December 14, 2013 – Weekly Review

Weekly Review

If you only had access to weekly closing prices, it wouldn't have looked like much of a trading week in gold and silver. Prices closed marginally higher for the week, with gold up $8 (0.7%) and silver ending up 15 cents (0.8%), leaving the silver/gold ratio unchanged at 63 to 1. But if you observed price activity on a daily basis, it sure didn't feel like a lackluster trading week, as there were some very sharp price movements during the week.

Thanks to data in the new Commitments of Traders Report (COT), there is an undeniable explanation for the sharp price movements, which I'll cover momentarily. But first I'd like to comment on what must be considered unusual price volatility, as gold moved up and down by $20 and $30 on some days, while silver rose and fell by 60 to 90 cents.

My first observation is that for markets that have declined significantly for the year and have ground down in price for two to three years, the price volatility is out of place. Generally, in any market that is years past a significant price peak and down from those peaks as much as gold and silver are down, should be almost comatose and washed out in price action. Instead, we appear to be experiencing greater daily price volatility in gold and silver than we did for the vast majority of time when prices were much higher (save for the historic and deliberate price smashes).

Another observation is that the sharp daily price movements are almost impossible to reconcile with actual financial or fundamental developments in gold or silver, rendering the sharp daily moves incomprehensible and counterintuitive. Of course, there is no shortage of explanations given after a sharp price move is made in either direction, but those explanations border on the nonsensical. My point is that we are witnessing greater daily price volatility than when gold and silver prices were much higher. What gives?

More than just plausible, I believe the only possible explanation for the great and almost incomprehensible volatility is due to the complete dominance of COMEX derivatives trading on the world of gold and silver pricing. It's overused, but the COMEX tail is wagging the dog which is the entire world of real gold and silver production, consumption and investing. That this can be proven by government data on a weekly basis means that the regulators are wasting time concocting a complex web of rules while ignoring that gold and silver prices are fixed on the COMEX in direct violation of existing commodity law.

Turnover, or movement of metal into and out from the COMEX-approved silver warehouses picked up this week to 4 million oz, as total COMEX silver inventories rose 1.4 million oz to 171 million oz. Annualized, that is 200 million oz, an incredibly large amount and indicative to me that silver is in tighter supply than price levels would indicate.

There were more than 5.2 million oz of metal withdrawn from the big silver ETF, SLV, this week. Only yesterday's 770,000 oz withdrawal looked as a result of plain vanilla investor selling, following Thursday's price smash. The earlier in the week 4.5 million oz withdrawal did not match up with normal investor liquidation patterns given price and trading volume statistics and seemed to me to be the result of either more need for the metal elsewhere or a desire by a holder to avoid having to report growing silver holdings to the SEC. On the other hand, the continued declines in gold holdings in GLD do still largely appear to be plain vanilla liquidation, as these holdings are now down 38% for the year (in contrast to SLV's near flat, but intact holdings for the year.

The delivery situation in the December COMEX gold and silver contract month continued to feature JPMorgan as almost the exclusive taker (stopper) of gold deliveries and the leading stopper of silver deliveries. So far this month, JPMorgan has taken 4426 of the 4614 gold contracts offered for delivery in the bank's proprietary (house) trading account, or almost 96% of the total gold contracts issued. This would appear to be fitting for a bank I allege to hold a market corner in COMEX gold.
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Additionally and as was the case in August, JPMorgan appears to be starting to move much of the gold it has taken delivery of into its own COMEX-approved warehouse, which is logical as why pay someone else for storage when you have your own facility. With more than 2000 contracts still open in the December futures contract month, unless JPMorgan starts selling those contracts, the bank looks set to take even more for delivery. I have to laugh (thru the tears) that while the regulators pass the much ballyhooed Volcker Rule which seeks to ban speculative proprietary trading by banks and take deep bows for their action, JPMorgan appears to be mashing a cream pie in the regulators' face with their proprietary trading in COMEX gold and silver.

The surprise is that JPMorgan has also taken, in its proprietary account, delivery of 1930 silver contracts or 61% of the 3157 total contracts issued this month. This is a surprise because JPM is not only net short COMEX silver futures, but the above-the-law crooked bank dramatically increased its manipulative silver short position in the latest COT report. This raises a separate concern that JPMorgan may be shorting COMEX silver futures contracts to artificially depress the price so that it can pick up real metal on the cheap. I'm sure no one reading this would put this illegal motive beyond JPMorgan.

