April 26, 2014 – Weekly Review

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For the fifth week running, gold and silver finished little changed, with gold rising $8 (0.6%), while silver managed to add 5 cents (0.3%). As a result, the silver/gold ratio nudged up to slightly over 66 to 1, also not registering much change over the past month or so and still at the upper end of a year-long trading range. Since I tried to highlight on Wednesday that not only is silver undervalued relative to gold, but that it is undervalued relative to every other investment asset in the world, I'll not do so again today. And if there is a better explanation for that universal silver undervaluation other than the blatant price manipulation on the COMEX, it is unknown to me.

The week's unremarkable price finish did contain much more volatile action, particularly on Wednesday when both gold and silver registered multi-month price lows before reversing sharply to the upside. On that day, gold traded in more than a $30 trading range and silver by almost a dollar. As is usually the case, price action and volatility in gold and silver (and other commodities) can be directly traced to trader positioning on the COMEX.

If anything, the COMEX positioning price explanation is getting stronger with all other explanations (world events, supply/demand, etc.) receding as price influences. The good news is that more seem to be becoming aware that the COMEX tail is wagging the gold and silver price dog. I believe this is good news because the COMEX price control and scam is not defensible and at some point, when enough grow aware (and sick) of it, it is unlikely to continue. When, not if that day comes, silver will not remain the most undervalued asset in the world.

Turnover or movement of physical metal into and out from the COMEX-approved silver warehouses cooled further this week to barely two million oz, as total inventories continued to fall; this week by 700,000 oz, to 176.1 million oz. Not that 2 million oz is a remarkably small amount of turnover, as it still equates to 100 million oz on an annual basis. Still, a few weeks ago, the silver movement had reached 7 and 8 million oz on a weekly basis. As it turned out, there was little movement of silver into or out from the COMEX warehouses until Thursday and Friday, so it left me contemplating how I would report a sudden cessation to the unusual movement I have been reporting on for the past three years.

The simple truth is that I never expected or predicted that the physical turnover of COMEX silver inventories would start when it did (April 2011) and I have no prediction that it will continue; other than whatever the reason is for the highly unique and unusual metal movement, it appears likely to continue as long as the reason exists. Please keep in mind that this physical movement of silver has little traceable connection to futures trading on the COMEX; these are two separate things.

I only came to notice the turnover because I have been long convinced that the COMEX is at the center of the silver manipulation and I got into the habit of looking for aberrations or changes in any pervious patterns that might further prove the manipulation or suggest that it might be ending. I have the freedom to write about silver in any way I choose and the movement of silver into and out from the COMEX warehouses strikes me as important. If it suddenly ends (as the first three days of the week suggested), I'll report that and be done with it, although I will be doubly baffled. Until that becomes the case, I maintain the movement and especially when it began is related to physical tightness, although I am open to any reasonable alternative explanation.

The data in the new report on short selling in stocks continues to indicate no unusual shorting in shares of the big metal ETFs. In the big silver ETF, SLV, the short position declined modestly (220,000 shares) to under 12.7 million shares (oz). This is less than 3.7% of total shares outstanding and while I would prefer no short interest, this is a big improvement over the peak short position of over 12% of shares outstanding in 2011. The big gold ETF, GLD, saw its short position fall by more than 830,000 shares to just over 10 million shares (1 million oz), or 3.8% of total shares outstanding. The short position in GLD was more than double current levels a few months ago. Of course, future trends in these short positions must be monitored as selling shares short has been a manipulative trick by JPMorgan and others when metal, particularly silver, is unavailable. http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

While sales of Silver Eagles appear unlikely to exceed last month's level, as of Friday the number of Silver Eagles sold exceeded the equivalent ounces of Gold Eagles sold by an even greater margin than I have been reporting. Year-to-date sales of Silver Eagles hit the 100 to 1 mark compared to Gold Eagles. This is exactly double the 50 to 1 rate of last year, which had been the previous annual record in the 27 year program's history.

So far this year 50% more money has been spent on Silver Eagles than on Gold Eagles; something that has never occurred and which would be impossible were it to occur in total investment in silver versus gold (without a massive upward revaluation in silver prices). I think it's safe to say that whomever is buying Silver Eagles at what I still describe as an unsustainable rate, likely realizes that silver is the most undervalued asset in the world.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were minor and not in keeping with my expectations. After all, both silver and gold prices had been lower over the reporting week, with gold down every day of the holiday shortened 4 day week.

