December 2, 2015 – Most Important Issue

The Most Important Market Issue

I continue to be amazed at the growing attention given to the impact that futures market positioning has on the price of world traded commodities, particularly gold and silver. Of course, having been engrossed in this issue for decades, I'm also amazed at how long it has taken for the attention to set in. Putting aside why something so obvious has taken so long to be recognized, it has always been my belief that when a critical number of observers see something that must be changed, it is not long before actual change takes hold.

I am encouraged to see more commentators than ever focus on the massive but private speculative trading game played by the managed money technical funds and the Â?commercialsÂ? and how that impacts price. This game is laid out in the government issued COT report and it is why I spend so much time studying the data. It is this data that leads to my conclusion that COMEX silver, gold and others commodities are manipulated in price. More are reaching that conclusion and when that number reaches a certain critical point, the manipulation will end.

There's no doubt I focus on silver and gold, but I have also increasingly included other COMEX/NYMEX markets (owned by the CME Group) caught up in some level of futures market manipulation, such as platinum, palladium, copper and, the biggest market of all, crude oil. That's why I was somewhat thrown for a loop in reading a Zero Hedge post yesterday that included an imbedded link to an article written by John Kemp, who is a crackerjack reporter/analyst for Reuters. (In my private world, I don't use the word Â?crackerjackÂ? to describe many commentators or analysts Â? if I got a nickel for every time used that word, I'd maybe have a dime.) Please take a moment to review Kemp's article on crude oil and if anyone has contact info for him, please forward this to him, as I've never been able to get his email address. Alternatively, please forward his address to me Â? I promise I won't stalk him.

http://www.zawya.com/story/Hedge_fund_short_positions_and_oil_prices_in_2015_Kemp-TR20151124nL8N13J2STX2/#utm_source=zawya&utm_medium=web&utm_content=editors-pick&utm_campaign=free-homepage

No, Kemp didn't use the word manipulation to describe the influence of managed money futures market positioning on the price of crude oil, but that's what he was concluding. And he's too sharp not to make that conclusion overtly at some point. Remember, Kemp is talking about crude oil which has come lower in price primarily as a result of an overall glut of supply, but he is highlighting the influence of managed money trading on price over and above the influence of actual oil supply and demand. Just to put this in perspective, there is no actual glut of silver weighing on price Â? the price of silver is set by managed money/commercial positioning exclusively; there is no price influence from actual supply and demand.

I've highlighted Kemp's article as a preface to discussing what I firmly believe is the most important market issue of our time. That's not hyperbole in any way; the impact of managed money/commercial positioning and whether that positioning is eventually addressed by the regulators or the market itself will determine the future price of silver and most other commodities. In the case of silver, I believe the resolution is close at hand due to circumstances much more severe than in other commodities, but the issue of futures market positioning will be resolved in other markets as well.

Regular readers may know that this is an issue that I have raised for many years, namely, excessive managed money technical fund bulk buying and selling of futures contracts exerts an artificial influence on price. Artificial in this case is the same as manipulation. Yes, these technical funds are choreographed and maneuvered into buying and selling massive amounts of contracts by the commercials (led by JPMorgan), but that matters little in the overall scheme of things. The essence of the problem is that the managed money technical funds are trading too many darn contracts.

First, let's establish if the technical funds are trading in the massive quantities I allege. Aside from Kemp's article (on which that was the implied main theme), look no further than recent COT reports. As the record shows and as I have reported on, more historical extremes in managed money/commercial positioning have occurred over the past few months than ever before; not just in silver and gold, but the other COMEX/NYMEX markets. In fact, the standout characteristic of recent trading is the extraordinary switches between managed money net long to net short positioning. By definition, the managed money traders have held bigger positions than ever before Â? otherwise the record extremes wouldn't have occurred.

As always, when the managed money technical funds put on what turns out to be a record long position, prices have been driven higher and are in position for a selloff. Conversely and as is the case currently, when the managed money technical funds sell and put on an extreme net short or create a low net long position, that means prices have come down and the market structure is set for a rally. Only a fool or a dyed-in-the-wool manipulation denier would doubt the connection between managed money buying and selling and price movement.

The fact that we've witnessed record extremes recently in COT readings for managed money positions, both long and short, means one thing for sure Â? these traders' collective positions are more massive than ever before. Thus, there can't be any real debate whether the managed money positions are massive and it can't be a coincidence that gold and silver and copper prices have hit multi-year lows amid managed money short positions being, effectively, at multi-year highs. And does anyone seriously believe we would be at multi-year price lows without technical fund short positions being equally extremely short?

