December 28, 2013 – Weekly Review/Right yet Wrong

Weekly Review

In thin holiday trading, the precious metals broke with recent price patterns and finished higher for the week. Gold rose by $10 (0.8%) for the week and silver added 65 cents (3.3%). Not forgetting that prices are set on the COMEX at will by the commercials (JPMorgan) and that it is generally a fool's game to rely on short term price patterns; it is somewhat noteworthy that this week's close in silver was the highest in six weeks.

True, we are still scraping around the bottom of the price barrel of the worst year in precious metals practical history and investor sentiment has rarely been more negative and fearful. Certainly, it wouldn't take much of a price sell-off to put us at fresh lows and as far as I can determine new lows are still widely expected by most, particularly after the prior week's price drubbing. However, market history dictates important price bottoms are made under precisely the kind of price action and investor sentiment presently in place in gold and silver.

Silver's relative outperformance to gold this week resulted in another full point and a half tightening in the silver/gold price ratio to 60.5 to 1. This ratio is still stuck in the same tight trading range of the past two years, which when you think about it, makes little sense considering how different gold and silver are in many ways. The prime common denominator between the two is the price control emanating from JPMorgan and the COMEX. When, not if, the price control of the COMEX ends, silver will vastly outperform gold in a manner few can contemplate currently.

That is not to say that the price control of the COMEX is slipping in any way. In fact, that control is stronger than ever, despite reports of the growing influence of foreign exchanges, particularly in Asia. Demand for physical metal from China and elsewhere will, of course, influence long term supply/demand considerations, but I see no foreign exchange threatening the COMEX's control on price. This is not negative at this time, as I hope to show in a moment, because the market structure on the COMEX is one of the prime reasons to expect higher gold and silver prices. If the COMEX does lose control, let it be when the market structure is bearish.

Turnover in the inventories of the COMEX-approved silver warehouses cooled sharply this week due the Christmas holiday, but movement still approximated close to 3 million ounces, an amount that would have been considered huge prior to April 2011 (which is how long the outsized turnover has existed). Total inventories were up 200,000 oz to 173.2 million oz. I still hold that the movement contains the real message and that message is tightness.

There were continued withdrawals from the big gold ETF, GLD, this week and the withdrawals spread to the big silver ETF, SLV. Close to 6 million ounces were liquidated or redeemed from SLV over the past few days. The first 4.2 million oz withdrawal, announced Christmas Eve, could have been related to the heavy selling on the prior Thursday when new price lows were recorded, but that would have been a delay even unusual for the late-reporting SLV. Yesterday's 1.6 million oz withdrawal looks completely unrelated to price action and trading volume. As such, it would be a mistake to term the withdrawal as bearish.

There is some mystery around precious metals ETF deposits and withdrawals. Perhaps the latest declines in GLD and SLV are tax related, inasmuch as these are among the very few investments to have recorded losses this year against a backdrop of almost universal gains elsewhere. (Tax-related selling doesn't figure into the core of gold and silver pricing on the COMEX, as all futures positions are marked to market at year's end, whether sold or not).

There is also the matter of rebalancing in many commodity index funds that can impact deposits and withdrawals. Some years back, there was a 20 million oz withdrawal one day and deposit the next day in SLV at the turnoff the year. But logic would seem to indicate any rebalancing by index funds would result in deposits in the New Year for much the same reason I wrote of my astonishment with how much more silver my wife had purchased with the same sized annual contribution in a retirement account.

Two things determine the weighting of the various commodities in index-type holdings; the percentage weighting of the formula and the current price of the commodity in question. As you can see, the formula for 2014 calls for close to the same percentage weightings for gold and silver this year compared to last year (look at table 2)
http://www.mondovisione.com/_assets/files/SP-GSCI-2014-CPW-Index-Announcement.pdf

Where it would seem reasonable to expect deposits in the New Year would be in considering how much more metal could be bought with the same dollar amount as last year. Gold is down $450 (27%) from the $1650 it closed at a year ago. Silver is down $10 (33%) from the $30 close of last year. A different way of looking at this same data is to compare what amount of ounces of each could be purchased with the same dollar amount this year compared to a year ago. Let me give you the results Â? in gold, you can buy 37% more ounces for the same dollar amount as last year. In silver, you can buy 50% more metal today than you could last year at this time. The attraction in buying that much more gold is obvious, but the attraction is much greater in silver.

