April 16, 2016 – Weekly Review

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In stark contrast to the trading pattern of the year to date, gold finished lower by $5 (0.4%) while silver finished higher by 88 cents (5.7%), both its best weekly gain and highest close in nearly a year. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly five full points to 76 to 1. After months of lagging gold, this week put silver very slightly ahead by relative performance since yearend.

Is this the liftoff point for silver, both on an absolute basis and relative to gold? I wish I knew what will transpire in the short term, but I'd be lying if I pretended to know. I do know, as I indicated last week, that it is completely bizarre that silver remains so cheap in price, particularly relative to gold, on a long term basis and regardless of near term price action, we will look back at current levels and marvel about how cheap silver had become these past few years.

Certainly, I was aware of no particular news that drove silver higher this week, other than the steady drumbeat of tight wholesale physical indications and the data in just released COT report, in which I was disappointed to see my expectations of hefty increases in commercial selling come very close to predicted levels. I was truly hoping to be wrong. The results don't completely rule out a move higher in silver based upon a double cross by JPMorgan of the other commercials and it will take more data to flesh that out.

There was quite a stir this week about Deutsche Bank settling a civil class action lawsuit and agreeing to cooperate with plaintiff attorneys in their case against remaining members of the London Silver (and Gold) Fix for manipulating prices. I can't say this was behind the surge in silver prices this week, as prices were flat after the news came out and gold prices were definitely lower after the news. On balance, the development must be considered positive in that it holds the promise to further expose the certain fact that the price of silver has been manipulated and any widespread dissemination of this fact can aid in ending the manipulation.

http://www.reuters.com/article/us-deutschebank-settlement-silver-idUSKCN0XA2RU

As much as I would welcome a full acknowledgement of the silver manipulation in official circles, it's important to report on this development in a balanced and measured manner. Deutsche Bank didn't admit to rigging the price of silver; that's the whole purpose of a settlement Â? to avoid any such admission of guilt. And considering that the bank first tried to sell its ownership of the London Silver Fixing process and then, finding no buyers, simply just quit its longstanding participation unilaterally, it should not be terribly surprising it would settle litigation surrounding the matter. It would appear that Deutsche Bank came to recognize the obvious Â? in this day and age, a few bankers privately colluding to fix prices behind closed doors eventually invites scrutiny. I suppose the only thing worse would be if the process was called the London Silver Price Rig, instead of Fix.

And it's important to recognize that this is a civil case, not a criminal case, even though manipulation is the most serious market crime of all. Unfortunately, even if the case ultimately does prove serious wrongdoing, it's hard to imagine the US federal commodities regulator, the CFTC, dealing with the issue in an open and honest manner since it has publicly declared on numerous occasions nothing was amiss in the silver market. Finally, I'm still more than convinced than ever that the silver manipulation is centered on the COMEX and JPMorgan and unless that connection is made, it's hard for me get terribly excited at this point.

All that said, there is still much more positive than negative in this week's development. I was highly encouraged at the outpouring of reaction to the news. While there was some obligatory naysaying from dyed-in-the-wool manipulation deniers, the reaction by those convinced that silver was manipulated in price was near overwhelming. The precious metals community is very small by any standard, but the percentage who sense that silver and gold have been manipulated in price has never been higher – and for sound continuing reasons. And even though the two main manipulative silver crooks – the COMEX and JPMorgan – were not the main focus of this week's legal development, both are clearly in the potential crosshairs.

It's become so common place for me (and others) to refer to the COMEX and JPMorgan as silver market criminals that it is easy to overlook just how significant is this continuing reference. Away from the precious metals world, I believe JPMorgan and the CME Group are generally held in fairly high esteem, which is of vital importance to any large financial institution. Nothing could be more important to a financial institution than its reputation and I know I am not speaking out of turn when I say that in precious metals circles, JPMorgan and the COMEX are largely held in contempt. The fact that neither even tries to address the allegations of wrongdoing leveled against them publicly only adds to their reputational contempt.

Not to belabor the point, what the CME has done is to encourage and foster a system of trading in which speculators and not legitimate producers and consumers set prices. This is against the intent of commodity law. What JPMorgan has done is to hold the dominant and controlling short position in COMEX silver since acquiring Bear Stearns in 2008 and has used its price control to not only illegally profit in futures trading but to also accumulate the largest physical silver position in history at prices it set artificially low. This is contrary to US antitrust law, to say the very least.

The circumstance of two important financial institutions being openly and consistently accused of criminal activity has never existed before and it is not one that can possibly last indefinitely. Perhaps the most important lesson from this week's settlement is what the CME and JPMorgan take from it, namely, that their day is coming. Either that or these two crooked institutions may have to speak up and show why they aren't the crooks I purport them to be. Just don't hold your breath.

