January 10, 2015 – Weekly Review

Weekly Review

Against a backdrop of continued weakness in crude oil, general market volatility and terrorism in Paris, the price of gold and silver rose. For the week, gold ended $34 (2.9%) higher, while silver added 75 cents (4.8%); even though silver seemed to struggle towards week's end. It was the highest weekly close for gold in nearly three months, while silver finished at a four week high. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by one and a half points to just over 74 to 1, but silver remained close to the most undervalued it has been to gold in years.

The New Year has gotten off to a volatile start with prices and emotions flip-flopping daily, mostly in reaction to gyrations in the price of crude oil, the world's most important commodity. I'll have some new thoughts on oil a bit later, after running through the usual weekly review format.

Turnover or the physical movement of metal into and out from the COMEX-approved silver warehouses appeared to return to the torrid weekly average witnessed over the past year or so, following three weeks of subpar movement. This week, close to 5.2 million oz were either brought into the COMEX warehouses or were shipped out as total inventories fell by 1.9 million oz, to 173.6 million oz, the lowest level in 8 months.

I'm still not overly concerned with the total level of COMEX reported silver (or gold) inventories, as I know the total level of world inventories in not shrinking despite what may be occurring in the various visible inventories. My interest is still on why there has been such a phenomenal and unprecedented physical turnover in the COMEX silver warehouses for the past nearly four years. I tried to provoke a response in my recent public articles on JPMorgan acquiring vast amounts of physical silver, but no one seems to want to touch on this issue or the other peculiarities on silver that I raised. Therefore, I'll keep provoking.

The highly unusual and counterintuitive deposit and withdrawal pattern in the big silver ETF, SLV, continued this week as nearly 3 million physical oz were turned over in the trust with the deposits and withdrawals occurring when they shouldn't have, namely, out of kilter with normal price and volume patterns. In contrast, the deposit and withdrawal pattern in the big gold ETF, GLD, appears as it should Â? deposits following price strength and withdrawals following price weakness. The most plausible explanation for the counterintuitive metal flow in SLV still remains a large buyer converting shares into metal to avoid the SEC's 5% share ownership reporting requirement.

As you know, I've concluded that the big buyer of all things physical silver is JPMorgan and that the big bank has perfected the financial crime of all time in picking up physical silver as it manipulates the price lower through crooked COMEX dealings. Sometimes I think, in the interest of fairness and analytical objectivity, if I am being overly harsh on JPMorgan for being so devious in silver. Fortunately, those doubts generally don't last so long as I peruse the financial news. Just yesterday, JPMorgan settled for $500 million allegations of mortgage fraud in connection related to Bear Stearns. And there were other reports that JPM had settled on its role in the FX price manipulation scam, with only the amount of the fine left open. But what completely erased any doubts was this report in Bloomberg describing alleged bad dealings by JPM against religious organizations. I wouldn't bet against these guys stealing their mothers' dentures if they could turn a buck. http://www.bloomberg.com/news/2015-01-08/losing-faith-in-jpmorgan-two-churches-claim-self-dealing.html

Just so you don't think all the news was bad, here's an article from the Wall Street Journal describing a potential new use for silver as a personal clothing heating element somewhat timely considering the current deep freeze throughout the US.
http://www.wsj.com/articles/tiny-clothing-wires-ward-off-the-big-chill-1420822730?mod=WSJ_hpp_MIDDLENexttoWhatsNewsThird If that article won't come up (due to subscription restrictions) try this link instead. http://phys.org/news/2015-01-super-insulated-indoor.html

The US Mint has yet to report any sales of Silver Eagles for 2015 (it should any day now), but sales of Gold Eagles and Buffaloes seem to be off to a healthy start. I'm still scratching my head as to why sales of gold coins trailed off in December and the sales report for 2015 so far only raises more questions.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I had expected some hefty increases in the total commercial net short positions for COMEX gold and silver in this week's Commitments of Traders Report (COT) considering that prices hit multi-week highs on the Tuesday cutoff and closed decisively above the 50 day moving averages. If I had to choose one word for my reaction to the report, it would be Â?relieved.Â? That's not to say the COT market structure is extremely bullish, because that is not the case. And if we do go lower in gold or silver, it will only be due to the deliberate actions of the COMEX commercial crooks, as is always the case. It's more a case of we should go higher considering everything other than the COT market structure.

In COMEX gold futures, the total commercial net short position increased by 9500 contracts to 122,700 contracts. Since this is the highest headline number since late August, it can hardly be considered bullish on its face. But where it does get less bearish is in the commercial category breakdown. The four largest gold commercial shorts stood pat and hardly increased their concentrated short position at all (by 54 contracts). The big 5 thru 8 shorts added around 2700 new shorts and the raptors sold around 6800 long positions.