The latest withdrawals in SLV put us down 2 million oz for the year (thru Friday) a bit less than 1% from where holdings stood a year ago. The standout is still how much metal was lost in GLD, where more than 17.5 million oz, or 41%, was liquidated this year. The real baffler was why so much gold was liquidated from GLD relative to silver being liquidated from SLV, despite silver prices being weaker. Conspiracy theories aside, the most plausible explanation was that silver investors were more inclined to hold because they held silver for different reasons than investors held gold. Considering that willingness to hold and the much greater affordability of silver given the low price, the prospect of long term outperformance of silver over gold seems strengthened.

The short interest statistics released mid-week indicated a jump in the short positions in SLV and GLD, as of the December 13 cut-off. In SLV, the short position jumped by almost 2 million shares (oz) to just under 20.4 million shares, or more than 6.1% of total shares outstanding. In GLD, the short position jumped 1.5 million shares to just over 23.2 million shares (2.3 million oz), or 8.7% of total shares outstanding.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

It's usually never good news when the short position increases in SLV and GLD, particularly when such a large percentage of total shares outstanding is held short. I started ranting about the short position in SLV years ago depriving other shareholders from the promise of the prospectus that a specific amount of metal was deposited for each share outstanding. Short sales undermine that promise. I still feel that way (and continue to hold SLV). As fraudulent as I believe short selling in hard metal ETFs still is, it is not my prime concern at this time. Please allow me to explain.

In years past, the extreme peaks in the short position in SLV coincided with price peaks, unlike today. For one thing, the level of short sales in SLV had been much larger in the past (36 million in 2011 and 50 million in 2008) than currently. More importantly, the short sellers appear to be different as well as their motives. In the past it was the concentrated short sellers on the COMEX (JPMorgan) who were the big SLV short sellers and the reason they sold short was because the physical metal wasn't available for purchase. It was a double scam or fraud Â? selling short to contain the price and because no physical metal could be procured and deposited (as required by the prospectus). Until this year, I don't remember the short position in GLD being as problematic as it is currently.

Based upon the current market structure on the COMEX and how that structure has evolved over this year, the standout feature is that the commercials and especially JPMorgan, the prime price manipulator, have been massive buyers in COMEX silver and gold. A year ago, JPMorgan was short more than 35,000 contracts of COMEX silver; today, JPM is short close to 12,000 contracts, a reduction of 23,000 contracts (115 million oz) in the bank's silver short position.

At this time last year, JPMorgan was short 75,000 contracts of COMEX gold futures; today this crooked bank is long close to the same amount Â? a net purchase of 150,000 COMEX gold contracts or 15 million oz in one year. This is the single most remarkable position change in history; never before had a short market corner been flipped to a long market corner. In addition, JPMorgan has vacuumed up almost every COMEX gold delivery this month and in August adding almost 10,000 contracts (one million oz) of physical gold to their COMEX futures market corner.

My point is that with the massive amount of silver and gold buying on the COMEX this year by JPMorgan (in their proprietary trading account, no less), it doesn't seem logical that JPMorgan would be the prime short seller in SLV and GLD at this time. In the past, JPMorgan was simultaneously the big short on the COMEX and in SLV. Today, the new short sellers on the COMEX in gold and silver have been the technical funds. I don't think the technical funds are short SLV and GLD (because these funds stick to futures contract trading), but I do believe other price momentum traders are behind the short selling in SLV and GLD and not JPMorgan. Let's face it Â? gold and silver are the two items down consistently this year and that price pattern makes them the logical candidates for short sale by technical traders away from technical fund traders operating in futures (commonly referred to as CTA's Â? commodity trading advisors).

