April 6, 2013 – Weekly Review

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Both gold and silver stabbed down into price lows not seen since last summer, before a bit of a turn-around on Friday. Gold managed to recover most of the early week losses and finished $16 (1%) lower for the week, while silver finished down $1.10 (3.9%). As a result of silver's relative underperformance, the silver/gold ratio widened out to 58 to 1, the highest and most undervalued silver has been to gold also from last summer. To my mind, this makes silver a better relative buy compared to gold since then and offers gold investors the best opportunity to switch to silver in some time.

As a reminder, I am not bearish on gold and can easily envision a $100 to $300 price rally based upon COMEX market structure considerations. Historically, one of the best times to have switched from gold to silver is just before a strong gold rally has begun. This may seem counterintuitive, but the simple explanation is that silver most usually outperforms gold when a significant price rally erupts in both. Based upon everything I see in silver, it's hard not to imagine that it will vastly outperform gold on the next rally.

Conditions in the wholesale silver physical market continue to suggest supply tightness. I understand that this is contrary to the tone of widely published news stories that seem to empathize that silver is in great oversupply. Weekly turnover, or movement into and out from the COMEX-approved silver warehouses, hung around the 2 million oz level, with total inventories slightly climbing by 200,000 oz to 164.4 million oz. Remember, it's the movement that matters and total inventories still do not mean available inventories. If the movement within the COMEX warehouses seemed normal (and tight), that was not the case with yesterday's near 6 million oz withdrawal of metal from the big silver ETF, SLV.

Even with yesterday's withdrawal from the SLV, there is still a stark contrast between relative metal flows in SLV and its big gold ETF counterpart, GLD. Were SLV to have mirrored the metal outflow in GLD in percentage terms since the beginning of the year, SLV inventories would be close to 50 million oz lower than the 337 million oz currently in the Trust. I see two possible explanations for yesterday's big SLV withdrawal. It could have represented plain-vanilla investor liquidation as a result of the price stabs into new lows. Based upon the volume and price action in SLV and an admittedly subjective feel, I don't think it was investor liquidation. I'm inclined to choose the explanation behind door #2, namely, that a large investor, perhaps Mr. Big himself, bought shares on the price weakness and immediately converted the shares into metal to avoid SEC filing requirements. By my count, Mr. Big could be up to 15 million shares/oz accumulated by now, maybe more.

We had a big Silver Eagle sales report from the US Mint on Monday, but nothing since then. We've seen erratic reporting from the Mint on a fairly regular basis, so I'm inclined to think that's the explanation. But reports of continued tightness in various forms of retail silver, like one oz rounds and bags of junk coins, make one sit up and take notice. When premiums go up and delivery times get extended, that equals a shortage at some level; maybe not a pronounced shortage, but a shortage nonetheless. As and when that developing shortage breeches the fire break from retail to wholesale, in the form of 1000 oz bars, it would be reasonable to expect some fireworks in the price.

One new thought that occurred to me recently is that the US Mint, in producing and selling increasing quantities of Silver Eagles over the past few years has, in a very real sense, confirmed that silver has been manipulated in price. Step back for moment and consider that the main reason the Mint has become the single largest silver fabricator and user in the world is precisely because the price of silver has been artificially depressed. The law of supply and demand holds that too low of a price will automatically stimulate great demand. Since there is no quantity restriction on how many Silver Eagles the Mint can and must sell, it would appear that a low price would impact Silver Eagle sales quickly and directly. Isn't that what has happened?

The changes in this week's Commitment of Traders Report (COT) were very close to expectations in both gold and silver and extremely bullish in both markets. As has been the case recently, the expectations and bullishness extended to data under the hood. In gold, there was only one big down day during the four-day reporting week, that of Tuesday, the cut-off day when gold slid about $25. In contrast, silver was substantially lower each day of the reporting week. Both gold and silver continued to make new lows on Wednesday and Thursday, before recovering yesterday, suggesting further improvement.

In gold, the commercials reduced their total net short position by 16,000 contracts, to 142,500 contracts, definitely near the lower range of the past year and bullish on its face. As has been the case recently, the gold raptors (the smaller commercials apart from the big 8) accounted for all the commercial buying and then some. The raptors bought close to 20,000 net gold contracts, reversing a 14,500 contract net short position to a 5200 contract net long position. The big 4 sold an additional 1000 contracts short and the 5 thru 8 added more than 2500 contracts to their net short position. Despite this new short selling, both big 4 and big 8 gold short positions are still near historical lows and must be considered bullish.

