

February 7, 2015 – Weekly Review

Weekly Review

A sharp Friday selloff, ostensibly generated by the monthly employment report, pushed gold and silver lower for the week, their second consecutive weekly decline. Gold fell \$51 (4%) and silver 55 cents (3.2%) for the week. As a result of silver's relative outperformance, the silver/gold price ratio tightened in slightly to 74 to 1, but this is still very close to multi-year highs on the ratio and continues to indicate a deep undervaluation of silver relative to gold.

Given that silver is the most manipulated commodity in the world and in history, I fully expect that it can fall further both absolutely and relative to gold in the short term due to the only negative price factor in play, namely, positioning on the COMEX. However, the reciprocal readjustment to decades of price manipulation does not appear to be that far away and, in the long term, silver still looks like a lock for long term outperformance, both on its own and relative to gold.

I hope no one was terribly surprised at the price weakness Friday or for the past two weeks or thought for a moment that it had anything to do with the employment report or anything else in the world away from COMEX positioning. Judging by the increasing numbers of commentators and observers now including the developments in futures trading on the COMEX as the prime price influence on gold and silver, I am greatly encouraged. I firmly believe that we are much closer than ever to the point where enough see the COMEX price manipulation to render it ineffective. We are not there yet, but that day will come.

The biggest news for me this week was not the largely expected and continuing developments in price change and COMEX positioning (more in a moment), but the abrupt slowdown in the physical turnover of metal in the COMEX-approved silver warehouses. As you know, I have been obsessed with the persistent frantic movement of 1000 oz bars of silver into and out from the six COMEX warehouses since it suddenly began around April 2011 and I believe I have quantified that turnover in just about every weekly review since.

I first noticed the movement because I'm always on the lookout for anything new or unusual that might suggest a change in the silver manipulation and this one had it all; it involved the COMEX (silver manipulation central), physical silver (not futures) and irrefutable data published daily. Of course, the daily silver warehouse movements didn't tell you where the silver was coming from or where it headed after it left the warehouses (it's not a perfect world), but it did tell you plenty. It told you that physical silver was being moved in and out of these six warehouses (mostly centered in and around New York City) with an intensity unprecedented in silver or any other commodity in history. To someone (me) believing that the silver manipulation would be resolved on a physical shortage basis, the movement was impossible to ignore and I'm still amazed about how little attention it has garnered over the years.

On countless occasions, I acknowledged that I didn't predict that the frantic movement would start or persist as long as it has and I had no way of knowing if or when it would end. For years, I reasoned the persistent physical turnover was most likely due to industrial demand that necessitated the inventory turnover, but I always sought and solicited alternative explanations. In 2014, the average weekly COMEX silver turnover accelerated to close to 5 million oz, an annualized rate of 250 million oz, the equivalent of 30% of annual mine production. Why such an extraordinary amount of physical silver would be moved in and out of these six warehouses when nothing remotely close to that circumstance ever occurred in silver or in any other commodity, while total inventories remained essentially unchanged, is still a mystery of the ages (at least to me).

I acknowledge today that I may be jumping the gun, but I sense a change in the frantic COMEX physical silver turnover. Towards the end of last year, we experienced two weeks of subdued weekly turnover of only 2 million oz or so. I attributed it to the holidays and in the New Year, weekly movement picked up to over 5 million oz for the next two weeks and it looked like the frantic turnover pattern returned. The following two weeks cooled off again (under 3 million oz), including two days of nearly zero movement a week or so ago, which was very unusual. This week and only because of a pretty big movement yesterday, COMEX silver warehouse turnover was only 1.3 million oz, including the four slowest days I can remember over the past nearly 4 years. Total COMEX silver inventories fell 0.2 million oz to 177.9 million oz.

Again, I may be very premature, but facts are facts and if I'm going to make a big deal about something unusual that has persisted for nearly 4 years, there is no way I can ignore when that may be changing. In the event the COMEX silver warehouse turnover reverts to its former frantic pace, this discussion may have to be disregarded, but let me go out on a limb and share my thoughts with that in mind.

And keep this one fact firmly in mind — the unusually frantic COMEX silver warehouse turnover began when silver prices were close to \$50 and continued for nearly 4 years; the same four years where the price of silver put in its worst performance of all time, falling 70% from the highs. While I always believed the turnover would prove ultimately bullish for the price of silver, I don't believe I made that representation on a short term basis, suggesting the turnover was the driving force behind short term prices (as are the COTs). My point is that no one should fear the end of the physical warehouse turnover as it has coincided with absolutely rotten concurrent price action. On the surface, we should be rooting for the movement to end.

