January 23, 2016 – Weekly Review

Weekly Review

Gold and silver prices rose slightly for the holiday-shortened trading week; with gold adding $9 (0.8%) and silver up by a dime (0.7%). Based upon other world markets, including equities and crude oil, precious metals price volatility was quite subdued, as if under control by some supernatural force (aka COMEX trading). The standout overall price pattern for the past twelve weeks is still one of sideways price action following a steep selloff from the end of October into mid-November, in which silver fell more than $2 and gold by more than $120.

As a result of the flat relative price performance, the silver/gold price ratio remained almost unchanged at 78.4 to 1, at the upper band of the tight trading range of the past year and longer. If there is anything to be learned from the movement of the silver/gold price ratio, aside from it being set on the COMEX, thus making it artificial; I have been unable to grasp that lesson. I know that everything in the real world of actual metal data point to silver being vastly undervalued, but I also know that hasn't mattered much in present times.

It occurred to me that we are living in an era of an epic relative mispricing of silver and gold on a scale with the extreme mispricings of history Â? only in reverse. For centuries, the monetary authorities of the world, including the US's first Treasury Secretary Alexander Hamilton, artificially fixed the silver/gold ratio at somewhere between 12 to 1 and 16 to 1. There can be little debate that this was an arbitrary government imposed monetary ratio. There also can be little doubt that, in historical hindsight, silver was vastly overvalued relative to gold back then.

This was before it was discovered that silver contained an impressive array of chemical properties that led to the world's stockpile of silver being used up industrially over the past 75 years. For instance, I doubt Sec Hamilton considered that silver was the best conductor of electricity when he set the US's official silver/gold price ratio in the late 1700's or early 1800's.

Despite the depletion of the world's inventories of silver, the silver/gold price ratio widened out to 100 to 1 during the last century as central banks disposed of their silver, no longer an official monetary asset. The irony is rich as the relative value of silver collapsed against gold, just as silver disappeared and actually became more rare than gold. Now we have the reverse Â? silver being massively undervalued to gold despite it being much rarer and scarcer. Only this time, the arbitrary and artificial force behind the extreme undervaluation of silver is price setting on the COMEX. I say we bring back Alexander Hamilton or, failing that, end the COMEX manipulation.

I try to stick to a weekly format that includes what I consider to be the most important price factors in silver and gold. I'm still convinced the most dominant price influence currently is COMEX positioning and that's why I devote so much time to it. Since I don't think this COMEX influence will dominate forever, I try to highlight the most important developments on the physical side of the equation, which is currently subservient in the price discovery process, but should emerge as the dominant force over time, particularly in silver.

My definition of what's important includes facts that can be verified and from which rational explanations can be derived. I do tend to be consistent in what I include according to my definition, but am always questioning myself if I am leaving out other factors that I should be discussing. I guess I'm asking for your input if you think I am overlooking any relevant data.

One fact I always cover on the physical side of silver is the weekly turnover or movement of metal brought into or taken out from the COMEX-approved silver warehouses. I'm still not concerned with changes in the categories of COMEX silver or gold, registered or eligible, for a number of reasons. What seems infinitely more important is the physical movement and level of total inventories. If I am going to consider the physical side of the equation, I want it to be as physical as possible. Physically moving actual metal into and out from the COMEX silver warehouses and total inventories seem more physical to me than do category changes which don't involve physical movement.

This past four-day work week, nearly 6.7 million total ounces were either brought into or removed from the COMEX silver warehouses, as total inventories fell by 3.7 million oz to 155.4 million oz. This is the lowest level of total COMEX silver inventories in three years. Over the past two weeks of heavy physical movement of metal, total COMEX silver inventories have decreased by 6 million oz. In addition, since the beginning of the year, more than 6 million oz have been removed from the big silver ETF, SLV, (2 million oz this week) although it can't be determined for sure if that metal was physically moved or left in place.

Silver is languishing around six-year price lows, from which apparent conclusions of oversupply could be inferred. Yet instead of signs of actual oversupply in the form of growing inventories (as in the case in crude oil), we see declining inventories and incredibly high physical turnover; circumstances most usually present in times of high prices and physical tightness. What gives? What gives is that there is a disconnect between the price of silver, which is set in COMEX futures trading, and what is occurring in the physical world of silver. This is a disconnect forbidden under US commodity law and is being ignored by the regulators.

At the heart of the physical commodity world, there is supply and demand. The metal coming into the COMEX silver warehouses represents supply; the metal departing represents demand. The turnover represents the intensity of each. If there was a genuine oversupply of silver, more metal would be coming in than leaving and total inventories would be growing. In addition, were there a true oversupply of metal, turnover would be subdued because who would go the expense of securing and moving metal in storage when new material is available daily? In that situation, one would expect prices to be low.

