August 15, 2015 – Weekly Review

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Following seven straight weeks of price declines, gold ended higher this week, gaining $20 (1.8%), while silver ended up for the third consecutive week by 40 cents (2.7%), despite a sharp and sudden HFT downdraft yesterday. As a result of silver's relative outperformance this week, the silver/gold price ration tightened in by a full point to just over 73 to 1.

Even though the price ratio has moved in silver's favor for the past five weeks, the move has been minor in that we are still in the middle of a year-long trading range. That the price of silver and gold has basically moved in lockstep and considering that these are two similar, yet very different commodities, I can't help but feel that the joined-at-the-hip price pattern points to artificial pricing at its most basic.

Since it's easy to prove that the prime price influence on both metals (and others) is positioning on the COMEX, the only conclusion possible is that the price ratio, just like the absolute price of gold and silver, is rigged. And just as the price of gold and silver will react very differently than they have, as and when the COMEX manipulation ends, so will the relative value of silver to gold. In a no-manipulation price world, I can't see how silver doesn't vastly outperform gold, even as both move higher.

The turnover or physical movement of metal brought into and taken out from the six COMEX-approved silver warehouses continued heavy this week as nearly 4.2 million oz were so moved. Total inventories rose slightly, by 0.5 million oz, following six weeks of significant outflows, to 172.6 million oz. Of note this week was the addition of 0.6 million oz into the JPMorgan silver warehouse.

Several weeks ago I opined that, if the pattern established by the bank this year of moving into its own warehouse the silver it took delivery on via COMEX futures contracts continued, some 3 to 4 million oz would likely be brought into its own facility. My comments were followed by no further movement of metal into JPM's COMEX silver warehouse, until Friday's inflow. I'll report in any event if the Â?remainderÂ? of the silver is brought in.

I'd like to stop here for a moment to explain why I harp on the unusually large physical movements of metal coming in and out of the COMEX silver warehouses week after week for the past four and a half years, which started at the most important historical time for silver Â? April 2011. In fact, the turnover is unprecedented Â? no other commodity has ever witnessed such a prolonged and consistent inventory movement as has occurred in COMEX silver inventories.

I'd like to believe that the hallmark of my analysis is to rely on easily documented public statistics and apply the most reasonable and plausible interpretation of those facts in reaching a conclusion about future price: at least, that's my intent. Certainly, the COMEX warehouse data is readily available and widely followed (and charted) for various purposes, although there has been little reporting on the unusual silver movement. This puzzles me. I know there are cranks and crackpots that distrust anything from the CME Group (and I understand that distrust and believe I have contributed towards it), but why would the exchange or the warehouses lie about the unusual silver movements? What could they possibly gain?

So here we have statistics published daily (for free) and to which no known underhanded purpose could be assigned and, therefore, no known reason exists for anyone to lie about the physical silver movements. Yet, despite a pattern that has persisted for four and a half years of unprecedented frantic turnover unique to silver among all commodities, the movement is ignored, even by those who follow and write about silver.

In trying to apply the most reasonable and plausible explanation for the easily documented COMEX physical silver inventory movement, I have fallen back to asking myself what would be the most reasonable explanation if this movement were occurring in any other commodity. My answer is simple Â? such a frantic physical turnover of any commodity to the point where 30% of world's total mine production was moving into and out of a very narrowly-defined warehouse terminal for years on end would indicate a wholesale tightness of unprecedented proportions. I can't help but feel that this is being overlooked in silver precisely because no other plausible explanation exists. As always, I solicit any other plausible explanations.

A quick word about the ongoing COMEX August gold delivery month and developments in COMEX gold warehouse data. There are still more than 2100 contracts still open after two full weeks of the delivery process, definitely on the high side. After two straight days with no deliveries and continued tightness in the nearby spread differentials, the August gold deliveries look Â?stickyÂ? Â? or as if the buyers are holding out for delivery and the sellers are somewhat reluctant to make delivery.

In addition, around 140,000 oz of gold were removed from the JPMorgan COMEX warehouse this week. Most often, it's hard to match up COMEX deliveries and subsequent warehouse movement (the exception being the JPM silver deliveries followed by inflows into its own warehouse, as described above). But since JPMorgan did deliver 275,000 oz of gold earlier in the August process, it would appear this week's outflow of 140,000 oz is related to that earlier delivery issuance.

The reason I mention this is because it would seem to conform to my suggestions that physical conditions in gold may be tight, in that those taking delivery (HSBC and Goldman Sachs in their proprietary trading accounts) needed to access or move the metal fairly quickly. I can't imagine physical conditions in gold ever getting as tight as conditions have been and are presently in silver, but everything is relative and it still looks like physical gold is tighter than I recall it being based upon the reasons just stated. Tighter is synonymous with bullish to my mind.

