

April 30, 2016 – Weekly Review

Weekly Review

Both gold and silver, along with their associated mining shares, surged this week to the highest levels in more than a year, with much of the gain coming on Thursday and Friday. Gold finished \$60 (4.9%) higher, with silver up 87 cents (5.1%) for the week. About the only thing close to unchanged in precious metals this week was the silver/gold price ratio, which ended at 72.5 to 1.

These are very strange, exciting and in many ways, dangerous times (for some) in gold and silver and as far away from what existed just a few short months ago before the turn of the New Year. From everything I look at, it's hard to imagine things quieting down over the next few months. There's a lot to cover, so let me run through the normal format. Unless I'm reading things wrong, the physical market in silver is as tight as I've ever seen it and very tight in gold as well.

After picking up last week, following five weeks of subpar movement, the turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses surged this week to nearly 7 million oz. Total COMEX silver inventories rose 0.7 million oz to 151.8 million oz, still near the lowest levels in three years. Very active turnover on a backdrop of stagnant to shrinking total inventories denotes tightness to me.

In addition, the pattern established by JPMorgan over the past year of physically transferring the silver it took delivery of on COMEX futures contracts into its own warehouse appears to have been broken of late, as none of the 5 million+ oz JPM took delivery of in the March delivery period has come into its own warehouse yet and, in fact, metal has come out of the JPM warehouse. This adds to my sense of tightness, in that silver that has come in, no longer comes in, most likely because it is more urgently needed elsewhere.

A big surprise for me has been that JPMorgan does not appear to be backing off from its pattern of taking delivery of physical metal via COMEX futures contracts, at least as far as the first two days of the May COMEX silver delivery process indicate. I had thought JPM would look to not intensify tight physical conditions in silver by refraining from demanding delivery at this time. So far this delivery month, JPMorgan (for its house account) has taken 394 of the 1053 silver contracts issued. There are, effectively, more than 2400 May silver contracts still open (after adjusting for Monday's deliveries).

Based upon how the COMEX apportions and assigns deliveries, JPM looks set to stop (receive) the full 1500 contracts (7.5 million oz) allowed in any one month for the May contract. But I would remind you that JPM also looked set to take the maximum amount of silver in December and March (as well as the maximum amount for a customer in March) before backing down and agreeing to take less than the full amount allowed. I can't come up with a reason for JPMorgan backing down, away from the bank not wanting to aggravate tight physical silver conditions at those times. Let's see what they do this month.

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

Switching to gold, even though May is not a traditional delivery month for gold on the COMEX, there are a chunky 1700+ contracts open in the May contract after the first two delivery days. Generally, traders don't mess with illiquid months for speculative trading purposes and the most reasonable take is that someone is interested in taking physical delivery of gold (as opposed to making delivery). Coming on the heels of what had to be considered a tight April delivery month, this adds to my sense of tightness in gold.

Back to silver, there were (finally) some deposits of metal into the big silver ETF, SLV, totaling around 2.3 million oz since Wednesday's article. Based upon volume and price data, I think as many as 10 million more oz may be "owed" to the trust. Since yesterday was the cutoff for the next short report (due May 10), I will be surprised if that report doesn't indicate an increase in the SLV short position of 5 million shares (ounces) or more. Of course, I hate relying on the DTCC (the Darth Vader of the financial world) for anything, but if the short interest increases as much as I suspect, I'll have to complain. That aside, the lack of silver deposits into the SLV against a backdrop of near certain net investor buying of shares is both good and bad.

The bad part is obvious — the most plausible reason for shorting shares of SLV is because the short sellers don't have or choose not to acquire the necessary physical silver to deposit into the trust as required by the prospectus. This is both fraudulent and manipulative and it is simply amazing how more don't see it. Both SLV and GLD (the big gold ETF) and a few other open-ended metal funds (SIVR comes to mind) are highly unique securities in that they have rigid metal backing requirements that are circumvented by short selling.

There is a good part, however, to the short selling in SLV, despite its fraudulent and manipulative nature — it can blow up in the short sellers' face. Shorted shares have to be borrowed (often from unsuspecting shareholders) and share borrowing limits can and have been reached. More than that, should a full-blown investor buying surge come to SLV (as has occurred in the silver mining shares) the shorts will be overrun and greatly facilitate a price explosion (Izzy's Full Pants Down premise).

One thing is undeniable — sellers who resort to shorting shares of SLV because physical metal is not available indicate physical tightness above all else. Should investment demand persist after a big short position is established, it is only a matter of time before the short sellers' intentions could backfire and they are forced to buy back shares and that will add to the silver price bonfire.