Instead, we have the opposite in silver. Because there has been documented and unprecedented frantic turnover and because total inventories have not grown for years, we can rule out the supply side of the equation as being behind this circumstance. And if it isn't supply, then it must be demand, because there isn't any other choice. It is physical demand that is responsible for the COMEX silver inventory turnover and for the lack of build in total inventories.

The documented data prove that it is physical demand that is responsible for both the COMEX silver turnover and inventory shrinkage and the only thing wrong with that is the absurd incompatibility of the data to the price. Rapidly churning inventory turnover and decreasing total inventories require higher prices according to the law of supply and demand. And since no one can deny that COMEX silver inventories have not been churning more than ever seen in any commodity or that total inventories have not been shrinking; what could possibly explain the depressed prices other than the COMEX manipulation? Believe me when I tell you that no regulator or exchange official could possibly explain these circumstances in non-manipulative terms.

Sales of Silver and Gold Eagles from the US Mint have progressed mostly as expected. By the way, the reason I consistently reference American Eagle sales is because the data is readily available and, in the case of silver, represents perhaps the largest single demand component in silver's supply/demand equation. Over the past five years, Silver Eagle sales have accounted for more than 5% of total world silver mine production and more than 100% of US production, no small amount. While the demand for Gold Eagles represents a much small percentage of world gold mine production (something less than 1%), important indications of gold demand can be derived from US Mint data.

With one week to go in January, sales of Silver and God Eagles have already achieved my expected full month sales totals. So far, 5 million Silver Eagles and 108,500 oz of Gold Eagles have been sold. According to published reports, the Mint has indicated it will make available 1 million Silver Eagles per week and this strongly suggests that this is their production capacity or blank coin supply availability. This works out to a capacity of around 143,000 coins per day (7 day production week) or 4 million Silver Eagles per month, not much different from former levels. I thought it possible for the Mint to increase Silver Eagle production rates due to continued strong demand, but that doesn't appear to be the case. I also get the impression that the Mint is producing and selling Gold Eagles at near full capacity, but I have less familiarity with the production of Gold Eagles than Silver Eagles.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I can say that reports from the retail front continue to indicate a pronounced weakness in plain vanilla retail demand for both silver and gold which flies in the face of the documented sales figures from the US Mint. It was the consistency of this diametrically opposed set of circumstances Â? strong documented sales of Silver Eagles and weak retail demand Â? that led to my conclusion that a big buyer could be the only explanation. I identified the big buyer as JPMorgan and at the time, many insisted that was impossible and that surging retail demand accounted for the record sales from the Mint.

But with the passage of time and in the face of continued strong sales data from the Mint and continued reports of retail weakness, I've noticed less insistence that retail buyers are behind the demand. Let's face it Â? the pronounced weakness in the price has led retail buyers to do what they normally do, namely, curb their buying enthusiasm. That's just reality. But the Mint is still selling Silver and Gold Eagles like hotcakes, so someone is buying. That someone is JPMorgan in my opinion and that's quite bullish as and when JPM decides it is time for prices to move higher.

I find it more than ironic that so many (including me) report on the record sales of Silver Eagles over the past five years without pointing out that the record sales (over 200 million coins) coincided with the worst price period in the history of silver. Someone from another planet observing these circumstances would probably conclude that record demand caused the low price. Likewise, my presentation about the frantic physical turnover in COMEX silver inventories over the past five years would probably also be taken by a space alien as the cause of low prices over this time. Of course, once the visitor from outer space was informed about the price scam on the COMEX and the role of JPMorgan, all would be understood. And we'd probably have the first interplanetary investor in silver.

The changes in this week's Commitments of Traders (COT) report were largely expected in gold but very wide of my expectations in silver. And although I didn't offer any public expectations for crude oil, I would have embarrassed myself if I had, seeing how far off I would have been. But along with gold, I wasn't surprised by the results in copper, platinum or palladium, although no predictions were offered. As I always do, I will treat the data as correct, even though I'm still scratching my head over silver and crude oil.

In COMEX gold futures, there was a slight reduction in the total commercial net short position by 3400 contracts to 40,100 contracts. (I was expecting not much change, but perhaps some minor increase in commercial selling by a few thousand contracts. By contrast, my guess on silver was so far off that it made my gold prediction almost accurate). By commercial category, the 4 big commercial shorts accounted for all the total net change by buying back 5500 short contracts. The raptors (the smaller commercials away from the 8 largest traders) stood pat and the big 5 thru 8 added nearly 2000 new short contracts.

The big 4 gold short position, while not at the lowest level ever, is definitely very low on an historical basis and must, therefore, be considered bullish because it indicates the biggest and perhaps most influential COMEX traders are much better configured for higher prices than lower prices. If you believe gold prices are manipulated on the COMEX (as I do), it is likely that the largest traders are involved in the manipulation. And since the manipulators are likely to move prices favorable to their position, holding a relatively small short position suggests no big opposition to rising gold prices.