The new COT Report had the usual twists and turns of meeting expectations and surprises. Gold and silver prices were sharply higher during the reporting week, with gold climbing almost $50 and silver by $1.25, so it was reasonable to expect technical fund short covering and commercial selling; although I had expected less of an increase in the total commercial net short position in silver and more of an increase in gold than was reported.

In COMEX gold, the total commercial net short position increased by a very moderate 6700 contracts, to 29,000 contracts. This is still among the lowest readings in the total net commercial short position in modern history and still, in my opinion, screamingly bullish. Surprisingly, the four big shorts in gold bought back 3000 contracts and the big 5 thru 8 shorts bought back another 1000 contracts, so all the selling was in the raptor category. The raptors sold around 11,000 long contracts.

Also influencing the data this week were the deliveries in the December contract (mentioned above). It is strictly mechanical, but when a contract is delivered that results in an automatic decline in open interest. The issuer who delivers the actual metal has his short futures position extinguished and closed out and the stopper who takes delivery has his long futures position automatically closed out. There were close to 4000 gold contracts delivered in the reporting week, so it would follow that open interest would be automatically reduced by that amount. It would be very close to being true to say that the big 8 short traders didn't actually buy back the 4000 contracts I stated above, but they likely made delivery of 4000 contracts instead. (I was just trying to present the data in the usual format).

Likewise, the raptors didn't actually sell out 11,000 contracts, but only sold around 7,000 contracts with 4000 contracts of open interest extinguished due to them taking delivery. Connecting the dots, since we know that JPMorgan took delivery of 4000 gold contracts during this period, its long market corner of 70,000 contracts was mechanically reduced to 66,000 contracts. The 66,000 contracts still represent a 20.8% share of the entire COMEX gold open interest (minus spreads), but in actuality JPM's share of the COMEX gold market is much higher when you factor in the big deliveries the bank took in August and currently. Aside from the bank stopping deliveries against its futures contracts this week, I don't think JPMorgan actually sold any gold futures contracts in this week's COT report.

As fully expected, it was the technical funds that did most of the buying this week in gold (as well as in silver). This is the hot money category and can be found in the disaggregated COT report under managed money. The technical funds bought over 5800 gold contracts, including the purchase and closing out of 5200 contracts previously sold short. Actually, I thought there would be much greater technical fund short covering, considering the record level of technical fund shorts in the previous COT. That there wasn't greater short covering is very bullish to me, particularly considering the price weakness after the cut-off. I'll come back to this in a moment.

In silver, the total commercial net short position grew by a substantial 5400 contracts to 17,500 contracts. While the weekly increase was significant, the total level of commercial shorts is still very low historically and like in gold, very bullish. As was also the case in gold, it was the hot money technical funds that did most of the buying, accounting for 4900 contracts purchased, including the buying back of more than 3700 previously sold short sales. Despite the short covering, there is still a near record amount of tech fund short positions in place, ready to power prices higher whenever JPMorgan and the other collusive commercials decide the time is right. Based upon Thursday's price plunge, those technical fund shorts covered may have already been re-shorted.

The biggest surprise in silver was that the raptors accounted for very little of the commercial contracts sold, accounting for only 400 of the 5400 net commercial contracts sold. Since the raptors were holding their largest net long position (40,100 contracts) since July, they were the logical sellers to me on the one dollar+ rise into Tuesday, particularly considering they had added more than 5000 contracts long in the previous COT reporting week. If the data are correct, it would appear that the raptors are looking for higher prices at which to sell.

The reciprocal of the raptors not selling is that the big 4 and big 5 thru 8 short traders must have added aggressively to their short position. That was the case as the big 4 (read JPM) added 3700 shorts and the big 5 thru 8 added 1200 shorts. I would peg JPMorgan's net silver short position at 13,000 contracts, up 3000 from last week's record low short position for this thieving bank. Since JPMorgan took delivery of around 1000 silver contracts during the reporting week, it probably Â?onlyÂ? added 2000 fresh shorts (see discussion above), but the real net effect is that JPM's short futures position did grow by 3000 contracts.

Since the raptors hardly sold any silver at all and JPMorgan was the largest short seller by far, it is easy to conclude that JPM singlehandedly capped prices into Tuesday's highs, revealing the bank to be the prime silver manipulator. While no surprise to anyone reading this, it does indicate a level of corruption that would be shocking if anything this crooked bank did could be shocking at this point. I'm fairly sure that JPM was the big commercial buyer on Thursday's price smash, so the silver short position may be back to the previous week's record low level.

