

## February 24, 2016 – Facts and Figures

### Facts and Figures

It is undeniable that gold is trading much differently than before the start of the New Year (silver not so much). I'm not just speaking about gold's relative outperformance to silver and all other metals, precious and base; I'm referring to a different overall pattern – higher volume, larger daily price movements and, particularly, the entry of new trading entities in the gold market. I'll attempt to highlight the new trading pattern based upon what I believe to be the most salient facts and figures explaining the new precious metals environment.

I continue to believe that position changes in the COMEX futures markets are the prime price driver in gold and silver. COT data confirm that technical funds and other speculators bought (and commercials sold) the equivalent of 12 million oz of gold and 200 million oz of silver since December 29. I know of no larger quantities of metal equivalent changing hands over this time. Not only were COMEX position changes readily verifiable as involving the largest equivalent amounts of metal bought and sold over the past eight weeks, the rally to date was also predicted in advance (both on these pages and many other places).

Of course, it's trickier to explain the future than the past, but the recurring pattern of gold and silver prices moving in line with the technical fund/commercial tango on the COMEX would seem to be unquestioned at this point. Still, changes in the gold trading pattern suggest other price forces are impacting price and not just COMEX positioning. First and foremost among the new gold price forces is the acquisition of metal in the gold exchange traded funds (ETFs), led by the largest such fund, GLD.

Since the end of December, GLD has added 3.5 million gold oz, worth more than \$4 billion. Other gold ETFs have also added significant quantities of metal. Clearly, the gold ETFs have caught a bid, undoubtedly influenced by the strongly rising price and the world macroeconomic backdrop. While I still hold that the 12 million paper gold oz bought by technical funds on the COMEX exerted more of price impact than the 3.5 million oz bought in GLD, the billions of dollars flowing into GLD and other gold ETFs – goosed – the price of gold. A couple of thoughts come to mind.

First, I have detected a bit of a struggle in getting all the gold deposited into GLD. As you know, the gold wholesale market had seemed tight to me for a variety of reasons and now I think I see a new one. The trading volume in GLD has been enormous over the past month and much net new buying of shares has occurred. This mandates that new metal be deposited into the trust and there is little surprise large deposits have been made.

But the catch is that there seems to have been a longer than usual delay in getting the metal deposited. For example, there were more than 1.2 million gold oz deposited into GLD this past Friday and Monday that didn't match up with the actual trading in GLD for those days. It seemed to me that the new shares of GLD were bought and created well before the actual deposits took place. This is a pattern I'm sensitive to as a result of what has occurred in the big silver ETF, SLV, over the years (although not recently). Keeping it simple, if there was the delay in depositing gold into GLD as I perceive, that only confirms the tight gold scenario.

Second, the buyers of GLD and other gold ETFs are clearly interested in gold and not silver or other precious metals at this time, since there has been no similar rush to or significant trading volume increase in SLV or other silver or precious metals ETFs. That's a statement of fact that goes a long way to explaining gold's outperformance on this rally.

As an aside, this suggests many of new participants in GLD and other gold ETFs may be following rising price and sticking with the one asset they know to be a safe haven. As and when this buying continues, it tends to reinforce gold's relative outperformance; thus accentuating gold's relative strength. But if many of the new gold ETF buyers are chasing price and not fully emersed in the long term case for gold, it does create the possibility of liquidation should prices turn lower.

The bigger point I would make is that gold moving up by a wider margin than silver (or platinum and palladium) is not negative in the long run for silver. The higher gold goes relative to silver, the more compelling a case can be made for silver's undervaluation. The world may be going mad in many ways, but buying low and selling high has not been invalidated. The higher in price gold goes, the better it will be for silver. Perhaps not today, but certainly in time. Let me expound on this.

At the end of the year, only long term value investors and those espousing the COT market structure were bullish on gold or silver. In fact, the largest investor in GLD, Paulsen & Co., sold out a significant portion of its position in the fourth quarter and went into the New Year with not much more than only 25% of the more than 20 million shares it had held over the years. Even the best money managers can mess up and I am not poking fun at Paulsen, merely confirming how washed out gold investment sentiment had become before the rally.

