December 19, 2015 – Weekly Review

Weekly Review

After a week in which new six-year price lows were established in both metals and extreme daily price volatility was recorded, the price of gold ended the week $8 (0.7%) lower, while the price of silver rose by 18 cents (1.3%). As a result of silver's relative outperformance (following last week's extreme underperformance), the silver/gold price ratio tightened in by 1.6 points to 75.7 to 1; still within the broad relative trading range over the past year. Yes, I still contend that while both metals are artificially priced (and depressed) by trading on the COMEX, silver is vastly more depressed than gold, which makes it the better investment value.

But while gold did record a new six-year weekly closing low (which silver achieved last week), the fact is that gold and silver prices have been largely unchanged over the past six weeks. I know it must feel like we have been falling into the price abyss on a non-stop basis, but a quick look at the charts will indicate a sharp price drop from the highs at the end of October into mid-November and then a price chop and sideways pattern since then.

Somewhat remarkable is that this same price pattern is apparent not just in gold and silver, but in the other main metals traded on the COMEX/NYMEX – copper, platinum and palladium. I wonder what could account for the uniform price pattern in all five markets. I guess I should rephrase that to what else but futures positioning could possibly account for the collective uniform price pattern. What has occurred in all five metals is the most highly choreographed case in history by which the commercial traders put the managed money technical fund traders just where the commercials wanted them to be. Izzy Friedman termed it Â?salami slicingÂ? and if there's a better term, I have yet to uncover it.

The commercials quickly set the price where they want it to be (from Oct 28 to mid-November) and then thinly slice a series of new prices lows which compels the technical funds to sell to the maximum levels they are capable of selling. That's what we've just witnessed over the past two months and the best news is what happens next, when the technical funds get maneuvered onto the other side of a crowded boat Â? the side that features higher prices. There was an interesting twist this week concerning the sharp price jump on Wednesday, followed by the plunge in price on Thursday, but I'll discuss that later. The main message, as I hope I have been conveying, is still that all the CME-traded metals appear to be on the launch pad to higher prices, but none to the extent of the upward price journey that awaits silver.

Turnover or the physical movement of metal brought into or taken out from the six COMEX-approved silver warehouses amounted to a hefty 4.2 million oz this week, as total COMEX silver inventories fell by 0.8 million oz to 158.3 million oz. I continue to maintain that it is the motion of the ocean that matters most and the motion of the COMEX inventories points to tightness.

Many hundreds of millions of ounces of silver have flowed into and out from the COMEX silver warehouses for some reason over the past five years, even though this remains almost unmentionable in commentary circles despite being easy to verify. If frantic physical inventory turnover was a customary and normal occurrence in other metals, I could probably understand why it wouldn't be thought of as a big deal in COMEX silver. But that's not the case and I remain puzzled why it is ignored in COMEX silver. And if the cause of the frantic turnover in COMEX silver inventories is not physical tightness in the wholesale silver market, I have missed any plausible alternative explanations.

Sales of Gold and Silver Eagles from the US Mint appear over for the year and this week's changes in the deposit/withdrawal patterns in GLD and SLV (a big deposit in GLD and a withdrawal in SLV) are not conclusive enough for me to venture firm conclusions on, aside from the GLD deposit being earmarked for a reduction in the short position (but not in the short report this week). Even the ongoing developments in the COMEX gold and silver delivery process indicate the same pattern Â? JPM taking almost all the gold deliveries and most of the silver deliveries issued Â? and are not special enough to require close examination today. Instead, please allow me to comment on a physical silver market development that, at least to my mind, is quite significant.

I admit to focusing mainly on the market structure forces on the COMEX as the prime price determinant and how that has overwhelmed actual supply/demand developments. But I know that the actual supply/demand fundamentals are what matter most in the end and I have spent more than three decades immersed in them. Although I haven't seen it reported on just yet, the new omnibus budget passed by both houses and signed by the president yesterday has what I believe may be an important silver kicker.

Included in the budget was an extension until the end of 2019 of the 30% tax credit (due to expire) for residential and commercial installation of solar panels, which is an important and growing demand component for silver. Those familiar with investment tax credits know just how powerfully they can influence spending decisions. In the case of potential new installations for solar panels, the Wall Street Journal estimated that the impact would be massive Â? basically increasing the base of solar power installations in the US by 50% over the next few years and increasing employment in the industry from 200,000 to 340,000. In response to the news, shares of some solar power companies jumped 50% or more this week, very much in contrast to overall stock performance. There was no mention of silver in the article (there never is), but all this will require a lot more industrial silver consumption. I can't tell if the link is subscription protected, but I assure you that I summarized the article correctly.

http://www.wsj.com/articles/wind-solar-companies-get-boost-from-tax-credit-extension-1450311501

The changes in this week's Commitments of Traders (COT) Report were both as I expected and hoped for, but featured a surprise development quite unexpected by me. Considering that silver prices were much weaker than gold during the reporting week, I had expected more improvement in silver than in gold and that's largely how it turned out. But no matter how one slices and dices the report, the conclusion is the same Â? bullish, bullish and more bullish on both gold and silver.