The US Mint didn't update its site for the past day or two, so it looks like the final numbers for April may be in. Sales of Gold Eagles surged and sales of Silver Eagles fell just shy of what I assume would have been a complete sellout. It may have to do with JPMorgan toying with the sales totals for Silver Eagles or Mint reporting, but there's no doubt in my mind it is all JPM related. There were reports of heavy retail demand over the past couple of days, none of which was reflected in the Mint's statistics.

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

This week's Commitments of Traders (COT) Report featured ugly new records for silver and a very rare unchanged headline number in gold. While rare, the unchanged number in gold was in keeping with the flat price action during the reporting week ended Tuesday. Silver did see some fresh price highs during the reporting week, so at least the increase in commercial selling was in tune with how the market usually works. Let me run through the numbers before editorializing.

In COMEX gold futures, the total commercial net short position remained exactly unchanged at 240,100 contracts. Unchanged, of course, still leaves us with the largest (most bearish) headline number since late 2012 when gold was priced at more than \$1600. Considering the unchanged headline number, there was decent change in the commercial categories. The four largest shorts bought back and covered 6500 short contracts, while the raptors (the smaller commercials apart from the big 8) added 5800 new shorts (meaning the big 5 thru 8 added 700 shorts). The raptors now hold, at 32,500 contracts, their largest short position since November 2012.

On the non-commercial front, there wasn't much of a change, but it would have been impossible for the managed money traders to have been completely unchanged. The managed money longs sold out a little over 2000 contracts. There's nothing to see here, so I'll move along.

The nearly unchanged gold COT report this week is already very old news as there have been fairly monumental changes since the cutoff based upon increases in total open interest over the past few days. I hate relying on preliminary open interest numbers (for everything except the spot month), but I have no choice. Total gold open interest has exploded by more than 50,000 contracts since the cutoff date on the very high volume price surge over the past days.

Even if yesterday's preliminary gold numbers are adjusted sharply lower, the big increase in total open interest, combined with the already extreme COT structure, means that there had to be massive new technical fund and other speculative buying and commercial selling (not that the commercials aren't also speculating). There's little to no way total open interest could explode in an already extreme market structure if the existing longs and shorts weren't adding to their positions. There can be surprises in the categories but the longs and shorts added to positions.

In COMEX silver futures, the total commercial net short position increased by a significant 7200 contracts, to 91,300 contracts. Since we were already at historic extremes in last week's readings, we just got even more extreme. For all intents, this is the most bearish silver COT on record. By commercial category, I was a bit relieved to see the big 4 "only" increased its net short position by 1200 contracts to 62,645 contracts and I'll leave my guesstimate of JPM's short at 25,000 contracts (while I await next week's Bank Participation Report).

The raptors sold 4200 contracts, completely eliminating their net long position and leaving them 1200 contracts net short. Best I can tell, the last time the raptors were net short was in April 2011 (yikes!). The big 5 thru 8 added 1800 new shorts and another new big 8 concentrated short position record of 90,142 was established.

This is the real outrage that 8 crooked traders hold more than 450 million oz of silver net short, more than 50% of annual world silver production and more than 50% of all world visible silver bullion (1000 oz bars). If 8000 or 800 or even 80 traders held 450 million oz of silver net short, I wouldn't say jack. But because only 8 traders hold this amount short makes it an outrageous manipulation and danger to the market. Even more outrageous and dangerous is that only two traders hold half of what the 8 traders hold a concentration in a concentration.

On the buy side in silver, the managed money traders bought half of what the commercials sold, including adding 2291 new longs and buying back 966 shorts. New managed money net and gross long records were established. I still believe, however, that of the nearly 80,000 managed money longs, there is a non-technical fund core component of 50,000 contracts, leaving only 30,000 contracts of technical fund longs.

One interesting and sharply contrasting feature with what occurred in gold, was that the total open interest in silver did not increase since the cutoff and, in fact, is close to 5000 contracts less than it was on the Tuesday cutoff, despite fairly high volume and new price highs. This would seem to suggest that technical funds weren't adding and commercials weren't selling, the opposite of what appears to have occurred in gold. I guess I'm overly sensitive to the data because I'm on the lookout for some type of double cross by JPMorgan of the other commercials.

There is no doubt that we are at an extremely bearish COT market structure in gold and silver. You don't need me to tell you that as that sentiment is expressed far and wide. The open declarations of a sharp selloff are plentiful. There are also others saying we won't get that selloff, mainly because too many expect it, but even they point to the COT market structure. As such, there can be little argument that the COT market structure has come to dominate the conversation. Based upon history, the probabilities strongly suggest a selloff should be at hand and should we get that selloff, no one should be surprised. However, there are a number of things to be considered.