If my hunch is correct and the short sellers in SLV and GLD are plain vanilla stock traders attracted by the falling price (and JPMorgan is not the big short seller), then the large short positions take on a bullish perspective. That's because JPMorgan has been and will most likely be in the future, the sole determinant of gold and silver prices. Since JPMorgan's long gold market corner and sharply reduced silver short position on the COMEX are much more significant to them than any short position the bank could possibly hold in SLV or GLD, it makes more sense to focus on the COMEX than on the short position in ETFs. To my mind, when the crooks at JPMorgan decide it's time to go uptown in gold and silver prices, we will go uptown. If the shorts in GLD and SLV are unrelated to JPM (as I suspect), the ride uptown will be that much faster as those unrelated shorts rush to cover.

So Right and Yet So Wrong

I hadn't planned on writing about it, but it would be wrong not to. Last week, Gary Gensler gave his farewell speech to the CFTC, after five and a half years as chairman of the agency.
http://www.cftc.gov/PressRoom/SpeechesTestimony/opagensler-155

I remember clearly my take on Gensler from his first few actions and speeches in the summer of 2009. To say I was impressed would be an understatement; to say I was overwhelmed wouldn't be an overstatement. From the get go, I labeled him as the greatest chairman in agency history. To this day, my standout recollection was watching him speak at an open meeting on position limits on the Internet when my wife passed by and in hearing what Gensler was saying, remarked to me, Â?Is that what you mean by people plagiarizing your thoughts?Â? I told her that he was the new head of agency and he could steal my stuff all day, every day.

Until the end, Gensler spoke and acted about the need for position limits and to guard against concentrated market positions in a manner that appeared to borrow extensively from my prior pleadings to the same agency for more than two decades. Not only that, Gensler far exceeded anyone's expectations for the role he played in opposing the big banks and in ushering in Dodd-Frank. In almost every respect, Gary Gensler fulfilled his early promise of service to the American people and deserves to be classified as the greatest chairman ever. Since I was so alone in my early praise of the man, it was one of my greatest predictions.

It was also one of my widest misses, as Gensler sat by for his entire tenure and did nothing about the ongoing crime of manipulation in COMEX silver (and also in gold). It was on his watch that the greatest extremes in silver wrongdoing were witnessed and more damage accrued to ordinary investors because of Gensler's refusal to apply the rule of law. There were two separate 30%+ silver price takedowns within days in 2011 due to nothing but COMEX price-rigging that the CFTC never even acknowledged, even though the agency was supposedly conducting a formal investigation. And when that investigation was closed earlier this year after five full years, the agency couldn't even address JPMorgan's 30% market corner on the short side, which was why the investigation was initiated.

So what am I saying? I'm saying Gensler was no doubt the best chairman ever, but he also failed the American people spectacularly by refusing to deal with the silver (and now gold) manipulation. Therein lies the defining issue of the day; the one issue that dominates all my thinking. I was clear all along Â? I knew that the agency would be reluctant to tackle the silver manipulation, seeing how they denied it for 20 years; but if they applied position limits and the Volcker Rule in an even manner, the agency would end the silver manipulation regardless. That's where I was wrong, as subsequent silver price events proved repeatedly.

But I'm not walking down Memory Lane for old times' sake; I'm just trying to analyze the facts and come to a logical conclusion. On paper, the new commodity regulations represent a sea change and are not to the big banks' benefit. On the other hand, away from gold and silver, it is hard to see what markets would be immediately impacted by the new regulations. In other words, it is good to pass regulations that won't have an immediate impact on most markets; but it is very bad to pass new regulations that ignore a crime in progress. Yet, that's what Gensler and the CFTC have done Â? passed sound new regulations, while allowing silver and gold to continue to be manipulated by JPMorgan.