Over the past year or so (I can't remember exactly when) I have speculated that JPMorgan has accumulated the largest stockpile of physical silver ever amassed in history. And where I thought the physical silver movement in the COMEX warehouses was originally driven by strong industrial demand, more recently I have come to believe the movement was related to JPMorgan's silver accumulation. The two thoughts, moreover, are not that far apart. While I suppose I would have preferred the movement to have been caused by straight industrial demand and not by buying by JPMorgan if I had the choice; in reality, I had no such choice. When the good Lord gives you lemons, you make lemonade or lemon pie; you don't moan that you don't have oranges. While I further suppose that if I am correct about JPMorgan accumulating silver that some might argue that the world's most crooked bank might then sell that silver to continue to depress prices; I'm of the belief JPM is more likely to make the financial score of all time by arranging to sell at unimaginable high prices.

I guess the bottom line here is that if the COMEX silver warehouse turnover has or is coming to an end, it might signal that JPMorgan has finished its silver accumulation phase and would begin to consider the distribution phase of its hoard (at much higher prices). That doesn't mean we go straight up from here and considering the current COT setup that would appear unlikely. But the COT setup will likely change in fairly short order and when it does, there will be no reason for JPMorgan to continue to depress silver prices as they have over the past seven years.

Another possibility, of course, is that JPMorgan has only temporarily suspended its physical silver accumulation because it knows it will engineer prices lower and then resume its accumulation later (like it did with Silver Eagles last summer). All we can do is monitor the facts as they are presented and adjust to the realities of the data. I have admitted to possibly being premature about the warehouse movement ending, but I thought it important enough to share. As always, I actively solicit your thoughts on my very speculative conclusions.

The changes in this week's Commitments of Traders Report (COT) were largely expected, but the reductions in the headline number of the total commercial net short positions were a little shy of what I hoped for privately, particularly in gold. I did, at least, predict in last week's review that we would likely see a break in the pattern of ever-increasing commercial selling. After five straight weeks of increases in the headline number in silver and gold, it appears the commercial price controllers are angling for lower prices to buy back short positions, if yesterday's price smash is any indication. During the reporting week which ended Tuesday, gold finished roughly \$30 lower, while silver ended 70 cents lower. The key day, however, was Thursday January 29, when silver dropped by more than a dollar.

In COMEX gold futures, the total commercial net short position declined by a scant 3200 contracts, to 203,300 contracts. This is still the largest commercial short position in two years, excepting last week, and can't possibly be considered bullish in COT terms. If we move substantially higher in gold prices from here, it would appear that would have to come from non-COT factors, always a possibility. If we move lower in prices, it's hard for me to see that being caused by anything but the COT setup.

By commercial category, there was a break in the cohesive and collusive pattern of short selling as only the big 4 added new shorts and a hefty 11,400 contracts at that. The 5 thru 8 big shorts bought back nearly 3000 short contracts and the raptors bought back a sizable 11,700 short contracts. Less than a month ago, I was still marveling about the reluctance of the biggest 4 gold shorts to add to short positions at that time and wondering if they were in position to let the gold price run or just angling to sell short at somewhat higher prices. It now appears clear that it was the latter as the 4 largest gold shorts added 45,000 new gold shorts since Jan 6, more than half of the 80,000 commercial contracts sold since then.

The companion monthly Bank Participation Report was released yesterday and further confirmed that over the past month, that of the 80,000 additional COMEX gold contracts sold short by the commercials since Jan 6, 60,000 contracts were sold by domestic and foreign banks. What's easy to conclude is that on the \$80 rally in gold prices from January 6 to the recent highs, banks accounted for 75% of the COMEX contracts sold, including 4 banks accounting for 56% of all the gold contracts sold. What's even easier to conclude is that without this concentrated short selling by a small number of banks, the gold price would have climbed much higher in order to attract enough selling to satisfy the buying demand. It's much more extreme in COMEX silver, but the documented concentrated selling is the irrefutable proof that gold prices were kept lower than they would and should have been had this concentrated selling not occurred. Simply put, the banks put the hammer to the gold price advance.

