

December 16, 2015 – Better Than Ever

### Better Than Ever

With silver (and gold) close to six year price lows, how can anyone claim that the outlook for higher prices is better than ever? Well, for one reason – because prices are close to six year lows; at least if you believe in the premise of buying low and selling high. After all, the price is the most important variable in any investment or commodity and if you believe it is better to buy low what could be better than a six year low?

Of course, that may sound like I might be trying to minimize the pain and losses of existing silver and gold investors over the past few years, but having also lived through and suffered during this time of misery, I can assure you that's not my intent. The financial and emotional damage has been too great to make light of it. Instead, this is all about focusing on that which is most important, namely, what happens from this point forward. There is no way of turning back the clock for anyone or anything; all any of us can do is position ourselves the best we see fit based upon the facts as we know them to be.

The facts, as I know them to be, point to a situation where there may be dimes of temporary price risk in silver, with many dollars of potential upside. Because of the extreme price selloff over the past four years, primary silver miners are still largely operating at a loss and big new investment in increasing future silver production capacity is non-existent. In fact, there has been an orgy of selling of existing silver mine production by base metal miners in the form of streaming deals. The same low price has done nothing except increase total industrial and total fabrication demand. Investment demand has been lacking, away from JPMorgan's almost maniacal accumulation of physical silver, but if there is one demand component that can be switched on like a light bulb, it is investment demand for silver (as and when prices rise).

While I think the incredibly low price of silver will inexorably influence future actual supply and demand, these past four and a half years have had nothing to do with silver's actual fundamentals aside from setting us up for an historic move higher. Instead the low price has had everything to do with the pricing dominance of derivatives positioning on the COMEX, as I hope I have explained. But just like the too low price has baked-in consequences for silver's future actual supply and demand, the manipulative price mechanism solely responsible for the low price is also now set up for a potential big move higher. This is one of those times when both barrels of the silver shotgun are loaded and looking to hunt bear. That's what makes this the best time to buy and hold silver, as everything seems aligned for a significant rally.

In terms of the main price driver, COMEX futures contract positioning, the commercials have managed money technical funds over a barrel in both gold and silver. The commercials, particularly JPMorgan, have never been positioned better to let prices rip to the upside and the technical funds have never been more vulnerable for a short squeeze. As I hope I have conveyed over the past month or so, the coming certain rally could easily turn into the big one depending on the commercials' whims. Should JPMorgan and the other big COMEX commercials decide to do nothing and not sell short aggressively on the coming rally, silver must explode in price. It doesn't get simpler than that — no additional shorting equals a price explosion.

In keeping with my main price driver premise in silver, namely COMEX positioning, I've noticed a pattern that seems to confirm my basic premise, which is that the positioning between the managed money technical funds and the commercials is what determines price. For the four full calendar years from the start of 2010 thru the end of 2013, there was never less than a ten dollar to more than twenty dollar price change during any year. Starting in 2014, the intra-year silver price trading range narrowed to about five dollars and with only two weeks remaining in 2015, the trading range in silver has narrowed even further to around four dollars.

Obviously, something accounts for the sharp contraction in silver price volatility over the past two years from the much wider trading ranges of the prior four years. In keeping with my COMEX positioning premise, there has been a literal explosion in the size of the aggregate net positions of the managed money category over the past two years as well as a much faster resolution of extreme positioning. In other words and for some unknown reason (and not because it has been profitable), the technical funds have put on bigger net long and short positions and then flipped those positions faster over the past two years than in the four prior years. (This pattern is similar in gold, but not as pronounced as it has been in silver)

It has become routine for the technical funds in COMEX silver to collectively buy and then sell (it is more correct to say sell short, then buy) aggregate net amounts of COMEX silver contracts on the order of 50,000 contracts, or 250 million oz. Since the start of 2014, the technical funds have done so on six different occasions, with several other occasions of big, but less than 50,000 contracts of net positioning. Such collective changes were much less in size and in frequency compared to 2010 thru the end of 2013. Of course, the COMEX commercials, led by JPMorgan have been not only the counterparties to the technical funds, but the puppet masters who have guided the technical funds into and out from positions.

My conclusion is that the expanded positioning taken by the technical funds and commercials is the price shock absorber behind the increasingly subdued price volatility in silver. The paper game on the COMEX has become so extraordinarily large and is being turned over with such increasing frequency that it has temporarily eliminated the big silver price moves of the past. However, the emphasis here is on "temporary" as this is not a circumstance that can last indefinitely. Just like a paper price manipulation must end at the point the physical market says so (by shortage), the artificial low price volatility must end as well; and it seems to me both will end simultaneously and with a burst to the upside.

