August 2, 2014 – Weekly Review

Weekly Review

Despite a Friday rally in gold (but not in silver), both metals finished lower for the week; gold by $14 (1.1%), while silver ended 45 cents (2.2%) lower. This is the third weekly price decline in gold and silver, following six weeks of higher closes. As a result of silver's relative underperformance, the silver/gold price ratio widened out to a six week high at nearly 64 to 1, although the ratio remained within the same trading range of the past year and longer.

It's not just the silver/gold price ratio that has remained in a fairly tight trading range for the past year, as absolute prices have remained fairly flat as well. For the past year, gold has been in roughly a $200 range, roughly straddling the $1300 level by a hundred dollars on either side. Silver has traded either side of $20, by mostly a couple of dollars or less (saving for last August when it briefly touched $25). The tight trading ranges stand in stark contrast to the historic price declines of the first half of 2013, when gold fell more than $400 (25%) and silver by $12 (37%). The historic decline ended a 12 year consecutive run up in gold and an even larger percentage advance in silver.

Such an historic price decline and the subsequent tight trading range would seem to demand an analytical explanation. After all, if one can't figure out where he has been, the odds of predicting correctly where he is going would seem remote. The difficulty is finding a comprehensive explanation that fits all the pieces of the past 18 months (and longer). To me, the only possible comprehensive explanation that even comes close is in the changing market structure and position changes between a remarkably small number of large traders on the COMEX. I use the word remarkable because it is truly amazing the price influence these large COMEX paper traders have on the wide world of real commodity producers, consumers and investors.

I won't pretend that the study of the COT reports can accurately predict short term price moves (which is not what investors should focus on anyway), but I would contend these reports always explain most price moves and sometimes can be useful in short term predictions. Later on, I'll try to put into words the limitations of short term predictions based upon COT analysis, something I don't think I've written about before.

Back to the real world of physical metal, following two weeks of extraordinarily massive movement within the COMEX-approved silver warehouses, this week's turnover fell back to the Â?averageÂ? weekly level of the year to date. This week, 4.3 million oz of silver were either brought into or were removed from the COMEX warehouses, as total inventories declined a very slight 0.3 million oz, to 175.3 million oz. Thus, the same story of the past three years remains in effect, namely, unprecedented and continuous massive physical movement in the world's second largest repository of silver.

That such an easily documented and unusual physical pattern has emerged in silver, yet remains almost totally ignored or unmentioned is just one of my many personal mysteries. Four and a half million oz of silver have physically come into or have departed the COMEX silver warehouses on average each week since January, an annualized rate of more than 230 million oz, and I can count on one finger the number of other commentators who I've seen mention it. I don't know which is the greater mystery – why the metal in in such a continuous churn or why it is not commented on?

In somewhat of a twist, there was some pick up of physical turnover in the COMEX-approved gold warehouses this week, but it's hard to attach significance to a one day or one week movement in gold ahead of a major delivery month with what's been transpiring in silver for almost 3.5 years. Certainly, should the turnover of physical gold persist, I will comment on it.

Sales of Silver Eagles ended July at just under 2 million oz, effectively the lowest non-US Mint rationed monthly total in two years. Two million oz of Silver Eagles a month is nothing to scoff at, but that level is down 50% from the monthly pace for the first six months of the year. If the Mint didn't sell another Silver Eagle for the rest of the year, 2014 would still go down as the sixth largest yearly total in the program's 28 year history. If I hadn't sensed a single big buyer was present while sales of Silver Eagles were soaring earlier in the year, I would have surely come to that conclusion when that buyer abruptly stood aside over the past couple of months.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were in the expected range and were largely inconsequential; save perhaps for what the changes might hint at for the future. Under the hood, the changes in what has developed into being the most important COT category (the managed money category) were larger than the changes in the headline number of the total commercial net short position. For the reporting week ended Tuesday, gold and silver finished down by $10 and 35 cents respectively, but each had been somewhat lower during the reporting week.