In COMEX gold futures, the commercials increased their total net short position by 2900 contracts, to 90,500 contracts. Despite this week's slight increase, the commercial net short position is still lower by more than 55,000 contracts than it was at the gold price peak of $1380 in mid-March. You will recall that the $200 gold rally from year end was driven by more than 100,000 contracts of technical fund buying. The commercials have succeeded in rigging gold prices lower by more than $100 by inducing technical fund selling of more than half of the 100,000 contracts added from December to mid-March. Is that enough to establish a gold bottom? Maybe.

By commercial category in gold, it was mostly a big 8 affair, as the big shorts added 2500 new shorts. Despite the increase, the concentrated short position in gold is still nearer the lowest levels of the past 7 years (in stark contrast to silver). JPMorgan appears to have stood pat at 38,000 long contracts. Certainly, as far as concerns the commercials, the changes this week were minor.

There was a bit more intrigue on the buy side in gold, as the technical funds bought back nearly 4000 short contracts. I say intrigue because with gold prices weak, it would have been expected that the technical funds would have sold more short contracts, not buy back shorts. You'll remember that I surmised last week that the key to lower gold prices would be if the commercials could lure the technical funds into selling many more contracts short. Since the technical funds were holding a relatively small gross long position, there wasn't much room for many long contracts to be liquidated. The only hope that the commercials had to induce technical fund selling was by getting these funds to sell short.

In COMEX silver, the commercials reduced their total net short position by a scant 500 contracts, to 22,800 contracts. This is the lowest level of commercial shorts since the beginning of February, just before a near $3 rally. The big shorts, including JPMorgan, stood pat and the raptors accounted for all the buying as they increased their net long position to 41,100 contracts.

Let me stop for a moment to explain why I focus on certain things and not on others. When it comes to the COT reports, I focus on what JPMorgan is doing because I am certain that it is the prime manipulator (and grant that JPM could be working on someone else's behalf). I focus on the raptors in silver (the smaller commercials) because they have been the big winners of late (aside from JPM last year). And I certainly focus on the technical funds because they are the patsies or enablers of the manipulation by JPMorgan and others.

As I've tried to explain in the past, because the technical funds rely on price change alone as signals to buy or sell, it is easy for JPMorgan and other commercials (certainly including the raptors) to get the technical funds to buy or sell, because JPMorgan and the other commercials control price through high frequency trading and other dirty tricks. The control that JPMorgan and others hold over the markets is sickening and, at least to me, easy to establish.

While not exclusively composed of technical funds, all technical funds are listed in the managed money category of the disaggregated COT report. Naturally, that makes this category one of the most important categories to follow. This is the Â?hot moneyÂ? category that is more responsible for price change than any other, even though I believe that technical funds are usually snookered by JPM and the raptors.

When the technical funds hold a large long position, it is natural to expect the crooked commercials to rig a sell-off at some point in order to get the technical funds to sell. When the technical funds are heavily short, it is natural to expect the commercials to rig prices higher in order to get the technical funds to buy back their shorts. While this is fairly certain, the timing of when the commercials will induce the technical funds to buy or sell is always unknowable.

Right now, the technical funds have a relatively small long position and a relatively small short position in COMEX gold on an historical basis. This makes it harder to predict what will likely unfold pricewise. On higher prices, the technical funds will likely add to long positions. On lower gold prices, the technical funds will likely add to short positions (although they didn't in the past reporting week). With a somewhat Â?neutralÂ? technical fund position currently, it's hard to predict in COT terms which way gold prices move from here; although I am on record as classifying the historical low concentrated short position of the commercials as being much more bullish than bearish.