In developments since Saturday's review, the US Mint continues to pump out Silver Eagles and each new update from the Mint establishes a new record for annual sales over the near three decade existence of the program. Yesterday's update indicated that 47 million Silver Eagles have been sold in 2015. I don't know if more Silver Eagle sales will be reported this year, but it looks like the Mint won't be selling any more Gold Eagles, since sales updates have apparently ceased. The stand out in Gold Eagles, of course, was the sudden burst of buying of more than 300,000 oz over what sales had been running at for the year. That the additional Gold Eagles were sold in only a few month period had all the earmarks of being the work of a big buyer (JPMorgan). It appears clear to me now that if such an amount of gold was demanded in COMEX deliveries over the past few months, there would have been a much greater impact on price and this is the reason the big buyer chose the Gold Eagle route instead.

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The standout features in Silver Eagles is the astronomical amount of metal absorbed this year relative to total silver production. Not only does the amount of metal used in Silver Eagles represent more than the US mines annually, it appears to be the largest single world silver demand factor of all. While Silver Eagles account for nearly 6% of world mine production, sales of Gold Eagles, despite being up 60% from 2014 levels, only amount to less than 1% of global gold mine production. That's not a knock on gold, just a relative comparison in a highly objective relevant measurement. Between Silver Eagles and Canadian Maple Leafs, more than 75 million oz of silver was consumed this year, nearly 10% of total annual world mine production. Most remarkable of all is that overall retail demand stinks, making the only possible explanation is that someone big has been buying silver coins.

JPMorgan continues to dominate COMEX silver and gold deliveries in its own house or proprietary trading account. Through yesterday, JPM has taken 727 of the 761 total gold contracts issued this delivery month, or more than 95%. While not large in contract terms, it's hard to imagine any one trader taking a greater percentage. In COMEX silver deliveries, JPM is up to 1273 contracts taken and it will be nip and tuck to see if they get to the 1500 delivery limit. The limit is 3000 contracts in gold and I'm convinced JPM held that number of contracts going into the delivery period but backed off and liquidated many of those open contracts because it knew there would be a squeeze if it insisted on all 3000 gold contracts being delivered.

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Today's the day of the big Fed decision on interest rates and while many are mesmerized by what the Fed may do, I'm not one of them. I do admit that prices can react violently to such decisions and have done so in the past, but I have always looked at it as a cover story or convenient excuse for commercial positioning of the technical funds. The twist today is the sharp rally in gold and silver starting early this morning, apparently not connected to the Fed's actions.

With the market structure almost guaranteeing a sharp rally at some point, it is entirely possible that this could be the start of that big rally. Not only could be, but should be the start of the rally. Of course, I suppose the budding rally could turn into a fake out; but even if this rally fizzles and stalls for a while, that's not what the current market structure suggests. The current market structure demands an eventual rally and it could easily be that we are witnessing the start of the big one. I can't influence whether this is the start of the big rally; I can only control how I will handle it personally. Which is to remain all-in.

I would anticipate an improvement in the silver COT market structure to be reported on Friday based upon price action through yesterday's cutoff. Seeing as new price lows were established during the reporting week in silver in classic salami-slicing fashion, I would guess 5000 contracts of net managed money selling and commercial buying will be reported, hopefully more. I'm less sure on gold, since there was only one big down day during the reporting week, but I wouldn't expect any serious deterioration in the COMEX gold market structure.

The important point is that the market structures in gold and silver are strongly bullish and can only turn bearish after prices rally sharply. Up until then, it doesn't seem very constructive to worry much about lower prices. I can't rule out selloffs ahead, considering how crooked and rigged this COMEX price game is, but any such selloffs, should they occur, will prove to be temporary and should be thought of as such. What's most remarkable of all is just how favorably positioned the commercials are in COMEX gold and silver and accordingly, how unfavorably positioned and vulnerable are the technical funds. Price action in gold and silver have been rotten since the end of October and it is that rotten price action that has allowed the commercials to set the technical funds up like bowling pins for a price rally.

Most remarkable of all is that the average price at which the commercials have bought more than 150,000 net contracts of gold and more than 40,000 contracts of silver in less than two months is, essentially, right around current price levels. Please think about that for a moment. The COMEX commercials deliberately rigged prices lower in order to induce the technical funds to sell and allow the commercials to buy the equivalent of 15 million ounces of gold and more than 200 million ounces of silver and were able to do so without having to absorb even temporary unrealized losses of any significant size.

I would calculate that the average price at which the commercials bought and the technical funds sold in gold at around \$1080 and in silver at around \$14.30. Usually, the commercials have to absorb, at least temporarily, much larger unrealized losses in establishing such large positions, but not this time. At a minimum, that proves just how manipulated are these markets. I suppose the commercials could toy with the funds on a short term basis for a bit longer as a result of their complete wizardry and mastery in controlling the actions of the tech funds, but the biggest payday for the commercials is to let prices rip higher before selling aggressively. I repeat myself, but if the commercials don't sell aggressively on the next rally (which could have started), prices go boom to the upside.

Ted Butler

December 16, 2015

Silver – \$14.20 (50 day moving average – \$14.89)

Gold – \$1072 (50 day moving average – \$1110)

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