For one, should we get the expected selloff, because the COT market structure is so pervasive in published commentary, there should be near-universal agreement as to why any selloff occurred, namely, due to price-rigging on the COMEX. I know the COMEX commercial crooks appear to be above the law and could care less about how their manipulative activities appear to others; but I also know the power of the masses can make itself felt in unexpected ways. Consider the near revolution taking place on the US political scene, where the masses seem to be rejecting the political status quo.

I know the precious metals community is a tiny subset of the investment world, but I also sense a near unanimity of opinion that the COMEX is rotten to the core, as well as the federal commodities regulator, the CFTC. I don't think this is lost on the COMEX commercial crooks who should sense their corrupt manner of fixing prices is long of tooth and not destined to last forever. This is also behind the feeling I have that if we do get a selloff, it is likely to be the last such selloff.

Another factor to be considered is that the price surge, particularly in gold over the past two days has radically altered the financial landscape for the COMEX commercial shorts. Among the many things we can derive from the COT reports is how the participants are doing financially. I have been reporting, up through Wednesday, that the commercials were in great shape financially, having realized more than \$750 million on the gold run up in the New Year (because the technical funds were short big and forced to cover) and having gotten big short at average prices around \$1240, the commercials were feeling no pain.

The last two days may have changed that. The \$50 rally in gold into week's end means the 240,000 commercial net short position (24 million oz) was adversely impacted to the tune of \$1.2 billion. Add in a few hundred million dollars' worth of negative movement in silver and further adjust the losses for the concentrated short holders and it's easy to make a case for some financial stress for the commercials. Many assume the commercials are strictly hedging and what they lose on futures, they make on offsetting hedge positions, but I can assure you that is nonsense — the commercials are speculators in drag. They can and do miscalculate; not often, but when they do miscalculate, it is generally on a massive scale.

Having presumably added to their short bets in gold since the cutoff, any miscalculation about gold not rising further could give some commercials financial problems. Any cartel, as is reasonable to describe the COMEX commercial shorts in gold and, particularly in silver, is only as strong as its weakest links. Considering just how large and concentrated is the commercial short position, any run up in price from here could result in a real time stress test for which all cartel members might not be prepared. Any falling by the wayside for any members puts added stress on remaining cartel members.

Of course, I fully recognize that what I just described also raises the odds of a selloff due to commercial desperation. And that's my central point, namely, the extreme market structure is dangerous to the market, both for a sharp selloff or a disorderly move to the upside. The blame for allowing such a dangerous market structure to develop lies squarely with the regulators, both the CFTC and the CME Group. What they should have done is to never have allowed the market structure to get so extreme; by cracking down on the concentrated commercial short position and by imposing collective position limits on the managed money traders, as I have long advocated.

Finally, the one factor that looms largest for me is that at the same time we have an undisputed and historic negative market structure extreme in COMEX silver (and close to that in gold), I see the most bullish extreme in the wholesale physical market. It's not just that the COMEX market structure is the only potential negative factor, it's more that this one factor is the most extreme it has ever been at the precise time the physical market has never been tighter and, therefore, the most bullish ever. As I've said on too many occasions, I couldn't make this stuff up if I tried. In asking how it got to this, I do have an answer — greed, corruption and incompetence.

One reason silver mining shares have soared while silver's price gains have been relatively subdued is because short selling is much less prevalent in stock shares than it has been in the two most important silver pricing venues — the COMEX and SLV. Sellers of stock shares are always interested in getting the highest prices possible for their shares; so when buyers come in, they generally have to entice sellers with higher prices. It doesn't work that way in COMEX silver futures. And now we have a new measure for silver being underpriced — it is underpriced compared to the companies that produce it.

I know that all derivatives contracts must have a short for every long, so I don't need to be reminded of that. The difference in COMEX silver (and gold) from other active commodity futures markets is that the commercial sellers are so few in number and, therefore, concentrated. Concentrated in this case is the same as crooked. The more traders in a market, the freer the market; the fewer, the less free. Eight traders hold a short position in COMEX silver equal to more than half of either world production or all the visible silver in the world. If that was the case in other markets, like grains or crude oil, the traders would go straight to jail. In silver, these traders are protected by the CFTC and the CME.

The flip side is that it is this concentrated short position that not only explains silver's depressed price, but guarantees that the price must explode in time. We have already observed the silver miners exploding from depressed levels in a relative instant, as investors decided to buy. The biggest difference with silver is that the turn up will be eventually accompanied with the covering of a short position that didn't exist in the miners. I still can't know if there will be one final selloff first, but I do know that the extremes between the COMEX market structure and the physical market can hardly get more pronounced.

Ted Butler

April 30, 2016

Silver – \$17.82 (50 day moving average – \$15.77)

Gold – \$1292 (50 day moving average – \$1242)

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