

December 22, 2012 – Weekly Review/The Enablers

Weekly Review

For the fourth week of declines that most metals investors wished never occurred, the price of gold and silver fell and fell sharply. Gold was hit for \$40 (2.4%) and silver was walloped for \$2.30 ((7.1%), in the process both falling to price lows not seen since August. As a result of silver's sharp underperformance, the silver/gold ratio blew out by a nearly three full points to almost 55.5 to 1. As always, sharp changes in the ratio are determined by the sharpness of silver's price action. Somewhat remarkably, we are still within the broader trading range for the ratio going back more than a year. Since I am convinced that silver will sharply outperform gold longer term, I must view the recent relative silver weakness (and any further weakness) as a wonderful opportunity to switch gold positions into silver.

Aside from creating a better value for prospective silver purchases, this sharp takedown is mostly a kick in the teeth for existing investors in that it was clearly deliberate. Hopefully, regular readers were not completely blindsided by it, given the extreme set up in the COMEX market structure. It's OK to feel outrage because of the price smash, but it's not OK to be completely confused about it. While I am encouraged that every day more come to learn of the silver manipulation, it is still somewhat discouraging that many continue to misinterpret the sole cause behind the latest price smash – price rigging on the COMEX.

The one good thing about this week's price smash in silver (and gold) is that it should have removed any doubt that it had nothing to do with anything except COMEX price manipulation. By anything I mean the smash had nothing to do with physical market fundamentals or the trading of metals in any other market; this was a COMEX production pure and simple. It was actually refreshing that it was so clearly a COMEX generated smash, as it made any attempt at alternative explanation look silly. If one doesn't see that paper COMEX trading was the cause of this week's sharp price declines, it can only be because of a refusal to see the clear facts.

The fact is that paper positioning on the COMEX silver futures derivatives market is overwhelming the price influence emanating from the host world market for physical silver, or in other words, the tail is wagging the dog. Real supply and demand go out the window and artificial and manipulative pricing have replaced it. The commercial paper traders, led by JPMorgan, are involved in a private big money speculative trading war with other speculative traders called technical funds and that war, because it is so much larger at times, is dictating the price of silver to everyone else in the real world — miners, users and physical investors. That's why so many are scratching their heads trying to explain the price swoon this week — it made no sense from a real world perspective. While I was quite upset with the circumstances of this week's smash, I certainly was not scratching my head as to how it occurred. Hopefully, that goes for you as well. I'll have much more to say after the usual review.

As I have been reporting, the signals from the real world of physical silver have been unusually bullish in that they all point towards tightness. The signals from the paper market have been bearish, mainly in the form of JPMorgan's large concentrated short position. This remains the one negative in silver against a wide array of positives. It came down to which was going to dominate the other in the short term, as in the long term the physical world will win out. It still comes down to paper versus physical to my mind. Clearly, the crooks at JPMorgan and the CME had their way with the price this week, with the wimps and incompetents at the CFTC looking on. It is entirely possible that the crooks may succeed in inducing more technical fund selling with lower prices from here. But there are also increasingly strong signals from the physical silver market that the crooks won't prevail for much longer.

Turnover, or movement into and out from the COMEX-approved silver warehouses, picked up notably after the previous brief respite. Weekly turnover approached 2.5 million oz as total inventories fell by 600,000 oz to 146.9 million oz. As always, to me the movement is the key factor, not whether the total amount of COMEX inventory is growing or shrinking. Besides, I expect growth in inventories. In addition to the resumed turnover, there were some anomalies in the delivery pattern in the nearly expired December futures contract deliver month. Amidst the sharp price declines this week, fairly large numbers of new contracts were established for delivery late in the delivery period. Of course, it is possible that sellers initiated many of the transactions, but it just as easily could have been buyers in search of real metal now.

Let me add something here about the increasing number of stories suggesting that there is a growing disconnect between the prices of COMEX contracts and physical silver throughout the world. What I would add is that, in a very important sense, the stories are hogwash. If you buy a COMEX silver futures contract and stand for actual delivery (by depositing the contract's full cash value) you will get delivery of actual metal within contract specifications. No one can force you to accept cash or shares of SLV or anything else — just metal in a COMEX-approved-warehouse. The idea that you can't convert COMEX silver futures contracts into metal or that there are any clear signs of that in the current pricing of various markets is wrong. The only way that there can be a disconnect between COMEX prices and wholesale physical silver prices is after a contract default or exchange closing occurs and not a day before that occurs.

