

April 15, 2015 – Getting Closer

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If there's one question on nearly everyone's mind who follows silver (and gold) closely it is when is this manipulation going to end? I know I've been asking myself this question for most of my adult life, even though I know the precise point can't be predicted in advance. That doesn't mean the end to the silver manipulation won't come and, by definition, it must come as all manipulations end eventually. For sure, a physical shortage of silver must result at some point in reaction to prices being too low for too long, but, of course, the exact details of how that shortage will unfold is unknowable in advance.

Aside from the pure mathematics of something that must occur but that hasn't occurred yet being closer through the mere passage of time, I see some things that convince me we are closer to ending the silver manipulation than ever before. As always, I'll provide you with the reasons behind my opinion and let you decide for yourself.

I continue to see a literal explosion in commentary and analysis concerning the data in the weekly Commitments of Traders Report (COT). This, I believe, is for very good reason as the data in these reports are invaluable in explaining (and even predicting) price changes in silver and gold. As I've explained previously, I'm very sensitive to the growing attention to the COT reports and I am constantly monitoring what others are saying about the reports. Let me rephrase that – it's not so much what others are saying in terms of interpreting the reports, but how many new followers are gravitating to the reports for input on market analysis.

More and more, COT analysis has become a regularly recurring feature for important mainstream financial sources, like Reuters and Bloomberg. Interestingly and quite correctly, the better COT commentary zeros in on changes in the Managed Money category, as I have done on a regular basis for quite some time. This is the category mostly, but not exclusively, comprised of the technical funds or the traders who utilize price change to initiate and liquidate positions. It is fitting and proper to devote particular attention to the Managed Money category for the simple reason that this is the "hot" money category in that position changes in this category account for nearly all price change. As my weekly reviews of the COT reports generally reflect, I would guesstimate that changes in the managed money category account for roughly 90% of the non-commercial position changes weekly.

Therefore, it is not surprising that Reuters and Bloomberg and many others have focused in on not just the COT reports in general, but particularly on the managed money category of the report. After all, if one is going to analyze the COT report, it makes sense to concentrate on the single most important category and, hands down, that category is managed money. Of course, since there must be a buyer for every seller of a derivatives contract and vice versa, when the managed money traders buy or sell on the COMEX, there must be traders on the other side of the transaction and in this case those counterparty traders are most always the commercials.

It is the growing mainstream financial media attention to the COT reports in general and particularly the attention to the managed money category that leads me to believe that this is an agent for bringing us closer to the end of the silver manipulation. It has to do with the natural evolution of awareness. By that I mean that it is impossible for anyone to become aware of the silver (and gold) manipulation if they are not even close to looking at the source of the manipulation; but it becomes almost impossible not to see the manipulation in time if they are looking at the correct source. In other words, the increasing attention to and recognition of the influence of changes in the managed money category to price change is a very big deal.

Admittedly, I'm an old warhorse when it comes to the COT report but I know full well that it is nothing more than gibberish to most folks and looks like a hodgepodge of indecipherable numbers splashed randomly on a page once a week. That's not to say I can predict what prices will do, but over the course of time, the COT reports explain both past and future price changes better than any other single source of market data. That's why I'm not surprised coverage of the report appears to be growing markedly. What's most encouraging to me is that the distance between grasping the silver manipulation once you generally understand the COT report can be measured in inches, where the distance to grasping the manipulation without the COT report is measured in miles, if not hundreds of miles.

Simply put, once you grasp the implications of the COT report, particularly concerning the managed money category, you're knocking on the door of the manipulation. At that point, it becomes a matter of perspective in how you view the data already being considered. Once it is established that the managed money category is the key category as evidenced by the continuing and easy to document relationship between changes in the category and price, you're almost there.