The managed money technical fund traders in gold did next to nothing on a net basis, in adding 1146 new longs and also adding 799 new shorts. That's about as close to unchanged as it gets. While we are slightly away from the most bullish COT market structure readings in COMEX gold than at the recent extremes, it's much more accurate to point to how far away we are from bearish readings.

In fact, the standout feature in the COMEX gold market structure is in how little deterioration has occurred to date, despite the price of gold closing above its important 50 day moving average for 12 straight trading days. Had you told me beforehand what the price would do over these past three weeks, I would have expected managed money technical fund buying of more than 50,000 contracts greater than what has occurred to date. I don't think the technical funds have changed their basic approach any more than a tiger could change his stripes, so I consider it bullish for the price of gold that technical fund buying has not occurred yet and will come at some point and higher price.

The biggest question in why the technical funds haven't bought many more gold contracts than they have? I think it's because we haven't had much true salami slicing to the upside in gold yet. The price of gold did spike up to its high in early January and over the past 10 trading days has not exceeded that high, even though the price remained above the 50 day moving average over this time. Salami slicing is all about making continuous new price highs or lows and, from my observation, compels the technical funds to react accordingly; continuing to buy or sell as new highs or lows are achieved. No new highs or lows, no additional buying or selling.

Since I'm also convinced that the commercials control the day to day price movement on the COMEX, I must conclude that the commercials have prevented the price of gold from achieving new price highs over the past ten trading days for the sole purpose of preventing large numbers of gold contracts from being purchased by the technical funds. The most plausible explanation for all this is that the commercials desire the technical funds to buy the large number of gold contracts the funds seem destined to buy at much higher prices than exist currently. That doesn't mean the commercials won't jiggle prices lower in the very short term, but the big move in gold is still higher.

In COMEX silver futures, the total commercial net short position increased by 5500 contracts to 36,000 contracts. (I was expecting unchanged or a slight increase). About the only good news for silver is that the raptors accounted for the entire net commercial change in selling out 5400 long contracts. The big 4 (read JPMorgan) stood pat and didn't add to short positions.

The biggest surprise was that the managed money technical fund shorts bought back an astounding 9122 short contracts, thus expending a big chunk of built in buying potential on a rally hard to measure because it was so puny. Managed money longs also sold out 1222 long contracts, somewhat counterintuitive given the large amount of short contracts bought and putting the non-technical fund core long position down to just over 49,000 contracts.

As a result of the large technical fund short covering, the market structure in COMEX silver has deteriorated but can hardly be called bearish, just less bullish. The big question is why such a large number of technical fund short contracts were bought back in silver compared to the relatively small number of technical fund short contracts bought back in gold so far. After all, silver did touch its 50 day moving average during the reporting week, but failed to close above it. Gold, on the other hand, has closed above its 50 day moving average every day for weeks with rather negligible amounts of technical fund short covering. The question is easier to ask than answer, but there are some possible answers.

One such answer is that the commercials intend to take the price of silver lower in order to induce the technical funds back onto the short side on lower prices. While possible, it seems it would have been easier for the commercials to not have allowed the puny price gains in silver seen to date. There was certainly no big profit or loss to either the technical funds or the commercials from the tech fund short covering during the reporting week. The technical funds do buy on price spikes higher and sell on price spikes lower which gives the commercials a tactical advantage, but the short covering has essentially occurred at the average price the technical funds established the short positions originally.

Another possible explanation is that the technical funds got tired of losing on short silver positions and the recent scam within a scam whipsaws inflicted on them and abandoned the short side in silver with excessive short positions. I guess we'll only know for sure if we see new price lows and observe how the technical funds react.

To be sure, this week's silver report was a surprise, but that's not necessarily bad. When the changes in the COT report largely match prior expectations there is little to learn or think about. It is only when the results vary widely from what was expected that one is forced to try to figure out why. Certainly, given the still constructive market structure and particularly considering how absurdly low the price of silver is, the loss of a large number of technical fund short positions isn't sufficient reason to abandon or alter silver positions.

As I indicated earlier, there are two sides to silver Â? the paper and the physical. I'm scratching my head about this week's changes in the paper market, but no such head-scratching appears warranted from developments on the physical side. In fact, the bullish drumbeat from the physical side of silver grows louder.

There were a few other things I planned on covering today, including an analysis of the movie, Â?The Big Short,Â? which I'll include next Wednesday, having run out of time and space today. But let me briefly mention a few things that have come up recently. The first was an announcement from the CFTC that it had developed a special web page for whistleblowers. I looked closely but didn't see any exclusions for matters related to silver, gold or the COMEX, but must assume such matters are strictly unwelcome. As a subscriber noted in sending me the link, he didn't know whether to laugh or cry.

http://www.cftc.gov/PressRoom/PressReleases/pr7312-16#PRBoxR1

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