April 27, 2013 – Weekly Review

Weekly Review

In, hopefully, the first step up after the brutal price takedown two weeks ago, the price of gold and silver came back a bit this week. Gold rose $55 (3.9%), while silver rose 75 cents (3.2%) for the week. This pushed the silver/gold ratio out slightly to almost 61 to 1, as silver became even a better relative value compared to gold. On any relative or absolute measurement that makes sense, silver stands out as a compelling investment value at this time. Since the undervaluation is directly resulting from an increasingly obvious price manipulation, it is mandatory that any positions must be held with an eye towards the manipulation's end. That means no margin and holding on tight.

While not a short term price prediction, I can't help but think that the recovery in prices (more for gold than silver) from the historic two-day price smash reaffirms what many already recognize, namely, that the price smash was orchestrated and engineered on the COMEX and had nothing to do with real fundamentals. Look at it this way Â? there was no legitimate reason for the smash and the new low price set off a physical buying binge for silver and gold. In a legitimate world, physical activity and supply/demand fundamentals would be dictating prices to the COMEX derivatives market, not vice versa. A quick snap back in prices is only proof that prices had no legitimate reason for falling in the first place.

According to the data I focus on, the world of physical silver is still signaling tightness on a wholesale level (on the retail level, only a fool would refuse to see the signs of tightness). Turnover or the movement of metal into and out from the COMEX-approved silver warehouses continued at the heavy level of the past two years. Some 4 million silver oz came in and went out for the week, with total inventories falling a slight hundred thousand oz to just over 166.1 million oz. Remember, it's not the totals that matter (as that has little to do with true availability), but the movement.

Movement of metal into the big silver ETF, SLV, has apparently resumed on the recent firming of prices, with some 2.3 million oz coming in over the past two days. For the year to date, the SLV has added about 12 million ounces to holdings in the trust on pretty rotten price performance. This still stands in stark contrast to the outflow of metal from the big gold ETF, GLD, which continues unabated. Through yesterday and since year-end, almost 9.5 million oz have come out of the GLD, worth some $15 billion. (The change in GLD alone is more than 50% greater than the total value of the SLV). Add in the 3 million oz that has come out of the COMEX and the combined gold outflows are somewhat staggering.

The GLD outflows have looked like plain vanilla investor liquidation until very recently; but now I'm not so sure. What is for sure is that the gold is still owned by someone, although no one can be sure what is behind the recent movement. Because so little is known about the gold movements, the knowledge vacuum has been filled with a variety of stories backed by little except a vivid imagination. The problem with some of the gold (and silver) inventory statistics is that more is left unknowable than can be known for certain. Yes, there has been a strong pick-up in gold retail demand, but wholesale demand is less clear. Hopefully, we will all know more in the fullness of time. Until then, it is best to reserve hard conclusions.

There was an increase, particularly in percentage terms, in the reported short positions in SLV and GLD, but given all the other data, the increases weren't particularly alarming. The cut-off for the report was April 15, the second day of the two day price knockout punch. This opened the possibility that some outside (as opposed to inside) short-selling had emerged in the historically volatile sell-off. SLV short interest increased by almost 1.8 million shares (oz) to just over 8.3 million shares. It's hard for me to get alarmed by these levels since we've witnessed a previous high-water mark of over 36 million shares short in SLV and 1.8 million oz is the equivalent of only 360 COMEX contracts. The increase in the short position in GLD was more substantial, at almost 7.5 million shares (to almost 23 million shares). In terms of ounces, that's an increase of the equivalent of 750,000 oz or 7500 COMEX contracts. But given all the changes in gold inventories and COMEX COT positioning, the short selling in GLD is not the primary mover of price. http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Sales of Silver Eagles from the US Mint are still constrained by blank supply availability, so there is no way of determining just how many Silver Eagles would be sold if the supply constraints didn't exist. So far, the Mint has only had to restrict sales of Gold Eagles to the one-tenth oz version, but the litmus test will come in the one-ounce flagship version. There is no doubt that retail demand for gold has increased, particularly in normally gold-friendly and price-sensitive areas, like India and China, but the hard data indicate that the surge in demand following the price collapse is still primarily a silver affair.

The premium increases and delivery delays for silver in retail form is almost unprecedented and in many ways seems to have influenced the growing retail gold demand. The real key, of course, is whether retail demand morphs into wholesale investment demand. Given that investment flows will impact silver more intensely because of the limited relative supply of physical silver compared to gold, if a wholesale shortage comes to either, the odds on favorite would have to be silver moving into pronounced shortage. I still don't grasp how there could be an intense physical shortage in gold because gold industrial demand is such a small part of the gold supply/demand equation. However, if I'm wrong and gold does get into a pronounced physical shortage circumstance, then it is almost impossible for silver not to be in a shortage as well.