The most remarkable aspect is that the bank has recently settled with regulators and investors for more misdeeds than can be recalled or billions of dollars that can be counted. In none of those settlements had I ever read the infractions took place until the settlements were close to being concluded. In other words, the world has come to see how JPMorgan behaves and that behavior was not widely appreciated until the time of settlement arrived. In contrast, I have written more than 500 articles, mostly private but some public, over the past five years alleging illegal behavior by JPMorgan in silver and gold. I have sent every single article to JPMorgan, although I have now been blocked by all board directors (save one) and the banks' chief legal counsel. If a bank's chief legal officer doesn't want to hear of possible wrongdoing that might explain why the bank has been found to have done so much wrong. As a result of those articles, the Internet world, at least, does identify JPMorgan as the prime silver and gold manipulator which is as it should be.

However, the regulators (the CFTC and other government officials, as well as the CME Group) have looked the other way and it has gotten to the ridiculous point where JPMorgan's behavior in precious metals would appear to be the only area of the bank's businesses that is on the up and up. This is, of course, preposterous and I can assure you that I intend to press the bank further, as I plan to report in the near future.

A quick word on COMEX copper, since I've mentioned the COT structure in this market recently. Unlike gold and silver, copper prices did rise sharply but retained a near 15 cent or 5% move over the past week or so. Like gold and silver, the technical funds covered copper shorts, but much more aggressively than they did in COMEX silver and gold. The technical funds in COMEX copper went from heavily net short to basically even in the latest COT report. Given an obvious backwardation and light COMEX deliveries versus a still substantial open interest in the December delivery month, further gains in copper wouldn't surprise me, but neither would a price smash to lure the technical funds back heavily on the short side. Given the number of contracts bought by the tech funds, I would have imagined larger price gains than occurred. Copper did cross all important moving averages on this rally, something gold and silver did not do (except the 20 day).

Let's go back to the current extreme and counterintuitive price volatility and why that volatility persists at a time when normal market behavior would suggest low volatility following the extended price declines. There can be no doubt at this point that technical fund buying and selling dictates price movement in COMEX silver and gold and, by extension, sets prices for all real producers, consumers and investors.

No one could legitimately argue that the near 5000 silver contracts purchased by technical funds in this week's COT report was the prime cause for silver's $1.25 price jump, much the same as previous weeks' price declines were caused by similarly large amounts of contracts sold and sold short by technical funds. Five thousand contracts are the equivalent of 25 million ounces of silver, or close to two weeks of world mine production and more than all but five of the world's largest silver mining companies produce in a year.

It would be one thing if silver mining companies were selling (hedging) 25 million oz in a week or industrial consumers were buying similar amounts to lock in raw material costs, as the futures markets exist to allow for such hedging. But it is quite another thing that pure speculators (technical funds) are doing so and, in the process, dictating to the real producers and consumers the price of silver. Yet the data in the COT reports are undeniable Â? technical fund buying and selling sets the price.

Even if one stopped right there, the case for extreme price volatility and manipulation can easily be made. But it doesn't stop right there, as the technical funds are akin to Pavlov's dogs, responding to outside stimuli and commands. The bell that gets the technical funds salivating is price movement above and below various moving averages. Even that would be legitimate if prices were determined by the give and take of real producers and consumers meeting on a level playing field.

But prices are not determined by any such meeting between real producers and consumers; instead, prices are set in the middle of the night or any other time JPMorgan or the other COMEX commercials decide to get the technical funds salivating and duped into buying or selling. The mechanism is not a bell, but HFT control of short term prices. Last week, the COT data establish that technical funds bought as silver prices were lifted above the 20 day moving average and JPMorgan sold short into that buying. That there are still commentators that profess not to see this is astounding.

On Wednesday, I wrote of a big surprise coming. Yes, the sell-off on Thursday was surprising to me, but that was not the one I envisioned. There is always the possibility of further downside price action, but we would appear to be back to super extreme COT market structure readings of the bullish variety following the large price decline after the Tuesday cut-off. The big bullish surprise still lies ahead, the timing of which still resides with JPMorgan and the other collusive commercials in COMEX gold and silver.

On a housekeeping note, I do plan a mid-week article, but the timing of that article may conflict with the normal 3 PM (NY time) release on Wednesday due to some out-patient knee surgery. I'll have something, but it may be early or late.

Ted Butler

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Silver – $19.65

Gold – $1238

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