But the big silver turnover story this week was in the big silver ETF, SLV. After a somewhat unusual mid-week deposit of 700,000+ oz amid lower prices, a further 4.8 million oz were deposited yesterday, following Thursday's \$1.40 price smash. This is obviously counterintuitive as one should have expected a large outflow on presumed investor liquidation. Truth be told, I was expecting big SLV withdrawals. That over 5.5 million silver oz were added instead during the biggest price smash in a year screams for an explanation. Two plausibility's spring to mind. It could have been a deposit to close out the recent 6 million oz increase in the SLV short position, which won't be verifiable until mid-January given the short interest reporting schedule. Or, it could have been plain-vanilla investor buying on suddenly discounted pricing. Either is fine and supportive of strong physical demand and tight supply conditions. You can never tell when the physical market may crush the crooks at JPMorgan, so we look for advance signals like this.

Sales of Silver Eagles for the year are not finishing strong, but that appears to be due to production and reporting issues at the US Mint and not due to soft demand. The Mint did announce (like it has done in previous years) a conversion to minting coins for 2013 and a termination of sales for 2012 coins and this seems to be behind the slowdown in Silver Eagle sales. There have been reports that suggest this shutdown of old year production was intentional, but that sounds far-fetched to me given past years' experience. I think it's more a case of the Mint misjudging demand and production scheduling. Let's try to keep this in perspective — I don't see any connection between recent price action and US Mint sales and production of Silver Eagles. Maybe there is one, but I don't see it.

The changes in the this week's Commitment of Traders Report (COT) are a bit moot as the big price action and positioning occurred after the Tuesday cut-off. There were expected declines in the headline number of the total net commercial net short position in both gold and silver, as prices did fall by a decent amount during the reporting week. It's just that they fell sharply and on higher volume after the reporting week, especially in silver.

For a reporting week that featured a \$40 decline, the gold commercials reduced their net short position by a further 12,700 contracts to 202,100 contracts. This is the lowest total commercial net short position since late August and it is no coincidence that the price also hasn't been lower since then. COMEX positioning, as I tend to beat to death, is what causes the price of gold to move up and down in the short term. Let's face it — commercial (and tech fund) positioning changes like clockwork on price rallies and declines; so you must conclude that is either coincidental or causal. When you factor in that the amounts transacted on the COMEX dwarf any other verifiable amounts of gold or silver being transacted elsewhere (ETFs or OTC or LBMA), a reasonable person must conclude that COMEX is setting the price. I believe that those disputing this are not being reasonable.

By gold commercial category, it was mostly the big 4 responsible for the biggest share at almost 9500 contracts of the commercial buyback, with the gold raptors (the smaller commercial traders apart from the big 8) buying back 3100 short contracts. I am still struck by the aggressiveness of the big 4 in their buying back of short positions from the peak in commercial short positions on Nov 27. Thru this current report, the big 4 have bought back 31,000 short contracts of the total commercial short reduction of 56,000 since the Nov peak, with the raptors buying back 19,000 short contracts. Usually (as much as there can be anything usual about a collusive manipulation) the big 4 aren't this aggressive in buying back until the tail end of a cleanout.

In silver, during a reporting week that witnessed a \$1.50 price decline, the commercials bought 2600 contracts, reducing their net total short position to 55,300 contracts. By commercial category, the big 4 bought back about 1400 contracts, reducing their net short position to just less than 52,000 contracts; while the raptors provided expected competition in purchasing an identical 1400 contracts, increasing the raptors' net long position to 7700 contracts.

As has been the case during the four week sell-off, a disproportionately larger amount of gold commercial short positions has been bought back than in silver through the reporting date of the latest COT. COMEX gold is much larger than COMEX silver in open interest, but the 56,000 net gold contracts bought back since the end of November dwarf the roughly 4500 contract reduction in the silver total commercial net short position. It may also explain the viciousness of the silver sell-off this week (amid unusually strong physical market bullish signals) as the commercials went out of their way to trigger what had been reluctant technical fund selling until that point. This was one side of the dangers created by JPMorgan's giant manipulative silver short position. I can't help but think that the tightening physical silver market is forcing JPMorgan to abandon any pretense that the bank is not manipulating the price. The moves down this week in silver left even previously skeptical critics of a silver manipulation at a loss for a legitimately sounding alternative explanation.

