December 17, 2014 – The Final Selloff?

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From the close on Friday through yesterday's low, the price of silver fell $1.50, or close to 9%. No other commodity, including crude oil, fell as much as silver did over that time. Generally, such a large percentage decline in any world commodity in less than two trading days is a pretty big deal and would only occur if there was some easily documented major supply/demand development. I follow silver pretty closely and not only was I not able to uncover any major change in silver's actual supply/demand situation, I couldn't find even a minor development that would have accounted for the sudden large price decline. I would ask you to think about that for a moment.

Any investor or analyst of any world commodity must be able to account for and rationalize a 9% price move in less than two trading days; otherwise he or she couldn't possibly understand the dynamics of that commodity. Yet I received virtually no requests to explain the price drop. The facts are clear Â? the price of silver did decline by nearly 9% and there were no actual supply/demand developments to explain the decline. Therefore, something else had to account for the sudden silver price decline and judging by the lack of readers questioning why, the actual cause of the decline must have been fairly widely known.

Of course, the only possible explanation for what would normally be a massive price drop in any world commodity is trading activity on the COMEX. While this is nothing new to subscribers, my sense is that COMEX price rigging has reached such an incredibly dominant influence over the price of silver (and other commodities, like gold and copper) that it is more widely understood than ever before. I believe it has gotten to the point where it is impossible to even attempt to offer an alternative plausible explanation for large price moves in silver and other metals apart from COMEX trading without looking like a fool. I also believe that the growing and widespread recognition that prices are set on the COMEX greatly undermines the life expectancy of continued future price manipulation.

While I certainly didn't predict the nearly 9% silver price decline in less than two trading days, I did note the deterioration, or increase in the total commercial net short position, in COMEX gold and silver. This, alone, set the stage and explains why we dropped so precipitously as JPMorgan and other collusive COMEX commercials rigged prices lower for the sole motive of buying as many contracts on the cheap as possible. The proof of this should be apparent, once again, in this Friday's COT report (assuming all of yesterday's trading is accounted for seeing how that was the cutoff day for the report).

In reporting on the increase in the total commercial short position, however, I did try to make it clear that it didn't look exactly like the same old rinse and repeat cycle of the commercials luring the technical funds onto the buy side only to set them up for another multi-month price beating to the downside. I'm careful to refrain from the Â?this time it's differentÂ? trap, but it was very different over the past six weeks or so in that the technical funds did beat the dickens out of the smaller commercials I call the raptors to an extent that was unprecedented. I suppose unprecedented is the same as saying it's different this time.

There were two primary conclusions I reached as a result of the technical fund shorts in COMEX silver ringing the cash register and for a good number of raptors taking it on the chin. One was a lack of liquidity due to the financial demise of some smaller commercials which heretofore were the main counterparties to the technical funds. A sudden lack of liquidity in any market automatically translates into higher price volatility or larger percentage movements than seen previously. It's way too soon to flat out declare that price volatility in silver (and gold, copper, etc.) has increased as I suggested; but it sure looks that way based upon the very recent price movements. And despite the price volatility to the downside the past two days, I am still more encouraged about the coming silver price volatility to the upside given all the facts as I know them.

The other conclusion of the demise of a number of raptors was that it would greatly increase the amount of short selling required by the largest 8 commercials on the next silver (and gold) price rally, particularly in light of the newfound financial strength accruing to the technical funds as a result of their big recent win in silver. Yes, the big 8 did increase their concentrated short position in silver by a bit in the previous COT report on the now-faded rally thru Friday, but not by that much overall (and not at all in the case of gold). That's going to be the litmus test Â? will the big 8 (JPM and friends) sell short aggressively on the next real silver rally?

The selloff thru yesterday leaves that question unanswered. To my mind, the selloff this week, no matter how much, if any, it has to go, could very easily represent the final selloff. All that really matters is what these 8 commercial COMEX crooks do or do not do on the next silver rally. It's OK to be resigned for it to turn out as it has in the past, but it's important to factor in the unprecedented changes that have occurred.

Away from the changes in the COMEX market structure and the radical realignment in the roster of commercial players (raptors), the continued drop in the price of the world's most important commodity underscores change of a different kind. No one predicted the extreme drop in crude oil and no one can predict what changes the drop might bring. Energy consumers stand to benefit, just as oil producers will be punished. Collective market opinion seems to change daily and we are a very long way from knowing what this will mean for the world.

