February 21, 2015 – Weekly Review

Weekly Review

The price of gold and silver fell this week, gold by $24 (2%) and silver by a steeper $1 (5.8%). It was the fourth weekly price decline for gold and both metals finished at six week closing lows. As a result of silver's sharper weekly fall, the silver/gold ratio widened out by the same significant 3 full points it had tightened in by last week, ending back at 74 to 1. I believe a fair reading of last week's review questioned the relative strength in silver over the prior week, attributing it to HFT computer price rigging on the COMEX, so this week's relative weakness should not be terribly surprising. The short term is still iffy, while I'm still convinced silver is vastly undervalued to gold on a longer term basis.

A little over four weeks ago, the price of gold was nearly $100 higher and silver was two dollars higher than it is today. We were off to a strong start in the New Year, with gold and silver at the top of the investment asset performance scoreboard. Years of dismal performance looked over and all the signs appeared to point upward for the precious metals. Buying from China, India and Russia intensified and central banks were reported as strong buyers of gold. Even the outflows from gold ETFs seemed ended after two years of pronounced dishoarding.

Among a sea of bullish factors, there was only one conceivable bearish factor Â? the market structure on the COMEX. Four weeks ago, I concluded the Jan 24 weekly review (in the archives) with this paragraph Â?

Â?There is no question that silver (and gold) could run higher in the short run, even if the crooked commercials prevail in the end. All the many factors away from the sole bearish factor of the COMEX concentrated short position point upward and if we do go lower, it can only be traced to the COMEX. I wouldn't abandon long term silver positions completely because an overrun of the big shorts (Izzy's Full Pants Down) would spark the silver rally of all-time. But neither would some defensiveness be out of the question.Â?

If you think I have resurrected this from a month ago to pat myself on the back, please think again Â? short term price predicting is a mug's game and I want no part of it. Listening to me (or anyone) about what prices will do short term is a prescription for failure. But the same can't be said about indisputable facts. Let's face it, gold prices ran up by $125 and silver by $2.80 from late December to late January for some reason and then ran down by $100 and $2 thru today for some reason. As it turns out, the reason for both the run up and run down is the same Â? COMEX speculative positioning. Furthermore, this is the same reason behind most, if not all of the big price moves in gold and silver over the years.

Despite the growing numbers of observers which have come to understand the dominant price-setting mechanism in gold and silver, the true wonder is that everyone, even the most casual observer, doesn't see that the COMEX sets prices. I think that will change in time and the surest way to bring about change is for all analysts, commentators and observers in precious metals to look back over the past two months and try to explain why prices first rose, and then fell in the most straightforward of terms as possible.

Not for a minute am I suggesting that COMEX futures position changes (as depicted in the COT reports) will determine gold and silver prices forever, but that has certainly been the case through today. I look forward, quite confidently, to the day when we can disregard the COMEX as the gold and silver price controller and that day will arrive much sooner as more come to embrace the obvious. I'll have more on this in a bit.

The turnover, or physical movement of metal into and out from the COMEX-approved silver warehouses came to 3.5 million oz for the second week running, as total inventories fell 0.8 million oz to 175.5 million oz. I don't know what is more amazing, the continued (although somewhat slowing) weekly silver physical movement or the fact that total COMEX silver inventories have remained, essentially, unchanged for more than a year despite the unprecedented turnover. There was a one-day surge in turnover in the COMEX gold warehouses, after weeks of more normal tepid movement, but not enough to get excited about yet. We are still running below last year's weekly average COMEX silver movement of close to 5 million oz, but up from the lower weekly movements of a few weeks back. Thanks to all who continue to provide suggestions explaining the unusual COMEX silver warehouse movements. I'm still sticking with the idea that it points to physical tightness and I am hopeful that we'll all learn the reason in the fullness of time.

There was another extremely counterintuitive large deposit of 4 million oz into the big silver ETF, SLV, mid-week. I say counterintuitive because the biggest moves and heaviest volume in the trust came to the downside, which are the prime conditions for net selling, which should result in liquidations of metal out of the trust. The most plausible explanation for why there would be a deposit of metal when a withdrawal would be expected is that the metal was deposited to extinguish a short position in SLV (which has grown recently). However, based upon reporting periods for the short position, this past week's deposit in SLV will not be reflected in the short report due this coming week. We'll have to wait until March 10 for any possible effect on the short position.