One takeaway from the COMEX gold COT report is that the raptors have been dictating price direction, through HFT gimmickry, to snooker the technical funds, which added more than 11,000 contracts to their gross short position (in the managed money category). Since there are quite a few gold raptors, it's hard for me to envision how this price control can be affected without some form of collusion. I still sense a continued big improvement in the gold market structure since the cut-off, despite some deterioration yesterday. COT-wise, gold still looks good to go to the upside.

In silver, the commercials were able to reduce their total net short position by a very significant 5500 contracts, to 18,500 contracts, another new low extending to last July. A number of historical records were set. The raptors bought almost 2900 contracts, increasing their net long position to an all-time high of 31,200 contracts. The big 4 (read JPMorgan) joined in on the raptor collusion to smash silver prices and bought back nearly 2700 short contracts.
As expected, the technical funds (in the managed money category of the disaggregated COT report) set new records, both for going net short for the first time in history and also for their largest gross short position ever.

I would now calculate JPMorgan's concentrated net short position in COMEX silver futures to be 20,000 contracts. (The companion Bank Participation Report released yesterday helps to pinpoint this number). This is down 15,000 contracts from what this crooked bank held on Feb 5 and is their smallest net short position since last August. While JPMorgan's net short position is down substantially, it is still too large and manipulative to the price. Since the total net commercial position in silver is now 18,500 contracts, JPMorgan holds more than 100 percent of that total.

As had been expected before hand, the manipulative move lower in silver from Feb 5 featured a stiff, but collusive competition between JPMorgan and the raptors to buy as many technical fund contracts as artificially lowered prices could induce. Through Tuesday, there were a total of 33,500 net contracts bought by the commercials and sold and sold short by the technical funds since Feb 5. That's the equivalent of 167.5 million oz or more than two full months of world total silver production (mine plus recycling) and total consumption. This COMEX paper positioning is far beyond any legitimate hedging requirements and is clearly the main silver price driver, to the shame of the regulators. JPMorgan bought back 15,000 of the 33,500 contracts and the raptors bought 19,000 contracts of new longs. These are absolutely staggering amounts to have changed hands in only two months. And it looks like many more contracts were bought by the commercials since the cut-off date on the continued price stabs to new lows.

On Wednesday, I wrote that I Â?guessedÂ? that some 4000 to 5000 silver contracts or more and some 15,000 gold contracts were bought by the commercials during the reporting week. It's kind of scary how close I came. But, before you assume that I am reminding you of the prediction for the purpose of patting myself on the back for its accuracy, let me assure you that I have something else completely in mind. For starters, my prediction was more of a calculation than a guess. In other words, I didn't think I was guessing at all, but merely applying the methodology and mechanics of how COMEX silver and gold prices are determined and as I continuously attempt to convey. Further, I would submit that if that methodology were seriously flawed, it would be virtually impossible to come that close in any weekly prediction.

Please remember that in addition to the accuracy of how the COT numbers actually came in, I also described the expected changes in the components, including my long expected buying competition between JPMorgan and the raptors and the expected increase to a record in the technical fund gross short position. And while not a firm prediction, I know I have been warning of potential price stabs to new lows as the commercials sought to buy more silver and gold contracts. Removing ego from all this – is it possible to have come so close in contract numbers and individual category breakdown and the potential of new price lows (despite very bullish outside news) that my methodology is bogus? That is one question that I ask myself and ask that you think about, but that is still not my main point. Please bear with me for just a moment more.

The reason I arrived at the predicted contract numbers and category changes is because (as you know) that's how I view the silver and gold markets, namely, that the COMEX is a manipulative cesspool controlled by the crooked commercials, led by JPMorgan. Nearly everything that I think and write about in silver is predicated on the fact that this is a manipulated market. I have yet to run across any hard fact that stands in direct opposition to the price of silver being manipulated. The reason I picked the contract numbers I expected was because I knew that what moves the price of silver and gold is the commercials tricking the tech funds into buying and selling. It was just a matter of how much at any particular time.