In COMEX gold futures, the commercials reduced their total net short position by 5700 contracts (I was, basically, looking for no deterioration, which was in line), to 8300 contracts total, the second lowest (most bullish) reading in many years. By commercial category, the big 4 bought back 1500 short contracts and the raptors (the commercials apart from the big 8) bought 5700 new longs, meaning that the big 5 thru 8 added 1500 new shorts. I do believe there is a managed money trader or two in the big 5 thru 8 short category and if my hunch is correct, that means all the commercials were buying as befits a market manipulated and controlled by the commercials.

The surprise in gold was not that the managed money traders sold nearly 9800 net contracts and in the process established a new record net short position in the history of the disaggregated report, but that only 926 contracts represented new short sales. The surprise, at least to me, was that 8871 long contracts were liquidated, reducing the level of gross longs to 83,671 contracts, well below the 90,000 contract level I identified as the core non-technical fund long position that was highly unlikely to be liquidated on lower prices. What happened (to my expectations)?

Making the big managed money long liquidation more surprising was that gold prices didn't make new lows during the reporting week, so it wasn't likely that the traders that sold had stop-loss orders under the market. The most plausible explanation for why the managed money long traders sold was due to index traders rebalancing positions at year end. There was even a bit of this in silver as well. Without getting too detailed, traders classified in the managed money category are not all technical funds, buying as prices go up and selling when prices go down.

Managed money means just that Â? traders handling other peoples' money, with how they manage the money not a factor in determining classification by the CFTC. Most of the active traders are technical funds, but clearly not all. Those who remember former CFTC commissioner Bart Chilton, will recall he was constantly complaining about the Â?massive passives,Â? the commodity index traders who took large positions in many commodities and then just sat and held. He had a point, but no one could accuse these index fund traders of having the same manipulative effect on prices that the active technical funds have in silver and gold. That's because the passive index funds (the massive passives) trade infrequently, usually at around year end as portfolios are rebalanced by certain formulae.

The selling by the managed money long traders in gold this week (and to a lesser extent in silver) appear to represent such yearend rebalancing Â? largely a one-off event or of some short duration. While I didn't expect the managed money long liquidation, there can be no doubt that it is bullish towards future prices in that what has already been sold can't possibly be sold again. To be fair, I'm not expecting the index traders which did sell to establish new long positions in the near future, but I wasn't expecting buying from this category of traders to begin with. The baked-in and certain buying ahead will come from the managed money technical funds, not the managed money index funds.

In COMEX silver futures, the total commercial net short position was reduced by 7500 contracts (I guessed 5000 and hopefully more), to 23,500 contracts. This is the lowest (most bullish) headline number in months and a closer look under the hood reveals an even more bullish take. By commercial category, it appears to be mostly a raptor affair, but I also see signs of buying by the largest commercials, despite some small increase in the big 4 short position.

I don't wish to unnecessarily over-complicate this, but the managed money (technical fund) short position has now grown so large that I believe not only are some technical funds in the big 5 thru 8 short category, but one of these funds has made it into the big 4 short category. Unfortunately, this blurs the actual position of the big commercial shorts, like JPMorgan, but most fortunately is nonetheless incredibly bullish for the price of silver. Who would you prefer to be maximum short in silver Â? some certifiable crook like JPM which will fight to control prices or some dimwit technical fund which doesn't even realize how much danger it is in? (Yeah, that's a rhetorical question).

The managed money traders in COMEX silver sold 6673 net contracts this week, including 4781 new short positions, increasing the rocket fuel buying tank to 47,982 total short contracts. Less than two months ago, this short position was around 10,000 contracts which means approximately 38,000 contracts will be bought, with aggressive at the market buy orders, as and when silver prices move a moderate amount higher (through the moving averages). And that doesn't include the minimum of 10,000 to 20,000 contracts of new buy orders by technical funds looking to establish new long positions. That's 50,000 to 60,000 contracts of near certain technical fund buying baked into the silver price cake.

The 1892 contracts that were sold by the managed money index fund longs reduces the core non-technical fund long position to 50,580 contracts. Because the managed money technical fund shorts have entered into the ranks of the big 4 and big 5 thru 8 traders, I would calculate that JPMorgan has been able to reduce its already reduced short position of 14,000 contracts to as low as 13,000 or even 12,000 contracts. Is this as good as it gets for the crooks at JPM? I don't know, but the safe bet is that it is.

