August 8, 2015 – Weekly Review

Weekly Review

Silver managed to eke out another nickel gain for the week, while gold came up short again, but by only a dollar. As a result, the silver/gold price ratio tightened in by a tad to just under 74 to 1; still stuck in the ratio's trading range of the past year. While gold's string of weekly losses now extends to seven, it's fairer to say that gold's price has changed little over the past three weeks and silver's has changed little for the fourth week running.

Thus, it would appear that the momentum of the recent decline into five year price lows has abated. Yes, I still hate to rely on short term prices for deeper insights into what's developing in gold and silver, but all manner of factors that I would consider to be important, such as COMEX futures positioning and physical metals signals, point to prices that must stop falling and begin rising. I'm not forgetting for a moment that anything can happen short term in markets as manipulated as gold and silver, but nothing I look at suggests that the important factors point to significantly lower prices ahead – all the probabilities point to higher prices.

One such factor, albeit a consistent one, is the turnover or physical movement of metal coming into or taken out from the COMEX-approved silver warehouses. This week the physical silver turnover picked up to nearly 5 million oz and was mostly of the taking out variety, as total inventories fell by 3.6 million oz to 172.1 million oz. This is the lowest level of COMEX silver inventories in more than a year and a half and these inventories are now down 11.5 million oz over the past five weeks.

I'm still more interested in the amazingly high level of weekly movement as opposed to changes in the total level of inventories, but in the recent environment of non-stop negative commentary about the poor prospects for future silver prices (even the Wall Street Journal piled on with a negative article on silver this week), it seems odd that such an easily verifiable data point could continue to go almost unnoticed. Clearly, against a backdrop of never ending bearish stories, there is little to explain the unprecedented movement of physical silver other than demand is nearly insatiable. Whether for the myriad of industrial applications for which silver is required and demanded or for the fabrication demands for coins from the US, Canadian and other world mints, this metal is not flowing into and out from the COMEX warehouses merely to keep truckers and warehousemen busy.

Switching to gold for a moment, the circumstances surrounding the delivery process in the ongoing August COMEX gold contract continue to be of interest. On Wednesday, I reported that JPMorgan delivered a sizable 2750 contracts and later that day the COMEX reported the gold involved could be traced to a transfer of 275,000 oz from JPM's eligible holdings to the registered category, a fairly simple and common transaction. What makes this delivery process interesting is that there still remains 3600 contracts still open in the August contract and it appears at this point that the long holders of those contracts are more interested in physical delivery and not in rolling over futures positions to another month.

This is not a shockingly large amount of contracts open, but it does suggest a higher than normal demand for physical gold as does the spread differentials between August and other trading months. There is no doubt that this appears to be a Â?big boysÂ? affair based upon the names of those delivering and accepting gold deliveries so far, including Goldman Sachs which hasn't previously made or taken any COMEX gold deliveries this year. So far, all the big transactions have been in the propriety trading accounts of large banks, aka, the big boys and I would suspect the rest of the delivery month would play out the same way.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

I'm not suggesting in any way that this implies any type of delivery default on the COMEX as the big players involved stand to lose the most should that occur. Instead, I'm suggesting that there appears to be stronger than usual demand for physical gold and that demand is not retail oriented, but of the large buyer variety. Likewise, I'm still of the opinion that the highly visible demand for Silver Eagles and other bullion coins, including Gold Eagles, is of the big buyer variety and not of broad retail demand.

I recognize that there has been non-stop commentary about surging retail demand for Silver and Gold Eagles from the US Mint and I fully stipulate that there was a big spike in retail demand shortly after the Mint suspended sales of Silver Eagles in early July. But at this point, I am still convinced more recent demand has not been retail oriented. Aside from very reliable sources in the industry, other factors suggest Eagle sales are not being driven by plain vanilla retail buyers, such as the complete lack of retail buying of mining shares and the unusually large (historic) short position of small traders in COMEX gold futures.

If the retail public was strongly buying silver and gold presently, that would be something relatively easy to establish. I'm not suggesting the public won't buy in the future, just that it is not strongly buying now. And I'm certainly not suggesting that the Mint's sales aren't real Â? just that those sales are not being driven primarily by broad retail participation, but by large buyer or two, same as is the case with the COMEX August deliveries. Finally, I believe the large buyer premise may be more bullish than strong retail demand, as it may suggest a more informed opinion about future gold and silver price prospects.