But, out of nowhere, gold prices rose (due to COT market structure considerations) and investment buying demand in GLD took hold. My point is that I am aware of no prior predictions of the imminent buying surge in the gold ETFs, yet that surge occurred. More than ever, I am convinced that an investment buying surge will come to SLV and other silver ETFs. To be sure, that investment buying in SLV has not occurred (because JPMorgan has been leaning on the price), but will occur at some point.

Let me introduce something new in this regard. Regular readers know how I pound the table about the unusual physical turnover in COMEX silver inventories and remain baffled how it is widely overlooked. Since we know that general investment demand has been lacking in SLV, based upon low trading volumes and the absence of the big deposits occurring in GLD, it is unlikely that the extraordinarily large physical silver warehouse turnover represents broad silver investment demand. I think JPMorgan is skimming big quantities of the COMEX silver warehouse turnover in its acquisition of silver, but other than this bank, the turnover is not driven by broad investment demand. No tricks here ^? other than JPMorgan, there is little investment demand in silver like there is in gold.

But the COMEX silver inventory turnover is as real as rain and if it isn't due to investment demand (which it isn't), then it has to be due to something else. The only possible something else is industrial user and other fabrication demand. Silver is primarily moving in and out of the COMEX-approved warehouses due to physical user demand, not investment demand (aside from JPM). While the lack of competing silver investment demand has enabled JPMorgan to contain the price rally by additional short sales in COMEX futures, there is nothing to suggest that the industrially-driven physical inventory turnover is about to end.

There is no question that the frantic COMEX physical silver inventory turnover exists and has existed for the past five years. Given the lack of investment demand in SLV and in continuing reports from the silver retail dealer front, it appears certain the turnover is driven by those using silver in their manufacturing and fabrication businesses. But the COMEX physical inventory turnover is so large relative to the total amount of silver produced in the world daily that there can be little doubt there's not much, if any room to accommodate silver investment buyers whenever they appear.

As and when silver investment demand returns in earnest, does anyone realistically expect the industrial users and fabricators to politely step aside and refrain from using silver in their operations to make it easier for investors to acquire metal without driving prices higher? Or instead, isn't it almost certain that the silver users will react by building their own inventories the minute they experience any investment-induced delivery delays?

What's new here is my realization that the frantic COMEX inventory turnover likely indicates no slack whatsoever in how tight wholesale physical silver conditions have become and that the next surge of investment demand will upset the physical applecart. Come to think of it, this has likely been the case over the past five years, namely, that no real silver investment surge (away from Silver Eagles) has been allowed to unfold. This enabled JPMorgan to both control prices and continue to hog available silver supplies for itself without having to contend with competing investment demand. This explains the obvious relative silver underperformance to gold. JPMorgan knows that the next broad silver investment surge will be the one that finally ends the continued price suppression.

It also explains why JPMorgan has been so aggressive in adding to its COMEX silver short position, always my key indicator. Over the past two reporting weeks, the four largest silver shorts have added more than 8000 new shorts. I'll have to wait for the next Bank Participation Report (March 4) to be sure, but I would assign all the new shorts in the big 4 category to be by JPM. If my contention is correct, it would not be unreasonable to expect another price rigging to the downside.

Perhaps continued investor flows into GLD might finally overpower any attempts to push gold lower and that might lead to an investment surge in silver. It seems to me that any sharp rise from here in gold prices wouldn't have the same consequences of a sharp rise in silver. The total concentrated holdings of the eight largest shorts in COMEX gold was around 14.5 million oz (last week's COT report). Considering the billions of ounces of gold in existence, it's hard for me to conceive why the world would end should gold run hundreds of dollars from here.

In silver, it's different — the 8 largest COMEX traders hold 400 million oz net short versus maybe a billion oz or so of actual inventories and in the face of an unprecedented inventory turnover pointing to no spare metal being available. This is why the price of silver has been made to look so rotten — so as to discourage anyone from even thinking about buying it. While I must admit it has worked like a charm for the crooks at JPMorgan over the past five years, it's a scam running out of time.

