

## February 13, 2016 – Weekly Review

### Weekly Review

Precious metals prices surged higher again this week, with gold recording its best weekly and daily gain (on Thursday) in years. For the week gold ended \$65 (5.5%) higher, while silver added another 75 cents (5.2%). As a result of gold's relative percentage outperformance, the silver/gold price ratio widened out to 78.6 to 1, still at the top end of a tight trading range extending back more than a year.

I continue to be amazed by how much stronger gold's rally has felt than has silver's (or any other metal), than has been reflected in the price ratio. Over the first six weeks of the New Year gold is up \$178 (16.8%) and silver is higher by \$1.91 (13.8%). If you told me six weeks ago that gold was about to surge higher by as much as \$200 (which it has) and asked me how silver would perform, I would have thrown out a gain of \$4 or \$5 as a conservative guess – I wouldn't have guessed less than two dollars.

But after reviewing all the data that have accompanied the price rise, I am less surprised by silver's relative underperformance and even more convinced of its long term outperformance to come. I'll get into the data throughout this review, but let me point out that despite silver's anemic relative performance to gold on this rally, there have been no great losses being suffered by those who switched gold positions to silver. Being higher by any amount has been much better than being down substantially in the world stock markets this year.

It's quite possible for silver to continue to underperform relative to gold in the short term, but much more probable for it to outperform gold longer term given all the facts. A switch from gold to silver is not a high risk trade. It is ideal for long term gold investors who were intending to hold metal anyway – just convert a portion of gold holdings to silver to enhance future performance without assuming excessive risk. Historically and prospectively, when silver goes, it goes like nothing else. The best time to make a switch is before silver goes.

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There are two principle forces behind gold's price rise this year — the customary buying force of COMEX positioning by the technical funds and commercials and the non-customary (at least for a while) buying force of physical metal, as reflected in the deposits of metal in the big gold ETF, GLD. While silver's rally has been driven mostly by COMEX futures positioning and not ETF buying, it's possible physical investment buying might be emerging. Running through the usual weekly format should help touch on these and other data points.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses remained white hot this week, thanks to a large 4.5 million oz movement on Friday. For the week, 9.4 million oz were physically moved, as total COMEX inventories rose 2.1 million oz to 157.9 million oz. Nearly 42 million ounces of silver have been physically brought into or taken out from six (of eight) COMEX warehouses over the past 5 weeks, or more than half of all the silver mined in the world over that time.

I admit that I obsess on this physical turnover issue, probably because I see a connection with it to the final physical resolution for the price. But at the very least, it is a phenomenon unique to silver and on that basis, it is extraordinary how rarely it is commented on. Regardless, if an inventoried item was physically turning over from one warehouse more than any other item, it would be reasonable to assume that item was in great demand. If that same inventoried item was physically turning over from six different warehouses, wouldn't that represent extraordinary demand? I say it would and still solicit alternative explanations.

The COMEX silver warehouse data this week also helped close an open question concerning the final movement of metal into the JPMorgan warehouse for silver the bank took delivery of in the December COMEX futures delivery process. JPM — stopped — 7 million oz of silver back in December, but never moved what I estimated was the last 2 to 3 million oz into its own COMEX warehouse. In the prior week, JPM moved 0.6 million oz into its own warehouse (which I never reported) and this week, 1.8 million oz more. There may be more silver coming into JPMorgan's warehouse, but my calculations seem close enough to call the bank's pattern of moving all the silver it took delivery of on COMEX futures contracts into its own warehouse complete. All told over the past year, around 28 million oz of silver were taken by JPM in COMEX deliveries and moved to its own warehouse. I would contend this is a small portion of the physical silver acquired by JPMorgan over the past five years, albeit the most visible.

There are still around 700 contracts open in the February COMEX gold contract, the equivalent of 70,000 oz of gold and it would be hard to imagine a delivery problem at this point. However, that's not to say that the physical market in gold doesn't continue to look tight. It's important to remember that the futures market is not the usual venue for physical transactions, as the vast majority of participants are not interested in making or taking physical delivery. They are interested in trading price changes.