The biggest point about the Deutsche Bank settlement is that any wrongdoing that it may have been involved in looks to be in the past and its actions strongly suggest it is no longer involved in any manipulation of silver or gold. Otherwise, why settle and pretend to be so cooperative? In contrast, JPMorgan and the CME Group appear to be actively involved in an ongoing criminal enterprise and show no signs of ending their criminal ways. These are the market crooks that need to be attacked.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses picked up slightly this week (despite a rare zero movement on Friday), as nearly 3.7 million oz were moved and total COMEX silver inventories fell by 1.1 million oz to 154.1 million oz. One unusual highlight was that more than a million oz left the JPMorgan silver warehouse, perhaps the result of the unusual delivery of 600,000 oz on the first day of the non-traditional COMEX April delivery month. Also, there are no signs yet of the expected influx of 5 million oz that JPM took delivery of in the March delivery period. I admit to reaching this conclusion quite frequently, but this all adds up to physical tightness to me.

Switching to the April COMEX gold delivery process (a traditional delivery month) which I mentioned last week, conditions there also suggest physical tightness. Based upon recent large physical inflows of metal, it appears most of the remaining open gold contracts are being settled by physical delivery, rather than by futures contract liquidations or roll overs. The main gold short and deliverer is HSBC in its house account with more than 1600 contracts (160,000 oz) issued to date and with a deposit in the past few days of another 160,000 oz into the bank's COMEX gold warehouse, I would expect another 1600 contracts to be issued soon. (JPM is a featured stopper of gold this month, although not to the same extent as HSBC has delivered).

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Two points here. I would conclude a degree of physical tightness in gold as a result of HSBC having to bring in metal to meet delivery this late in the delivery month. It's hard not to get the feeling that HSBC would have preferred to avoid making physical delivery and shipping in the gold, but the buyers appear determined to receive delivery, which under COMEX rules must occur if the buyers so demand.

My other point is that why are such a large percentage (upwards of 80%) of the COMEX deliveries in gold and silver always in the house or proprietary trading accounts of the biggest banks? And why are the biggest banks always the dominant holders and traders in futures contracts on the COMEX? Futures markets are intended for wide and diverse participation, not as a plaything for big banks. And that was supposed to be the case even before Dodd-Frank and the Volcker Rule; instead big bank domination has grown more intense. The business around Deutsche Bank looks like kid stuff compared to what is occurring on the COMEX.

There have been decent physical deposits and withdrawals in the two big precious metals ETFs, GLD for gold and SLV for silver. Such movements, on their face, suggest physical tightness. The flows in GLD look somewhat more rational than the flows in SLV, where silver this week came out to the tune of 3 million oz despite price strength and higher trading volumes (usually a cause for deposits). If JPMorgan isn't behind these movements, then I've run out of alternative viable candidates. The bottom line is that I sense a decent chunk of silver is owed to the SLV.

I forgot to mention on Wednesday that the new short report did indicate a reduction in the short position for SLV, although not to the extent I would have expected, although the short position in GLD declined more. The short position in SLV was reduced by 820,000 oz to just under 12.8 million shares/oz, while the short position in GLD was reduced by a hefty 300,000 oz to just over 1 million oz short (10 million shares). I wouldn't know what it expect in the next report, given the erratic nature of recent trading and movements.

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Sales of Silver Eagles hit the US Mint's rationing limit early in the week, so new sales will only be reported next week, similar to the pattern that has existed this year. Sales of Gold Eagles have picked up markedly and I would have to point the finger at JPM as being the big buyer, since gold prices have lagged a bit to silver very recently.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Reports from the retail dealer front indicate a surge in the buying of retail silver products this week and a notable cooling off in retail gold items, almost to the point of raising alarm about continued availability of retail silver products. What this indicates, once again, is that the supply lines for retail silver products may be wide, but they are not very deep, even in times of soft retail demand. The minute retail silver demand turns up, concerns about product availability seem to occur.

Even though there is a marked difference between retail and wholesale forms of silver, there is a striking similarity in that wholesale supply lines are nowhere near as plentiful as commonly assumed. The moment investment driven demand for silver jumps the firebreak of retail into the forest of 1000 oz bars is when the fire will burn out of control. I can't say when, but that day is coming.

The changes in this week's Commitments of Traders (COT) Report certainly fell into horseshoe and hand grenade levels of predictive accuracy. I split the uprights in gold (between 20,000 to 30,000 contracts of net commercial selling) and understated the increase in silver by a few thousand contracts (on a guess of 5000 to 10,000 contracts or more). Once again, I would remind you that I am not on some ego-driven trip to aggrandize myself. This is about trying to understand and explain what drives gold and silver prices and what has driven prices more forcefully than any other single factor is COMEX positioning. It's all in the numbers.

