

February 5, 2014 – All the COMEX

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A consistent finding of mine over the years is that trading on the COMEX dictates the price of gold and silver throughout the world. I don't believe the COMEX should dictate gold and silver pricing and one day price fixing on the COMEX may come to an end; but in the interim, COMEX trading controls the price of precious metals. This can be seen from signs such as how deathly quiet precious metals prices are worldwide on uniquely US market holidays to the sudden price blasts down and up (such as the early jolt upward today). Now that COMEX trading is conducted, basically, around the clock electronically, the exchange's trading control is greater than ever before.

I don't doubt that most actual gold and silver metal is bought and sold and produced and consumed throughout the world, even more so than in the US; it's just that all that gold and silver is priced on the COMEX. For instance, China and India purchased significant quantities of gold and silver over the past year, yet that buying was accelerated due to prices being set sharply lower by COMEX trading. If prices had not been set lower on the COMEX, Indian and Chinese buying would have caused gold and silver prices to rise, not fall.

The basic problem is that the COMEX, over time, has come to be dominated by banks and large financial speculators. I'm not against speculators (I am one myself) and know full-well that without speculators willing to assume risk from hedgers, there would be no market. But neither can a real market exist without legitimate hedgers and populated only with speculators and banks pretending to be market makers and hedgers. That's what the COMEX has evolved into – a speculative playground in which prices are determined by banks and technical trading funds and then dictated to the world's producers, consumers and investors.

This circumstance is as opposed to the true price discovery process intended when Congress authorized regulated futures trading 80 years ago as is possible. The proof that COMEX trading controls the price of gold and silver is all around us and verified by government statistics in the CFTC's COT and Bank Participation Reports. There are few, if any, mining companies or metal users in COMEX gold and silver trading. Instead, large banks, led by JPMorgan, are the largest traders in the producer/merchant category of the COT report. No gold or silver mining company is involved in HFT trading, yet all miners must accept the sudden price changes wrought by HFT.

It would be hard to intentionally design a pricing system more unfair to gold and silver miners than is the COMEX in its current form. Effectively excluded from trading (why would a mining company engage in day-trading?) and then being held captive to the uneconomic pricing that has resulted from JPMorgan's desire to buy gold and silver as cheaply as manipulatively possible. The COMEX and JPMorgan have profited handsomely by causing gold and silver prices to crash in 2013, just as all miners and investors have suffered mightily. This is the result of distorting the playing field to favor financial speculators at the expense of real producers.

The COMEX, by encouraging excessive trading fees based upon any over-trading scheme it could drum up and JPMorgan through the brute control of dominant market share have jointly captured the gold and silver market. I would doubt that actual gold and silver miners hold more than five percent of total COMEX positions, as verified by a lack of the reporting of such positions in earnings and financial reports. What a racket! being able to rig prices in a vacuum that have little bearing to real supply and demand fundamentals.

Of course, this is not a system that can last forever since it is founded on the illegitimate foundation of price manipulation and market control. Perversely, it is this same illegitimate foundation that suggests much higher prices, particularly in silver, over time. The frantic quest for trading fees at any cost by the COMEX, coupled with a price structure brought unnecessarily low by JPMorgan's desire to buy as much gold and silver as cheaply as possible, has set the stage for price violence on the upside when the control ends, as it must. The trick is to be holding when the price control ends. Since this will be a new chapter in silver, I don't know how it can be predicted in terms of timing.

A few updates since the weekly review. The delivery pattern in the February COMEX futures contract stands in marked contrast to what transpired in December (and August). JPMorgan took virtually all of the 6000+ deliveries in December, in keeping with the bank's long market corner in COMEX gold futures. It was expected that there might be some drama in deliveries in February, given the decline in COMEX warehouse gold inventories and JPM's taking of large numbers of December deliveries. While there is no telling how the whole month will evolve, after the first four delivery days, there is a decidedly different pattern than witnessed in December.

Even though JPM still holds a long market corner in COMEX gold futures, at around 62,000 contracts, the bank showed up yesterday as the largest issuer of 643 contracts after taking only 11 contracts on the first delivery day. (I'm excluding deliveries made and taken by JPMorgan for client accounts and I am only referring to deliveries for the bank's proprietary trading account.) After four delivery days in February, it does look to me like gold available for delivery is not particularly abundant; otherwise those intending to deliver would have delivered more by now.

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[http://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

Despite what looked like a "tight" delivery situation in the February gold contract a week ago, today's delivery by JPMorgan may have cooled things off. I can't say I'm particularly surprised by JPM's actions, although there should be no doubt that the bank could have easily squeezed the gold shorts had it desired to do so. And maybe JPM still intends to do so in the future. As the COMEX's most important partner, it still looks doubtful to me that JPMorgan would orchestrate a delivery squeeze and potential default. But don't think for a moment that it couldn't if it wanted to.

