgan the big concentrated short seller and manipulator of silver and other markets, has made a boatload of money, many hundreds of millions of dollars, by short selling at higher prices than the prices they have been buying back at. I don't begrudge JPMorgan for making large trading profits if they were doing so legally, but that is not the case. The trading profits being made by JPMorgan and the other commercials are as far from legal as is possible. That's the only plausible conclusion a reasonable person could reach when answering the last open question Â? how do they do it?

Knowing who the buyers and sellers are and why, all that's left is the how. Simply stated, JPMorgan and the commercials have captured control of the mechanism that sets short term prices, by means of High Frequency Trading (HFT), which dominates modern electronic trading. Whenever JPMorgan and the commercials wish to set prices for any market sharply higher or lower, they can and do set those prices. That is an incredibly powerful trading advantage. Since the technical funds, which are always the counter parties to JPM and the other commercials, rely on price changes to initiate their buying and selling, these funds are, effectively, controlled by JPMorgan and the commercials. Yesterday was a classic example in that JPMorgan and the commercials kept setting lower and lower prices in the NYMEX/COMEX commodities mentioned to induce more and more technical fund selling so that JPM and the commercials could and did buy.

The proof that this is how the market operates can be seen in current and historic COT data in that on big declines in price the commercials are always big buyers and technical funds are big sellers. In fact, I don't know that there can be an alternative explanation based on actual data. Of course, there is no way a small group of large banks and financial firms could be continuously pulling this trading scam off without prearrangement and collusion. And of course, this collusion and price control is against the law and any sense of fair trade. We actually have in place a federal regulator, in the form of the CFTC and a self-regulator in the CME, specifically created to combat the trading operations I just described, who both refuse to end the ongoing scam. Having described the what, why and how of yesterday's selective price smash, let me save the Â?what nowÂ? part until later.

Conditions in the wholesale physical silver market continue to flash signals of tightness in terms of movement in the COMEX-approved warehouses. Total silver movement this week was among the highest on record with more than 5 million oz arriving and departing. Total silver inventories rose slightly once again, by less than 300,000 oz, to almost 164.7 million oz. The frantic turnover continues and continues to amaze. Amid continued indications of tightness (in the form of premiums and delivery delays) in the retail silver market, the US Mint basically hasn't updated sales of Silver Eagles much since Monday

Somewhat surprisingly, there were no movements in the holdings of the big silver ETF, SLV, this week. There is usually a delay in reporting changes in SLV for a few days normally and the ultra-heavy trading volume on Friday should result in a change in holdings at some point. The truth is that I don't know if there will be additions or withdrawals as a result of the heavy trading and price decline. However there is no question that the big outflows continue in the big gold ETF, GLD, with more than a million gold ounces redeemed from trust this week. I know I'm attempting to cover a lot in this review, but I must comment further on the GLD redemptions.

Let me break a bit from the usual format and discuss the pronounced outflows in the big gold ETF, GLD, since the beginning of the year. In conjunction with the COT market structure, these outflows tell the story of what I believe is behind the gold price weakness, but in a way that may surprise you. Despite my expectations that the GLD outflows would soon abate, they have continued. Since year end, almost 6.2 million ounces of gold, worth close to $10 billion have been redeemed in GLD, the equivalent of 14.2% of total holdings at year end. Just to put the relative dollar size of this redemption into proper perspective, that's more than the entire valuation of SLV, the big silver ETF. Factoring in the recent 10 million share reduction in the short position of GLD, the equivalent of one million oz was, effectively, deposited in the trust; the reported decline in GLD holdings understates the true redemption by a million gold ounces.

For the record, I believe that the big hard metal gold and silver ETFs, like GLD and SLV, are legitimate, in terms that the actual amount of metal reported to be held is held in the trust. (Otherwise my wife wouldn't hold SLV). I know many disagree with that and everyone is entitled to his own opinion, including me but up until now, there has been no breakdown or disconnect between physical silver and the SLV or gold and the GLD. I find the short selling in shares of these securities to be fraudulent and manipulative, but that's a signature issue of mine separate from the reported holdings being real. As an analyst, it is not possible to ignore the price role of one of the largest stockpiles of gold in the world and the very largest, by far, silver stockpile. Especially considering that as recently as ten years ago, the term precious metal ETF didn't exist.

From nothing in 2004 to more than 37 million oz of gold in GLD today and from nothing in 2006 to more than 335 million oz of silver in SLV, the buying in these ETFs was instrumental in the gold price rise from $400 and silver's rise from $7 back then. Therefore, it should not be surprising that a significant redemption in GLD would accompany a decline in price (although there has been no net redemption in SLV). More importantly, a look at how the mechanism of the redemption of GLD shares actually works is very much in keeping with my COT market structure analysis and suggests higher gold (and silver) prices to come.

