April 22, 2015 – In the News

In the News

A number of readers sent me a copy of a recent Mineweb/Bloomberg article titled, Â?China Silver Stockpiles SurgeÂ? with the subtitle, Â?The global benchmark price has fallen 17% in the past year.Â? No argument that the price of silver has fallen, but I'd like to comment on the clear but incorrect premise of the article that the price fell because of falling industrial demand for silver from China that the resulted in the growth in inventories.
http://www.mineweb.com/news/silver/china-silver-stockpiles-surge-as-demand-wanes/

For one thing, the timeline indicated in the article doesn't match up with the silver price decline. The article is clear that inventories on the Shanghai Futures Exchange tripled from year end 2014 to today and left the distinct impression that this was responsible for the price decline. The only problem is that silver prices were steady to higher over this specific period of time, not lower. By itself, this negates the premise of the article as the growth in this particular category of silver inventories couldn't have had anything to do silver's price decline since silver's price didn't decline in the time period that these inventories rose.

Additionally, the quantity of the reported inventory growth is misleading to most readers because it is stated in tons, rather than in the more familiar designation of ounces. Given the tenure and tone of the article, the growth of roughly 220 metric tons to 341 metric tons sounds almost astronomical. In ounces, these silver inventories grew by 7 million oz to 11 million oz. While this is a large percentage increase, in practical terms, it would hardly appear newsworthy given the existence of silver inventories on the COMEX and in SLV which exceed 500 million oz.

Despite the growth in silver inventories on the Shanghai Futures Exchange (which occurred during a time of rising silver prices), total inventories there are barely 2% of combined COMEX inventories and SLV holdings and only 1% of total world silver bullion inventories. That doesn't sound almost astronomical now, does it?

Therein lies the problem with much that is in the news about silver (or anything else). Unless one has a general awareness of the actual facts and circumstances on a specific subject, it is easy to be misled by many of the stories we are exposed to. Do I think that the author (no name given) of this article set out to intentionally deceive readers? Not necessarily; I think it was more a case of preconceived opinion and human nature, namely, silver prices have moved lower and let's find the reason and write about it (even if it's the wrong reason).

Unfortunately, the same is true of many of the bullish stories on silver (and something I question myself on incessantly). For example, I remember that last year many silver commentators went on and on about the then low level of silver inventories on the Shanghai Futures Exchange (less than 3 million oz) and how that foretold an impending shortage and even a potential default on the exchange. In retrospect, those stories were as misguided and misleading as the Bloomberg story above.

I think the lesson here is to read opinion pieces (including mine) and news stories with a questioning mind. What are the verifiable facts and how do those facts mesh with the price pattern and common sense? Something has to be responsible for past and future silver prices and if the most obvious answer is not positioning on the COMEX and the actions of JPMorgan, then I'm as wrong as wrong can be. While I know that China and India will factor into silver (and gold) prices in time, up until now it is strictly a COMEX-centric affair and drilling down to the details of what occurs on the Shanghai Futures Exchange has largely been a waste of time. At the very least, there has been no correlation between events in China and India and price that I have been able to uncover. There will be one day, but not up until now. The only legitimate correlation to silver and gold prices is futures contract positioning on the COMEX.

The big news event, of course, is yesterday's joint filing of civil charges by the CFTC and criminal charges by the Justice Department against a London trader for his participation in the infamous Â?Flash CrashÂ? in the stock market on May 6, 2010. That was when the Dow Jones Average fell 1000 points in a very short period of time before recovering almost as sharply. Yesterday's filing places much of the blame for the crash on this London trader who Â?spoofedÂ? the market, by entering and immediately canceling large orders on stock index futures contracts whose prime intent was to manipulate prices. (I suppose he's not the one spoofing prices lower in COMEX gold and silver today, but someone certainly is).

While the CFTC and its enforcement director, Aetna Goelman, were crowing about their latest crackdown on market manipulators and how concerned they are about market integrity and upholding the law, another view of the federal regulator and the front line self-regulator, the CME Group, emerged. I am indebted to the NY Times for putting the matter into a different, and I would say, more proper perspective.
http://www.nytimes.com/2015/04/22/business/dealbook/trader-in-britain-arrested-on-charges-of-manipulation-that-led-to-2010-flash-crash.html?ref=dealbook&_r=0

As the Times correctly pointed out, there was no mention of this London trader in the 104 page supposedly exhaustive joint study put out by the CFTC and SEC more than four months after the crash. How could such a high level joint study have missed this trader's involvement? As it turns out, the CFTC only became aware of it much later, after a whistleblower came forward. So much for the 104 page high level joint study. I'd put that study in the same category as the agency's two public letters explaining how silver wasn't manipulated in price in 2004 and 2008 and the Â?exhaustiveÂ? five year investigation into silver manipulation that came up empty handed in 2013. It's amazing all that you can't find when you are not looking or do not want to find.

According to Eric Hunsader, from the market data company, Nanex, Â?I'm dumbfounded that they missed this until now.Â? After watching the agency's handling of the increasingly obvious silver manipulation, I'm less surprised and I am left with the feeling that the evidence provided by the unnamed whistleblower must have been overwhelmingly convincing for the CFTC to change its tune so radically.