Since the pace of sales for Silver Eagles since the Mint resumed sales has come so close to what I estimated as the Mint's full production/blank supply capacity (130,000 coins per day on a 7 day production week), the most reasonable conclusion is that the Mint has not been able to build up any cushion of working inventories. Now it looks like that circumstance may have also occurred with Gold Eagles, namely, the Mint may have exhausted its working inventory of Gold Eagle coins. I base this on the surge of Gold Eagle sales in June and July, where the level of sales was several times larger than sales in previous months and the continuing erratic reporting of sales. There are not many organizations that could easily accommodate such dramatic surges in demand.

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

If the surge in sales of Gold Eagles was due to a sudden outburst of broad retail buying, wouldn't the telltale signs of that be obvious and beyond question? Things can change, but I still sense the presence of a big buyer in Gold Eagles recently, just like I sensed the presence of a big buyer in Silver Eagles over the past four and a half years. And whatever the source of demand for the surge in sales of Silver and Gold Eagles, I also sense that the US Mint has no interest in publicizing the strong demand and that it may have exhausted working inventories of each for fear such a disclosure would ramp up demand even further.

The changes in this week's Commitments of Traders (COT) Report weren't especially significant, apart from the fact that the report is more closely examined than ever. As I indicated at the outset, gold and silver prices have been basically chopping sideways for weeks and that's reflected in this week's report. And that mostly sideways price action is responsible for me refraining from predicting what recent reports might indicate.

In COMEX gold futures, the commercials reduced their total net short position by a scant 400 contracts, to 14,800 contracts. Still, the headline number reached another new 13 year low water mark, making it the most bullish over that time. I did detect an increase during the reporting week in selling by the big concentrated commercial shorts which was offset by raptor (smaller commercial) buying, but at around 5000 contracts, I can't read much into it.

There was short covering of 6000 contracts by the managed money traders, which took us down from last week's record large net and gross short positions, as well as the sale of 2700 long contracts by managed money longs. I'm a bit concerned that there may have been additional managed money short covering in yesterday's trading, but it shouldn't be worrisome at this point. We can't remain at record bullish readings indefinitely.

Almost completely mitigating for the slight loss in the potential rocket fuel buying by managed money shorts, was that the non-reporting (small) traders in gold sold close to 6000 net contracts, including 4000 new shorts. The small traders now hold their largest gross and net short position in COMEX gold futures in more than 20 years. This makes me doubt that there could be broad retail buying of Gold Eagles when the smaller non-reporting traders hold such a historically large short position, as I indicated above. Then again, there is no doubt that such a large small trader short position is bullish for price, because few trading entities buy more aggressively to cover shorts than do managed money and non-reporting traders.

In COMEX silver futures, the total commercial net short position increased by 1700 contracts, to 13,800 contracts. This still a very low and bullish headline number and much lower than I ever imagined prior to July. The headline number in silver hasn't changed much over the past month, in keeping with yesterday's release of the monthly Bank Participation Report.

As it turned out, the market structure didn't change much in COMEX silver since July 7 as measured by the headline number, whereas in gold the commercials reduced their total net short positon by 38,000 contracts since then. That's basically due to silver having fallen more in price than gold by July 7 and since then gold caught up to the downside. Another way of putting that is that silver hit its historical extreme in managed money selling sooner than gold did.

Managed money traders did cover another 3000 short contracts and in doing so used up that many contracts of potential buying power. Still, at just over 50,000 contracts short, the managed money short position is enormous by historical standards; prior to June 23, it had never been above the 50,000 contract level. Certainly, from the recent price top on May 19, when the managed money short position was close to 10,000 contracts, I had trouble envisioning the position would grow above 40,000 to 45,000 contracts on the previous peak. That it has grown much larger than I anticipated explains why we went so low in silver and still serves as a potent price driver to the upside.

Yes, some managed money traders have exited the market with profits on their short positions and that wasn't completely unforeseen; but the larger question is can they get out of the bulk of their massive short position with profits intact? I don't think so but future data will reveal that. This is still very much an unresolved issue.