However, should wholesale physical quantities of gold or silver become unavailable through normal channels, then a rush towards buying futures contracts for the express purpose of securing physical delivery could emerge. I see this pattern occurring more likely in silver given its vast industrial usage than in gold, but my point is that it would be a sudden development rather than one we could see clearly beforehand. The one thing the exchanges and the regulators keep close track of is potential delivery congestion or short squeezes in a delivery month. All large positions held into a delivery month are always queried by the regulators as to their delivery intentions. There is no way a large futures position that threatens to disrupt the delivery process would go unaddressed for long.

But if a rush for buying futures contracts for physical delivery came suddenly as a result of a broader physical shortage, then there is not much the regulators could do. Sure, they could shut down futures trading or suspend the physical delivery contractual requirement, but that would only inflame a buying panic by forcing buyers to seek other venues. It goes without saying that should this circumstance ever occur, it is much more likely to occur in silver than in gold, given the potential for an industrial user inventory buying panic and the incredibly small amount of actual physical silver inventory throughout the world. That doesn't mean gold can't or won't move much higher in price, just not because of an industrial users' panic or scant supplies.

Certainly, a big prop to gold prices has been from buying in the big gold ETF, GLD, although there have been some surprising withdrawals as well, including as recently as yesterday. It seems to me that the big net deposits in GLD have been due to net new investment buying and the withdrawals due to a large entity converting shares of GLD into gold metal to hide share ownership. This is a pattern that has been a regular feature in SLV, the big silver ETF, for quite some time.

It's easy to overlook the effect on price that net new buying in these two ETFs can have on gold and silver. That may be because the ETF buyers themselves may not be fully aware of it. As the largest ETF in the gold world, GLD has become a recognized go-to vehicle for stock market investors. Many of the buyers rushing into GLD this year are interested in positioning themselves for a gold rally, perhaps seeking a safe-haven refuge from a declining stock market and are not particularly concerned with the actual workings of the ETF.

But the intentions of the GLD buyers don't matter much in the mechanical operation of the trust. If there is net new buying, meaning more new shares are created, those new shares must be backed with new real metal deposited into the trust (or the new shares must be short sold). Since the physical gold market looked tight to begin with (at least to me), the net new buying in GLD has further tightened the physical market. The key question is not whether the buying to date in GLD has impacted the physical market and helped put gold prices higher (because that should be obvious), but whether the buying in GLD will continue. If the investment buying in GLD does continue, more physical tightness should be expected; otherwise not. I'd tell you the answer to which it will be if I knew.

I can tell you that a big part, perhaps the biggest part for why gold prices have outperformed silver on this rally is because much more buying occurred in GLD than in SLV. In fact, up until yesterday, there was no net increase in the metal holdings of SLV, only withdrawals. Since there was no indication of net investor selling in SLV, because silver prices were rising (albeit at a slower pace than in gold), I attributed the withdrawals in SLV to someone big (JPM) converting shares into metal to avoid stock ownership requirements. But to be fair, the trading volume in SLV was much more subdued than in GLD on the rally, so neither was I expecting large metal deposits in SLV.

That changed on Thursday when gold and silver prices rallied sharply and there was very high trading volume in both GLD and SLV. Such high trading volumes almost demanded a large deposit of metal in each or a big jump in short interest to be reported a week or so. As it turned out, there was a very large gold deposit in GLD that day (roughly 450,000 oz) and yesterday, the biggest deposit in quite some time, 3.8 million oz occurred in SLV. I'm assuming these two deposits were the result of Thursday's big trading volume and we'll be able to judge that in the days ahead.

