January 14, 2014 – Don’t Confuse Oil and Copper

Don't Confuse Oil and Copper

Two of the most important commodities in the world are crude oil and copper. The total annual production/consumption value of oil, of course, towers over copper because crude oil towers over every other commodity. Even after its price has fallen by more than 50%, crude oil's annual production value is roughly $1.5 trillion (it was over $3 trillion not that long ago); compared to copper's annual production value of $100 billion, even after its price has fallen 15% in the past two weeks (at the lows today). But make no mistake, copper's annual production value is near the top of the list of world commodities in general.

In fact, because copper is such a widely used industrial commodity, it is considered a bellwether as an indicator of overall economic activity, often referred to as Dr. Copper – the commodity with a PhD in economics. Because of this, the steep fall in the price conjures up thoughts that world economic activity is headed for trouble. Coupled with the sharp fall in the price of crude oil, it is natural for many to conclude that the large declines in both commodities are a harbinger of a severe downturn for the world economy. http://www.bloomberg.com/news/2015-01-14/commodities-sink-to-12-year-low-as-copper-oil-slump.html

That may turn out to be the case, but there is strong data suggesting that the reasons behind the sharp drops in the price of copper and crude oil are very much different. In the case of oil (as I explained Saturday and previously) the price crash is directly related to the decision by OPEC (mostly Saudi Arabia) not to cut production in the face of what was a minor supply glut (a million barrels a day on a total 93 million barrels a day total world production) to avoid the circumstances facing the Kingdom in 1985. Again, oil is a peculiar commodity in which small surpluses or deficits can have a disproportionate impact on price. In addition, there was solid evidence in the form of the Commitments of Traders Report (COT) that the oil price smash did not emanate from futures trading on the NYMEX, since the market structure had hardly changed over the past three months in which oil fell from $90 to under $50.

The situation in copper is markedly different than in crude oil. First, there is no cartel of producers regulating copper production in order to smooth out price. And unlike oil which requires expensive and finite storage facilities (tank farms or ships), copper is easily storable. Since visible storage facilities' (COMEX and LME) inventory levels are much closer to five year lows than highs, there is no shortage of space to store copper. Yes, copper inventory levels are up from the lows recorded last summer, but by minor amounts on an historic perspective. While it may turn out that the world economy is about to crater, there is no indication of that from current accepted economic reports.

So if there is no strong indication of a significant copper surplus due to demonstrable overproduction, no indication that copper warehouses are filled to the brim and no evidence of a sudden downturn in world economic activity, then what the heck is behind the sharp plunge in the price of copper recently? And I'm also aware of the stories pointing to copper being overly re-hypothecated in China, but that just means not enough actual copper exist for all the loans it is supposed to back Â? a surplus of loans, not metal. In any event, if there is too much copper and other base metal production in the world and that production slows down, that can only be good for silver as there will be less silver mined as a byproduct.

Unlike the case in crude oil, the most relevant factor in the copper plunge is futures positioning and market structure on the COMEX. In fact, I had been kicking myself for not mentioning the extreme COMEX copper market structure in Saturday's report, but had run out of time and space. As it turned out, perhaps that was a blessing as the biggest part of the copper price plunge took place in the three days since my last article. Of the 40 cent plunge in the copper price since year end, more than 30 cents occurred in the last three days (to an overnight low of $2.42 basis the active March contract).

These are the facts – in the latest COT report for positions as of Tuesday January 6, the commercials held their largest net long position and the non-commercial (speculative) traders held their largest net short position in the history of the COMEX. Given the price plunge, trading volumes and the increase in total open interest since the last cutoff, I would be surprised if new record positioning extremes weren't set in Friday's COT report (which wouldn't include the high volume selloff today to new price lows). Over the past six months and on a copper price decline from over $3.20 to under $2.50, the commercials have increased their net long position by 65,000 contracts, or the equivalent of more than 800,000 tons of copper. Other speculators have sold short an equivalent amount, which happens to be four times the combined COMEX and LME copper warehouse totals.

Such an amount of copper sold short by speculators has had the biggest influence on price. While my experience tells me that the commercials are setting up the short selling speculators for a skinning as and when prices reverse upward, my expectations should be completely disregarded (and not just because I guessed wrong about the technical funds in silver several months back). Please think about the COT facts as I just presented them.

Traders clearly identified as commercials by the CFTC were the exclusive net buyers of over 800,000 equivalent tons of copper on the COMEX and the main sellers were traders that the CFTC identified as non-commercials or pure speculators and who sold short the same equivalent amount of copper bought by the commercials. Even though I'm convinced that the commercials are setting up the non-commercials, that's beside the point because the commercials were buyers, not sellers. What is the point is that short selling speculators were the most obvious selling force behind the copper price decline. As such, the CFTC has reported beyond a doubt that speculators, not legitimate hedgers, were the principle force in the sharply lower price of copper. Have we lost our collective minds?

