

December 25, 2016 – Weekly Review

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Gold fell for the seventh straight week, but in a break in pattern, didn't set new intraweek lows and only finished \$1 down on the week. In contrast, silver ended the week a sharp 35 cents (2.2%) lower; pushing the silver/gold price ratio wider to nearly 72 to 1, the second week of 1.5 point widenings.

Silver is still within the same rough relative valuation it has been to gold over the past couple of years, meaning that no one over this time is much better or worse off for having switched from one to the other; but I remain convinced that we will look back in amazement one day and marvel at how cheap (and for how long) silver had become compared to gold. And how cheap it had gotten near this year's end on any basis.

There have been a number of price themes in gold and silver this year, culminating with highly dramatic election cycles in the UK and US; but in drilling down to what really moved prices, the message behind all price movements remained the same – COMEX futures contract positioning. And not only was this true in gold and silver, but was also the case in other markets, including crude oil, copper and sugar and, I would suspect, just about all other markets. Simply stated, speculative futures trading has come to set and control the price of everything in the investment and commodity world. Remarkably, the undeniable proof of my seemingly outlandish statement lies in the weekly data provided by the US Government in the form of the Commitments of Traders (COT) Report. I'll provide the proof (again) as this review progresses.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses remained somewhat subdued at 3.1 million oz this week (still more than 150 million oz annualized). Total COMEX silver inventories rose again by 1.5 million oz to 183.6 million oz, very close to previous inventory peaks seen from 2013 to 2015. Should those previous recent peaks be exceeded, one has to go back to the mid 1990's to find higher levels of COMEX silver inventories. I would also imagine, should COMEX silver inventories increase slightly from here, more will be written about the highest inventories in 20 years and what that portends for price.

I continue to believe that the message sent by the level of total COMEX silver inventories is mixed at best and the much more important message of frantic inventory turnover over the past six years has been vastly overlooked. Total COMEX silver inventories as well as all other documented inventories of silver in the form of industry standard 1000 oz bars, all things being equal, should be climbing. That's because, since 2006, the world has produced more silver than it has consumed; reversing a highly unusual deficit-consumption pattern of the preceding 65 years in which less silver existed in the world than the prior year.

The catch is that so much silver was taken from world inventories from 1940 to 2006, a cumulative total of more than 9 billion oz, that the half a billion oz added to existing inventories over the past 10 years is, quite literally, a drop in the bucket. In 1940, there were more than 10 billion oz of silver in the world; today less than 1.5 billion oz remain in the form of 1000 oz bars (and less than 1 billion oz of that can be documented).

Please step back and think about the world in 1940, in terms of population and economic activity and how much investment buying power existed then compared to today. Yet back then the world had nearly ten times the amount of silver than exists today. As way of comparison, also please remember that the situation is the opposite in gold, namely, that there is three times as much gold in the world today than there was 75 years ago. The simple explanation is that silver has been voraciously consumed industrially since then, while gold has not. Amazingly, even though the amount of gold in the world has tripled since 1940, while the amount of silver has declined by nearly 90%, the silver/gold price ratio is trading today around what it traded for back then. How is this possible? My answer is price manipulation and I would love to hear alternative explanations.

And while there were no reported changes in JPMorgan's COMEX silver warehouse this week, it is no coincidence that were one to deduct the holdings in the JPMorgan warehouse from total COMEX inventories, there would be only about 100 million oz in total COMEX inventories, which would be much closer to historical low levels. In other words, the reason COMEX silver inventories are close to 20 year highs is due to the growth in the JPMorgan warehouse since April 2011.

Speaking of JPMorgan, it looks like the bank has decided to curtail stopping (taking) additional large silver deliveries in the December futures contract, now that it is over the posted limit for deliveries. JPM has now taken 1533 silver deliveries so far, slightly more than the 1500 (7.5 million oz) supposedly allowed, all in its house or proprietary trading account. Of course, what would be ironclad rules for others are merely guidelines for JPMorgan.

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

A close perusal of the delivery data indicates that not only has JPMorgan taken more than the allowable amount of COMEX silver deliveries this month, on a net basis (deliveries stopped minus deliveries issued) JPM has taken 3.5 times more than the next largest stopper (Macquarie Futures). Prior to the start of this month's deliveries, I wondered out loud what JPMorgan would do this month, as I've done before every delivery month for the past several years. Now I wonder something very different, namely, why am I about the only one pointing to JPMorgan's massive accumulation of physical silver?

The most amazing thing of all is that I was pointing to JPMorgan's massive accumulation of silver even before the bank started taking COMEX silver deliveries a couple of years back. I had been pointing to JPM's accumulation of Silver Eagles and Maple Leafs, its involvement in skimming the physical turnover in COMEX inventories, its involvement in SLV conversions and in the growth of the JPM COMEX silver warehouse before the bank became the near exclusive stopper on futures contracts over the past two years. By stopping so many COMEX silver deliveries over the past two years (and subsequently moving most of that metal into its own COMEX warehouse), JPMorgan has eliminated any doubt that it has accumulated actual metal in historic proportions. That's because COMEX deliveries are the most transparent means of acquiring silver, due to the requirement that clearing firms disclose if they take and make deliveries in their own name or for customers.