The good news is that this is the way these two ETFs are supposed to operate. The better news would be if this is just the start in SLV and it is now catching up to GLD in buying interest. It's no secret that investment buying demand would have a much bigger impact on price in silver because there is much less physical metal available for purchase than there is in gold, but that investment buying demand was lacking until Thursday. If, and this is a big if only in the short term, investment buying demand comes into SLV on a par with what has come into GLD, silver would not continue to underperform gold. On a longer term basis, I'm sure investment demand will come into silver, given all that is known.

It seems as if the price rally this week has finally resulted in a strong pickup in retail investment demand, particularly for silver. Ironically, you'd never know it from the sales of Silver and Gold Eagles from the US Mint because the Mint was already selling as many coins as it was capable of selling. The Mint had been allocating Silver Eagles (and probably Gold Eagles as well) even as retail demand was in the doldrums until this week. The buying in Silver and Gold Eagles had been coming from a big buyer, which I allege is JPMorgan, taking all the Mint could offer. If retail demand stays strong, JPM would be forced to lay off its buying, but that's the same big 'if' I've already highlighted.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

One comment I would make on the sudden pick up in retail silver investment demand. Should it persist, it is hard for me to imagine how it wouldn't evolve into another shortage in retail forms of silver, just as has occurred on several occasions in the recent past. Even when retail investment demand is subdued, that doesn't result in large amounts of retail forms of silver being dumped on the market, particularly when JPMorgan has been scarfing up new Silver Eagles for the past five years. The inventory of retail forms of silver doesn't grow when retail demand is soft, although it may appear that way.

Instead, when retail silver buying demand is weak, as has been the case for much of the past 5 years, there is an illusion of oversupply which is just that - an illusion. The actual inventory of retail forms of silver only seems large because demand is lacking. That's why when retail demand picks up in earnest, a retail shortage often quickly develops. The jury is still out on this one, but we should know in the fullness of time. The biggest wildcard, of course, is whether a retail silver shortage grows so intense that it forces buying of 1000 oz bars as a substitute, adding to tightness in the key form of silver. That will occur someday, but no one can know which day.

The changes in this week's Commitments of Traders (COT) Report were spot on with my expectations in silver (bad news) and way off from what I expected in gold (good news). At the very least, this week's COT report went a very long way to explaining the relative outperformance of gold to silver to date. Simply stated, the big commercial COMEX crooks were more aggressive in selling silver than they were in gold. I would expect this to tell the tale in the future (along with ETF flows).

In COMEX gold futures, the total commercial net short position increased by 27,600 contracts to 104,900 contracts. (I had predicted an increase of more than 50,000 contracts). While this is the largest total commercial net short position since Nov 3, given the \$70 high volume price jump during the reporting week, the relatively small increase must be considered good news. For sure, there was substantial additional commercial selling since the Tuesday cutoff, particularly on Thursday, but let's focus on this report first.

Perhaps the best news in the current report was the breakdown by commercial category. The 4 largest commercial shorts only sold 3300 additional contracts short, while the big 5 thru 8 traders added 8800 new shorts and the raptors sold off 15,500 long contracts. As of the Tuesday cutoff, the 4 biggest shorts were "only" short 91,616 gold contracts (9.16 million oz), a relatively small number compared to the past historical readings.

If a market is manipulated, as I believe gold to be, the manipulators must be large in size and small in number, otherwise there would be no manipulation possible. That's why I highlight what the biggest traders are doing in gold and silver. Furthermore, the lack of big selling by the 4 largest shorts in COMEX gold during the reporting week and on this gold rally in general strongly suggests that the gold rally has been as strong as it has precisely because the biggest traders haven't added aggressively to short positions. In essence, gold prices were not capped by concentrated short selling, at least through Tuesday. Now perhaps these big traders sold on Thursday's big rally, but I would contend that gold prices rallied that day by the most in years (by as much as \$60) because the big 4 hadn't sold aggressively yet.