The danger of a further sharp silver sell-off still exists because JPMorgan's concentrated short position still exists. Based upon physical market considerations, there is also a danger that JPMorgan could lose control and silver could explode. That's what's wrong with a concentrated position and manipulated market in the first place. Through the cut-off date, JPMorgan was still short 34,000 contracts, down 1500 for the reporting week. Remarkably, this is still a third of the entire net short side of COMEX silver (minus spreads) and represents more than 22% of annual world mine production. Here's another tidbit — the 170 million oz of equivalent silver that JPMorgan is short on the COMEX is more than 20% of the all the visible silver bullion in the world (817 million oz — source www.sharelynx.com).

To give you a sense of the dimensions of holding a paper short position of this magnitude in gold, silver's precious metal sister, please consider that if one entity held 20% of the two billion oz (minimum) of all visible gold bullion in the world short on the COMEX, it would require a short position of 4 million COMEX contracts, nearly ten times the current total open interest. (2 billion oz gold oz X 20% and then converted into 100 oz COMEX contracts). My point here is that the more you compare JPMorgan's concentrated silver short position to other markets, the more you are amazed at the audacity of their silver manipulation. Hey — have I mentioned that these guys are rotten crooks?

I'm not going to dwell on how crooked JPMorgan and the CME at this point and, instead, try to explain how they continue to pull off this scam by looking at those who enable the crooks to succeed.

The Enablers

I've received a number of questions, given the recent downside price volatility, about the technical funds that I mention so often as the COMEX silver paper buyers on the way up and as the sellers on the way down. When silver suddenly drops sharply in price, it is always due to the technical funds selling with an almost reckless abandon, at least after the price has declined first. There is no question that the commercials, led by JPMorgan, grease the skids and get the price down first in order to induce the certain selling that is sure to follow once prices get below arbitrary price points. The commercials have a tool chest full of manipulative devices, like High Frequency Trading (HFT), in which to set prices artificially higher or lower to create the technical fund buying or selling that is certain to result from the newly set price. Without going into detail here, the tech fund ongoing behavior is an essential element in the study of the Commitment of Traders Report (COT).

Invariably, your questions take the tone of "how can these guys be so stupid not to see that they are consistently being duped?" It's hard for me to answer these questions in a brief personal email without providing some background, so let me try to fill in the missing pieces here. For those who may have heard this story before, I apologize, but it has been some time since I have tried to describe the functioning of the technical funds. With more recognizing the manipulative price patterns every day, it's important to present what's really going on in the most factual manner possible. When you are alleging wrongdoing as serious as manipulation, you better have your facts correct; otherwise the allegations will be demolished.

If I read another blog saying, on a big day down, "JPMorgan dumped a billion oz in ten minutes," I'm going to scream. Ditto with, "the Fed ordered the bullion banks to dump gold." Neither JPMorgan or any other commercial ever sells big on a big down day, they only buy. JPM may sell a hundred or a thousand contracts short to get the price snowball rolling down the hill early in the day, but only if they can buy back 1000 or 5000 contracts before that day ends. More likely, they'll spoof (bluff) contracts being sold, but only to scare tech funds into selling so that the commercials can buy lower. So who are these tech funds? Let me try to give you a short and objective description. Afterward, I will try to explain why these tech funds, as well as technical traders in general, are one of the principle enablers of the silver manipulation (although they are not deliberately choosing to be in that role).

The technical trading funds are mostly commodity trading advisors (CTA's) registered with the CFTC to trade futures contracts on behalf of outside investors. This is a very big business, representing many billions of dollars spread across many hundreds of advisors. Many CTA's go back decades and in the interest of full disclosure let me state again that 35 years ago, as a commodity broker at Drexel Burnham; I derived a significant portion of my income from soliciting and maintaining such accounts. As a broker, it was clean business as the CTA did all the trading and was compensated in a manner that reflected profits, not commissions (which went to the broker holding the account). Leading CTA's today go by names such as Millburn, Campbell and John Henry. The CTA community is established and well-represented in industry associations and exchanges.