Let me try to explain what was behind the sharp price rise on Wednesday, only to be followed by the price plunge on Thursday. Gold and silver prices jumped sharply early Wednesday morning, many hours before the much anticipated Federal Reserve interest rate decision and remained higher well after the Fed's announcement. Then the next day, prices began to plunge. I present this timeline to show that the gold and silver price change was unrelated to the Fed's announcement.

What was directly related to the gold and silver price pop and plunge was the 20 day moving average. On Wednesday morning the commercials rigged the price of gold and silver up through the 20 day moving average and induced significant technical fund buying. Then on Thursday, the commercials rigged prices below the same 20 day moving averages and induced significant technical fund selling.

How significant was the technical fund buying on Wednesday and selling on Thursday? By my calculations, some 5,000 to 10,000 contracts of COMEX silver and 10,000 to 20,000 contracts of COMEX gold were bought by the technical funds on Wednesday and a somewhat greater amount was sold by the technical funds on Thursday. Of course the commercials not only rigged prices first higher, then lower and took the opposite side of whatever the technical funds bought and sold (which was the commercials' intent).

In terms of price, the technical funds first bought and then sold silver contracts at net loss of around 40 cents ($2000 per contract) and in gold at around a $20 loss (also $2000 per contract). Based upon the estimated number of contracts involved and the price disadvantage to the technical funds and to the commercials advantage, I would calculate the commercials made and the technical funds lost around $50 to $60 million collectively on what was a quick overnight trade. Of course, the $50 to $60 million was divvied up 20 or 30 traders on each side, but still represents an impressive payday for the commercials for what must be considered a quick trade.

A more appropriate way to describe what happened between Wednesday and Thursday in gold and silver would be to label it as a scam within a scam. Not only have the commercials continuously maneuvered the technical funds into and out from positions over the course of weeks and months by manipulating prices, they have perfected the scam to include quick trades that run counter to the broader manipulation.

On the take down in prices from the end of October, the technical funds sold and the commercials bought roughly 160,000 contracts of COMEX gold and nearly 50,000 contracts of COMEX silver. On Wednesday, I calculated the average price on this go around was $1080 in gold and $14.30 in silver. Previously, I calculated that the technical funds had bought and the commercials had sold similar amounts of contacts at the end of October at $1180 in gold and $15.85 in silver. Therefore, the net monetary benefit to the commercials and the net disadvantage to the technical funds since the end of October is close to $2 billion.

The $2 billion take by the commercials and loss by the technical funds from the end of October until now is the big scam that I write of constantly. This is such a significant amount of money and the results of which occur continuously that I am puzzled how anyone wouldn't consider it to be the prime motivation behind the gold and silver manipulation. I'll stipulate there may be other motivations (a government plot), but no other motivation would appear to be required.

Now on top of the big scam of the commercials taking billions of dollars away from the technical funds over the course of months is the Â?littleÂ? scam of taking $50 or $60 million away from the funds on a quick trade. As always, if there's a better or more plausible explanation for what moves gold and silver prices, I have yet to run across it. The only Â?costÂ? to the commercials in pulling off the quick trade this week is a very temporary and unrealized loss in order to score a $60 million realized short term gain. The commercials, as a whole, had to allow prices to fall on Thursday in order to be able to buy back what they had sold to the technical funds on Wednesday and that resulted in a temporary unrealized loss of several hundred million dollars (which was greatly reduced on Friday's rally).

A couple of things to note. How dumb are these technical funds that they don't realize they are the marks in this crooked poker game? Too dumb to quantify and that is reflected in their long term performance. The other point is that while I do believe no one as dumb as the technical funds could be intentionally losing (some might argue with that), the same can't be said of the commercials. It's not just that the commercials are smarter than the technical funds, as that would appear to be obvious; but something else entirely. The price patterns are clear Â? we jump or fall quickly in price within minutes and then trade at the sharply higher or lower price for hours, as it takes some time for the idiot technical funds to then react fully to the newly rigged prices. While the technical funds are nitwits for following the commercials' price setting, something else emerges.

That something is the certain collusion apparent in the commercials activities. Whether there are prearranged agreements among the commercials or they have all just learned how the technical funds operate, a certain level of collusion is required on the part of the commercials to pull this off. The commercials are too patient as a group in waiting for the technical funds to finish buying or selling. There is usually little competition between the commercials and it's more a case of them behaving as the Three Musketeers. But being all for one and one for all in market matters is collusion and manipulation, not bravery and chivalry.

Don't get so caught up in this line of thinking to miss the big picture. The big picture is that the market structure, despite the temporary gyrations this week, indicates sharply higher silver and gold prices to come. It seems to me at this point that the trading since the Tuesday cutoff is mostly a wash or at least not at all damaging to the incredibly bullish market structure. I can't know when the commercials will rip the technical funds a new one to the upside, but sense that moment is close at hand.

Ted Butler

December 19, 2015

Silver – $14.08 (50 day moving average – $14.77)

Gold – $1066 (50 day moving average – $1105)

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