

April 9, 2016 – Weekly Review

### Weekly Review

Precious metals prices rose this week, gold by \$17 (1.4%) and silver by 30 cents (2%). As a result of silver's slight relative outperformance, the silver/gold ratio tightened in by half a point to 80.7 to 1. Typically at this point, I begin to drone on about how I don't have a clue about how silver will perform relative to gold in the short term, but how certain I am about silver outperforming gold in the long term, yada, yada, yada. Let me see if I can phrase it differently today.

When it comes to the relative prices assigned to gold and silver, currently and for the past few years, I think we are in Bizarro World – which I would define as a place so utterly mad and incomprehensible so as to defy even the notion of a logical legitimate explanation. (Perhaps along the lines of rationally vetting the candidates on both sides of the US presidential election). In other words, how did it come to this?

How did it get to the point, given the wide availability of the pertinent data, that thinking people could accept and debate a price regime that values silver at less than 1.3% of the price of gold? This is, effectively, the most undervalued silver has ever been relative to gold in the two metals' 5000 year history with mankind and comes at the precise point when silver should be at its most expensive relative to gold. Whenever the price of something is at its cheapest point when the facts dictate that it should be at its most expensive point – you are in Bizarro World.

The standout feature to these seemingly insane silver/gold pricing circumstances is the complete disconnect between what is occurring in the physical world and the paper pricing world, each dominated, of course, by the banking giant JPMorgan. There's no need to hide, or fear or reach for your medications when you find yourself in silver/gold Bizarro World, as they will do you no good. The only known remedy for this particular Bizarro World is to switch gold into silver to best prepare for the inevitable world to follow – Happily Ever After Land.

Today I have some extraordinary developments to report on concerning the physical and paper world of silver, involving the role of JPMorgan. For the fourth week in a row, the turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained at a less-torrid pace, as 2.5 million oz were so moved and total COMEX silver inventories rose by 0.8 million oz to 155.2 million oz.

To keep this in proper perspective, it is both extraordinary that the turnover over the past month is lower by nearly 80% from the white-hot pace of the prior two months and that even at the sharply reduced rate, COMEX silver inventory turnover is still in a league of its own relative to all other commodity inventory turnover. Despite this, it is still a topic rarely discussed elsewhere.

Last week, I mentioned in passing how that week's relatively low COMEX warehouse turnover stood in contrast to a strong weekly addition of metal into the largest silver ETF, SLV. That must have been bouncing around my head on a subconscious level, because a much clearer perspective emerged in the past few days of a most unusual circumstance. Please remember that this portion of the weekly review deals with physical metal developments and is separate from the paper price setting section later dealing with COMEX futures trading and the COT report. But always remember that JPMorgan is the boss and kingpin of both physical and paper silver.

I now see a clear connection between the sharp slowdown in COMEX physical silver inventory turnover over the past month and the rest of the physical silver world, including SLV and other silver ETFs. My conclusion is that COMEX inventory turnover cooled as, and because, of a surge of physical silver deposits into three big silver ETFs. First, physical silver deposits of more than 10 million oz (7 million oz in the past two weeks alone) in SLV. Next, deposits of more than 5 million oz were made in the London silver ETF, SIVR, over the past month. Finally, yesterday's add-on offering by the Sprott silver ETF, PSLV, has resulted in 5.5 million oz of metal being deposited. (For full disclosure purposes, Sprott has always been a subscriber).

So here we have the circumstance over the past month where aggregate COMEX silver inventory movement happens to cool off to the tune of just over 20 million oz in total and roughly the same number of oz finds its way into three highly visible silver ETFs. Coincidence? Perhaps, but I see something else, namely, a direct connection. COMEX silver inventory turnover cooled off because that turnover went into these three silver ETFs instead, as there was not enough available silver to both sustain the then-torrid pace of COMEX inventory turnover and deposit more than 20 million oz into these ETFs. Not enough is synonymous with a tight physical market and only a relatively small step from outright shortage.

The first two months of this year featured super strong metal deposits into GLD and other gold ETFs in response to the surge in price of gold (caused by COMEX positioning), followed since then by a modulation in additional gold metal deposits. Over the first two months, there were much smaller deposits in SLV and other silver ETFs. Over the past month, despite silver prices not doing much and not much happening in the way of trading volume, silver metal deposits have surged. Strange days indeed.

Most strange has been the surge of metal into SLV, with big deposits coming on largely flat price action and subdued trading. Generally, big metal deposits come when prices move higher on enhanced trading volume, but not this time. My only explanation is the same one I always offer – silver metal is being deposited and converted into shares of SLV, with those newly created shares then being used to close out existing short positions in SLV.