Let's face it — Reuters and Bloomberg and many others are now focusing on the managed money category for some reason and the relationship between position change in this category and price is the only possible explanation. It's elementary to conclude prices rise when there is net buying in the managed money category and that prices fall when there is net selling in the managed money category. Catching major turns in price and position change is more difficult, but not the basic mechanics of why prices go up or down.

All that's missing in the growing new commentary on the COT report and the managed money category is a reflection of what's really occurring. The commentary does focus on the mechanics and measurement of how much buying or selling occurs in the managed money category, but never steps back and questions what is occurring in a broader sense. But I am convinced that a broader reflection is inevitable and likely to occur sooner rather than later due to the growing commentary.

Here are the facts. The managed money category is most responsible for price change based upon the actual data; otherwise this category wouldn't be featured. By CFTC category definition, none of the traders in this category are legitimate hedgers; all are speculators. I'm not suggesting speculators are bad (I am one myself), I'm just pointing out that this speculative category is most responsible for price change. That's just another way of saying that speculators are setting the price in silver and other commodities, not legitimate hedgers.

As far as the counterparties to the speculators in the managed money category, aka the commercials, these traders are financial institutions (like JPMorgan) and while they are —making markets— for and against the managed money traders, the commercials' transactions have nothing to do with legitimate hedging and everything to do with trying to outmaneuver the managed money traders. There are no mining companies or industrial silver users participating in this private betting parlor we refer to as the COMEX, so all trading there is almost exclusively one speculative group trading against another group of speculators. Therein lies the problem and the reason for my conviction that this can't last very long.

The exclusively speculative nature of COMEX silver trading is apparent in the verifiable data of the COT report. This is obvious. What is also obvious is that it's against commodity law, which holds that the price of a commodity be determined by actual supply and demand circumstances and not by speculative scheme. Nothing matters to the price of silver in terms of actual supply and demand; all that matters is speculative COMEX positioning. While this is not new to regular readers on this site, it has yet to occur to those newly following and reporting on the COT report. Trying to convince those with no familiarity of the COT report of any of the above is impossible; trying to convince those who have made themselves familiar with the report is inevitable.

Along with the growing awareness of the COT report and what that portends for the termination of the manipulation, there are other strong signs that even those not well versed on the intricacies of the report are seeing that something is very wrong with the price discovery process in silver. Back in the fall, the CEO of silver miner First Majestic, Keith Neumeyer, made waves when he suggested the price of silver was too low and openly suggested that silver miners band together to restrict production to counterbalance what he thought was too low of a silver price. I remember writing about it at the time and both congratulated and encouraged Mr. Neumeyer to continue pursuing the artificial pricing issue in silver, but to shy away from attempting to form a producers' cartel as that appeared to be against antitrust law. While silver is clearly manipulated in price, you shouldn't try to manipulate it higher. Two wrongs don't make a right and all that.

I hadn't heard much from Mr. Neumeyer on the artificial pricing of silver since then, so I was somewhat surprised when I ran across a very recent interview in which he discussed his opinions in straightforward terms. He questioned the price discovery process for silver on the COMEX and characterized the process in terms that should be familiar to anyone reading these pages. In the interest of time and to drill down to the price discovery discussion, you can fast forward to the 21:25 minute mark. <https://www.youtube.com/watch?v=iQCzApiCbkQ>

The important point is that here we have the CEO of an important primary silver producer deeply questioning how silver prices are derived. According to Mr. Neumeyer, actual supply and demand have little to do with current silver prices and I, for one, would not argue with him. Although Mr. Neumeyer, much to his credit, has spoken to the issue of artificial pricing in silver previously, I must point out just how rare and unusual it has been for a primary silver miner to raise such concerns over the past 30 years in which I have alleged a COMEX silver manipulation has existed. I'm still shaking my head in disbelief that silver miners heretofore always denied prices were manipulated, even though their shareholders were obvious victims, but I am more encouraged by Neumeyer's words than anything else.

