February 4, 2017 – Weekly Review

Weekly Review

Gold prices surged this week by the most in seven months, finishing $29 (2.4%) higher, while silver tacked on another 35 cents (2%) for the week. Given gold's slight relative outperformance, the silver/gold price ratio widened out a bit to just under 70 to 1; still very much within the tight trading range of the past couple of years.

While the price ratio, just like the absolute price of gold and silver, is a product of artificial paper derivatives trading on the COMEX, it is still the price everyone is forced to accept. At least this provides an answer to what would otherwise be a largely unexplainable circumstance. Once the paper price setting mechanism is understood, no price or price ratio level can be ruled out as long as the artificial price mechanism is functioning. I'm not predicting it, but it wouldn't surprise me if gold outperformed silver in the short term. What would surprise me is if gold outperformed silver in the long run, given how much of each metal already exists and becomes newly available for investment annually.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses continued high this week as nearly 7.9 million oz were moved. Total COMEX silver inventories fell 0.7 million oz to 179 million oz. Massive physical movement, minimal total inventory change Â? the same story for nearly six years running; a phenomenon unique to silver (like so many other things). I say it points to wholesale physical tightness and will report other explanations as and if they become available. The JPMorgan COMEX silver warehouse featured no movement this week and none was expected since the bank already moved in more than it stopped for delivery on futures contracts in December. I'm still trying to figure out where the extra 1.2 million oz came from last week.

I haven't reported at all on the February deliveries for gold on the COMEX (Feb is not a traditional delivery month for silver), largely because nothing appeared unusual over the first few delivery days. Of the 5000 contracts delivered or redelivered so far, a customer(s) of JPMorgan issued more than 2900 contracts and HSBC stopped more than 2800 contracts (in its own name). JPMorgan stopped nearly 400 contracts (for its own account), as did the Bank of Nova Scotia in stopping more than 500 contracts. Nothing particularly stands out to me and since I'm not a big fan of closely studying data not likely to lead to something meaningful, I'll probably only comment further on the Feb deliveries if something special comes up.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Metal seemed to stop flowing out of the big gold ETF, GLD, on the recent gold rally (very counterintuitive) and a chunk came back in this week. Metal movements in SLV still seem related to accumulation activities by JPMorgan, but not worthy of deep analysis. The truth is that trading volumes in both GLD and SLV have been quite lackluster, particularly when compared to COMEX volume, and I can't draw much insight from either at this time. Ditto for sales of Silver Eagles from the US Mint, where we did exceed the 5 million coin mark for January. While that's not exactly chopped liver, it isn't strong sit up and take notice news either, considering the practically no sales in Dec and the fact that January is a super big month traditionally. I do think JPMorgan is the big buyer, but more measured than it has been. Again, overall weak retail demand leads me to the JPM is buying conclusion more than anything else.

https://competition.usmint.gov/bullion-sales/

The changes in this week's Commitments of Traders (COT) Report came in as has been the case recently; about as expected in silver, but nowhere near as bearish as expected in gold. Last Saturday, I was somewhat hopeful that JPM may have bought back some silver shorts it added in last week's COT report, but by Wednesday, I was back to assuming significant managed money buying and commercial selling for both silver and gold. We got that deterioration is silver, but gold again surprised bullishly with a relatively light deterioration.

In COMEX gold futures, the commercials added only 5400 contracts to a total net short position now amounting to 131,800 contracts. Let me stop here and restate the significance of these numbers. Looking back at price action during the reporting week, which featured three pretty sharp days down and ended with a two day rally erasing the decline, the slight increase in commercial selling this week doesn't look out of line.

What does look very unusual is that on the $80 rally in gold from Dec 20 to last Tuesday and in which all the moving averages, up to and including the important 50 day moving average, were decisively penetrated to the upside, there has been no increase in the total commercial net short position. I'd put this in the Â?man bites dogÂ? category of unexpected developments.

Yes, there was some slight increase in net managed money buying over this time (15,000 contracts or so) as selling came from other non-commercial categories, but the managed money traders had just sold more than 200,000 net gold contracts from the summer highs and more than 110,000 net contracts from the highs on Election Day. Accordingly, I would have expected a lot more managed money buying and, therefore, commercial selling on the $80+ rally over the past six weeks. The bottom line is that the lack of big buying by managed money traders and resultant commercial selling in gold on this rally is profoundly bullish.

By commercial category in gold, the big 4 actually bought back 300 short contracts, while the big 5 thru 8 bought back an even more noteworthy 3300 short contracts, leaving the raptors as the exclusive sellers, as these smaller commercials sold out 9000 long contracts. Not quite in the same category as my Â?man bites dogÂ? example above, it is still strange when you see a weekly increase in the total commercial net short position, but with no increase in actual commercial short selling. Not Â?Twilight ZoneÂ? strange, but unusual nonetheless. Also bullish, to my way of thinking.

