December 8, 2012 – Weekly Review

Weekly Review

Gold and silver fell for the second consecutive week, although the losses were moderate. Gold ended down $10 (0.5%), while silver fell 40 cents (1.2%) for the week. The silver/gold ratio widened out by a slight amount, sticking around the same 51.5 to 1 ratio of the past few weeks. Time permitting, I may come back to the relative value of gold compared to silver later, but silver still looks undervalued relative to gold by a wide margin on a long term basis.

I'll get to some important (and surprising) changes in the new Commitment of Traders Report (COT), but let me stick to the usual weekly format. There was a large increase of nearly 4 million oz this week in the total stockpiles of metal in the COMEX-licensed silver warehouses, to just over 146.5 million oz. Since there were some notable withdrawals this week as well, the frantic turnover or movement in these silver inventories continues unabated. It's not unusual to see increases in COMEX silver stockpiles coincident with the start of important delivery periods, such as the December COMEX futures delivery month, as supplies are often physically transferred in to satisfy demands from those seeking delivery on futures contracts. It also supports my contention that wholesale silver inventories are tight and the metal already in the COMEX warehouses is not readily available for delivery at current prices, requiring new metal to be deposited. Four million oz is the equivalent of 800 COMEX silver futures contracts and over 2100 silver contracts have been delivered during the first delivery week of the December contract.

I still maintain that the total level of COMEX silver inventories is much less important than the turnover between the individual warehouses. Many silver bulls still cringe at increases in silver inventories and delight in reductions. I can understand this popular sentiment, particularly since so many expect a physical silver shortage at some point. But the sentiment, while seemingly intuitive, is misplaced in my opinion. Maybe the coming silver shortage will be accompanied by steady reductions in total visible world inventories, but that is not necessarily the way it must be. Around six years ago, for the first time in more than six decades, the world stopped depleting world silver inventories by consuming more silver than was being produced. Instead, small increases in total world silver inventories began to appear for the first time since World War II. Many silver investors were horrified that the silver Â?deficitÂ? had ended, some even to this day.

Admittedly, the documented industrial consumption deficit in silver was the single most bullish factor in silver while it existed and I can understand the knee-jerk negative reaction to its end. But, as I wrote at the time, world silver inventories had been depleted for so long (70 years) and so completely (by more than 90%) that the silver consumption deficit had to end at some point since there was a physical limit to any inventory depletion. By the time that the silver consumption deficit came to an end (around 2006), world silver inventories could go no lower and the process of silver inventories beginning to grow would have little negative impact on the price. At least, that was my contention. And when you compare the subsequent dramatic rise in the price of silver from the point the silver Â?deficitÂ? ended, my contention was validated.

At the center of my contention was the prediction that silver would begin to experience a net investment boom that would easily absorb any increase in world silver inventories. I believe we are still only in the early stages of that silver investment boom and, as the real facts in silver become more widely known, investment will be further stimulated. Please remember that silver is incredibly unique in that it is a vital industrial commodity and a prime investment element. That combination is a killer. There is still substantial industrial and total fabrication demand in silver, so that roughly Â?onlyÂ? 100 million oz of silver are Â?left overÂ? and available for investment by the world at large annually after total fabrication demands are met. At current prices, it takes less than $3.5 billion to absorb the amount of silver left over and available for investment annually. Compare that to gold, where it takes more than $135 billion, or almost 40 times more money to absorb the 80 million oz of gold produced annually.

If rising world inventories was the prime argument against a price increase, then that argument holds no sway in gold, as world gold inventories have increased every year for thousands of consecutive years with no discernible impact on price. That's because gold is a prime investment asset, as is silver. No one ever says gold can't go higher in price because the world has more of it each day. That same principle applies to silver as well, only in spades. That's because the world depleted silver inventories in a shocking manner over 70 years, where gold inventories only grew. The point of all this is to try to demonstrate that we should expect total world visible inventories of silver to grow, just like gold inventories should be expected to grow. Don't pay attention to rising total COMEX silver inventories; pay attention to the turnover. That inventory turnover exists only in silver, not in gold or in the industrial metals and that's what makes the silver supply situation look tight to me.