Here's the most remarkable feature to JPMorgan's physical silver holdings in its COMEX warehouse. Not only is the metal in the JPMorgan silver warehouse three times larger than the next largest warehouses, the amount of metal there now approximates the entire net short position that JPMorgan holds in paper contracts. In other words, JPMorgan has now, effectively, covered completely any exposure it has on the short side of silver with its actual COMEX warehouse holdings alone. This makes all the other 450 million+ oz of actual metal the bank has acquired over the past nearly six years as "gravy". How much additional gravy in the form of actual silver JPMorgan seeks to acquire is anyone's guess; but based upon recent developments, the bank's appetite for physical silver has only grown stronger.

Let me jump to the changes in this week's COT Report, since these are the changes most important to price. While my contract expectations for the headline numbers in gold and silver came remarkably close to the reported changes, I was much more encouraged by the changes in what I considered to be the key features "what JPMorgan did in gold and silver and what the managed money traders did on the short side of silver. Again, there are no pats on the back or gold stars for predicting COT changes accurately; it's more a measure of whether the premise of market structure is correct or not. If one is consistently surprised by the reported changes that suggests something is missing.

In COMEX gold futures, the commercials reduced their total net short position by 15,900 contracts, to 134,000 contracts (I had predicted 10,000 to 15,000 contracts or more). This is the lowest (most bullish) commercial short position since February. By commercial category, the big 4 bought back 1900 shorts, the big 5 thru 8 bought back 1400 shorts and the raptors (the smaller commercials apart from the big 8) added a hefty 12,600 new longs. (The raptors are now net long by 30,200 contracts, also the most since February).

Let me stop here and say that what I just wrote is not entirely correct. Because the managed money traders added to shorts again (I'll get into details momentarily), it is certain that one or two of these managed money traders in COMEX gold futures have entered into the ranks of the big 8 and possibly one is in the big 4 category. Usually, the largest 4 and 8 traders in gold and silver on the short side are commercial traders. But there is nothing dictating that the big 4 and big 8 traders must be commercials; it has to do with the largest traders, whether they be commercial or non-commercial.

The net effect of there now being a managed money trader or two in the ranks of the big 8 and possibly even the big 4 in gold (not in silver), is that the true commercial concentrated short position is overstated by the amount of managed money shorting in the largest traders' categories. That is, the true net short position of the largest commercials in gold is even less than the raw numbers would indicate. In this case, it makes the market structure even more bullish than indicated.

Specifically, since what JPMorgan does in gold matters more than what any other single entity does, managed money traders entering into the ranks of the big 8 and big 4, necessarily overstates the level of JPM's gold shorts. As I've indicated, a key feature to me for recent COT reports has been what JPM does on the short side of gold and silver, with any signs that the biggest COMEX crook is reducing its short positions as the best news possible. This new COT report indicates just that and even more when one mines the data deeper.

On the sell side in COMEX gold, the managed money traders sold nearly 15,000 net contracts (nearly matching the commercial net buying), including the sale of 8562 long contracts and the new short sale of 6351 contracts. It kind of goes without saying that the managed money longs are now lower than any time since February and that their shorts are the highest since then as well, but let me say it anyway and point out that this is increasingly bullish.

In COMEX silver futures, the commercials reduced their total net short position by 7200 contracts to 73,900 contracts. (I had guessed a greater than 5400 contract reduction). While the commercial headline number in silver is mostly on the low side of where it has been since February, unlike the case in gold, it was lower than where it is now as recently as late October. Certainly, the current level of total commercial shorts in silver can hardly be considered bullish on historical measures. But on other measures, a different and more bullish picture emerges.

By commercial category, the big 4 (read JPMorgan) reduced their net short position by a very notable 2600 contracts and the raptors added 4500 new longs to a net long position now amounting to 10,600 contracts. The big 5 thru 8 rounded things off by covering 100 short contracts. Accordingly, I would now peg JPMorgan's COMEX silver net short position at 18,000 contracts, just about the lowest since January. Adjusting for this month's taking of 1500+ December deliveries (which mechanically increases JPMorgan's paper net short position), JPMorgan's effective net short position is even lower.

If there is one thing I focus on more than anything else it is JPMorgan's short position in COMEX silver futures, with the unmistakable conclusion that the lower the better. What makes the reduction in JPMorgan's short position this week so good for higher silver prices to come is that in addition to aggressively covering its short positions, this crooked bank has been acquiring physical silver at an equally aggressive pace. How could it not be bullish for coming silver prices when the most dominant and controlling player of all is buying hand over fist?

On the sell side of COMEX silver, the managed money traders didn't come close to matching up with the level of commercial buying, but at least they didn't add more shorts than I anticipated (or hoped). Managed money traders sold less than 2900 contracts, including the long liquidation of only 421 contracts and the new short sale of 2438 contracts. On Wednesday, I mentioned that even if the managed money traders added 2000 new shorts that would only bring them back to levels they held on Nov 8. For all intents and purposes, that's what occurred and the managed money traders are holding a short position within 300 contracts of what they held back then Â? despite silver falling by more than \$3 or more than 15% over that time.