The managed money traders in gold did buy more than the commercials sold, in buying more than 10,000 net contracts, including 5504 new longs and the short covering of 4579 contracts. Still the shock is that this week's buying is equal to two thirds of the 15,000 contracts bought by these traders over the past six weeks – a remarkably small amount considering the notable gold price rally.

A quick word on gold spreads. As I indicated last week, there was an unusual build up in the amount of gold spreads in the previous COT report, particularly in the managed money category. I had expected a significant decline in the number of these spreads in yesterday's report, since this week's report included trading into first notice of delivery day, but I was actually taken aback a bit by the numbers reported. All told, nearly 80,000 gold spread contracts were liquidated in this week's report, nearly 20% of total open interest, including nearly 66,000 managed money spreads.

As I commented last week, spread positions involve a simultaneously held long and short position in different months, in this case mostly involving the Feb and April COMEX gold contracts. As such, it wouldn't matter if the price of gold was $200, $1200 or $2200 for spread positions Â? all that matters is the spread differential between the Feb and April gold contracts. On Tuesday (the cutoff date), the Feb/April gold spread closed at a $2.80 differential, the same close as occurred on the previous report's cutoff date. Further, I went back to when the managed money traders began to establish large positions in this spread, starting around December 20 and quickly noted that the Feb/April gold spread hardly changed at all over the previous six weeks, sticking to no more than ten or twenty cents away from the $2.80 differential.

Therefore, no one could have lost or won big on this spread since the price never really varied (despite gold rallying $80 over this time). This just reaffirms my conclusion that these spread trades were phony and fictitious in nature from the start and completely devoid of genuine economic substance. I complain about real producers and consumers being excluded from the price discovery process on the COMEX, having been replaced by a few large managed money and commercial paper pushers; but these phony gold spreads take artificial trading to a whole new level. For what it's worth, I did file a formal complaint about this with the CFTC, but I can assure you that I am not holding my breath expecting these regulatory laggards to do anything.

In COMEX silver futures, the news is not as bullish as was the case in gold. The commercials increased their total net short position by 6300 contracts to 89,400 contracts, the highest (least bullish) in four months (Oct 4). Worse, the signs also point to increased short selling by the silver crook of all time, JPMorgan. I just may have to dial up my accusations of just how crooked JPMorgan is in silver. The only problem, of course, is figuring how it is possible to be more upfront and forceful than I've been all along. There was a time, believe it or not, when I actually thought no well-known financial organization would tolerate open allegations of serious wrongdoing and would crack down on anyone daring to do so.

By commercial category, the big 4 increased their net short position by 1900 contracts, while the big 5 thru 8 added 1600 new shorts and the raptors (the smaller commercials) sold off 2800 longs, as all three groups got the Three Musketeers memo to sell. Based upon that, I assumed JPMorgan may have upped its short position by 2000 contracts to 22,000 contracts. But after further consideration of a big increase in the producer short category and the definite departure of the managed money trader that had been in the big 4 short category, JPM's short position may be up to 24,000 contracts or more. This puts JPM's short position into my worrisome zone and this Friday's Bank Participation Report will, hopefully, clarify matters.

On the buy side of silver, the managed money traders bought more than 7800 net long contracts, including 5081 new longs and the short covering of 2781 contracts. Unlike the case in the larger gold futures market, the more than 21,000 net silver contracts purchased by managed money traders since Dec 20 is significant. With a managed money long position of nearly 77,000 contracts, we are within 25,000 contracts of the record long position of late July (although it is possible many more managed money longs could eventually come to be put on). The reduction in the managed money short position to under 13,000 contracts tells me the former big short in that category has abandoned the big 4 and possibly the big 5 thru 8 category.

It's not Â?badÂ? that this many managed money contracts have been bought in silver, but neither is it as Â?goodÂ? as the lack of managed money buying in gold. This may make me worry a bit more, but not to the point of jettisoning any positions. There's never been any doubt in my mind that silver was more heavily manipulated than gold (or anything else), so I can't say I'm shocked by the increase in managed money buying/commercial selling in silver and the lack thereof in gold.

Perhaps this might lead to some relative outperformance of gold compared to silver in the short term, but since one of the most attractive features about silver is its existing undervaluation relative to gold, an even steeper discount to gold will hardly make silver less compelling. In fact, it's hard to think of a more bullish development for silver than for gold to outperform it from these levels. That's important to remember if, as and when gold does outperform up ahead.

Is the Pope Catholic?