A quick word on Silver and Gold Eagle sales from the US Mint. We're off to a decent start for the month of December for both silver and gold and Silver Eagles have been strong all year (although off last year's blowout record sales). The big recent news was the sudden surge in Gold Eagle sales at the end of November and into December. Many commentators have pointed to the surge in Gold Eagle sales as evidence of a widespread retail rush to buy gold. Yet I can find no convincing corroborating evidence of a wide surge in the retail buying of gold and it looks to me like a single and perhaps foreign buyer was behind the pickup in Gold Eagle sales. Maybe that buying will continue, maybe not; but at this time I am suspicious of reports declaring a wide rush to buy gold by the man in the street.

On to the COT report for this week. As a preface, I do try to present the important yet complicated data in the COTs in as simple a manner as possible, as I know the data are hard to follow for many. Sometimes, it is unavoidable that important data are complicated. This week, my task is more difficult, as the CFTC made some unusual and significant revisions to the holiday-delayed COT of November 27, a day or two after that report was published this past Monday (and my COT Update). Therefore, for those who do try to follow the data closely, the later revisions by the CFTC complicate the matter. In a nutshell, the total commercial net short positions in COMEX gold and silver in the prior report were revised to be larger than originally published. Fortunately, all the important concentration data (JPMorgan's short silver position) were reported correctly in the original unrevised report.

In gold, we got the dramatic reduction in the headline total commercial net short position as expected by virtue of the price declines during the new reporting week below important moving averages. The gold commercials bought back a very significant 41,100 contracts, reducing their total net short position to 217,600 contracts. This is the lowest commercial gold short position since the COT report of November 6, which in turn was a multi-month low figure and which set the stage for an $80 rally in the gold price afterwards.

All three commercial categories participated in the gold short contract buyback, in the same collusive manner that these commercials established these shorts in the first place. The big 4 bought back almost 12,000 contracts, the 5 thru 8 large traders bought back around 10,000 and the gold raptors bought back nearly 20,000 contracts, reducing the raptors' net short position to 24,300 contracts. The revised prior COT report indicated that the gold raptor short position had grown to 43,000 contracts and not the 36,000 contract short position I originally reported. Therefore, I was even more surprised than I originally indicated by how aggressive the gold raptors were in adding new short contracts.

Clearly, I was not surprised with the massive commercial gold short covering as this is the manner by which gold prices are determined. The commercial lure the technical funds in by allowing prices to rise and selling short as the tech funds buy and at a time pre-determined by the commercials, they then rig prices lower to induce tech fund selling so that the commercials can buy back their shorted contracts at a profit. Means, method and opportunity. I would say that only the CFTC can't seem to see this, but even that is not possible any longer. The CFTC can see it for sure; they just look the other way, to their everlasting shame.

There probably was some further reduction in the total commercial net short position in gold after the Tuesday cut-off and we have now swung to be close to neutral in the gold COT structure, from bearish. What that means is that we could go either way in price; further down would strengthen the COT structure further, yet there is now room for a rally. The only way to know for sure would be to read the collusive commercials' minds. I don't know how to do that.

In silver, it was a much different story than occurred in gold. Despite a high volume sell-off during the reporting week which violated some moving averages to the downside, there was no real net reduction in the total commercial short position, as the commercials are short more than they were two weeks ago after last week's revision is factored in. The unusual revision of the prior report also undermined my speculation of an intense competition by the silver raptors (the smaller commercials apart from the big 8) and JPMorgan. Like in gold, the main feature of the CFTC's revision on December 5 was, effectively, to alter the raptors positions in each market. Simply put, the raptors hadn't bought the 1800 contracts the CFTC originally reported and had, in fact, sold 700 long contracts in the prior report. Analyzing the COT is difficult enough when the data are accurate; nearly impossible with incorrect data.

Assuming the current data is accurate, the total commercial net short position is now 58,500 contracts. Aside from the slightly higher revised figure of the prior week, this is the largest commercial net short position in COMEX silver in two years. The concentrated short position of the four largest traders, at 54,000 contracts, while down from last week, is the largest in two and a half years. The raptors are net long 6400 contracts. While the raptors didn't provide the unusual buying competition to JPMorgan indicated originally, history suggests they will on lower prices.