Invariably, the next question is why would a short go to the trouble of closing out a short position by physically depositing metal to create new shares, when he could just buy back shorted shares on the open market? After all, both actions would have the same overall result, namely, the closing out of the short position, so why not just keep it simple stupid? As I've explained in the past, a very sophisticated and, most likely, manipulative short seller would go the metal deposit route because that would provide the least amount of upside price pressure on the price of SLV. Buying back shares on the open market would provide the most upward price pressure. A big short seller might buy the last of his remaining short position back on the open market, when he was no longer concerned what the impact on price might be. But if that same short seller had additional short positions to cover, he wouldn't want to goose prices higher with his own buying. If you hope to understand the criminal mind, then you must think like one. Hopefully, the new short position report on Monday may shed some light on this. I'll come back to this later.

Sales of Silver Eagles still seem to be running at the maximum level at which the US Mint can produce them, although last week's slight miss now seems embedded into the system. Sales of Gold Eagles have picked up again, after a cooling of demand in March.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

A number of subscribers sent me a link to an audio discussion that strongly disputed my conclusion that JPMorgan was the big buyer of Silver Eagles over the past five years. My reaction? Yippee! Not only is the world a more interesting place when there is honest disagreement; I have a different and more personal reason for celebrating whenever any finding of mine is disputed. It was a lesson learned the hard way (meaning I was too dumb to learn it the first time) and was taught to me by my old and missing friend and silver mentor, Izzy Friedman.

Many years ago and on enough different occasions that it now seems embarrassing, I would call Izzy and complain to him that some recently published silver article of mine (often with his input) was disputed by someone. He would, quite literally, laugh at me and say "good" and I would usually hang up on him in disgust. After I cooled off, he would explain to me that the absolute worst thing that could happen whenever I introduced a new idea was for it to be universally accepted and that it was much better for my new ideas to be rejected out of hand and even ridiculed. I'm embarrassed to admit just how many times this same thing occurred before I learned the lesson.

Izzy's reasoning was that when there was instant and universal acceptance, it usually followed that the acceptance quickly led way to the acceptors adopting the idea as their own. A rejection of a new idea made it much more difficult for the rejecter to adopt authorship of the idea. It all seemed totally nuts to me, but that damn Izzy was correct on more issues than you can imagine.

That's not to say that I can't be wrong about JPMorgan and Silver Eagles or anything silver related, but the biggest guarantee against me being wrong is my innate fear of being wrong and publicly embarrassing myself. And what do I get by publicly debating someone on this or any other silver issue until I convince them that I'm correct? do I get a cookie or a ribbon? I've learned, the hard way by being plagiarized often enough, there's nothing in it for me. For subscribers paying for my ideas, it's way different. You have every right and I have full responsibility of answering any and all of your objections or questions and I continue to openly solicit them.

When I first viewed the new Commitments of Traders (COT) Report and saw the headline number of the total commercial net short position in silver decline by 8400 contracts, I assumed my guess of a 5000 to 10,000 contract increase in technical fund selling was right on the mark. Despite the change in the headline number, the technical funds sold hardly any contracts and my guess (at least as far as what the technical funds did) wasn't close, even by horse shoe standards.

But that's not to say that this wasn't a truly profound COT report in silver, which in light of the extraordinary developments on the physical side of the ledger and as discussed above, left me shaking a bit with excitement. Let me give a quick review and then get to what's so extraordinary about this week's report in silver.

In COMEX gold futures, there was a very slight reduction in the total commercial net short position of 700 contracts, to 207,200 contracts. The small weekly change meshed with the fairly flat price action of the reporting week and the market structure remained in the extremely bearish mode. Such a small weekly change in the headline number suggested small changes in the commercial categories. The big 4 bought back 800 contracts, the big 5 thru 8 added 3100 new shorts and the raptors (the smaller commercials apart from the 8 largest shorts) bought back 3000 short contracts. Not much to see here.

Likewise, there wasn't much to report on for the managed money technical fund side of gold. The managed money longs did add another 2581 new longs, putting the long position to a new multi-year bearish extreme of 186,716 contracts, but the addition of 4809 new managed money shorts prevented a new managed money net long record from being established. Thursday's fairly high volume jump in gold and resultant jump in total open interest suggests that if the new COT report were calculated as of yesterday, the technical funds would have added 10 to 15,000 new long contracts, even more potential bearish COT fuel on the fire.

In COMEX silver futures, the commercials reduced their total net short position by a hefty 8400 contracts, to 59,700 contracts. The two week, 17,500 contract reduction in the total commercial net short position brings the headline number to its lowest level since February 2, two full months ago. This is in stark contrast to what has transpired in gold, where I just wrote that the market structure is at a new bearish extreme. I certainly can't call a 59,700 contract commercial net short position bullish in silver, but it is less bearish and by extension more bullish than any time in the past two months. And that's not the best part.

