

April 5, 2014 – Weekly Review

Weekly Review

Following two weeks of substantial decline, the price of gold and silver stabilized this week, as gold finished \$7 (0.5%) higher and silver ended up by 15 cents (0.8%). As a result of the comparable equal finish, the silver/gold ratio also stabilized at just under 65.5 to 1. While the short term is unpredictable, I wouldn't expect continued stability in the long term, either in gold and silver prices absolutely or on a basis relative to each other. Under the premise (and assumption) that physical supply and demand must influence prices at some point, it is impossible for me to see silver significantly lower in price in the long run, including relative to gold.

Currently of course, those physical supply/demand fundamentals have very little effect on price due to the overwhelming influence of futures trading and positioning on the COMEX. Almost weekly, the COMEX's impact on gold and silver prices is proven in the release of the Commitments of Traders Report (COT) and this week was no exception, as I'll discuss in a moment. Yeah, it gets old watching the re-runs of manipulation play out on the COMEX, but it would be much worse to not comprehend what is actually transpiring. Later, I'll also discuss some very recent developments supporting the premise that the manipulation must end.

If there is one thing that points to pressures from physical demand threatening to overwhelm the artificial COMEX price-fixing it has to be (according to me) the turnover or movement of metal in the COMEX-approved silver warehouses. Thru mid-week, it looked like the weekly turnover would be close to 3 million oz, or the average levels of the past three years since the turnover first appeared. I still find a 3 million oz weekly movement highly unusual and unprecedented and only unremarkable in comparison with last week's extraordinary movement of more than 8 million oz.

But physical silver shipments into and out from the COMEX warehouses surged late in the week, particularly on Friday and the final movement totaled 7.2 million oz for the week; a truly remarkable level. Total COMEX silver inventories fell for the second week running, this time by 1.8 million oz, to 177.9 million oz, but I still hold that total inventory levels are not the important takeaway that physical movement represents. Despite persisting for three years, this highly unusual and specific to silver physical movement is generally not widely discussed or publicly analyzed. I'm not sure why that is the case as it sure looks noteworthy to me. If more attention does come to the physical movement, what I'll be most interested in is the explanations for why it is occurring (other than as an indicator of physical tightness).

Sales of Silver Eagles weren't updated by the US Mint since mid-week, although sales of Gold Eagles were updated on a number of occasions. My sense is that the Mint hit its weekly allocation limit for Silver Eagles (around 1.2 million oz) early in the week and the next update won't come until the new week begins on Monday.

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

It's important to remember that the Mint is producing and selling Silver Eagles at record capacity this year, yet is still, in effect, unable to keep up with demand. This is a familiar circumstance with Silver Eagles over the past few years, a circumstance not witnessed with Gold Eagles in general. Along with the highly unique movements in COMEX warehouse inventories, this is another decidedly physical factor specific to silver. While I don't know who the big buyer of Silver Eagles may be, certainly we can conclude that the buyer strongly expects higher silver prices in time (no one buys anything investment related with the expectation of lower prices).

A subscriber passed along a thought that was already in the back of my mind, namely, that buying Silver Eagles from the Mint might be a way for a big buyer to accumulate physical silver with very little impact on price. I can't help but think that the COMEX silver warehouse shuffling and extraordinary Silver Eagle sales are two big factors in a developing silver physical story that could and should end in pronounced shortage.

The changes in this week's COT and monthly Bank Participation Reports were close to expectations. For the latest reporting week ending April 1, while there wasn't notable weakness in terms of large price declines, there was a stair step daily decline (salami slicing) in gold and silver that almost always results in technical fund selling and commercial buying. In a nutshell, that's just what was expected and realized.

In COMEX gold futures, the technical funds sold enough that the commercials were able to buy 13,600 contracts, reducing the total commercial net short position to 114,000 contracts. The 8 largest commercial short holders stood pat, so it was the smaller raptors who did all the commercial buying, including JPMorgan (which is included in my raptor category because it is no longer short gold). JPMorgan did add 3000 long contracts to a net long position now totaling 43,000 contracts, or 14.3% of total net open interest.

The technical funds (the managed money category of the disaggregated COT report) did sell more than 15,500 net gold contracts, including more than 8000 new shorts, so they fell for the lure of successive lower prices during the reporting week. But the technical funds are still a long way from the gross and net short position they held near year's end because that was the fuel that was expended that carried gold \$200 higher thru the middle of March.

In COMEX silver futures, the commercials reduced their total net short position by 3300 contracts, to 28,400 contracts, the lowest in 4 weeks. As was the case in gold, the raptors accounted for all the commercial buying and then some, by adding 4100 new longs to a net long position now at 35,800 contracts. Unlike in gold, JPMorgan sold and added 1000 new silver shorts to a net short position back up to 20,000 contracts, or 16% of total COMEX net open interest.

I can't help but note that the raptors have been much more aggressive in buying silver on price weakness than has JPMorgan. Over the past 4 weeks, the raptors bought more than 16,000 new silver longs, while JPMorgan has added 2000 new shorts. I think all the COMEX commercials are collusive and crooked, but there are instances where crooked factions turn on one another and I'm not particularly fearful of the price outcome should one group of silver crooks take on the King Rat.

The technical funds sold 4100 silver contracts, including 2400 in new short contracts. The relatively rotten silver price performance compared to gold also explains why the technical funds are much more advanced in approaching the previous extreme gross technical fund short position at the most recent silver price low of Feb 4 (around \$19).

With 32,000 commercial gold short contracts bought back over the past two weeks on the lower prices that the commercials arranged themselves, the question becomes is that enough to establish an important point from which to launch a price rally? Likewise, is the four week decline of 11,400 contracts in the silver total commercial net short position enough to represent a (final) bottom? I don't think so, but freely admit to that being a guess, as is everything in the short term.