Therefore, the markets' price discovery process has been captured by excessive and massive managed money positioning, as I've long contended and as Kemp's article indicates. What to do about it? While I think it's too far gone in silver and its price is destined to explode, the answer to massive managed money positioning is so simple and obvious that it's almost funny that it hasn't been proposed and enacted by the CFTC and CME. The answer to massive and price-setting speculative positions is one thing and one thing only Â? legitimate speculative position limits. The only difference here is that because the managed money position is massive mostly on a collective basis and not on an individual trader basis, there must be a collective position limit on managed money traders. I've been saying this for many years and I would like to restate the premise again.

Because the managed money technical funds trade the same as one another, they must be regulated as if they were one trader. That means, in addition to whatever individual trader position limits the CFTC ever decides on, there must be a collective overriding limit on the one class of traders that trade as if they were just one trader.

Whenever I have made this suggestion in the past, I have usually heard from professional and well-informed subscribers informing me that it just isn't fair to limit individual traders just because others are trading in a similar fashion. It may not be fair, but what's the alternative? Let things continue as they are now? Had my suggestion been adopted, there couldn't be the excessively extreme and massive managed money technical fund positions which currently exist and we would all (and the markets) have been a heck of a lot better off than things now stand.

Ironically, while I sincerely believe that my suggestion of a collective position limit on managed money traders that trade as one would solve the most important issue facing the markets today; it is because I am the one making the suggestion the reason it won't be adopted. You'll remember that years ago, I led an effort to press the CFTC to adopt legitimate individual position limit in silver; which even after the passage of the Dodd-Frank Act remains to be enacted. It's a personal thing between me and the regulators (the CFTC and the CME). Because I have raised the general issue of a COMEX silver manipulation for 30 years and the regulators have denied it on a tit for tat basis over that same time; I am the very last person that the CFTC or the CME would ever acknowledge of having anything constructive to add. Never have they or could they admit anything that I say has merit. I don't intend to make this sound completely personal or to pump myself up, just that it is what it is. (I suppose continuously calling them crooks and useless sycophants may have contributed to the mutual ill will).

Let's face it, managed money technical fund positioning has grown massive to the point where analysts like John Kemp and many others have focused on it. No one, other than me, has called it the most important market issue of our age, but give it time. Yet, not one word from the CFTC or CME has been uttered on this issue. That should give you a sense of how corrupt the regulators are Â? refusing to wade in on what is their single most important mission, preventing artificial pricing and manipulation.

Something will come along to kill the absurdity of the increasingly massive technical fund positioning and the commercials' ability to extract untold profits from these funds. This is so crazy, it can't last for long. My best guess is that the CFTC will come to enact collective position limits after some type of a market event; an event that to me must include something dramatic in silver. And if my hunch that JPMorgan may refrain from adding new short positions on the next silver rally proves true, that will provide the drama.

Another day, another sell-off. It has now been more than a month of almost continuously lower gold and silver prices, as the managed money traders continue to plow onto the short side of gold, silver and other commodities led by their price-nose by the commercials. We witnessed new price lows in gold today, both on the COMEX and in GLD, but so far not quite in COMEX silver (although we finally got a new low in SLV). Thus the salami price slicing has continued.

Interestingly, the price decline of more than $130 in gold from the price highs around Oct 28 and the more than $2 drop in the price of silver has taken on the pattern of a sharp initial drop amounting to the bulk of the decline in the first ten trading days of the move (into early November), followed by slight new declines in the weeks since then. This has all the earmarks of a classic commercial setup, namely, rig prices quickly and dramatically and then continue to rig prices slightly lower to induce the maximum quantity of managed money selling. As painful and annoying as it is to watch this unfold in slow motion, it's just what the doctor ordered Â? if some sick manipulative price doctor were in charge. The early phase of the price decline was the most meaningful in extent; the last few weeks just seemed more meaningful.

The point is that lower prices just add to the bullish set up. At this juncture, I see no reason for not being all in, no matter how long this slicing continues. This is not the time to be concerned about lower prices, just make sure you are not on margin. And it's not about going down with the ship Â? the silver ship is already sitting on the bottom of the ocean and the only meaningful direction for price now is up. I thank a subscriber for mentioning that current silver prices reminded him of the time I coined the phrase Â?dimes to the downside, dollars to the upside.Â? That did prove accurate at the time and will again.

To that end, I'm going to include another article I did for Investment Rarities and never published for subscribers, after giving an update on the COMEX silver and gold deliveries for December.

In gold, open interest for December has fallen close to 50% since Saturday's review to just under 3900 contracts as of last night. The vast majority of the 4000 December contracts liquidated over the past few days have come as a result of traders liquidating open futures contracts and not as a result of actual deliveries, of which there have been only 40 so far. Thus, there are a decent number of contracts still open and an unusually small number of contracts closed out by conventional delivery. Therefore, it is still fair to characterize this as being in the tight supply category.