Taken with the growing attention being placed upon the COT report and the managed money category, Mr. Neumeyer's sentiments are reason to believe the ongoing silver manipulation is on its last legs. It's hard to run any scam where the scam becomes common knowledge. I've always maintained that in matters related to the price of silver, all roads lead to the COMEX. I would revise that to all silver roads lead to the COMEX and JPMorgan, but that is a distinction without a real difference. I actually look forward to the day when someone admits that paper speculators on the COMEX do set and have every right to set the price of silver and that actual producers should butt out and be happy with the prices given to them by the speculators. It has become nearly that crazy.

On to other recent developments. Not unexpectedly, for the first three days this week, another 2.3 million ounces were moved into the JPMorgan COMEX silver warehouse, bringing to nearly 6 million oz the total amount of silver flowing to this warehouse over the past six business days. If this isn't directly related to JPM taking the maximum amount of silver allowed (7.5 million oz) in the March futures contract, then the moon isn't directly related to the tides. As far as I'm concerned, enough metal has flowed to the JPM warehouse to establish the connection, but a bit more may come.

Also, upon further review, I find it interesting that the 1500 contracts that JPMorgan stopped (in its personal trading account) were the only silver deliveries made or taken by JPMorgan in its proprietary account this year (including the big December 2014 COMEX delivery month. I'm sure that JPMorgan holds a free get of jail card from the CFTC (or higher agency) because after alleging for quite some time that JPMorgan was accumulating an historically massive physical silver holding over the past 4 years, one would think the bank might be somewhat more discreet than in suddenly taking the maximum amount and wave the red flag that might represent. I was certainly surprised that JPMorgan would appear that open and brazen (although I was very pleased to have it confirm my ongoing speculation), but I suppose that's what get out of jail cards are for.

I also took note that the investment bank Jefferies agreed to sell its Prudential Bache commodities unit for undisclosed (but obviously puny) terms after acquiring the unit with much fanfare (and for \$430 million) four years ago. Jefferies has been one of the biggest issuers of silver deliveries on the COMEX, if not the biggest, since it announced it was buying the business in April 2011. (There we go with another unusual development dating to April 2011). I can't know what impact Jefferies exit from COMEX silver dealings will have on price, but it's got to be better than any impact it had over the past 4 years.

Despite a bit of a rally today, silver and gold prices are lower since Friday's close. Yesterday was the close of the COT reporting week and since both silver and gold were down for 4 of the 5 reporting days, unless the CFTC is way behind in their compilations, there should be improvements in the report to be issued Friday for a change, or a reduction in the total commercial net short position. Silver was down more than gold for the reporting week, falling around 70 cents to gold's \$15 loss, so the reduction in the headline number should be proportionately greater in silver. In addition, silver closed below its 50 day moving average for all five days of the reporting week, while gold managed to close one day above its 50 day moving average. I don't have a high conviction of what the report will show, but would expect at least a 5000 contract reduction in silver and at least 10,000 contracts in gold.

I'm still shaking my head at how aggressive the commercials were in selling gold and especially silver contracts on the recent rally. To think that the commercials would sell 20,000 silver contracts, the equivalent of 100 million oz on the smallest rally (\$1.50) in more than a year points to perhaps arrogance or desperation, but certainly to manipulation. Even though the COT market structure is no better than neutral by conventional standards, that doesn't mean we have to go lower in price; although if we do move lower there can be no question as to its cause — commercial rigging of lower prices to uncover managed money selling.

We have seen a number of successive price lows thru the reporting week (aka salami slicing) and therein lies the rationale for COT improvement. What is harder to predict is the extent of additional potential managed money selling made more complicated by the growing attention and awareness that silver is priced artificially. Since we are down more than \$30 from silver prices of four years ago, it is no wonder collective investor sentiment remains in the gutter. At the same time, simple mathematics declare that the greatest dollar price decline is behind us and that it is unreasonable to worry if that will be repeated.

Ted Butler

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Silver – \$16.30

Gold – \$1203

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