In COMEX gold futures, the total commercial net short position declined by 11,300 contracts to 148,900 contracts. This is the lowest total commercial net short position in five weeks (which is good); although we are still higher by 86,000 contracts from 2 months ago (which is bad). By commercial category, it was mostly a raptor (smaller commercials) and big 5 thru 8 affair, as the four largest COMEX gold shorts added 200 hundred new short contracts. The big 5 thru 8 traders bought back nearly 4000 short contracts, while the raptors bought 7500 contracts. JPMorgan swum against the commercial buying by selling 2000 of its long contracts and reducing its net long position to 23,000 contracts. I'll get a chance to recalibrate JPM's long gold and short silver positions in next Friday's Bank Participation Report.

As usual, the technical funds in gold (in the managed money category) were the big sellers to the overall commercial buying and then some; accounting for more than 17,000 contracts sold, which included nearly 12,400 contracts of long liquidation and new short selling of almost 4700 contracts. It has been and continues to be expected that the future price direction of gold and silver will be determined by what the technical funds do (or are tricked into doing).

In COMEX silver futures, there was an 1800 contract reduction in the total commercial net short position, to 56,600 contacts. This is a four-week low in the headline number, but we are only down 2100 contracts from the top in the total commercial net short position and still up 47,000 contracts from the low on June 3. I do sense a further reduction in the total commercial short positions in gold and silver since the cut-off on Tuesday (on Thursday in gold and Friday in silver), but I would be hard-pressed to call the market structure constructive at this point.

By commercial category in silver, the big 4 short traders bought back about a thousand short contracts and the raptors added 1500 longs, as the big 5 thru 8 added 700 new shorts. I'd peg JPMorgan's manipulative silver short position to be down to 19,000 contracts and the even more manipulative short position of the 8 largest traders to be still excessively large and concentrated at more than 67,000 contracts.

67,000 COMEX contracts are the equivalent of 335 million oz of silver and I don't think a single ounce of the concentrated short position is remotely linked to legitimate mining or inventory hedging. With eight crooked COMEX traders (mostly banks) net short 40% of the world's mine production and almost 200% of the total COMEX silver warehouse inventories, no one should wonder why silver is priced so cheap. Quite simply, silver is the most manipulated market in the world because it has the world's most concentrated short position, thanks to the crooks at JPMorgan and the CME.

Accordingly, no one should wonder how and why I can get away with calling JPMorgan and the CME (and the CFTC) market criminals with no rebuke. I'd like to see anyone explain how the world's most concentrated and uneconomic short position is legitimate – with a straight face. It's hard to calculate how high the price of silver would be if the illegitimate concentrated short position in COMEX silver didn't exist.

As was the case in gold, the technical funds sold more than the commercials bought in COMEX silver. There was technical fund selling of more than 4500 contracts, mostly long liquidation. In fact, the price/COT pattern was remarkably similar in the three COMEX markets I have mentioned recently, gold, silver and copper. Let me describe the current market structure in all three markets and also try to explain the difficulty in using this approach to predicting short term price movements.

Two reporting weeks ago, there was a record net long position in the managed money category of COMEX copper futures and a near record net long managed money position in COMEX silver. While we weren't at a record net long managed money position in COMEX gold, that position had grown by almost the most ever (100,000 contracts) in just a few weeks. As a result, all three markets were not structured for a sharp price advance; mainly due to the technical funds having already bought so much and that the commercials had already sold so much.

Of course, the technical funds could have added still more net longs, driving prices even higher for a while longer; or some outside event could have upset the commercials' manipulative applecart completely, but that hasn't occurred (yet). What has transpired is that the price of all three commodities started to stall and even decline a fair measure Â? silver is already down a dollar from its recent high and gold has been more than $40 lower below its recent high. Remember, the entire advance in silver was little more than $2 in silver and $90 in gold, so the recent decline is notable.

Yes, there has been some shrinkage in the extreme managed money net long positions (including after the Tuesday cut-off) of COMEX gold, silver and copper, but measured against how extreme the build ups were in these positions, there would appear to be a very long way to go before the previous builds were completely eliminated.