Sales of Silver Eagles continue to be sold at a pace less than the US Mint's estimated full daily production/blank supply capacity, indicating there is no rationing of coins. This month the Mint is selling at a daily run rate of less than 107,000 coins versus maximum capacity of close to 130,000 coins a day (7 day week). This suggests that the big buyer, which I have speculated to be JPMorgan, has backed off a bit, at least temporarily. Despite the Â?cooling offÂ? in demand for Silver Eagles, the falloff in demand for Gold Eagles and Buffaloes this month is even more pronounced. On a short term basis, sales of coins by the US Mint and retail sales of other silver (and gold) coins has little influence on price. Then again, away from COMEX positioning, nothing much influences silver and gold prices.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) came in very close to expectations. Given the decisive downside penetrations of key moving averages, as discussed on Wednesday, significant reductions in the headline number of the total commercial net short position were expected in COMEX gold and silver. The total commercial net short position in gold declined by 27,000 contracts (versus my expectation of 30,000) and by 5700 contracts in silver (within my expected range of 5000 to 10,000).

I hope no one misinterprets why I offer predictions for how upcoming COT reports will read. I'm not looking for a cookie or a pat on the back when I come close to the mark. As I've explained previously, it's not like predicting future short term prices because there is a delay from when the actual trading occurred in the reporting week to when the next COT report is published. It's more a case of analyzing after the fact (but before the report is released). But that still doesn't explain why I often issue expectations for what the next COT will show.

Regular readers know that I am convinced that the changes in positions on the COMEX are the driving force behind changes in gold and silver prices. Essentially, up until the present, very little else matters in gold and silver prices. Not what China or India are buying, not changes in currencies, not what's going on in the Ukraine or Greece and not what the Fed says or does. What determines gold and silver prices are position changes on the COMEX and the COT report bears that out. I know I appear to write this incessantly, but because this simple fact is not yet universally accepted, to me it means I haven't been incessant enough. That's where the predictions of what new COT reports will show come in.

I know most folks who look at the COT reports for the first time have their eyes glaze over. It's not an easy report to read because unless you are well-versed in the intricacies of futures trading, it is virtually impossible to fully comprehend on a quick study basis. I would estimate that most subscribers fall into that camp. Further, even many of those who comment on gold and silver on a regular basis are not comfortable in analyzing the reports with some even resorting to claiming the data are unreliable (as a self-defense mechanism in lieu of an admission of not understanding the data).

But the COT reports are the very best of all government statistical reports and, as it turns out, explain most, if not all price movements in gold and silver. In addition, this is the data that prove the price manipulation on the COMEX. The trick is for me to make it as simple as possible for those with no need to understand the intricacies of futures trading and at the same time provide the detailed data desired by those who are intensely familiar with futures trading. That why I make Â?predictionsÂ? from time to time; it's a way of bringing real time credibility, not so much to myself, but to the premise that this is what controls prices. And the basic premise is that the COMEX commercials rig prices lower to force the technical funds to sell so that the commercials can buy and vice versa. Certainly, if I was consistently wrong in those expectations I would stop issuing them, as who wants to be embarrassed by faulty predictions?

In COMEX gold futures, the total commercial net short position declined by 27,000 contracts to 143,600 contracts, the smallest such position in four weeks. In just the past two reporting weeks, the commercial short position has been reduced by nearly 60,000 contracts (6 million oz) on the more than $50 decline in the gold price. This is classic COMEX commercial price rigging in full view Â? a giant decline in price accompanied by aggressive and collusive commercial buying. How is such concerted buying possible on sharply lower prices and how can it occur over and over? Through the magic of manipulation.

By commercial category, it was a typical all for one, one for all commercial effort for the second week running. The big 4 shorts bought back 5400 short contracts, the big 5 thru 8 shorts bought back nearly 8000 short contracts, and the raptors adding 13,700 new longs. My concern that the big 4 and big 5 thru 8 sold short aggressively at the top of the gold rally appears to have put the cap on that rally.

On the sell side of gold during the reporting week, it was mostly the technical funds, as traders in the managed money category accounted for nearly 24,000 contracts or close to 90% of the commercial contracts bought, fairly evenly divided between long liquidation and new short contracts sold. Most of the time, particularly when there are significant changes during the reporting week, as was the case this week, it is usually a commercial versus managed money private affair. This is the essence of the ongoing manipulation in COMEX silver and gold.