The standout feature in this and recent COT reports is still the disparity between the behavior of the 4 biggest commercial shorts and the commercials in general. From November 11, the total commercial net short position in gold has increased by more than 72,000 contracts (7.2 million oz), while the big 4 have reduced their concentrated net short position by more than 14,000 contracts. There's no way of knowing if the largest commercial shorts in gold are Â?savingÂ? their former shorting power to sell at somewhat higher prices or are positioning themselves for much higher gold prices by avoiding the short side. Whichever it is, this will be a key factor in the price direction for gold.

The technical funds were the key buyers in gold but to less than the 9500 contracts sold by the commercials. All told, the technical funds (in the managed money category) bought just under 7200 contracts net, including 3400 new longs and the short covering of more than 3700 contracts. I still maintain that a big move down in gold must involve significant new technical fund shorting as, despite the recent increase in technical fund long positions, it is not unusually large on an historic basis.

By reconciling positions indicated in the companion Bank Participation Report, I would peg JPMorgan's long position in gold at less than 10,000 contracts. In a walk down memory lane, around a year and a half ago, in the summer of 2013 (the year of the big gold price smash), I reported that JPMorgan had flipped a net short position of 75,000 contracts at the beginning of the year to a net long position of as many as 85,000 contracts net. That set the stage for a potential gold rally of significant proportions; a rally that never occurred.

In hindsight, JPMorgan used its massive concentrated long position in COMEX gold instead to cap the price of gold, selling out on rallies and adding longs on selloffs to contain and control the price. It did so profitably, but not to the extent of the profits it would have made had it let the gold price rip upward. I never quite understood why this crooked bank acted in such a restrained manner until recently.

At that time in 2013, I didn't comprehend that JPMorgan was in the process of acquiring the massive amount of physical silver I allege it has amassed. If the bank had let the price of gold rip higher, it would have undoubtedly impacted the price of silver as well, preventing JPM from picking up silver on the cheap (which it has done through this day). In other words, JPMorgan sacrificed potential gold profits in 2013 in order to acquire more and even cheaper silver. Aside from being illegal, that looks like a pretty good trade. It also tells you to hide your mother's teeth should these guys show up.

In COMEX silver futures, the total commercial net short position increased by 1000 contracts. As was the case in gold, you have to go back to August to find a larger headline number. And also like in gold, should we move lower in price, it will be due to crooked COMEX commercial actions. By commercial category, it was definitely a mixed bag. The raptors sold out another 1700 contracts, reducing their net long position to 19,100 contracts. The big 4 added 400 new shorts, while the big 5 thru 8 bought back nearly 1100 shorts.

The technical funds bought close to 2500 contracts net, fairly evenly divided between new longs and short covering. While the total buying was more than the commercials sold on balance and as was the case in gold, the managed money long position does not look excessive and ripe for significant liquidation to the downside once one adjusts for the existence of many non-technical funds on the long side. Considering the price action during the reporting week, the silver COT (like in gold) could have been much worse.

I'd peg JPMorgan's concentrated and manipulative short position in COMEX silver to be 14,000 contracts at a minimum; but perhaps I am being too conservative as a fair reading of the US bank category of the companion Bank Participation Report would allow for this crooked bank to be holding as many as 5000 additional short contracts. In any event, even 14,000 contracts would represent a substantial increase from its silver short position in the December BPR of 7000 contracts – at least a doubling and perhaps more.

If one were looking for incontrovertible proof that the price of silver has been and is manipulated in price by JPMorgan's excessive short selling (and for the purpose of illegally picking up physical silver on the cheap), then look no further. One US bank accounted for almost all of the new short selling both in the Bank Participation Report and in the concentrated net short position of the four largest shorts since December 2. The new concentrated short selling by JPMorgan took place in a flat to down price environment and at prices averaging no more than $16.25, a price well below the average primary mining cost of production and $3 less than the average price of silver in the third quarter (in turn the lowest quarterly price in years). How can this new short selling be considered legitimate and not purely intended to be manipulative to the price of silver?

Almost unbelievably, this new concentrated short selling by JPMorgan was described by me in advance as being the key element as to what the price of silver would or wouldn't do. On this there can be no argument. In the event JPMorgan sold short, the price of silver would struggle; if it didn't, silver would soar. Nothing else has really mattered up until this point Â? not any other market factor, like actual mining and consumption or how much China or India buys. Clearly, I can't control what this crooked bank does or doesn't do; but there should be no question that silver's rotten price performance is directly related to JPMorgan's actions. That's what makes this bank crooked and explains everything pricewise concerning silver.

On to crude oil, which may represent something that can derail JPMorgan's death grip on the price of silver. I'm not suggesting that what is occurring in crude oil is central to what will happen in silver or intended in any way, but I have been thinking more and more that oil is destined to impact silver. And considering how unjustifiably depressed is the price of silver, any impact that anything has on silver is likely to cause prices to move higher.