I've always maintained that Gensler was the smartest guy in almost any room. Therefore, once explained to him, he knew for sure that silver and gold were manipulated in the manner I've explained. That he knew and did not react against the manipulation could leave only one explanation Â? that he and the agency were ordered or persuaded not to intervene. Please remember, Gensler and the agency may not have needed intense persuasion as any announcement of a crack down on the silver manipulation would have raised the question of where the heck was the agency over the past twenty years.

Still, the prime takeaway is that the CFTC will never do anything about the silver manipulation, due to their own potential embarrassment or because of orders from above. If it was due to an order from above, what did that order emanate from? I know many contend that the US Government has been behind the silver manipulation for the last 30 years (to save the dollar or the economy), but that never seemed plausible to me given how governments actually perform (especially after viewing the recent health care roll out). Much more plausible is the suggestion that JPMorgan was given a get out of jail card for assuming Bear Stearns' big silver and gold short positions in 2008.

Let's face it – something has prevented the CFTC and Gensler from applying the rule of law for the past five and a half years in silver and gold. There is no other explanation plausible enough to take serious. I couldn't have known this at the outset of Gensler's tenure; but it is not possible to deny it today. So let's get past it – the CFTC is not about to take on the crooks at JPMorgan. Does that mean that JPMorgan will continue to manipulate the price of silver (and gold) indefinitely?

I can understand how someone could see that JPMorgan now has a green light for manipulation without end, but that's not the way I see it. Appealing to the CFTC about the manipulation was always a worthwhile endeavor but I never represented that as the only or sure way. What I did represent is that the silver manipulation would be resolved by events in the physical market; specifically by a shortage in the wholesale market. I also maintained that would be visible only in hindsight and, in fact, the evidence of a developing shortage in April 2011 was only visible afterwards. That will most likely be the case in the future.

So if I can't pinpoint a physical silver shortage in advance, what can I point out that suggests JPMorgan won't manipulate the price of silver for as far as the eye can see? For one thing, JPMorgan is, in the whole, run by some very smart people, the best that money can buy. I also think this bank is crooked in many ways, but smart and crooked are not necessarily mutually exclusive.

In addition, JPMorgan is well aware that they are at the center of the allegations of silver and gold manipulation and banks are not accustomed to being labeled as crooks and market manipulators. A smart bank, even if it is crooked, is not inclined to persist in an illegal activity indefinitely, particularly if the illegal activity is gaining attention. It seems reasonable that JPMorgan would want to wash their hands of this silver and gold manipulation business rather than embrace and expand it.

But more than what JPMorgan may or may not do in the future is what they are doing today. I remember this was at the heart of one of the few disagreements I had with Izzy Friedman, my silver mentor and now missing friend. Izzy always contended that the big silver short would get trapped and over run when it had a full short position on (the full pants down theory). I always leaned to the big manipulator stepping aside and letting prices run higher when that entity held the smallest silver short position possible.

JPMorgan now holds the smallest silver short position it has held over the past six years. In addition the bank has also been taking notable amounts of silver deliveries recently on the COMEX and, I believe, metal from the SLV by converting shares to metal before it hits stock reporting levels. Most importantly and as I have been pointing out since earlier in the year, JPMorgan has acquired a long market corner in COMEX gold and very significant quantities of actual gold, both in COMEX deliveries and from the withdrawals from GLD.

I view the long market corner in COMEX gold futures and the massive amounts of physical gold held by JPMorgan as being part of a Â?paired tradeÂ? against what remains of their sharply reduced silver short position. I think this is how JPMorgan looks at it. Never in the history of the silver manipulation has the big silver short manipulator been in a more favorable position than JPMorgan is today to call it quits and end the manipulation. Considering the large size of the long gold position against the small size of the silver short position, this is a paired trade that could end up making JPMorgan a serious profit, even if silver climbs to the heavens.

Yes, it is possible, given how close we are to the lows of the year that more salami slicing to the downside, designed to generate more technical fund short selling, could be seen. But it is just as possible that the salami slicing is over with. More than possible is that JPMorgan will look, at some point, to feather their own nest with an explosion in gold and silver prices, given how they are currently positioned. That's what smart crooks do.

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