Here's my main point Â? the changes in this week's and the past two months of COT reports (and in the many years before that) prove that the price function in silver and gold has been hijacked by the collusive COMEX commercials. What matters is not being able to predict big changes in the COT; what matters is that this is how prices get set. The important point to grasp is that silver and gold prices are set by collusive commercial activity to lead technical funds and others around by the nose, into and out from the market with little else mattering. Even more important is the timeline and causation of price. It's a case of prices moving lower as a result of the commercials tricking the tech funds into selling and no other reason. I wasn't predicting something that might occur; I was trying to calculate what the tech funds had already sold. But why they sold, due to collusive commercial trickery, is the main price determinant. That's wrong on every level.

The good thing about the recent price swoon is that at least it occurred in the expected manner, namely, that the technical funds sold as the salami was being sliced and new price lows were recorded. I can't imagine it being good if we went lower without big commercial buying and tech fund selling. Instead, we have witnessed record commercial buying and tech fund selling. Now that the COMEX commercials have bought and the technical funds have sold so heavily, what's likely to happen next? Since we have made so many new silver prices lows recently and registered record tech fund selling, the likelihood of many new price lows ahead is greatly diminished. Few can predict short term price moves with certainty, but the COT changes do not suggest big sell-offs from here.

Instead, we are confronted with a better COT market structure than I could have hoped for. I suppose it could get even better with new price lows but, as I indicated, that is not expected by me. Although I'm glad the last few months are now gone, the marked improvement in the market structure has created a strongly bullish set up, not just in silver but also in gold and copper. Please don't take this as investment advice, but instead as mutual ongoing education and how it might impact silver, as the structure in COMEX copper is quite unusual and it will be interesting to see how it unfolds. We got the expected sharp increase in tech fund short selling (managed money category) in copper and the numbers are quite stunning. Over the past two months, the commercials have bought and the tech funds have sold as many as 50,000 net COMEX copper futures contracts, one of the largest net changes in history. A good portion of the tech fund selling, as was the case in silver, came in the form of new short sales.

The COMEX copper market is thought to be much smaller than the London Metal Exchange (LME), but accurate breakdowns in the holdings of positions by categories of traders is not visible on the LME, in the form of an equivalent COT report. That makes COMEX data more reliable in my eyes. In any event, even though LME copper inventories are six times larger than COMEX inventories, the 50,000 contracts that the commercials bought and the tech funds sold over the past two months on the COMEX are the equivalent of 625,000 tons which happen to exceed the total LME copper inventory. My point is that the enormous quantities of paper copper that changed hands on the COMEX over the past eight weeks had to have more of an impact on the world copper price that anything that happened on the LME. Here is another example of COMEX paper trading controlling world prices.

While COMEX copper and silver and gold are structured bullishly, I'm not as certain of the fundamentals in copper and gold as I am in silver. Therefore, there should be no question that silver looks like the best and only choice for me. But it is easy to imagining all three rocketing higher, with silver as the most powerful rocket. It gets repetitive, but like all things in silver over the past five years, the timing, scale and duration of the price rally to come are solely dependent on the actions of JPMorgan. It all comes down to whether JPMorgan will aggressively add to short positions on the next silver rally. I'm counting on the raptors to sell all of their record net long position on the next silver rally, but tech fund short covering and new buying will require more selling than the raptors selling 30,000 contracts.

JPM did add aggressively to silver shorts the last two times we bottomed out, in Dec 2011 and again last summer, and this is what kept silver to only a $10 and $8 silver price rally respectively. But JPMorgan did not add to short positions starting with the big silver rally in the fall of 2010. In fact, JPM bought back many of their shorts into the $49 price high in April 2011 and this fact alone was as responsible for the epic run up in silver prices back then as any. What's it going be this time for these crooks?

If I have any regrets at this point is that I did not raise as much a ruckus the last two times JPMorgan added aggressively to their silver short position as I could have. I know I focused on it before, during and after the short contracts were added, but in retrospect, I could have done more. I'm determined to doing more if the crooks at JPMorgan decide to add big shorts on the next silver rally, but I confess to not knowing exactly how I can increase the pressure. Having notified their board of directors and sending the bank every article in which I mention the bank (virtually every one), I have to think up something new. I suppose I could start personally and publicly insulting their CEO, but that doesn't seem very professional. I guess I'll have to wait until the next rally begins in earnest. I'll leave the timing to someone else, but the current market structure indicates a large rally could start at any time. One additional factor that could really boost silver demand after a price rally commences is the normal investment buying demand that a turn up in price usually encourages. If we get big silver ETF buying on that next rally, as I expect, that could completely overwhelm the physical market. I could live with that.

Ted Butler

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Silver – $27.25

Gold – $1582

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