On the buy side of gold, the technical funds accounted for nearly 5000 contracts sold net, almost all long liquidation and the numbers aren't big enough to warrant a closer look. And the Bank Participation Report confirmed that whatever JPMorgan's long gold position may have been, it's too small to reasonably calculate. And given the large swing in bank selling over the past month, they could well be net short, although I don't sense to a great extent.

In COMEX silver futures, the total commercial net short position decreased by a not insignificant 5300 contracts, to 56,200 contracts. This is still a very large commercial short position and can hardly be considered bullish in COT terms. By commercial category, it's even less bullish as there was no reduction in the concentrated short position. Although I am always prepared to be surprised when the Bank Participation Report is released, there were no surprises this time and JPMorgan's portion of the concentrated short position looked to be very close to the 20,000 contract level I had been suggesting. The raptors accounted for all the buying and then some, by adding nearly 6000 contracts of new longs to a net long position that now stands at 9700 contracts. The big 4 added nearly 700 new short contracts, pushing the combined concentrated net short position of the 8 largest traders to nearly 66,000 contracts.

66,000 contracts is the equivalent of 330 million ounces of silver, once again, more than 40% of world annual mine production and a truly obscene amount for any physical commodity. I'm sure, if pressed, the CFTC and the CME would dismiss any concern with this percentage of world production being held short as something they don't consider important (because they have done so in the past). But neither could they explain why such a concentrated short position exists in any commodity, particularly one so depressed in price. Why just in silver and consistently so for years? I've grown sick and tired of the few remaining manipulation deniers dismissing any suggestion that silver (or gold) may be manipulated in price without confronting the obvious and verifiable facts.

Let me make it easy for those who refuse to acknowledge the silver manipulation. Simply explain why 8 traders, mostly domestic and foreign banks, would hold short the equivalent of 40% of the world annual production and a third of all the silver bullion that exists at prices below the average primary cost of production and nearly 70% below the price levels of four years ago. How could such a concentrated short position be explained in legitimate terms and what would be its purpose? What effect would such a large short position have on the price of any commodity and how do you see it being resolved if it wasn't permanent?

I don't expect any serious answers to such questions, as it appears to be easier to malign the questioner as a conspiracy theorist instead, but I know these questions have never been addressed in a straightforward manner by anyone who denies the silver manipulation. The funny thing about serious questions that can't be answered is that they can lead to personal epiphanies, such as the type I experienced 30 years ago when Izzy asked me why silver prices were so low in the face of a deficit. One of these days the questions may be asked by someone in position to do something about it.

From a site I visit often, Jesse's Caf  Americain, I picked up a link to a story how one of the world's largest investors, Ray Dalio of Bridgewater Associates, may hold 4.7 million oz of gold worth some \$6 billion in his main portfolio. Dalio is a highly respected asset manager whose record is second to none. <http://jessescrossroadscafe.blogspot.com/2015/02/ray-dalios-all-weather-fund-holding-6.html>

Since I look at things through a silver prism, I couldn't help but wonder what if someone like Mr. Dalio ran across the right questions in silver and he came to conclude, like me, that silver was even a better investment than gold. That doesn't mean I am suggesting he sell his gold holdings and there would be no need to do so, since his portfolio only devotes 7.5% of total assets to gold. But what if he decided to put \$6 billion into silver as well?

The short answer is that I don't think he could buy \$6 billion worth of silver because there is nowhere near that much silver that could be bought. \$6 billion worth of gold (4.7 million oz) represents less than one-tenth of one percent of all the gold in the world (\$7 trillion or 5.5 billion oz). \$6 billion worth of silver would amount to 350 million oz or 35% of all the silver bullion in the world (1000 oz bars). How could anyone buy 35% of all the silver in the world without sending the price to the heavens?

To my mind, there isn't much difference between gold and silver as they are the two most comparable items in the world. I confess to being much more partial to silver, but not because I look down my nose at gold   I just believe silver is better. I also believe the questions I have raised in silver about the concentrated short position are questions that could someday be asked by someone like Mr. Dalio and if satisfactory answers are not forthcoming, the final result could well be an attempt to buy silver instead.

In the meantime, we must confront the immediate reality of the concentrated short position and the likely attempt by the commercials to reduce the short position to the downside in prices, as has been the case in the past. I'll spend more time soon as to how that is likely to evolve, but should someone get the scent of what's really transpiring in silver and moves to acquire a sufficient quantity of physical metal, the shorts' intentions may be interrupted. Left undisturbed, the shorts will be gunning to the downside.

Ted Butler

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Silver – \$16.70

Gold – \$1233

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