Away from the COMEX, there has been some stabilization in the metal holdings of the big gold ETF, GLD, over the past month and even some additions this week. After liquidations of some 18 million oz last year, fully 40% of total holdings, it looks like it will require price weakness to generate further liquidation from GLD. Even if we get that liquidation, it doesn't appear likely to come close to last year's amount. Therefore, one has to wonder where the gold will come from to satisfy Asian demand on lower prices.

There was an addition to the big silver ETF, SLV, of 2.1 million oz on Monday. Since silver prices were weak ahead of the deposit and trading volumes in SLV didn't suggest there should be deposits of metal, I'm inclined to believe that the deposit may have been made to reduce the short position in SLV. However, since the deposit came after the January 31 cut-off for the short report, it won't be reflected in the new short report due next week.

The US Mint's sales of Silver Eagles remained strong this week, although there have been reports of continued rationing due to silver blank tightness. The most remarkable feature is that sales of Silver Eagles are running at 60 times the level of Gold Eagles in oz terms year to date, which is another way of saying the dollar volumes of each are roughly equal.

[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)

A few words on today's price action. Around the COMEX opening of 8:20 NY time (remember the COMEX is almost always open) prices of gold and silver jumped sharply within minutes to the highs of the day; up almost \$20 in gold and 80 cents in silver. We came close to violating the \$1275 level in gold to the upside. Since then prices have retreated, giving up more in gold than in silver. Trading volumes increased.

As is usually the case, there was little news to account for the price action and it appeared to be HFT to the upside. I believe one must be fair and impartial in labeling sudden moves in silver of 4% to the upside as being as manipulative as sudden HFT moves to the downside. Obviously, it's easier to take upside moves than the downside variety if you are a long term investor, but it is also important to put the sudden up moves into perspective.

The common denominator between HFT up and down moves is that they are both primarily intended to instigate a reaction from the technical funds. No matter the direction of the sudden move, the induced buying or selling by the technical funds comes mostly after the price move. That's the manipulative feature of HFT moves — the commercials move the price first and then the technical fund buying or selling comes in. Down moves are intended to get the technical funds to sell and today's up move looks designed to have caused the technical funds to buy.

The problem is that this has nothing to do with legitimate price discovery; it's all about tricking technical funds into and out of futures positions. Combined with JPMorgan's unnatural market shares in COMEX gold and silver, as well as the obscenely large market shares held by the bank on the OTC gold and silver markets (60%), miners and investors are still confronted with pricing they have no participation in or that is determined by supply/demand fundamentals. That is not to say that the technical funds couldn't get lucky and buy just as prices embark on a large move higher; but it is just as possible that once the technical fund buying is completed, the commercials could start to initiate HFT moves to the downside intended to provoke selling. Simply put, this is a nutty and rotten way of discovering gold and silver prices.

The solution is to get JPMorgan the heck out of these markets and to ban HFT. Ironically, the Federal Reserve and the Treasury Department are moving to get banks out of commodity trading and it is expected that JPMorgan will soon announce the sale of its physical commodities business as a result of the regulators intentions. The irony is that JPMorgan intends to abide by the Fed's desire get out of all commodities trading except gold and silver, the two markets it most clearly manipulates. I couldn't make this up if I tried.

But it also seems clear to me that the reason JPMorgan is not abandoning gold and silver is because the bank holds such a dominant and controlling market share in every aspect of gold and silver that it can't depart without severely disrupting these markets. JPMorgan has grown to be such an integral factor in gold and silver pricing that its departure would necessarily create a price upheaval that will be welcomed by gold and silver investors. In fact, I believe JPMorgan (and the Feds) recognize this and that is why JPM has amassed such a large long position in COMEX gold and in physical silver; so that the inevitable price violence works for one last time in the bank's favor.

When that day of upheaval will come is impossible to know, although it must be closer than ever before. In the interim, we must be prepared for whatever the COMEX and JPMorgan throw at gold and silver investors. In that sense, today's early price rig to the upside must be treated as both a fake-out designed to end at some point in induced selling; as well as a first step to the coming price violence to the upside. Today's price uncertainty aside, one positive development is the growing drumbeat of awareness that gold and silver prices are manipulated and that JPMorgan is being fingered as the prime culprit more and more. This is unprecedented and should hasten the day of price upheaval.

Ted Butler

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Silver – \$19.90

Gold – \$1259

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