The standout feature to the current silver COT is the lack of selling on the part of the tech funds. Whereas in gold, the tech funds sold massive numbers of contracts in the current reporting week, in silver they sold none. This raises the questions of why and what comes next? Perhaps the tech funds didn't sell in silver because the penetration of the moving averages wasn't as deep as it was in gold. This implies that these tech funds in silver will still sell on lower prices. Conversely, perhaps there is something different this time about the tech funds' approach to silver, maybe meaning they finally wised up to the commercials crooked games. I don't hold much hope that the tech funds finally wised up, but a genuine silver shortage could be an over-ride to tech fund gullibility. Let's face it, without tech fund selling to the downside, there will be no commercial buying, either by JPMorgan or the raptors. In fact, while I am describing what the tech funds will do as determining the short term direction of silver prices, we must look elsewhere to determine who will truly dictate the price of silver. The tech funds are merely the puppets in this game; it will be the puppet master, JPMorgan, who will be pulling the price strings.

According to the current weekly COT and the companion monthly Bank Participation Report, I'd estimate JPMorgan's concentrated COMEX silver short position to be 36,500 contracts, down 1500 contracts from last week's multi-year high of 38,000 contracts. JPM's manipulative short position is the equivalent of 182.5 million oz, still a grotesque 24% of world annual mine production and 34.5% of total net COMEX open interest (ex spreads). Such an extreme circumstance has never been witnessed in any other commodity. I would call on the CFTC, the CME and JPMorgan to refute that assertion. (I would also call on them to complete the silver investigation, end the silver manipulation and get their heads out of their butts).

Straight upfront, I admit it sounds preposterous to suggest that JPMorgan might be stuck and trapped in their massive concentrated COMEX silver short position. After all, the bank is the one true master of the derivates universe, being the largest derivatives trader of all. Even more preposterous is the circumstance that the bank has remained silent against continuing allegations that their massive short position constitutes price manipulation. But no matter how outlandish the suggestions may seem, an objective assessment of the facts point to JPMorgan being up to its neck in the criminal manipulation of the silver market. The only question is the outcome.

A man should be aware of his limitations. I know that I don't equal to being a flea on the flea that sits on the elephant when that elephant is JPMorgan. But I don't have to be because it's not between me and JPMorgan; it's between JPMorgan and the law, both the law of the land and the law of supply and demand. That is the great equalizer. I admit to a certain trepidation in consistently referring to JPMorgan (and the CME) as being crooked in their silver dealings. It is not something I'm accustomed to doing (save for the last few years) or something I am sure is free from unwelcome blowback. But US commodity law and the previous administration of that law holds that what JPMorgan is doing in silver as being against the law. It is impossible to hold such a massively concentrated position and market share as JPM's and not be manipulating the price. That's why everyone (JPM, CFTC and the CME) not dare say anything about silver. They all know it is wrong for such a concentrated position to exist and any attempt to defend it will not hold up to scrutiny. Better to look away and ignore the ongoing crime in progress than in getting sucked into debating it. In other words, it doesn't matter if we are all fleas on the elephant; at some point JPM, the CFTC and the CME will be subject to either the law or the law of supply and demand, or both.

I am still amazed how widespread is becoming the awareness that the price of silver has been manipulated by JPMorgan. I'm a big believer in the recognition of a problem being half the solution to solving the problem. The problem (and investment potential) in silver is JPMorgan's super-concentrated short position on the COMEX. The disposition of this concentrated position will determine the price. If they are able, the crooks at JPMorgan will rig prices lower to induce tech fund selling. If JPMorgan is not capable of inducing a crooked sell-off, then it will get resolved to the upside, possibly including a termination of COMEX silver trading as discussed recently.

My main point is that JPM's concentrated short position is the central issue in silver. The central issue is not the jobs report, the fiscal cliff, the fate of the dollar, the charts, sun spots, the end of the world or even the price of gold. While I'm glad more are aware of and talking about the silver manipulation than ever before, it is important for the case to be stated correctly. To assert that silver is manipulated by things other than JPM's concentrated COMEX short position, like lease rates, the LBMA, SLV (unless thru means of a share short position), central banks or any other reason is counterproductive. If JPMorgan's concentrated short position did not exist, the silver manipulation would not exist. I think the quicker everyone sees this, the quicker the manipulation will end.

Ted Butler

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Silver – $33.10

Gold – $1705

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