The best part is that my JPMorgan double cross premise is still alive. This is the theory in which I hold silver will go when Boss Morgan says it is ready for it to go and everyone else short, whether other commercials or technical funds, will be left in harm's way. This reporting week, the 4 largest shorts bought back 3500 short contracts (out of the 8400 total commercial contracts purchased). Of the 17,500 commercial silver contracts bought over the past two weeks, the big 4 accounted for 6000 of those contracts — all of which I would assign to JPMorgan (thanks to yesterday's Bank Participation Report). Two weeks ago, I pegged JPMorgan as being net short 24,000 silver contracts; as of Tuesday, I'd peg them at 18,000 contracts short.

I would be lying if I told you that I wasn't excited after reading yesterday's reports. Before I explain why, for those tracking other aspects of COT report, the raptors added 7300 new longs in the reporting week and the big 5 thru 8 traders added 2400 new shorts. Over the two week period in which the commercials bought 17,500 contracts, JPM bought back 6000 short contracts and the raptors added 13,300 new longs, the big 5 thru 8 added 1800 new shorts.

Somewhat surprisingly, it wasn't the managed money traders which were the standout sellers to the commercials, as only 1869 contracts were added to the short side by technical fund traders. Instead this week the smaller, non-reporting traders sold a total of nearly 6000 contracts, including long liquidation and new short selling. This could represent some type of category reporting error since it is unusually large, but even if it was it wouldn't affect the more important changes on the commercial side of the ledger. What matters most in silver is the activity of JPMorgan.

Let me see if I can tie this week's extraordinary physical and paper positioning developments in silver together and draw a bead on JPMorgan. In broad terms, the world refines and produces around 80 to 85 million ounces of silver each month from both mining and recycling (one billion oz annually). Somewhere around 8 to 10 million oz monthly is "left over" and available for investment in the form of 1000 oz bars, after all industrial and total fabrication demands are satisfied (including what goes into jewelry and coins, including Silver Eagles, Maple Leafs, etc.). It is from this monthly left over amount that JPMorgan has drawn upon for the bulk of its 400 to 500 million oz accumulation over the past five years. Earlier, I highlighted how more than 20 million oz went into three silver ETFs over the past month, not all of which could have come from the monthly left over amount.

So where did this metal come from? I would suggest it came from JPMorgan, particularly the 10 million oz that were deposited into the SLV for the likely intended purpose of reducing the short position in SLV. Wait a minute – I can just about hear you reminding me that I've been claiming that I didn't believe JPMorgan would use its accumulated silver to keep silver prices suppressed, but to make a bundle on the upside. Now I'm claiming that I believe JPM deposited the 10 million oz into SLV to cover its short position. That sounds like doubletalk and I got some 'splainin' to do. Fair enough.

I just reported that JPMorgan bought back and covered 6000 COMEX short contracts over the past two reporting weeks. That's the equivalent of 30 million oz of silver. If JPMorgan did give up 10 million oz of real silver to not only eliminate its short position in SLV (which can't all be in Monday's short report), it is quite possible (probable) that the bank "donated" 10 million physical oz to make it easier to get off the hook on as many as 40 million short oz combined. Giving up 10 million oz to cover as many as 40 million short oz is a great trade, not a continuation of the manipulation. That, my friends, is a trade Boss Morgan would do all day, every day until it has the lowest silver short position possible. That's why I'm excited about this week's developments in physical and paper and make the JPM connection.

When JPMorgan is finished with these heavy-handed but easy to document and plausibly explained maneuverings, it will mean they likely to have their purest and largest long exposure to silver. It would also seem reasonable for anyone looking to ride the up elevator along with JPMorgan to be similarly positioned. OK, not to the tune of 400 or 500 million oz, but whatever table stakes one is comfortable with. And when should someone be so positioned? Before Boss Morgan hits the up button.

Nothing would surprise me in the near term and I would be lying if I said I wasn't hoping for a sharp selloff still; that one last selloff. The best hopes for a silver selloff, ironically, may come from the ultra-bearish market structure in COMEX gold and the not nearly as bearish market structure still existing in COMEX silver.

Compounding matters is the absolutely stunning rally in the mining shares, in which the silver equities have participated just as enthusiastically as their gold counterparts, even though gold, the metal, has beaten the pants off the white metal. I can't imagine that I've written about today could be behind the mining rally to date as I don't think anyone else in the world thinks as I do (subscribers excepted, of course).

But if I'm even somewhat close to being correct overall (and not to the dead solid certain level I believe I am) why anyone would hold an ounce of gold when they could be holding many more ounces of silver instead is a question that could only be asked in Bizzarro World.

Ted Butler

April 9, 2016

Silver – \$15.35 (50 day moving average – \$15.23)

Gold – \$1239 (50 day moving average – \$1221)

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