Even though the sole economic justification for allowing futures trading in the first place is to permit legitimate hedging by actual producers and consumers, the federal regulator is reporting, quite clearly, that there is no legitimate hedging on the sell side of COMEX copper. That's because all the net selling was by traders that the CFTC has identified as non-commercials. If a mining company was selling COMEX copper futures to lock in and hedge the price of copper, that company would not be identified as a non-commercial. If enough legitimate copper producers were selling COMEX copper futures short and that selling was responsible for lower prices, then so be it Â? that would represent legitimate selling. But if no copper miners were selling COMEX copper futures and instead only speculators were selling short that is as far from legitimate as is possible. Yet that is exactly what COT data indicate.

The obvious connection with COMEX copper is that what is happening in that market is the same as occurs in COMEX silver (and gold), namely, prices are set by speculators, as is proven in government data. If there is one thing that connects copper, silver and gold it is the crooked COMEX and how the price of each is determined by trading deemed illegal by commodity law. It was never intended that speculators would dictate prices to actual producers and consumers, yet there is no alternative explanation for the COT data. In fact, I had originally set the title of this article as Â?The Most Corrupt Exchange,Â? but wanted to first describe the situation in copper without such a pejorative title.

Most inexplicable, and as is the case in silver and gold, is my puzzlement as to why the copper producers sit by quietly and allow the illegal price setting to occur on the COMEX. The largest copper producers are multi-billion dollar enterprises which have seen their stock market capitalizations greatly damaged by the speculative scam ongoing on the COMEX. Just like the silver miners, I don't expect the copper producers to go head to head with the likes of the CME or JPMorgan, but that doesn't mean they are helpless either.

It's one thing for an individual, like myself, to call out the CME and JPMorgan as being market criminals in explaining how the crooked game actually works; I would never expect a mining company to go that far. But while the regulators at the CFTC or even in the Antitrust Division of the Justice Department, turn a deaf ear to complaints from individuals that is not likely to be the case if legitimate producers go to them with the evidence I've provided and demand an explanation. Even if prices rally, there's no guarantee that the crooked COMEX will change its evil ways voluntarily. Certainly, if anyone believes I've misstated the facts in any way in describing how prices are determined, please let me hear from you. Alternatively, if you agree with my take, please feel free to send this along to any copper or silver miner you may have an interest in.

In other developments, there was a slight increase, once again, in the short position in shares of SLV, the big silver ETF. As of December 31, the short position in SLV rose by 1.1 million shares to just over 17.6 million shares (ounces). In contrast, there was a decline in the short position of GLD, the big gold ETF of over 1.4 million shares (140,000 oz). I never like to see any increase in the short position of SLV and this is the second consecutive increase. Still, at just over 5% of total shares outstanding, this short position does not appear to me to be the driving price force that COMEX short sales represent. 17.6 million oz is the equivalent of 3520 COMEX contracts and the crooks at JPMorgan added double that amount of short sales on the COMEX over the past month and hold four times that amount net short in COMEX futures.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

The US Mint (as expected) updated its sales of Silver Eagles for 2015 yesterday and with just over 3.6 million coins sold as of January 13, it would appear the Mint is probably selling at its full production/supply capacity and may have, in fact, increased its Silver Eagle capacity. Time will tell. It will be interesting to see if JPMorgan pulls back from buying Silver Eagles one of these days since it is increasing its COMEX silver short position. The last time JPMorgan increased its COMEX short position enough in the summer, it stepped away from buying Silver Eagles temporarily until it had rigged silver prices lower.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Speaking of JPMorgan, it reported quarterly earnings this morning and I nearly fell off my chair when hearing analyst Dick Bove explain why JPM's legal expenses were so high in the quarter (at close to $1 billion). While surprising to other analysts, Bove claimed to have long expected high legal costs to reoccur, comparing JPMorgan to tobacco or asbestos companies which have long been the object of protracted litigation. The reason I almost hit the floor was because the reason tobacco and asbestos companies have been subject to so many lawsuits is because their basic products were harmful to the health of those exposed to them. I can't think of a more appropriate analogy for JPMorgan than in classifying what it does as being harmful to those exposed to it (although Bove didn't intend that message). Click on Â?JPM's legal costs not one offÂ? http://www.cnbc.com/id/102336489

Where to from here? There was further deterioration in the market structures of COMEX silver and gold, in that commercial selling most likely increased into the rally through yesterday, the cutoff for this Friday's COT report. As concerned as I am by what amounts to the only explanation for why gold and silver prices might decline, other forces continue to suggest the COMEX commercial crooks, led by JPMorgan, may be overcome should a genuine flight to quality develop as a result of stock market weakness.

I don't want to be dismissive of the risk of a selloff and I don't think I was as clear as I could have been in Saturday's review that all eyes should be on JPMorgan as this crooked bank was largely the sole commercial short seller in COMEX silver over the past month. That alone proves the manipulation as whenever one large seller accounts for almost all of the new short selling in any market, there can be no clearer proof of manipulation. And since JPMorgan has been the sole new short seller in COMEX silver on several occasions in the past, it is no exaggeration to call this crooked bank a serial manipulator – also kind of like the serial damagers to health that tobacco and asbestos manufactures have been. In those companies' defense, I'm not sure they ever intended to hurt people from the get go. With JPMorgan, I'm convinced it intended to manipulate silver for its own benefit and for the damage to others from the start.

Ted Butler

January 14, 2015

Silver – $16.95

Gold – $1233

Date Created
2015/01/14