When investors holding shares of GLD sell and eliminate positions, unless other net new buying comes in, an amount of gold equaling the total daily net liquidation leaves the listed holdings. This is done through continuous arbitrage transactions by Authorized Participants (APs), mostly the same banks and financial firms that make up the commercials on the COMEX. However, the gold leaving the trust doesn't cease to exist or just end up dumped on the streets of London, un-owned and abandoned. The gold redeemed and removed from the GLD must still be owned by someone, even if it is not owned by holders in the trust. So who owns the gold that leaves GLD? No one can know for sure (except those privy to such confidential info) and that lack of knowledge can result in some serious story-telling.

One of the chief stories being made up, in my opinion, is that the metal redeemed from the GLD is being removed due to purchases by China and other Asian countries. I suppose it is possible that the gold coming out of GLD ownership could eventually find its way to China and elsewhere; but the suggestion that the redemptions are the direct result of foreign purchase is bogus. Most likely is that metal has been redeemed due to plain vanilla investor liquidation and the ultimate buyers of the redeemed gold are none other than the same commercials who have been buying paper gold and silver contracts hand over fist on the COMEX. Whether the APs who end up with the gold redeemed from the GLD are then off-loading the metal to others remains unknown, but the persistence of commercial buying on the COMEX suggests that the metal is being held by the APs/COMEX commercials.

This is something new that I am introducing, namely, that the takedown in gold (and silver) prices has occurred not only for the purpose of enabling the commercials to buy as much COMEX metal paper as possible, but has also extended to the GLD for the purpose of buying actual gold metal. Since year-end in GLD, the commercials have purchased 6.2 million oz of gold from liquidating shareholders, to go along with total net commercial buying of more than 11.5 million equivalent oz in COMEX futures contracts and a lot more adjusting for the sell-off the past few days since the COT cut-off. (In silver, we're well ahead of 200 million oz being bought by the COMEX commercials since November). These are stupendous amounts and provide the most plausible explanation for the sell-off, namely, it was all a sophisticated scam by the commercials to buy as much paper and metal as possible that worked like a charm. When one adds the commercial buying of gold (and silver) in the ETFs to the documentable commercial buying on the COMEX, the commercials are even better positioned for a significant price rally at any time.

The changes in this week's Commitment of Traders Report (COT) matched my admittedly reluctant guess of unchanged. You'll remember that on Wednesday I thought we had offsetting trading days within a reporting week that ended $10 higher in gold and 50 cents in silver. And for a change, there wasn't anything particularly intriguing in the details under the hood. I'm going to run quickly through the reported changes in order to get to what occurred after Tuesday cut-off.

In gold, the commercials increased their total net short position by a scant 1300 contracts, to 143,800 contracts. The big 4 sold an additional 2700 contracts short and the raptors bought 1800 new long contracts, increasing their net long position to 7000 contracts. There was a bigger deterioration by the technical funds in the managed money category of the disaggregated COT report of almost 6000 net contracts, including a decrease in the gross short position of the technical funds of almost 3000 contracts. This decrease set the stage for the big price decline on Wednesday and yesterday, as the commercials undoubtedly lured a record number of new tech fund shorts into gold.

In silver, there was a slight reduction in the total commercial net short position of 600 contracts, to 17,900 contracts. Although slight, the reduction for the week set another new low-water mark for total net commercial shorts going back to last July. By commercial category, the big 4 (read JPMorgan) bought back 800 short contracts and the raptors sold 300 longs, reducing their net long position to 30,900 contracts, still the second largest weekly net long position in history (with last week having set the record). Perhaps the best news in the report was that the technical funds only reduced their record gross short position by less than 300 contracts. As of Friday, that gross short position is undoubtedly at new record highs.

I would estimate JPMorgan's concentrated net silver short position on the COMEX to be down to the 19,000 to 19,500 contract level or half their position at the peak of 38,000 contracts at the end of November. This means that the manipulators at JPMorgan bought back close to 100 million oz of COMEX paper shorts at quite a few dollars of net profit. Means, motive and opportunity for a glaring ongoing crime. Considering what happened after Tuesday's COT cut-off and what JPMorgan was able to buy in ETF's and other markets, I would have to say that this crooked bank has probably reduced its net short silver position to a remarkably low level, perhaps even eliminating it effectively.