In COMEX silver, we have a very different technical fund set up, in that the technical fund short position is much closer to record highs in the managed money category, even though it was reduced by more than 700 contracts in the reporting week. In fact, at over 28,000 contracts, the short position of the technical funds in silver is almost identical to the short position of the technical funds in gold. But because silver is a much smaller market than is gold, that means that the technical fund short position in silver is much greater in relative terms than in gold. As I said, the tech fund short position in silver is near record highs, while the tech fund short position in gold is near record lows. http://www.cftc.gov/dea/futures/other_lf.htm

The reason this is important is because of the two types of buying that can come into a market, none is more aggressive than technical fund short covering. Technical fund short covering is the nitroglycerine or rocket fuel of buying. When the technical funds buy, they must be either establishing new long positions or closing out existing short positions. If prices are rising sharply, the technical funds may hesitate in adding new long positions (and forgo profit potential), but they rarely hesitate in covering short positions. Holding short positions in a rising market means increasing losses and there's no limit as to how high prices and losses might climb, hence the aggressive nature of technical fund short covering.

Therefore, because there is a large technical fund short position in silver and because that position must be bought back at some point, the price of silver will rise due to technical fund short covering. Although I can tell you that the tech fund short covering will get kicked off when the moving averages are penetrated to the upside (currently around $20.54 for the 50 day moving average and $20.86 for the 200 day ma), it's impossible to say when time-wise.

What is also impossible to know beforehand is how far silver prices will rally when the technical funds buy back short positions. That depends on how aggressive the raptors and the big shorts are in selling to the technical funds when the short covering commences. In the recent past, such technical fund short covering led to rallies of $10 in silver (December 2011 to March 2012) and $8 (August to Oct 2012) and $5 (August to September 2013). More recently, the price of silver only rose less than $3 in the February short covering. There is no question that silver prices will rally at some point due to technical fund short covering; it's just impossible to know exactly when and by how much.

But all possibilities must be considered. We could go lower first with the technical funds selling short more silver contracts to top off and further set the stage for a rally. Or we could rally soon, but be disappointed with a mediocre $2 or $3 rally accompanied by heavy new shorting by JPMorgan and other concentrated shorts. Or we could rally $5 or $10 or more if JPMorgan and the other big shorts refrain from adding new silver shorts. Certainly, the background fundamentals would suggest a large rally given silver's current extreme undervaluation, but manipulated markets, by definition, don't reflect true value.

It might be instructive to review the price action in COMEX copper as support for a coming silver rally. The last time I wrote of copper back on March 12 was in an article titled Â?Should the COMEX Be Closed?Â? (In the archives). In the course of a week, copper fell about 30 cents (10%) to under $2.90 per pound. There were unending stories about China collapsing and selling metal that stood behind collateralized loans or some such nonsense. Instead, I attributed the collapse in copper prices to crooked trading practices on the COMEX, involving the technical funds, JPMorgan and high frequency trading.

CFTC data indicate that the technical funds added more than 20,000 contracts of COMEX copper short, causing the price decline. That's the equivalent of 250,000 tons of copper, or more than exists in the LME inventories (COMEX copper inventories are less than 20,000 tons). Now that the technical funds have begun to buy back those short contracts, the price of copper has risen by 20 cents, almost reversing the manipulated price decline.

Both then and now, I have little interest in predicting copper prices; but it should be clear as to what is causing copper prices to fall and rise sharply. It has nothing to do with made up stories about China or even real developments in actual copper supply and demand. And just like the silver miners, the world's copper miners are bystanders to the crooked price manipulation on the COMEX, courtesy of JPMorgan and their partner in crime, the CME Group.

One good thing about the passage of time and getting older is that I worry less about JPMorgan and the CME retaliating against me for accusing them of manipulative and criminal behavior. I think I'm protected because I'm not saying anything that's untrue; but I'm sure others would contend they couldn't be bothered because I'm insignificant. That may be true but accusing such important institutions of wrongdoing and having those accusations ignored just might intrigue enough world investors to investigate further. After all, if anyone accused you of wrongdoing to which you were not guilty, would you ignore it? It is unprecedented for any financial institution to ignore accusations of wrongdoing and that alone could attract attention that leads to silver investment demand.

In summary, the stage is set or nearly set for a silver rally of unknowable timing and extent. Almost perversely, the stage has been set by silver's dismal price action to date because that is what is required for the technical funds to get heavily short. At some point, the precise cause of the dismal price action, namely, technical fund shorting must flip around and become the rocket fuel of buying. While I'm prepared to be disappointed if the coming rally gets snuffed out too soon, there's no way I am going to sell too soon and err on the side of caution because silver is so darn cheap.

Ted Butler

April 26, 2014

Silver – $19.70

Gold – $1303

Date Created
2014/04/26