With the managed money gold longs now down by more than 40,000 contracts to just under 129,000 contracts, there appears to be only room for another 10,000 to 15,000 contracts of long liquidation to take us to recent historical low points on the long side. There is more room for new technical fund shorts to be added, to the tune of 40,000 to 50,000 contracts, if the commercials can lure as many technical fund shorts into gold as were seen at the peak last November. This is even a bigger question in silver.

In COMEX silver futures, the total commercial net short position was reduced by 5700 contracts to 47,700 contracts, the lowest level in five weeks (as was the case in gold). Unlike in gold, and has been the case for the last three weeks, it was strictly a raptor affair by commercial category, as the smaller commercials added 5300 long contracts to a net long position now totaling 17,500 contracts. The big 4 did buy back more than 800 short contracts, but the big 5 thru 8 added 400 new shorts. I'd peg JPMorgan's net short position at between 20,000 and 21,000 contracts.

Even though the headline number of the total commercial net short position has declined by nearly 14,000 contracts since Jan 27, the concentrated net short position of the eight largest shorts has hardly budged and remains over 65,000 contracts. This is still a manipulative position on its face since it represents more than 325 million ounces and 40% of world annual production, an amount unequalled among all commodities. Reviewing the dismal earnings reports by those companies that mine silver, I have uncovered not a one holding any of the 325 million oz held short by the 8 crooked COMEX shorts. Excepting JPMorgan, I doubt any of the other seven big shorts own much real silver, even though the concentrated short position represents more than 30% of all the silver bullion in the world. This is simply preposterous and illegal.

On the sell side of silver, as was the case in gold, it was largely the traders in the managed money category, as these traders accounted for nearly 5500 contracts of the 5700 commercial contracts bought. Where silver was different than gold was that nearly 5000 contracts of the managed money contracts sold were in the form of new short sales and only 531 contracts were sold as a result of long liquidation. This may be premature on my part, but since there are still 48,000 contracts still held long in the managed money category after three weeks of technical fund sell signals, I can't help but think that the 40,000 contracts of non-technical fund holdings I speak of may even be larger than that amount. This is something that should become clearer in upcoming COT reports, especially if silver prices move lower.

The significance of this is that if (admittedly a big if) there is very little long liquidation potential remaining in the managed money long category, the only chance the crooked commercials have in inducing technical fund selling is in generating new short sales by the funds. This is very speculative (and unlike my weekly COT predictions), but with managed money short positions now over 15,600 contracts, the question of how many more shorts these traders can be persuaded to put on defines the parameters of the potential price decline ahead.

Please remember that the technical fund shorts held a record short position of over 46,000 contracts at the end of October. Then, contrary to all previous technical fund behavior, these funds bought back 25,000 of those shorts before upside price signals were flashed and pocketed hundreds of millions of dollars in profits (much to my shock and surprise). Something made them override their usual technical fund signals and the most plausible explanation I can come up with is that they judged silver to be grossly undervalued and not worthy of such a large short position (that you and I would agree with that finding is beside the point).

So if that was why the technical funds covered so many shorts back then, it seems reasonable to conclude they still might feel that way (since they turned out to be correct in that silver did rally after they covered). As I mentioned previously, if the technical funds are not much interested in selling silver short in a price hole again, there may be only 5,000 (or 10,000) new shorts to come from these traders on lower silver prices. If that's the case, it's hard to see where all the non-commercial selling could come from to satisfy all the commercial buying that I know that is out there.

In other words, unless the technical funds load up on the short side to the extent they were short at the end of October, the end of the technical fund selling may not be that far away and with that the end to price pressure to the downside. If, on the other hand, 25,000 to 30,000 additional contracts of technical fund short sales will be sold, that wouldn't constitute a happy price story, until after it was finished. I'm harping on the managed money category because the other non-commercial categories (non-reporting traders and other reporting traders) don't control anywhere near the clout of the managed money traders.

I don't want to get so caught up in COMEX positioning and COT matters as to lose balance and perspective. Silver is dirt cheap and the end to commercial manipulation to the downside is not that far off in this cycle, although I don't believe we are quite there just yet. Despite that and regardless of what the price might do in the short term, it's hard for me to conceive of the price not being sharply higher in time. If we move lower temporarily (another big if), it will set the stage for the next rally and maybe the really big rally better than ever before. And I'll have something to that effect on Wednesday completely away from COT considerations.

Ted Butler

February 21, 2015

Silver – $16.30

Gold – $1204

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