Where to from here? The short answer is still that I don't know, but I sense we will not stick around current price levels for terribly long. The one and only potential bearish factor in gold and silver is the negative COMEX market structure, particularly in silver. I think I fully grasp how tight both gold and especially silver are in a physical sense and how deeply undervalued silver has become. Therefore I wouldn't be shocked by a sudden price eruption to the upside.

But having never seen the silver commercials get overrun after big short positions have been added, neither am I inclined to bet against JPMorgan. Forget never getting overrun, I've never seen JPMorgan not close out newly added silver shorts at a profit. These crooks have a perfect record — any newly added COMEX silver shorts over the past eight years by the big 4 have always been bought back at lower prices than originally sold. This has been one of my key findings over the years.

Therefore, I must balance the likelihood that JPMorgan succeeds again in manipulatively driving prices lower, against the almost overwhelming case for silver prices exploding. Let's face it — there's no way I can ignore JPMorgan adding to silver shorts after identifying this act as the key price determinant. Especially since this crooked bank has always succeeded in the past. I don't like it and I especially don't like having to call the US's largest bank as crooked in their silver dealings. If the facts and figures didn't convince me I was correct, I wouldn't do so (including sending the bank my allegations).

Here's something I found somewhat funny. This past week, Barry Ritholtz of the popular web site, —The Big Picture,— published a list of his mea culpas, or things he felt he got wrong; an admirable endeavor. Included in his list of mistakes was missing the gold rally (which he wouldn't have done if he paid attention to COT market structure issues). But what set me back a bit was Ritholtz' admission that he wrote something unflattering about Jamie Dimon, the CEO of JPMorgan, that turned out to be incorrect. Ritholtz recognized his error and corrected it, but not before a perturbed Jamie Dimon called him up to complain. Ritholtz admitted his error upfront and the telephone conversation took on a pleasant tone for the 15 minutes it lasted.

[https://www.washingtonpost.com/business/get-there/ritholtz-my-mea-culpa-list-shared-so-neither-of-us-makes-that-mistake-again/2016/02/19/4f3d06c6-d508-11e5-b195-2e29a4e13425\\_story.html](https://www.washingtonpost.com/business/get-there/ritholtz-my-mea-culpa-list-shared-so-neither-of-us-makes-that-mistake-again/2016/02/19/4f3d06c6-d508-11e5-b195-2e29a4e13425_story.html)

What I found strange was that Mr. Dimon found reason to call Ritholtz to complain in the first place, since what Ritholtz wrote didn't seem terribly personal or offensive, at least to me. This confirmed published reports that Dimon is deeply involved in all aspects of JPMorgan and what is written about him and the bank. It just seemed strange to me that I've never heard a peep from Mr. Dimon or anyone else at the bank, since I refer to the bank as being crooked in its silver dealings and send him most of my articles. A friend suggested that this meant my allegations were accurate and asked me if I expected anyone at JPM to confirm my findings. I guess not. Yes, I am sending this one to Mr. Dimon as well and I'll let you know if I hear anything.

As far as what to expect in this week's COT report, I misspoke in Saturday's review when I stated that total open interest in COMEX gold futures had increased by 35,000 contracts, as of Friday since the Tuesday cutoff. I don't know if I was hallucinating or relying on preliminary open interest data which was revised downward. I can now confirm that the Tuesday thru Tuesday total open interest in COMEX gold futures did increase by a not insignificant 16,000 contracts (and by 8000 contracts in silver). Unless this was all an increase in spread positions (not likely) it suggests further deterioration through yesterday's cutoff for this week's report, or more technical fund buying and commercial selling, although I'll pass on a guess of how much.

I have to send this before the new short report on stocks is released later tonight, but I would not be surprised by an increase in the short selling of SLV and, particularly GLD, in line with my comments above about delayed deposits in GLD.

Ted Butler

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Silver – \$15.20                      (50 day moving average – \$14.40)

Gold – \$1230                        (50 day moving average – \$1120)

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