There was a lengthy article this week, stating the obvious, namely, that shortages of Silver Eagles from the US Mint reflected an inability of the Mint to keep up with demand, due to production/blank supply capacity and not (heaven forbid) a wholesale shortage of silver. Having made that same case over the years, there was not much for me to disagree with.

http://research.perthmint.com.au/2015/08/12/coin-shortage-faqs-telling-a-real-shortage-from-a-capacity-shortage/

Still, I feel the author tried too hard to press the obvious point that there's a difference between retail forms of silver and the only form by which a wholesale shortage can be measured Â? a shortage of 1000 oz bars. For one thing, he didn't mention that the current rationing of Silver Eagles from the US Mint has been a recurring theme over the past four years, not a sudden one-time event. The Mint has struggled to meet demand for Silver Eagles even though it has produced and sold 170 million coins over the past four and a half years. This is close to half of all the Silver Eagles produced and sold over the first 24 years of the bullion coin program. For the past five years, the metal used for Silver Eagles has accounted for more than 5% of annual world mine production and more than all the silver mined in the US annually, a truly remarkable amount.

At the same time, demand for Gold Eagles over the past 4.5 years has been much less than over past peak periods in the Mint's 29 year-old bullion coin program. So not only has demand for Silver Eagles been shockingly high on an absolute basis, it has been even greater on a relative basis compared to gold. I think this points to there being a big buyer in Silver Eagles, but the point I would make is that the article treats the current shortage as an isolated event and no hint is given to what has transpired over the past 4.5 years.

But the main point I would make is that there is not much real difference between a shortage of Silver Eagles and a shortage of silver in the form of 1000 oz bars in that the definition of shortage encompasses a specific form of the metal. Because the Mint can't keep up with demand for silver in the form of Silver Eagles (even though it is required to do so by law), it's fair to say there is a shortage of Silver Eagles.

Likewise, as, when and if available supplies of silver in the form of 1000 oz bars are insufficient to meet immediate world industrial and investment demand, it will be fair to say there is a shortage of wholesale silver, even though there will be plenty of silver in warehouses or in the ground waiting to be mined. In fact, such a shortage of wholesale silver began to develop in early 2011 and this was what drove silver to near $50. So I'm not talking about something that is theoretical, since it happened once before, even though the article implies it could never happen. I'll have more on this in a moment.

The changes in this week's Commitments of Trader's (COT) Report were disappointing and expected in silver, but much less so in gold. This week's report confirmed everything that is important to price change in silver and gold, to the point of almost making it look silly to speak of other influences on the price; like currencies and other markets or what's going on in China or Timbuktu. Someday these things away from the COT structure and COMEX positioning will matter, but that day is not yet here.

Despite the pronouncements that the COMEX is on its last legs and will soon wane as the sole price setter in gold and silver and other markets and bow to price influences in China and elsewhere, the (sad) reality is that the COMEX dominates like never before. Let me be clear here Â? I would shed no tears should the COMEX price discovery process (aka manipulation) be supplanted. And should that occur, I have to believe I would see it immediately. Believe me Â? if the market structure approach stopped making sense to me, I won't pretend it still did. That's a promise.

But the truth is that all the easily documented facts that I rely upon still point to silver and gold price change as being the exclusive result of COMEX futures contract positioning. And that applies whether prices rise or fall. This reporting week featured the sharpest price rally in gold and silver in three months, as much as $35 in gold and 85 cents in silver on an intraday basis.

Please don't get me wrong Â? these are not big rallies by any stretch of the imagination, particularly considering the extremely bullish market structure that I've harped on non-stop. But that doesn't change the fact that what I just wrote is true Â? these were the biggest rallies in months. And just like the big decline from May 19 was caused by managed money selling and commercial buying, this week's reported managed money buying and commercial selling caused prices to rise. Because silver rose more than gold during the reporting week, including penetrating more moving averages to the upside than did gold, there was relatively more managed money buying (deterioration) in silver than in gold.

In COMEX gold futures, the total commercial net short position increased by 9600 contracts to 24,500 contracts. That's up from the levels of the last three weeks, including last week's historically low (bullish) reading, but not by much. I didn't offer a public prediction, but privately I expected around a 20,000 contract increase, so gold came in better than I expected. Additionally, there was no increase in the concentrated short position of the 8 largest traders, so all the commercial selling seemed to be due to raptors long liquidation.

Under the hood, the gold numbers were even better as managed money traders bought less than 5900 contracts net, including just under 5000 contracts of new longs. The highlight was that the managed money traders short in gold bought back only 923 short contracts, thus preserving the bulk of the rocket buying fuel in gold. The smaller non-reporting traders did buy more than 7000 gold contracts, but that was inevitable and only a matter of when and at what price. There has been further deterioration in gold since the Tuesday cutoff, but not to a very significant degree in my opinion. Despite the expected additional managed money buying, gold still looks good to go to the upside, COT wise.

In COMEX silver futures, there was a more significant increase of 8500 contracts in the headline total commercial net short position, to 22,200 contracts. This is not a particularly bearish headline number, but let me get some of the more troublesome details out first, before commenting in general. There was a slight increase of around 1200 contracts in the total concentrated net short position of the 8 largest traders.