In silver, it was almost the opposite, in that most of the contracts closed out in the December contract were delivered against in the large first notice day delivery by a customer of JPMorgan. Now, only 700 or so contracts remain open in the December futures contract. The standout in this delivery period to me is that JPMorgan has stopped or taken 1186 silver contracts so far in its house or proprietary trading account, the most it has taken in any month since March when it took the permissible limit of 1500 contracts (7.5 million oz). I, for one, will be quite surprised if JPM doesn't end up stopping or taking the limit of 1500 contracts this month.

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

That makes it more than 5000 contracts (25 million oz) that JPMorgan has acquired by COMEX futures deliveries this year, clearly the most transparent means possible for it to acquire physical silver. I would remind you that JPMorgan's openly transparent method of acquiring physical silver by means of COMEX futures deliveries began long after I alleged this crooked bank was acquiring massive amounts of physical silver, an amount I believe to be more than 400 million oz and growing. It's almost as if JPM is telling the world they are about to squeeze the snot out of the silver market to the upside. Some, of course, continue to doubt JPMorgan has acquired historic amounts of physical silver for reasons that escape me.

One final word about COMEX gold and silver deliveries. It is popularly stated the COMEX faces some type of certain delivery default, mostly due to what are perceived as low delivery inventories. The COMEX may in fact default someday, but it should be noted that the current historically low commercial short position in gold and silver would argue against that day being now. If the COMEX was to default on a delivery, it seems to me that would come at a time when the commercials were super exposed on the short side and default was their only way out. Presently, the COMEX commercial crooks have no pressing reason to default since the managed money traders are most negatively exposed to a big upside move or short squeeze.

Finally, here's that recent article I just mentioned.

Throwing Caution to the Wind

It is fairly simple to identify important market tops and bottoms in hindsight; beforehand, not so much. Let's face it, if it was easy to ascertain market tops and bottoms in the here and now, everyone would be a billionaire. Still, while few can divine the future with precision, it is also an investment axiom to buy low and sell high. That means it's much better to buy as close to a market bottom as is humanely practical to achieve the best investment returns. And if one can combine buying at close to a bottom in an investment asset fundamentally undervalued, well, I don't think it gets much better than that.

There are not many who would turn down the chance to go Â?all-inÂ? and throw caution to the wind on a sound investment asset if it could be assured it was at a price bottom. While there are never guarantees for the future, the combination of a deep fundamental undervaluation of an investment asset at an important market bottom appears to be the case currently in silver. Please allow me to make the case.

As far as silver being deeply undervalued on a fundamental supply/demand basis, the story is pretty simple. There are no excessive supplies pressing on price; if anything, recurring retail shortages over the past 5 years indicate the opposite. Likewise, on a wholesale basis (1000 oz bars), total visible world inventories have not grown at all over that time. I'm not saying there may not be more silver bullion in the world than there was 5 years ago; but neither can anyone point with certainty to evidence indicating any suggestion, away from price, that there is a glut of any kind in silver bullion on a wholesale basis.

Yes, the price of silver may suggest some physical oversupply that no one can see, but it is the price of silver that is wrong, not the verifiable data. If anyone believed that the price of silver or any other asset couldn't possibly be wrong, there would never be a case for investment in anything. Investment is about buying undervalued assets and selling overvalued ones, which wouldn't be possible if the current price was always correct.

Simply put, there are no bulging inventories, either on a retail or wholesale basis in silver, nor is there any great new amount produced each year after all industrial and total fabrication demands are satisfied. Moreover, the tiny amount of world silver bullion inventories, at 1.3 billion oz, comes to less than $20 billion at current prices. Compare that to gold, where total gold inventories are valued in the trillions of dollars. The extremely low dollar value of the world's silver almost guarantees its valuation can increase much faster than assets with much higher current valuations, like gold. That's not to say gold can't move much higher in price, just that silver should move proportionately much higher.

And it's not like silver doesn't have a history of big price moves, since it has run to $50 from single digits twice before. Based upon past history, silver should have no problem getting to $50 or higher from current levels. It's illogical to say something is impossible if it already happened twice before, particularly since the case is more compelling currently than in the past.

We are all captive to our own life experiences. I admit to being captive to what I've learned in studying the data from the COMEX silver market compiled by the federal regulator, the CFTC. I know most peoples' eyes glaze over when confronted with the statistics in the Commitments of Traders Report; but having studied this report for more than 30 years, the data explains past and prospective price movements to me. If it didn't, I wouldn't continue to rely on it.

Recent actual and predicted changes in this report tells me we are likely to witness an impressive rally in silver that could easily turn into the big rally I have long expected. These changes are directly related to the recent decline in silver for more than a month has only occurred because the key commercial traders in COMEX silver, especially JPMorgan, have rigged prices lower to get other traders to sell so that the commercials could buy. While this has occurred regularly over the years and has always resulted in silver price rallies; there are aspects about this most recent decline that are special, like the persistent

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