Quite aside from the changes among the players on the COMEX commercial metals roster, the prospective changes from the oil price crash has added decisively to general market volatility. It appears to me that overall market volatility has been kicked up a very big notch and for very good reason. In fact, the changes destined to occur as a result of the oil price crash have me thinking about silver in ways different from how I usually look at the metal.

I'm a supply/demand guy when I look at silver, whether the supply and demand is physical or in COMEX paper trading. I hold and advocate holding silver because I believe there must be an eventual physical shortage and because the price manipulation on the COMEX must end. I know many hold silver for other reasons such as a protection against inflation or the loss of purchasing power or currency unrest or world financial instability. I respect those reasons but they have always been Â?bonusÂ? or additional potential reasons for holding silver for me. However, it would be presumptuous for me to dismiss what many others hold to be true as no one has a lock on what the future holds. That's why I never argue with anyone's prime motivation for holding silver.

Moreover, in considering what seems to be occurring in crude oil and world financial markets recently, I have to admit to a heightened sense of comfort in holding silver away from my bedrock supply/demand beliefs. I'm not predicting a stock market crash or severe disruptions in currency or credit markets, but contemplating the stresses that have been brought to the forefront as a result of the oil price crash, I find myself asking where are investors and depositors likely to run if things really get dicey? It's not just that silver seems to be a logical destination, it's much more than that.

While it is reasonable to assume that if world financial stress continues to increase there would be some increased move to gold and silver on an international basis, there is a kicker in silver that is virtually unknown (except to subscribers). The kicker is in how little physical silver exists that could be purchased, particularly when compared to gold. That's not to say that world financial tensions wouldn't result in a rush to gold as existing holders cling tight and gold prices rise as a result. It's more a case of trying to grasp how little real silver exists in dollar (currency) terms.

As much as I harp on this issue, I don't think I've done it justice. Even referencing the traditional silver/gold price ratio (now close to 75 to 1) sends a distorted message because it tends to unintentionally overstate the amount of silver in the world relative to gold. Most people would assume that gold is rarer than silver because it costs so much more per ounce. But all the price ratio really indicates is how much more manipulated in price silver is compared to gold. Because of the pronounced suppression of the price of silver, I shouldn't even quote the price ratio as manipulation cannot be ascertained from the quote. You have to look at the facts.

No one would argue that there are not 5.5 billion oz of gold in the world. Yes, a good portion is not held in bullion form, but at the right price even the non-bullion gold can and has found its way to market (remember jewelry parties?). The main characteristic of gold is that it is a jewelry and investment (monetary) asset, held for a rainy day. I don't think that published reports are true, but it is possible, for instance, for Russia to resort to selling gold if its other financial reserves become depleted enough. That's not possible in silver because neither Russia nor any other country holds monetary silver.

Silver is primarily an industrial commodity with an investment kicker. Because industrial and other fabrication consumption have depleted world inventories and continues to absorb 90% of current production, the investment kicker component has the potential of kicking the price into the stratosphere. An extra 100 million oz investment purchase at any time would provide such a kick. At current prices, 100 million oz of silver amounts to a measly $1.6 billion. That same amount of money would buy 1.3 million oz of gold, not a particularly large amount of physical gold in practical institutional terms. My point is that the same amount of dollars (or any other currency) would have such a disproportionate effect on silver prices compared to gold that the comparison can hardly be made with a straight face.

Incredibly, there are documented instances where more money is flowing onto silver than have flowed into gold. Look no further than in the world's ETFs, which have shown a stunning investor liquidation in gold ETFs while at the same time have shown not only no such investor liquidation in silver ETFs, but an actual increase in investment. The only explanation for why silver has badly trailed gold in price performance always comes back to JPMorgan and the other COMEX crooks.

Here's another apples to apples comparison you can make on your own to gauge relative investment flows into silver versus gold. The year's not officially over just yet, but US Mint sales of Silver Eagles have hit another new record and have, quite literally, exploded almost every year since 2007. Gold Eagle sales are not only down substantially (35%) from year earlier results and as much as 50% from typical sales levels over the past seven years, Gold Eagle sales are the lowest since 2007 (all on a total oz comparison).
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Again, my purpose is not to bad-mouth gold, but to point out that the only plausible explanation for silver's super cheap absolute and relative price in the face of documented extraordinary investment demand is the crooked COMEX. And considering how blatant the COMEX silver manipulation has become, it is only a matter of time before the next selloff becomes the final selloff.

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Silver – $15.80

Gold – $1188

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