Very recently, I have been struck by the fact that while it couldn't be clearer that COMEX positioning is everything when it comes to silver (and gold) pricing, that is not the case in crude oil. In silver, the actual supply/demand factors have little, if anything to do with price. However, it's almost the opposite in crude oil, or at least that has been the case for the majority of the recent historic price decline. I say almost, because some time back (within the last year or so) I do remember commenting how there was an historically large commercial short position in crude oil (including a big bank short component) and would not be surprised if oil prices fell. Shortly thereafter, I retracted my comments and asked you to disregard them as COT positioning in oil was different than in the metals as far as price impact. I also commented more recently, as oil prices began their descent from over $100 that the trigger for the initially lower prices could be traced to heavy liquidation by traders in the managed money category where around 150,000 NYMEX oil contracts were sold net, precipitating the initial slide.

But something very strange has occurred on the crash in crude oil prices from $90 at the beginning of October to under $50 today, namely, NYMEX COT positioning has hardly changed at all. Why I find this very strange is that (other than the three month run in silver to $49 in April 2011 due to a growing physical shortage), I can't conceive of a major price move in silver (or gold) not having a solid COT explanation. I'm not saying all price moves in silver or gold are accurately predicted by the COT structure (although many have been over the years); I'm saying there is always a cogent explanation in COT terms for all previous price moves (excepting silver into April 2011). Yet here we have a gigantic decline in crude oil having little, if anything to do with futures trading on the NYMEX because while the price of oil certainly changed, the structure hasn't.

By the process of elimination and deductive logic, if changes in the COT market structure didn't account for the sharp decline in oil prices, then something else had to. That something else can only be actual oil supply and demand. If it wasn't paper or electronic barrels, then it had to be Â?wetÂ? barrels. It may sound elementary that actual supply and demand has determined the historic oil price smash, but that is something that heretofore has almost never occurred in silver or gold. I don't argue that what has occurred in oil is the way commodity prices should be discovered; just that this is not the discovery process in silver. In silver, price is determined by the crooks at JPMorgan, not on actual supply and demand, as I took pains to describe above.

What makes the recent oil price drop and the price discovery mechanism behind it so fascinating is that it forces you to focus on it in a different way. As I've tried to explain previously, oil is a Â?funnyÂ? commodity in that without some sort of collective production control at the wellhead, even slight surpluses or deficits can have disproportionate effects on price. Absent a voluntary production cutback in times of surplus or production increase in times of deficit, prices can swing wildly. We don't have a particularly large oversupply of oil currently, but neither do we have a voluntary production cutback as we've had for 99% of the time in the history of oil. Without a voluntary production cutback, there is no practical limit as to how low oil prices can fall and before the inevitable involuntary production cutbacks kick in (along with increased demand).

Unless Saudi Arabia is bluffing (and I see no evidence of that), there is no reason to expect oil not to decline further, either until a broader voluntary cutback can be arranged or until involuntary production cutbacks take place through bankruptcy. The only question in my mind is will this process play out as it appears on paper and prices continue to plunge or if the financial damage to other big exporters (Russia) brings some type of preemptive end to what appears to be inevitable on paper.

It seems to me that either scenario, the bankruptcy in time of enough North American producers to make a difference or some sooner voluntary production cuts will be good for silver (and gold), but probably bad for most other markets. If my elementary observation that the oil price plunge has nothing to do with paper trading and everything to do with actual wet barrels, I don't see how the government forces that seem to constantly prop up stock, bond and real estate prices and lean on commodity (especially precious metals) prices can interfere with what's happening in oil.

In the event oil prices continue to plunge, enough damage will be brought to the North American producers as to heighten financial instability. If oil prices suddenly shoot back up due to some unexpected production cutbacks, it would seem that would also heighten instability. In fact, I sense this thought is suddenly creeping into the collective financial mindset. Up until a week or so ago, it was mostly universally accepted that the oil price plunge was unabashed good news. However, I detected this week among those most optimistic about the general good that lower oil prices brought an abrupt about face and a relief when oil prices steadied or moved higher. Even those formerly cheering on lower oil prices have started to think enough is enough. The problem is that prices don't appear likely to stabilize until production is cut in some meaningful way and that is not visible at this point.

I'm intentionally avoiding, as is my custom, wider and deeper thoughts concerning international conspiracies and subplots of who is zooming whom in oil, as in the end what difference does it make? I'm inclined to keep it simple and recognize that if oil prices are down for the simple mechanical reason that no one is willing to cut production, prices will stay and go down until production is cut in some manner. But no matter how this oil drama plays out, it threatens to be world changing due to the extent and rapidity of the decline and the fact that very few were prepared for it. And with silver in the $16's, the last thing that silver investors should fear at this time is change.

Ted Butler

January 10, 2015

Silver – $16.50

Gold – $1223

Date Created
2015/01/10