Since there was heavy short covering in the managed money category, any increase in the concentrated short position at this point means some big commercials (JPMorgan?) stepped onto the short side Â? that's purely mathematical. I can't sugarcoat it as I harp on this being the key feature for continued manipulation. While most of commercial selling this week was done by the raptors liquidating long positions, any increase in new concentrated short selling by the big commercial crooks on the COMEX is problematic.

Continuing with the bad news, under the hood, the managed money traders bought more net than the commercials sold, some 10,859 contracts, including 2485 new longs and a whopping 8374 contracts of short covering. The new longs (as was the case in gold) are not a problem as managed money longs now total just under 42,000 contracts, still remarkably close to the 40,000 contract level that has proved to be close to the low water mark for this category over the past year. But I'd be lying if I said I wasn't disappointed in seeing so many managed money shorts slip off the short side on such an anemic price rally, albeit the best one in months.

Not that it matters much but I was privately expecting as much as a 10,000 contract increase in commercial selling/managed money buying, so the actual numbers weren't shocking as much as they were disappointing. And since silver's 50 day moving average was penetrated on Wednesday after the cutoff, there has been some further deterioration, or increase in managed money buying, although maybe not to an extreme degree considering prices fell back below the 50 day moving average (now at $15.34). There should be no question that the sudden 40 cent spike down out of the blue Friday morning was solely engineered to drive silver prices back below its 50 day moving average and head off further managed money buying. Enough with the bad details.

The fact that getting silver back below its 50 day moving average was the obvious motivation for yesterday's setback is not automatically bad news. It may (I did say may) indicate an almost necessary attempt to cap the silver rally early before things get out of hand. So far, even with some measure of additional deterioration factored in, the market structure in silver is hardly bearish by historical levels.

We have used up 15,000 net contracts of the 60,000 contracts of managed money buying potential should the market structure swing from its recent bullish extreme to usual bearish extremes (like existed on May 19). So do we fret about the 15,000 contracts wasted on the miserable rally (one dollar) seen since the recent lows; or do we focus on the 45,000 contracts of net buying potential possibly dead ahead? Not for a minute will I deny that I was hoping and expecting a blast off from the recent lows and what we got so far was another piddling rally. The fact that the root cause for the piddling rally was aggressive commercial selling, exactly as feared is of small consolation Â? I don't need any additional confirmation that the COMEX is crooked.

On balance and particularly considering the still extremely bullish market structure readings in gold, I see no real justification to abandon long positions in silver. Overall, the COT market structure is clearly bullish, even if not as extremely bullish as in recent weeks. And with gold's market structure still in the extremely bullish area that may serve as further support for silver. But it is away from the current market structure that things look actually more positive for silver (and gold).

While the COMEX price discovery process (fix) still dominates pricing, one shouldn't overlook the signs of tightening conditions in the wholesale physical markets of both silver and gold, as discussed above. In silver, signs of wholesale tightness include the COMEX warehouse movements, unusually large short selling and covering in SLV, continued record sales of Silver Eagles and the fact that this has been the largest single demand for the metal for years and the actions of JPMorgan. While I do hold the COT report on market structure to be the bible on explaining price movements, there will come a time, I'm convinced, when that bible will become completely irrelevant. In other words, conditions in the wholesale physical market will overwhelm the price rigging on the COMEX. Now such signs are even occurring in the gold market.

The one thing that could most impact the wholesale physical circumstance in silver (and gold) would be some sudden ignition in investor demand. Not demand for COMEX futures contracts that would be sold on price weakness, but demand for physical metal. For years, actually decades, I've wondered when someone big would discover silver, just like the Hunt Brothers in the late 1970's. That question was finally answered in 1998, when it was recognized that the world's most respected investor, Warren Buffett, had discovered silver and bought an amount comparable to what the Hunts bought. Since then, there's been a drought of big investor buying in silver (JPM aside). Even during the epic price run in silver into early 2011, I am aware of no big silver investors piling into silver.

Now there are signs that might be changing. The main signs are that the conventional markets, like stocks, bonds, real estate, collectibles, etc., have been on an absolute tear for years which has resulted in the highest total values for these asset classes in history. Everything it seems, with the exception of gold and silver, is at or close to all time high market valuations. On that basis alone, one would think some portion of those record valuations might seek out the assets that haven't participated in the overall investment boom, if only as a prudent diversification.

About five years ago, upon his closing out of his famed investment vehicle (Duquesne Capital), I remember writing a glowing article on Stanly Druckenmiller. Unfortunately, since that was maybe 500 articles ago and considering my advanced age, I can't reference the article specifically, other than clearly remembering writing it and knowing it is in the archives.
There are not that many individuals I look up to, but Druckenmiller is one that I do admire for his investment acumen and performance. Therefore, I can't say that I was particularly surprised to learn he had made a significant investment in shares of GLD, the big gold ETF, to the tune of hundreds of millions of dollars.

http://www.bloomberg.com/news/articles/2015-08-14/duquesne-adds-to-facebook-sells-illumina-buys-spdr-gold-fund