Considering the price action of the reporting week published on Friday, in which silver fell by more than a dollar, in addition to the lack of a bigger increase in managed money shorting, I'm also struck by the very small amount of managed money long liquidation. Let's face it, with silver prices plunging to nine month lows during the reporting week, any technically-motivated trader should be selling out every long and establishing maximum short positions. Essentially, this did largely occur in gold but hardly at all in silver.

Please don't misunderstand me – I find the market structure changes to be bullish in gold, along the same lines I have always viewed the market structure premise, namely, when the managed money traders abandon the long side and embrace the short side, it is only a matter of time before prices move higher. By that measure, I believe we are there or almost there in gold. But the picture in silver is radically different this time and although it might sound like I'm overlooking a bearish setup, I don't think that's the case.

Apart from the extraordinarily bullish actions of JPMorgan in aggressively buying back paper shorts and adding to physical silver positions, the actions of the managed money traders in silver have been nothing short of extraordinary from Nov 8 to this point. I pick that date, Election Day in the US, because it served as a touchstone for most markets. Since then, many markets, including stocks and bonds and currencies and precious metals have been on a tear, some way up, others – like gold and silver – way down. At least in gold and silver, the big declines in price since then (as much as \$200 in gold and more than \$3 in silver) have been accompanied by mostly normal and expected changes in managed money/commercial positioning.

For instance, in COMEX gold since Nov 8, on the near \$200 price decline, more than 110,000 net commercial contracts were bought and 120,000 managed money contracts have been sold. This has always been the case on big price moves in gold and silver. When prices rise, managed money traders buy (pushing prices higher) and commercials sell (in a manner not to prevent, but to control price rallies). When prices fall, managed money traders sell (pushing prices lower) and commercials buy (but not in a manner to prevent prices from falling). Whenever the managed money traders are done buying or selling, prices reverse. This is the way of the world and reality, and even though more observers than ever recognize this reality, for some unknown reason, not that many identify the process as being artificial and manipulative (since it has nothing to do with changes in actual supply and demand). I suppose it's a matter of this occurring for so long that it somehow looks legitimate.

On the price decline of more than \$3 in silver since Nov 8, there was managed money selling and commercial buying, to be sure, but not to the extent and in the same manner typically seen. In sharp contrast to the large numbers in gold (above), only 13,000 net contracts were sold by the managed money traders and an even fewer 8400 net contracts were bought by the commercials on a silver price decline every bit as steep as the decline in gold. Furthermore, of the 8400 commercial contracts bought in silver since Nov 8, JPMorgan has accounted for 6000 contracts, or more than 70% of all commercial contracts bought.

But the standout feature in silver since Nov 8 was that all the selling by the managed money traders was of the long liquidation variety with virtually no new short selling, a new pattern I detected a month or so ago. It's not that the long liquidation by the managed money traders was heavy, because that is definitely not the case. In fact, with roughly 59,000 contracts still held long by managed money traders and with prices down by \$3 since Nov 8, it appears that we are down to a core non-technical fund managed money long position unlikely to be substantially liquidated further from here. But the real story is not about how few managed money long positions have been or are yet to be liquidated on still lower prices, but rather that no new short positions have been added over six full reporting weeks.

I would also point out that the number of traders on the short side of the managed money traders category, even though the overall short position has changed little, has actually increased notably; from 17 on Nov 8 to 24 in the most recent report. What this tells me is that a number of larger managed money technical funds have decided to forgo selling silver short in a price hole this time around. I can think of many reasons why this decision would be made, but know of no way to isolate or certify the decision-making process of a few large technical funds.

What I do know, first on the negative side, is if the managed money traders which haven't sold out longs or added to shorts to date decide to do so from here and in force, then silver is headed lower in price. The positive side is if they don't sell from here, it's nearly impossible for me to imagine where the actual selling pressure would come from to drive prices lower. And the question I ask myself constantly is if they haven't sold by this point, why in the world would they do so now?

I know why the commercials are continuing to set prices lower, namely, to chum the waters in the hopes of inducing whatever managed money selling still might remain or to induce selling from other speculators. That's what the crooked COMEX commercials do for a living. But the commercials chum the waters and throw out bait until there are no fish remaining to bite and get reeled in.

Even though this whole process is a private contest between the managed money traders and the commercials on the COMEX, that's not to say that it doesn't have serious consequences for those not willingly connected to the crooked price game on the COMEX. Every silver investor or silver miner is drawn into this game because this is the game that sets the price. That's what makes the artificial price manipulation indefensible — like it or not, we're all subjected to the crooked price setting on the COMEX.

The good news is that this cycle to the downside looks played out. I know, as well as you or anyone, just how painful the last dollar, fifty cents or even the last dime down feels. I don't make the rules, that's just the way it is. By definition, price bottoms feel rotten; for price tops, the feeling is mostly of euphoria. The trick is to focus on the facts and not the feelings. If the managed money traders have exhausted their selling, as I believe they have, it shouldn't be long before prices turn substantially higher.