In COMEX gold futures, the commercials increased their total net short position by 24,500 contracts, to 231,800 contracts. This is the largest (most bearish) headline number since late 2012, when gold was close to $1700. It wasn't so much that gold surged to new highs during the reporting week, although it did end the week up about $30. It was more about two high volume days of $20 price gains which resulted in big increases in total open interest. Still, gold prices clearly jumped due to technical fund and other speculative buying which the commercials sold aggressively into.

By commercial category, the 4 largest commercial shorts added nearly 12,000 new short contracts, while the raptors (the smaller commercials) added 11,500 new shorts; with the big 5 thru 8 traders adding the 1000 contract balance. I do tend to make a big deal about the concentrated short position because therein lies my claim of manipulation and the concentrated short positions of the big 4 and big 8 are also at bearish extremes not seen since late 2012. I'll come back to this later.

On the buy side in gold, it was mostly a technical fund affair, as traders in the managed money category bought nearly 18,000 net contracts, including 15,784 new longs, while covering nearly 2100 shorts. (Other large speculators, not managing others' money bought nearly 5500 net gold contracts). The managed money technical funds now hold, effectively, their largest net and gross long position in gold since 2011. This is thought to be bearish because the upward price impact of such buying has already been reflected in price and it would take even more such buying to drive gold prices higher.

Of course, should something come out of the blue, completely unexpected and cause the commercials to buy back their record short positions on higher prices for the first time ever, what is assumed to be a bearish set up could result in exploding gold prices. In that case, the technical funds would be big winners, basically for the first time ever. I guess it depends on how lucky one may feel about an unexpected event.

In COMEX silver futures, the commercials increased their net short position by a very hefty 12,800 contracts, to 72,400 contracts. While very high (bearish) by almost any standard, unlike the case in gold, there have been a number of occasions this year where the headline number has been higher. But it's also true that the current headline number and, particularly the concentrated short position is much higher than it was five years ago.

By commercial category, the 4 largest shorts added 3500 new short contracts and the raptors (as fully expected) did the bulk of the selling in liquidating 9100 long contracts. (The big 5 thru 8 added a few hundred shorts). I was hoping the raptors would be responsible for all the selling, not just 70% of the commercial selling and that the big 4 (JPMorgan) would sit pat and not add any new manipulative shorts.

As it stands, I would assign 3000 contracts of the commercial selling this week to JPMorgan and peg their net short position at 21,000 contracts. This is up from last week, but still 3000 contracts shy of what I had pegged JPM to be at three weeks ago. I make such a big deal about this because I am convinced it is at the core of the silver manipulation. However, it is possible that JPM may not have added shorts and other traders in the big 4 were the new short sellers. That would mean JPM is no longer the big silver short, a conclusion that might be too much of a stretch at this point. Without a concurrent Bank Participation Report to better calibrate JPM's position, it's hard to draw a detailed bead on these crooks.

On the buy side in silver, it was all technical fund buying, as traders in the managed money category bought, in essence, the exact same number of contracts (12,800) sold by the commercials, including 8908 new longs and the buying back of 3847 short contracts. At just shy of 70,000 contracts gross long and 56,000 contracts net long, managed money traders hold their largest positions in COMEX silver futures since the disaggregated COT report was first introduced in late 2009. As was the case in gold, this is generally thought to be bearish because the upward price impact is already reflected in price once the contracts are bought by the managed money traders.

But as I pointed out last week and before that last year, I believe there are around 50,000 long contracts in the managed money category not held by technical fund type traders. If I'm correct, that means the true technical fund gross long position is closer to 20,000 contracts and not the 70,000 contacts indicated and meaning that much less potential liquidation on lower prices.

At first, I was disappointed with this week's results in the COT report on silver and it may very well indicate that we face a bout of technical fund liquidation ahead if the crooked COMEX commercials can rig lower prices. I don't like to talk out of both sides of my mouth, but a short term decline, even of the sharp variety, would do nothing to invalidate my premise of the surest trade (switching gold into silver) or the prospects for a melt-up in silver. In many ways, a sharp selloff would augment both premises.

Having uncovered the silver manipulation more than 30 years ago, as you might imagine, I have different thoughts when faced with the type of news that emerged this week on Deutsche Bank and the London Silver Fix. And in reviewing this week's data in the COT reports, I further reflected on my thoughts of three decades ago. What struck me most was that my original premise never changed.

My original Eureka moment had to do with discovering that the total open interest in COMEX silver futures was completely out of line with all other commodities when measured against real world production and inventories. My very first paper was titled, Â?The Real Surplus in Silver,Â? which I uncovered in my late father's papers some six years ago (along with some high school football and basketball newspaper clippings he saved). In the article, I opined that silver prices were artificially depressed because paper contracts were issued with no regard to real world supplies and the sellers, mostly big banks, were the real culprits behind the manipulation.