I know many are fed up, tired and worn out with the long running silver manipulation, particularly with the price events over the past three years. So am I. Many are reaching the conclusion that the manipulation is so well entrenched (and government supported) that it will continue indefinitely. However, I do have the advantage of studying silver intensely for almost 30 years, so I can't help but see things in a different perspective than someone with a much shorter time frame. I also have the advantage of experiencing along the way enough instances of confirmation for what were originally "kooky" ideas of mine (such as the whole premise of a COMEX silver manipulation in the first place) that I "know" that the manipulation must end. Some recent developments strengthen my view.

I am still somewhat shell shocked at the controversy and debate this week on high frequency trading (HFT). Before the "60 Minutes" segment Sunday evening HFT was not discussed widely and openly; at week's end it had reached such a fever that the Attorney General of the United States publicly assured members of congress that it was being investigated by the Justice Department. That's a pretty remarkable event and timeline. (I assured the few subscribers who suggested I do so, that I had already contacted the FBI with my allegations of HFT wrongdoing by JPMorgan and the CME Group. I'm not holding my breath, but I did contact them).

Even more remarkable to me is that the 60 Minutes segment that tripped off the incredible developments this week wasn't really new in any way. In fact, I remember watching a big HFT segment on 60 Minutes about three years ago where the strong suggestion was that the market was rigged by a few big HFT operators. Certainly, just about everyone (including me) had strong opinions about HFT, both pro and con beforehand. So what was it that triggered all the hoopla this time?

As splashy as last week's TV segment may have been and as well acclaimed and persuasive as Michael Lewis may be as a writer, something else explains the explosion of emotion and discussion of HFT this past week. After all, strong words and actions resulted before many had even a chance to read the book, "Flash Boys." The only conclusion I can reach is that the HFT issue was already festering in many minds and it was just a matter of time and circumstance before it erupted.

I don't mean that people were actively thinking about the computer mechanics and algorithms behind HFT, but that there was already a strong existing collective sense that there was something inherently wrong with it, despite some strong feelings by others that HFT was beneficial. The new book and TV segment merely galvanized and unleashed strong pent up sentiments. So emotional and extreme has been the fallout that I am certain that some important changes will come to HFT. I don't know if criminal charges will be brought, but HFT will be changed in enough meaningful ways to eliminate the current strong collective feelings opposed to it. Otherwise, it's back to collective festering again.

I find this highly encouraging because I sense the same pent up collective frustration in COMEX gold and silver (and other markets), both involving HFT with its ability and history of suddenly distorting gold and silver price levels, but including a more widespread collective sense that the COMEX is dirty. I can't take credit for it (I wish I could) but ten or fifteen years ago someone started referring to the exchange as the CRIMEX, a label that persists to this day and for good reason. This is an institution that should be looked up to and respected; instead I sense that more regard it as a financial cesspool than not.

Admittedly, any collective frustration with the COMEX covers a much narrower population segment than does HFT in the stock market. Then again, gold and silver price manipulation is more worldwide in many ways than are fast trades on the New York Stock Exchange. If the current controversy regarding HFT makes a leap to how the CME actually conducts its affairs in COMEX gold and silver, the same spontaneous collective demand for change could be at hand, at least within the precious metals community.

The real lesson in the current HFT outburst is in how little it took to ignite; mainly a growing and unspoken resentment set off by an accidental spark. There is no doubt in my mind that there is even a longer growing resentment with how gold and silver prices are established on the COMEX. That resentment is so strong, as I indicated earlier, that many have grown tired and resigned to the silver manipulation lasting forever. But that does not mean, I might add, those discouraged are any less disgusted and angry. I don't know what the spark might be to set off in silver what was just set off in HFT stock trading, but I see similar set ups.

There is something else that has changed over the past several years – perceptions about the prime gold and silver manipulator, JPMorgan; as well as actual changes within that organization. In precious metals circles (and elsewhere), JPMorgan's image has turned horrid. Increasingly, many have come to view JPMorgan as I have all along, namely, as a criminal enterprise. That JPMorgan and the CME are reduced to silence in reaction to the growing sentiment of distrust in their precious metals involvement is most remarkable and unprecedented. But it is not just that perceptions about JPMorgan have changed for the negative; there have been monumental actual changes within the bank.

Three years ago, JPMorgan was on top of the commodity trading world, having assembled in previous years a commodity and precious metals powerhouse to the tune of many billions of dollars. The business was an important component for expected future growth, according to the CEO's message to shareholders in 2010. Instead, recently it has been announced that the main commodity business assembled has been sold and that the architect of the assembled businesses has decided to leave the bank. Those are pretty big changes.

Undoubtedly, the disassembly was prompted by regulatory pressure but that in no way diminishes the radical nature of the change within JPMorgan. My point is that not only has the perception about JPMorgan changed these past few years, but there has been actual and radical change as well. For the purpose of continuing the silver manipulation indefinitely, radical change within and perceptual change about the prime manipulator is not conducive for its continuance.

I'm still of the opinion that the reason JPMorgan has not disposed of its precious metals business is because it holds such a large and controlling share of the market that it is, in essence, stuck with it. There is no way that JPMorgan can quietly slip out the back Jack, because it is the market. I think JPMorgan would like to wash its hands of silver, in particular, but if it did so its retreat would be obvious in an exploding price. That's the problem with every manipulation in history; sooner or later, the manipulator becomes captive to and trapped by its prior actions. At that point, it becomes just a matter of time before it all blows up.

Ted Butler

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Silver – \$19.95

Gold – \$1302

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