The changes in this week's Commitment of Traders Report (COT) relieved much, but not all, of the shock I expressed at the previous report. My guess for the previous report was off by the most ever for any previous prediction that I've made for this report in 20 years. It was downright embarrassing. In fact, I must have checked the CFTC web site for a notice of revision a couple of hundred times since the previous report was published, with no correction forthcoming from the agency. It now appears to me that the CFTC was afraid to make such a revision and instead chose to slip the correction into the current report unannounced. It struck me as the work of weasels, not a federal agency of the US Government. Either that or these guys are so clueless that they didn't even notice the data was originally reported incorrectly. Nice choice.

If you remember, I had originally predicted for last week's report that the total net commercial short position in COMEX gold futures would decline by 40,000 contracts, as that reporting week included the big two-day 15% price smash amid record trading volume. Instead, the previous COT indicated that the decline was for less than 2000 contracts. The price action in the current reporting week was subdued and slightly higher each day, not the makings for a big reduction in commercial shorts. So what actually happened? This week the commercials reduced their gold net short position by a whopping 37,500 contracts, one of the biggest weekly reductions in history. That means we did witness the 40,000 contract reduction I anticipated in the previous week, just not in the week I expected. Please allow me a few comments on this before drilling down to the details in the new report.

The simplest explanation is that the CFTC published incorrect or improperly dated data previously. This week's changes actually occurred in the previous reporting week. If there's an alternative explanation, I am unaware of what that might be. The COT reports are supposed to cover trading through the close of business on a specific cut-off date, every Tuesday. You or I didn't pick this schedule – that was determined solely by the CFTC. This week's changes were, obviously, from the previous reporting week and the CFTC reported that incorrectly. I've seen such delayed reporting on rare occasions in the past, but I always remembered the agency acknowledging their error. Not this time, perhaps because COMEX silver and gold are sensitive public issues to begin with. The alternative, I suppose, is that perhaps I am clairvoyant after all and can see two COT reports ahead.

A couple of general comments about the faulty gold COT of the previous week. In addition to reading commentary saying prediction of the COT is impossible, I also read comments that the previous report proved that the COT reports were always crooked and not to be relied upon. I had to bite my tongue until either a revision or the new report came out. I already knew that the COT report can be reliably predicted (having done so for a fairly long time) and that the data had to be mostly correct for the simple reason that it proved the silver (and gold) manipulation. The new gold COT report confirms both aspects and it will be amusing to see the reactions of those most vocal in knocking the previous prediction and/or the report's reliability.

A bigger issue is the previous report's clear error and the CFTC's ability to publish incorrect data without consequence, although everything that the agency does wrong in regulating gold and silver is without consequence. If government data cannot be relied upon, we are all worse off. While not as dramatic as in gold, the total net short position in silver followed the pattern of the gold COT, in that a pretty big reduction was reported in the new report (5300 contracts) that had to have occurred in the previous week. This is not a question of whether my original prediction was correct, this is about accurate, reliable and timely government data.

In COMEX gold, the 37,500 contract decline in the total commercial net short position reduced the total to 104,400 contracts. This is the lowest (and therefore most bullish) commercial short position since late 2008, when gold traded below $800. Other important historical benchmarks were recorded. By commercial category, it was a big 4 and gold raptor affair. The big 4 bought back almost 10,000 short contracts, reducing their net short position to 86,335 contracts, the lowest since last August. The gold raptors (the smaller commercials away from the big 8) bought nearly 30,000 new long contracts, a phenomenally large amount, increasing their net long position to 31,300 contracts, the highest in almost two years. The big 5 thru 8 added a couple of thousand new shorts. Since the commercials were obviously positioned for a gold price rally, it will be interesting to monitor how much fuel has been spent on the bounce from the gold bottom to date. Let's hope that the CFTC gets on the ball and publishes the data on a timely basis.

The sellers in gold included new short sellers in the managed money category (the tech funds), as well as tech fund long liquidation. A standout feature to the speculative selling in gold (silver as well), was the selling in the non-reporting category, also both in terms of long liquidation and new short selling. In fact, the gross longs and shorts equal each other in this category, producing the lowest net long position for the non-reporting traders in gold for almost 12 years.