Considering the extremely high trading volume on the COMEX and in the ETFs yesterday and also on Wednesday, it is reasonable to assume absolutely massive commercial buying and technical fund selling in all the NYMEX/COMEX markets hit with the price neutron bomb. I have little doubt that the technical funds now hold a record gross short position in gold, silver and copper. As of yesterday's close, I would estimate that the gold COT structure improved by 25,000 net contracts and maybe (much) more, with a silver improvement of 10,000 net contracts. The only question is how much the crooked raptors bought compared to the crooks at JPMorgan.

I have read reports suggesting big volume in London, although as is usually the case, no verification is offered or even possible. The same goes for Asian buying in that it sounds reasonable but can't be verified. That's the beauty of COMEX data; it may be a crooked exchange, but at least you can verify the data. I don't doubt that the crooked commercials which operate in London are one and the same commercials as on the COMEX and in the ETFs. What I object to is the use of unverified data to make a case in any market. Besides, there's no need to resorting to story-telling. Yesterday's COMEX net volume (subtracting spreads) in gold came to more than 30 million oz (1000 tons) and more than 400 million oz in silver, or more than six months of world mine production, dwarfing the amounts in the stories based upon unverifiable data. Why make stuff up when the facts are available and are even better than the stories?

A reader sent me a copy of the CEO's annual letter to shareholders of JPMorgan. http://files.shareholder.com/downloads/ONE/2420996382x0x652198/c54d05da-1acb-4cca-ab7a-9b80f9465199/JPMC_2012_AR_CEOletter.pdf To say I was taken aback by some of what Mr. Jamie Dimon had to say would be an understatement. As regular readers know, I have always sent to Mr. Dimon every article I have ever written in which I reference JPMorgan, which is another way of saying I send him 99%+ of all my articles. I would never even think about saying anything negative about anyone or any company and not sending my allegations directly to that person or entity. Certainly, I've had plenty negative to say about JPMorgan for the past 4 and a half years. Therefore, some of what Mr. Dimon said in the shareholders letter I found perplexing.

For instance, starting on page 10, Mr. Dimon exhorts all of JPMorgan's 260,000 employees to learn from the lessons of the London Whale derivatives disaster. In particular, he cautions employees to fight complacency, overcome conflict avoidance, ask hard questions and to trust and verify. He implies reputation is of paramount importance. Yet it appears to me that Mr. Dimon and his board of directors are behaving very differently from what he espouses to employees when it comes to the allegations that the bank is manipulating the price of silver. I know the matter of market manipulation is of the utmost importance in legal terms and I have to assume a man as smart as Mr. Dimon must understand what I am accusing his bank of doing wrong. Perhaps he is saying to his employees and shareholders that there is a double standard when it comes to what he does and what everyone else should do. As a result of the recent Senate Permanent Subcommittee on Investigations report on the London Whale, I know that one of the email addresses I send my articles to is an active address for Mr. Dimon (jamie.dimon@jpmchase.com) and I have never had a returned email. I'm not sure why the bank has buried its head in the sand regarding the allegations of silver manipulation, but from my vantage point it has done little to enhance JPMorgan's reputation.

I've covered the what, why and how of the vicious price plunge yesterday, so the most important question for investors is what's next for the price? Yesterday's price stab to new lows was more like a dagger to the heart of many investors in intensity than the potential stab I wrote about previously.  But the degree of intensity aside, the plunge appears to match the blueprint of intent in getting the tech funds to sell and sell short with a reckless abandon. It was as if a week or more of orchestrated price rigging was accomplished in a day. There may be some residual margin call selling early Monday, given the outsized losses on Friday, and no one should be surprised if the crooked CME jumps in with margin increases to induce additional artificial pressure on paper longs, but it's hard not to imagine the big selling being done.

Certainly, JPMorgan and the other crooked commercials have bought super-aggressively in gold, silver, copper, platinum, palladium and crude oil on Friday and previously. It is clear that this buying has set the stage for the coming resolution to the upside. When, not if, that rally commences the question will be how aggressively the commercials sell and specifically, how much, if any, does JPMorgan add to silver short positions. Considering that JPMorgan and the commercials are now better positioned in gold, silver and copper for a significant price advance than at any time I can recall in the past, it would not be surprising for the coming upturn to develop into the big one in silver.

I know it is no fun to go through in real time, the debilitating effects of JPMorgan and the commercials rigging prices lower for their selfish objective of causing others to sell, but long term investing should not be promoted as a fun activity (although it seemed like fun a couple of years ago). But the fact that silver prices have been rigged lower so that JPM and the commercials could buy from the technical funds leaves us in a great position for a rally, regardless of possible remaining stabs lower. The best thing of all is in knowing the real story as to why we went lower and why we'll go higher. That knowledge can only come from verifiable facts and evidence, not the made-up stories we are being bombarded with.

Ted Butler

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Silver – $25.90

Gold – $1480

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