I am not at all surprised at the article's negative portrayal of the role of the CME in this matter. The article quotes the London trader, in an email more than four years ago, as having told the exchange who was inquiring into his activities, Â?to kiss my ass.Â? I'm sure that wasn't what took the CME so long to crack down on the trader, since there is no evidence the CME ever cracked down on him. The CME hasn't cracked down on High Frequency Trading, no matter how egregious it has become for the simple reason it is the greatest beneficiary of the mindless and manipulative trading in the form of exchange fees. The CME is the prime promoter of HFT. That's the problem with self-regulation when the regulator is a beneficiary of the manipulative trading Â? it will never be ended by the conflicted regulator.

The irony, of course, with the charges of manipulation in the stock market that occurred five years ago is that the same manipulation is occurring in COMEX silver and gold today as I write this. As I've written previously, the HFT computer jocks have been careful not to trip off another stock market crash because they know it will not be tolerated. But because both the CFTC and the CME have openly signaled that high speed computer manipulation is OK in COMEX silver and gold, the manipulative practice has actually intensified. Whereas crashing the stock market damages too many investors, the number of investors hurt in the silver manipulation is so small in comparison that the CFTC and the CME look the other way. That's the way these regulators swing Â? they only do what they are forced to do.

In developments since Saturday's review, the flow of physical silver moving into the JPMorgan COMEX warehouse has suddenly abated after growing by 8 million ounces in the two weeks ending Friday. (In fact, there was a slight reduction in the JPM warehouse today). I'm somewhat reluctant to add Â?as it should haveÂ? abated, because any time one uses those words one is inviting a surprise. But in this case, after the movement of 8 million oz into the JPM warehouse, it appeared all the metal taken in the March futures deliveries was accounted for. Up until now, I am both gratified that it seems to have played out as it Â?shouldÂ? have and somewhat amazed that JPMorgan would be as transparent in its actions as it appears to have been. I keep expecting some type of subterfuge or actions by the bank to hide its silver accumulation footprints, but apparently it doesn't give a darn who sees what it is up to.

However, I am still most intrigued that almost all the silver JPMorgan took delivery on and moved into its own warehouse over the past two weeks came from other COMEX silver warehouses and not from sources outside the COMEX warehouse system. I know that's the way it's supposed to work, but it is still suggestive of tightness in wholesale quantities of silver.

I also detect the continued presence of a single big buyer in Silver Eagles from the US Mint due to the large but erratic pace of reported sales. Whereas the Mint has been reporting regular but very low sales of Gold Eagles relative to sales of Silver Eagles, in addition days can go by with no sales of Silver Eagles, but with reported sales of Gold Eagles. Particularly against a backdrop of weak retail sales, the spurts in reported sales of Silver Eagles is notable. As I've remarked previously, it's as if the big buyer is waiting for the Mint to build up a few days of production before placing a big buy order, rather than buy what's produced on a daily basis.

Also notable is that when one adjusts for the premium the Mint applies to Silver Eagles, more money is being spent on Silver Eagles than is being spent on Gold Eagles. Except for 2014, this had never occurred in the 29 year history of the Mint's bullion coin program. Considering the low to almost non-existent collective investor sentiment towards silver, it is almost shocking that the Mint is selling more Silver Eagles relative to Gold Eagles than ever before, including 2014.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Finally, silver has slid to new recent price lows both Monday and today. The sole reason for the new price lows, undoubtedly caused by the same type of computer trading and spoofing generating the headlines above, is for the commercials to induce additional technical fund selling, which the commercials then buy. As blatantly illegal and manipulative as this deliberate maneuvering of the managed money traders may be, it is also the sole explanation for silver (and gold) price movement. In addition, the degree of maneuvering is what determines the market structure and the likelihood of future price direction.

While I am still somewhat amazed that the recent rally of no more than $1.50 in silver (and $75 in gold) met with as much commercial selling as it did, there appears to have been a marked improvement in the COT market structure since. It's impossible to know when the actual price bottom has been seen until afterwards, but much of the 20,000 net silver contracts sold by the commercials on that feeble rally may have been bought back thru today.

Of course, today's salami slice to the downside won't be in Friday's COT report, but silver did close below its key 50 day moving average every day of the past two reporting weeks, so another meaningful improvement should be reported on Friday (I'd guess a 5000 contract reduction in the total commercial net short position and hopefully more). Extrapolating thru today, perhaps as much as 75% of the previous commercial selling of 20,000 net silver contracts may have been reversed. As such, it is appropriate to upgrade the silver market structure to bullish from neutral.

The COT market structure in COMEX gold had been a bit better than the structure in silver and I don't sense an improvement coming in Friday's COT report, since the price of gold closed above its key 50 day moving average each day of the reporting week. But since gold was blasted (spoofed) below that key moving average today, no doubt the structure improved today. It's always a tricky business trying to figure when an inherently crooked operation has been completed, but if we do go lower from here, every move lower brings us closer to the ultimate bottom. At that point, however, the guess becomes what the eventual rally will look like Â? will it be the garden variety and progressively weaker rally that we've seen or will it be the big one, particularly in silver?

I recognize that the last thing on most silver investors' minds is if the next move up will be explosive; most would settle for the price to just stop going down. But silver will explode on the next rally, whenever that occurs, under one and only one condition – that the 4 and 8 big COMEX shorts don't add to their already obscenely concentrated short position. Definitely included among those traders is JPMorgan.

In fact, I would even go so far as saying that if JPMorgan, by itself, doesn't add to its COMEX short position, that would be enough to allow (cause) silver to explode. Judging by the quantity of physical silver that the bank has amassed, there will come a day when it doesn't add to its COMEX short position. I'm confident I will be able to tell you which day, very shortly after it occurs. But, alas, there's no way I can do so beforehand.

Ted Butler

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Silver – $15.76

Gold – $1186

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