A number of subscribers sent me links to stories regarding a recent appellate court reversal and reinstatement of civil charges against JPMorgan for manipulating the price of silver on the COMEX circa 2010. The case involves charges that JPM took actions that manipulated the price of silver in spread transactions that caused damage to a large hedge fund. I remember writing of this some time back. You may also recall that I recently wrote about these spread transactions in COMEX gold and silver in some detail as being, among other things, somewhat illegitimate and economically unjustified; concluding that I don't know why they would be traded so heavily in the first place. I suppose none of that precludes that the spreads could be manipulated as well.

http://mobile.reuters.com/article/idUSKBN15G4Z8

As for what the appellate court reversal means for silver investors, I have mixed feelings. The case has little, if anything to do directly with the ongoing manipulation in silver that I write about constantly. After all, it involves alleged wrongdoing in spread transactions and as such, not much to do with the absolute price of silver – the price of concern to investors. However, even though I see little direct connection between this case and the silver manipulation as I present it, if you step back slightly and view this news on a broader perspective, this is a pretty astounding development.

For one thing, while spread trading is a very small component of the COMEX silver market and quite distinct from virtually all other silver market participation, is it any real surprise that JPMorgan would be alleged to be the kingfish in this separate subset of the market? Clearly, in no way do these allegations conflict with my repeated statements that JPMorgan controls every aspect of silver. In other words, the shock would have been if any other entity was alleged to be behind any manipulation of silver on the COMEX, other than JPM. Like the answers to all outlandishly obvious questions, the Pope is Catholic, wild bears crap in the woods and, yes, JPMorgan manipulates every aspect of the COMEX silver market.

The best hope for some real good coming out of the silver spread manipulation case is that it leads to discovery and shines a light on the core of the silver manipulation. This would include discovery of JPMorgan's long term manipulation of the price for the purpose of accumulating the largest physical hoard of metal in history, in addition to involving a flawless track record of never taking a loss on short paper positions for nine years running. Since none of this has been raised in this case, I don't see that in the cards presently, but hey Â? you never know.

Along the lines of what should be obvious but isn't, allow me to present the latest findings from the London Bullion Market Association's (LBMA) annual analysts survey for precious metals prices over the next year. As has been the case in previous years, most of the analysts quoted have price expectations centered close to current prices. While I tend to avoid specific price predictions, particularly those that also involve specific time periods, such predictions are quite common and expected. What I am much more interested in than someone's guess about future prices is the reasoning and premise behind the prediction. And when the subject is silver (or gold), then my interest becomes intense and so should it for anyone interested or invested in the metal or its related securities.

So here's a first rate opportunity to scan the thinking behind a good number of establishment-type gold and silver analysts as to how they view these metals. This is as good as it gets to check what those in the business think and I would strongly urge you to do as I did, namely, take the very few minutes necessary to read how they think about gold and silver. Having very strong opinions about silver, forged over three decades, how could I not be interested in how others see this market?

http://www.lbma.org.uk/assets/Forecast_2017_Interactive.pdf

This year, like every year before, my immediate reaction to the survey is the same Â? are the analysts surveyed talking about the same silver market that I follow? Again, I'm referring to the comments made about silver, not price predictions. Of the nearly two dozen statements made about silver, I may have detected one vaguely referring to the market structure (I think). None even mentioned the COMEX or JPMorgan. How can this be? How is it possible for anyone looking at the silver market for analytical and price valuation purposes not see that the price is set on the COMEX and that JPMorgan dominates this market in every way possible, including ways that even I haven't discovered yet?

Please understand me Â? I'm not on a soapbox saying that my take is correct and the consensus opinion presented here is wrong, as that is deeply unprofessional and judgmental. Besides, this is something that is up to you to decide after considering all the data available. But since I'm convinced the survey crowd is missing the big picture in silver and gold by a country mile, let me instead explain why I think the analysts missed the main premise in silver so badly.

Some of the analysts quoted may have some background in futures trading or work for companies that deal in futures, but I don't detect a strong futures trading experience among the group as a whole. Such experience, of course, is not a necessary requirement to be a precious metals analyst, particularly if the analysis is mostly securities related. But if silver and gold are artificially manipulated by positioning changes on the COMEX, as I contend, it would be more difficult to spot that activity the less experience one had in futures trading.

I have admitted, from the get go more than 30 years ago, that the only reason I was able to stumble upon the silver manipulation was because I was asked the right question by Izzy Friedman and because I already had a strong working experience and knowledge of futures trading. It was as pure a case of serendipity as is possible. If Izzy hadn't asked me to explain why silver didn't rise in price in the face of a documented structural deficit (more consumption than production), I doubt I would have ever conceived of the question on my own. Likewise, if I wasn't already well-versed in futures related matters, I would never have spotted the disparity between large size of the COMEX derivatives in silver versus real world supplies; a disparity seen in no other commodity, either then or to this day. As I said, it was serendipity, not genius on my part.

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