On the buy side in gold, the managed money traders bought 31,600 net contracts, including 20,493 new longs and the buyback of 11,107 short contracts. The long position of the managed money traders are now over 121,000 contracts, up more than 40,000 contracts from recent washed out lows, but still not excessive on a longer term perspective. The managed money short position was still over 60,000 contracts as of the cutoff date and undoubtedly lower since then, but I am still struck that there wasn't more technical fund overall buying than was reported.

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In COMEX silver futures, the total commercial net short position increased by 16,200 contracts to 61,700 contracts. (I had predicted a 15,000 contract increase). As was the case in gold, this was the largest (most bearish) total commercial net short position since Nov 3. By commercial category, the big 4 shorts (read JPM) added 4200 new shorts, the big 5 thru 8 added 1300 new shorts and the raptors sold out 10,700 long contracts.

On the buy side in silver, the managed money traders bought a net 14,727 contracts, including 7927 new longs and the buyback of 6800 short contracts. At nearly 59,000 contracts of managed money longs, there is some room for potential liquidation down to my 50,000 non-technical fund core long position, but not excessive room. With just over 19,000 managed money short positions still open on the Tuesday cut-off date and considering what likely happened since then, there can be little rocket buying fuel remaining. I'd be lying if I said I wasn't disappointed with the feeble rally in silver through the cutoff date on more than 30,000 contracts (150 million oz) of technical fund buying since year end.

Since I have been declaring that the key to the extent of the silver rally is whether and how aggressively the biggest silver shorts, particularly JPMorgan, add to short positions, I can't ignore it now. I'm going to assume JPMorgan was responsible for most of the new short selling in the big 4 category and that this crooked bank is now short 20,000 contracts (100 million oz), but there is an outside chance JPM wasn't the biggest new short seller. That would be good news, in my opinion. And if I am correct about JPM holding 400 million ounces of physical silver that means the bank is still net long 300 million oz. and would still make a fortune on higher silver prices. Of even more concern is what occurred on the rally on Thursday – did the big 4 and JPM pile on the short side?

The concentrated short position of the 8 biggest traders in COMEX silver futures as of the Tuesday cutoff was 76,404 contracts or the equivalent of more than 382 million oz. This looks once again like a pure commercial short position, since the managed money traders have covered the bulk of their shorts. The commercials may be the big shorts in silver, but it would be a mistake to assume there is any legitimate hedging involved. Certainly, there is no evidence of legitimate hedging by a silver miner – all the evidence points to big bank short selling to contain the price.

In fact, this goes to the heart of the silver manipulation – 8 big traders, not a legitimate producer among them hold a concentrated short position that is close to 50% of world annual mine production and total visible inventories of 1000 oz bars (both close to 800 million oz). By comparison in COMEX gold futures, which I consider manipulated as well, the concentrated short position of the 8 largest traders (13.7 million oz) is less than 14% of world gold mine production and only the smallest fraction of the billions of ounces of gold in the world.

I'd like to see someone try to explain how 8 crooked banks holding a concentrated short position equal to half the world's annual production and half the known world silver inventory wouldn't be an artificial price depressant for a commodity trading below the average primary cost of production. But the crooks at the CME and at the CFTC don't wish to answer. As for JPMorgan, it has apparently answered in its purchase of actual silver over the past five years.

I wish I could tell you where we go in the short term, but it could go either way. In the short term, I can see a price correction for the same reason we've always had selloffs – to adjust COMEX positioning. But I can also see things getting out of hand on the upside considering all that is occurring in the world financially and what is occurring in the world of physical metals. I do think I know that if the strong gold ETF buying seen this year takes hold in silver, the COMEX market structure will take a backseat. Even if we get a sharp setback, which I am prepared for but not necessarily predicting, such a setback would only cement my long term conviction of soaring silver prices, since it would rectify the COMEX market structure.

We appear to have entered into what could prove to be the most exciting period for gold and silver yet. In the short term we could melt up or face a sharp setback depending on whether physical trumps paper. In the long term, physical will trump paper. (No connection with presidential candidates).

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