Since we are very close to penetrating important moving averages to the downside in all three markets (with gold having penetrated its 50 and 200 day moving averages on Thursday, before bouncing above those averages on Friday), it is reasonable to assume that the commercials may rig prices lower in all three markets to set off more serious technical fund selling. But therein lies the rub, namely, trying to predict what the commercials may do in the short term based upon logic and reason.

Unfortunately, it doesn't always work when you rely upon logic to read someone else's mind, particularly if you are trying to read the criminal mind. Simply put, the difficulty in trying to apply a short term timing component to COT analysis is that it is dependent on what the commercials alone decide. Since the COMEX commercials (led by JPMorgan) have captured the pricing mechanism (thru HFT and other dirty devices), that means these commercials control when the technical funds will be prompted to buy or sell.

Sometimes, the commercials induce the technical funds into action much sooner than one would expect; other times the commercials take their time in dictating when the technical funds will respond. And not only do the commercials control the timing of the technical funds' buying or selling, the commercials also control how much the technical funds will buy or sell. How can the commercials control both the timing and extent of what the technical funds will do?

By controlling the price mechanism and understanding how the technical funds behave, the answer to both questions is clear. The commercials know the technical funds will move to buy and sell on moving average penetrations and also know the technical funds, once they are in a buying or selling mode, will continue to remain in that mode on continued new price highs or lows. This is the meaning of the term Â?slicing the salami.Â? It is the commercials' prerogative whether the technical funds will put on or liquidate a moderate or extreme final position, since the technical funds will stop adding long positions only when prices stop going higher or stop selling when the commercials stop setting prices lower.

Let me give you some recent examples. At the price highs of mid-March in gold ($1380) and silver ($22) and price lows in copper ($2.90), the technical funds in the managed money category held extreme positions; 120,000 contracts net long in gold and 25,000 contracts net long in silver and 25,000 contracts net short in copper. Few would have imagined that the commercials would have lured the technical funds to reverse those positions in record manner. Yet on the subsequent fall in gold and silver prices into early June, the commercials were able to induce the technical funds into selling 80,000 gold and 33,000 silver contracts (which resulted in a record short position in silver).

On the following rally into a few weeks ago, the technical funds were lured into buying 100,000 net gold and more than 50,000 net silver contracts. In COMEX copper, from a technical fund net short position of 25,000 in mid-March ($2.90 in price), the technical funds were lured into buying almost 75,000 contracts, resulting in a 50,000 net long position at the recent highs of nearly $3.30. These are all staggering amounts of equivalent metal Â? 10 million oz of gold, 250 million oz of silver and more than 900,000 tons of copper.

Such amounts truly dwarf any amounts of real metal changing hands in any venue apart from the COMEX. As such, this positioning is what caused the price movements in gold, silver and copper; nothing else. The sick thing is that the technical funds couldn't care less about gold, silver or copper; they are only interested in putting their rigid technical formulae to work in markets they think are free from manipulation. As it turns out, it is the rigid technical fund formulae that have turned these markets into manipulated markets, courtesy of the commercials which know full well how these manipulated markets work and have the motive and means to game the technical funds both to timing and extent.

With much potential technical fund selling remaining open in COMEX gold, silver and copper, the risk to the downside remains high. But unless one can read the COMEX commercials' criminal minds, there is little to go on as far as short term timing and the extent of the coming price moves. And this is all about probabilities based upon what has occurred in the past, namely, how the technical funds and commercials have behaved historically.

I'd much rather the current market structure resemble the structure of two months ago in COMEX gold and silver, to go along with the spectacular fundamentals in silver. While the fundamentals in silver still look spectacularly bullish enough to warrant holding long term positions, I can't say the same about the COT structure. What I can say is that COT market structures change quicker than fundamentals and it shouldn't be terribly long before the market structure is aligned with the bullish silver fundamentals once again.

I'm also hopeful that if we are forced to endure a COMEX commercial rig job to the downside with the technical funds playing patsy once again, all in the precious metals community will finally recognize what drives prices and demand an end to a trading scam and fraud that belittles us all.

Ted Butler

August 2, 2014

Silver – $20.30

Gold – $1294

Date Created
2014/08/02