In silver, the total net commercial short position declined by 5300 contracts to 17,200 contracts, the lowest since last July. By commercial category, as was the case in gold, it mostly a big 4 and raptor affair. The raptors added 4100 new long contracts, increasing their net long position to a new record high level of 31,600 contracts (remember these contracts were undoubtedly purchased the week before on the price smash). Also as was the case in gold, the net long position of the non-reportable traders set a record low, but in the case of silver, the record established was the most extreme in COMEX history. The record low reading of around 2000 net long contracts for the smaller traders is a strong bullish indicator. The only surprise in the combined two-week report was that the tech funds did apparently cash in and cover profitable short positions with the most obvious losers being in the non-reporting category.

The big 4 (read JPMorgan) bought back more than 2200 short contracts, reducing the big 4 net short position to 38,630 contracts. The big 5 thru 8 added 1100 new shorts, following their reduction in the previous report. I would estimate JPMorgan's share of the big 4 net short position to now be 20,000 contracts (100 million oz). While down substantially from the 35,000 contract net short position on Feb 5, JPM's 20,000 contract short position is almost 3000 contracts greater than the total commercial net short position of 17,200 contracts. Simply stated, without JPMorgan's short position, there would be no commercial net short position in COMEX silver making allegations of manipulation suspect. With that concentrated short position, it is easy to prove manipulation and to call JPMorgan crooked silver Â?Â Â Â .sÂ? (insert your choice of gutter terms, mine are too offensive).

What stands out the most to me after digesting the last two COTs is how little JPMorgan has covered of its manipulative short position on such extreme price violence to the downside. The raptors are sitting with a record high net long position, the small traders have a record low net long position and the tech funds cashed in a lot of shorts for some serious coinage. JPMorgan got, in some ways, the short end of the stick in that they seem to be stuck with a relatively large silver short position. Of course, the crooks at JPM also cashed in on the big move down making more money than what their companions in criminal enterprise, the Mafia and the CME, dream about.

There can be no doubt that the manipulative two-day price smash of a fortnight ago set off the retail buying binge in silver that has unfolded in front of our eyes. I can't prove it, but I suspect that extreme retail shortage in silver has influenced domestic gold buying, rather than the other way around. (I would imagine the retail reaction in gold in traditional gold buying areas, like India and China, is directly related to the drop in gold prices). My point here is that we are still too new into the retail buying crunch in silver to have experience on how it might unfold.

More than ever, the behavior of JPMorgan on the next silver price rally (which, hopefully, has begun) will have the greatest influence on price. Simply put, if JPMorgan adds new silver shorts aggressively, the price will be constrained by some amount. Without those additional short sales by JPMorgan, the price of silver will fly. It's really that black and white, at least it is to me. Whereas I wouldn't trust this crooked bank with money for coffee, if the retail silver shortage develops into a wholesale shortage, the trustworthiness of JPM becomes moot; a wholesale silver physical shortage will roll over them and anyone else who stands in the way. As time runs by, there are other things that suggest an upside resolution in silver is closer than ever.

It's hard to put into precise words, but I'd like to pass along some general observations on silver looking back five or ten years. Back then, all the commentary on the Internet and in mainstream media seemed to be exclusively focused on gold, with silver sometimes mentioned as an afterthought. To my mind, things have changed, with silver being included with gold as if that were always the case. While in terms of dollars gold is so overwhelming large compared to silver, the Â?equalizationÂ? of how silver in now considered in relation to gold portends more investment money flowing into silver at some point. In fact, we may be seeing that now in the much stronger relative retail demand emerging in silver compared to gold, as well as the still positive metal flows in SLV compared to GLD. There may be vastly more money capable of investing in silver, but there is not vastly more physical silver available should that demand develop.

The other observation is that I am taken aback by the growing pervasiveness, more on the Internet, but also in the mainstream media of stories about silver having to do with the COMEX, short positions, manipulation, the COTs and how JPMorgan is the big silver short. Please try to understand how other-worldly this all is to me. I'm not trying to pat myself on the back in having introduced all these things (and others); I'm trying to convey that the ascension of these issues to the forefront seems to me to automatically increase the likelihood that the end of the silver manipulation is drawing near. After all, at some point, the whole scam must unravel once we pass the critical mass of public awareness.

It is this growing awareness of the real issues in silver that has me both thunderstruck and more encouraged than ever before about silver's investment prospects. We have a wildly bullish COT structure in silver and gold combined with what could be a nuclear fire emerging in silver physical demand. I don't recall such a similar bullish price set up. JPMorgan is still a manipulative force to reckon with, but the growing spotlight on this crooked bank and the crooked exchange on which the price of silver is set is bright and this doesn't bode well for the crooks.

Ted Butler

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Silver – $24

Gold – $1460

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