The basic approach of a CTA is to commit only a small portion of a total portfolio into each of as many as 20, or 30, or more different futures markets. In addition to being diversified throughout many markets, most CTA's are conservative in the sense that only a certain percentage in margin money and perceived risk is pledged to any one market, although it's hard to label any leveraged futures trading undertaking as "conservative". CTA's go long or short, depending on which way a market is trending. Almost by necessity, CTA's employ a technical approach to the market, meaning that they trade on a price movement mechanical basis (moving averages and the like) as opposed to making trading decisions by studying the supply/demand fundamentals of any market. CTA's are generally disciplined and adhere to strict money management principles of cutting losses short and letting profits run. This approach allows for many small losses being taken against a few big gains, resulting in overall net profits over time. Another advantage of these programs is they were not strictly correlated to other major markets, such as the stock or bond markets (although futures on stock and bond indices are included in the trading portfolios). When I was a broker, I would tell potential clients to expect only a few big gains against many smaller losses and that you never knew which markets would be the big movers and that was largely how it turned out. If markets trended, meaning enough moved higher or lower in ordinary trend fashion, it was usually a very good year for returns. If markets chopped around a lot, it was not a good year.

Another characteristic of some tech funds is that in addition to cutting losses quickly when a position starts moving adversely, as profitable positions grow, more contracts would be added to maximize gains. Generally, these funds never add to a losing position to average down the cost basis, but some add aggressively to winning positions, thinking if a winning position that has been added to begins to reverse, the open profits would minimize any losses in abandoning the positions.

Because the technical funds expect more losses than gains as a known outcome of their trading, they don't get alarmed about repeated losses in any one market, such as silver. Since the technical funds approach the markets on a strictly technical basis (as opposed to closely studying the supply/demand fundamentals), they are almost proud to admit that they don't study market fundamentals at all, as that implies a greater technical "purity." It's hard to see you are being snookered if you refuse to even look. Quite simply, the technical funds refuse to look at allegations of a silver price manipulation because they don't look at anything other than price action. They feel such fundamental data will detract from their basic approach.

Further, since many of the technical funds have been profitable and in business for decades, they would look down their nose at anyone who suggested they were being scammed in silver (and gold). A core premise of any technical trading approach is that the markets are free and not manipulated. After all, if you are basing your investment decisions on price action alone, you would not do so if you suspected the prices were rigged. What would make it particularly hard would be to suggest to a tech fund that not only are current silver prices manipulated, but that they've been manipulated for 30 years and you've been the sucker.

I'm trying to explain how it is that the tech funds can go along with being the puppet while JPMorgan pulls the strings. Making matters worse is that many of the tech funds use JPMorgan as their prime broker, meaning the tech funds let JPMorgan hold their funds and positions and execute their trading orders. I guess the tech funds don't see anything wrong with having JPMorgan as their counterparty in many transactions, including silver. That alone makes them incapable of appreciating how they are being duped by JPMorgan.

The point of all this is explain how the tech funds are going to keep doing what they have been doing, no matter how obvious it is that they are being run into and out from silver (and gold) like puppets. I don't really care that the tech funds are involved in this ongoing silver scam other than to recognize that they are enabling the silver manipulation to continue. If the tech funds didn't exist, I don't see how the silver manipulation could exist; although that's not the same as saying the tech funds have caused the manipulation. The tech funds are the enablers; JPMorgan is the agent and cause of the silver manipulation (at least since March 2008). Additionally, it appears clear to me that the tech funds are strictly the enablers, in the sense they have no overall responsibility to end the silver manipulation. There is another set of silver manipulation enablers that have a clearly-defined legal responsibility to end the scam.

If the technical funds are the innocent (or at least unaware) manipulation enablers, the same cannot be said of the federal commodities regulator, the CFTC. Just like the silver manipulation couldn't exist without the tech funds, it also couldn't exist without the CFTC allowing it to continue. But the important difference is that, unlike the tech funds, it is the Commission's primary mission to prevent manipulations. Not only should this explain why I will never stop pressuring the agency to end JPMorgan's and the CME's scam, it also points to the only practical course for any of us to take. Let me try and describe my outrage at the CFTC for failing to do their main job.

The mission of every form of government in the US is to provide for fairness, equality, a level playing field and protecting the citizens. There are laws against discrimination based upon every conceivable human difference, from age, to gender, to race, to religion, to culture and to physical ability. Although not defined in those terms, silver investors have the right to protection from discrimination,

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