The managed money longs did liquidate 1146 contracts, reducing their long position to just under 39,500 contracts or slightly below the 40,000 core non-technical fund long position I speak of. This is close to the smallest long position these traders have held over past year and I'm still of a mind that says not much, if any further liquidation lies ahead. Looking at this particular issue and the entire market structure in a broader perspective, it would seem that the move to five year price lows in both gold and silver has resulted in trader category readings commensurate with and reflective of the price extremes just experienced. The flip side, of course, is how these positioning extremes get resolved to the upside.

A quick word about COMEX copper, which along with gold and silver are the big three COMEX metals. Very slight timing differences aside, the main driver to the price of copper is clearly managed money positioning, exactly the same as in gold and silver. This week's COT report in copper indicates massive and historic short selling by managed money traders and price action since the Tuesday cut-off suggests even more.

Since the top in copper prices of $2.93 on May 19, the price has fallen 20% to $2.33 on yesterday's close. From May 19 thru Tuesday, managed money traders have sold or sold short more than 70,000 net contracts of COMEX copper, the equivalent of 875,000 tons of copper (18 days of world production) and, most importantly, more than 40% of the entire average total COMEX copper open interest over that time. I wrote about this in an article I made public a month ago and the situation has become more extreme.

http://www.silverseek.com/commentary/price-takers-and-price-makers-14693

Copper is one of the largest and most valuable base metals of all and the thought that its price is set by less than 100 paper trader on the COMEX, as I allege, typifies what is wrong with the price discovery process. Managed money traders now hold a record net and gross short position on the COMEX and make up the largest single position of any trader category, whereas they were massively net long on May 19.

The data show that copper prices go up when managed money traders buy and decline when these traders sell. It's the same story in gold and silver and other commodities. Because the relationship between what the managed money traders do and the resultant effect on price is so rigid that it can't be considered anything but causal. Even if the data being in lockstep with price movement wasn't enough to convince anyone of its cause and effect, if a select group of traders sold 40% of any market in a short time period causing prices to crash, surely that would be enough to prove price manipulation. Yet this suggestion is not made by anyone (aside from me).

An associate asked me if I put any credence on the stories that the world economy and China, in particular, may be slowing down and this is why copper prices have recently collapsed. Or if it might be due to the strong dollar or some other macroeconomic factor. I know these stories appear anytime there is a big move in any major commodity, but I asked him to consider that the managed money traders, which government data confirm are the most influential traders of all, are strictly technically oriented, relying almost exclusively on penetrations of moving averages and new price highs and lows to generate buy and sell signals. In other words, these traders, in their quest to remain completely objective and not be swayed by human judgements, deliberately ignore economic news and focus entirely on price movement alone.

So to suggest that broad economic factors are driving the price of copper lower ignores the glaring fact that the traders most influential on price deliberately eschew the very factors being credited with moving copper prices. It is beyond absurd and it's almost impossible to imagine this circumstance could exist. But because we need to hear a plausibly sounding explanation for why copper prices just declined 20%, the slowdown in China fits the bill better than the actual reason Â? massive selling by a small group of paper speculators acting in concert.

I bring the circumstance in copper and other commodities up to highlight what is going on in silver and gold and to, hopefully, expose a rotten price setting mechanism that is manipulating more than just silver and gold. Certainly, the copper and gold industry are massive when compared to silver and even though I see it with my own eyes, I'm not aware of anyone else speaking out against what is actually setting prices. Most incredible of all is that the solution is so simple Â? restricting the speculators involved.

Because the facts are so clear and easy to prove and because managed money speculation has become increasingly more extreme, it's hard for me to see how the distortion of major commodity markets can continue for much longer considering the real damage it brings to producers. But now that these speculators are so extremely positioned on the short side, as and when they move in unison to the other side of the boat, it's harder to see how that won't first drive prices sharply higher. I mentioned last week how prices were beginning to snug the shorter moving averages and even though we fell away from those shorter moving averages at the beginning of the week, by week's end there was even more snugging.

Ted Butler

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Silver – $14.80

Gold – $1094

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