

January 24, 2015 – Weekly Review

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For the third consecutive week, gold and silver rose, setting multi-month price highs in the process. Gold rose by \$14 (1.1%) for the week, while silver ended 55 cents (3.1%) higher. As a result of silver's relative outperformance, the silver/gold price ratio tightened in another full point to finish at just under 71 to 1. While this is (again) the strongest silver has been relative to gold in months, on a longer term perspective of the past few years, silver is still decidedly undervalued relative to gold.

Against a backdrop of pronounced dollar strength, as well as currency and financial market volatility and a continued historic decline in the price of crude oil, gold and silver prices have managed to increase where past experience would have suggested otherwise. Rarely, if ever, do I comment on the dollar or currencies in my analysis on silver and for good reason. I don't think I understand that influence and prefer to stick to actual supply/demand and COMEX positioning. I know there are times when the inverse relationship between dollar strength and metal weakness seems ironclad, but that hasn't been the case recently. So I guess I'll continue to emphasize the factors I normally focus on.

That's not to say that I am not amazed by the current circumstances of an effective zero interest rate environment and the level of official interference in the financial markets, including the bond buying spree of the Federal Reserve and the ECB. It seems clear that officials seem determined to force investors to buy stocks and chase yields and eventually that can't be bad for silver, even if that is not the primary intended purpose.

In fact, I can't help but feel the widespread monetary expansion confirms my key premise that silver will and must rise when it gets minimal investment buying. But whereas the authorities throw around buying measured in the trillions of dollars overall to boost general asset prices, all it would take in silver is a billion or two to get prices really rolling, a true pittance in the scheme of things. Of course, even that small amount doesn't mean much as long as the COMEX still controls the price, as new COT data confirm. More on that in a moment.

The physical turnover or movement of metal into and out from the COMEX-approved silver warehouses $\hat{?}$ cooled $\hat{?}$ slightly this week to 2.9 million oz as total inventories rose 2.3 million oz to 176.7 million oz. But considering this was a holiday (MLK) shortened week, this week's movement wasn't that much less than the daily average turnover. As has been the case, the intense inventory turnover is confined to silver of all the COMEX and NYMEX metals (gold, copper, platinum and palladium). A while back, I noted a pickup in gold inventory turnover, but more recently gold movement turned comatose once again.

Definitely not comatose was the $\hat{?}$ movement $\hat{?}$ of physical metal holdings in the big silver ETF, SLV, over the past few days. First, let me distinguish between the movement of silver in the COMEX warehouses and in the SLV. In the COMEX silver warehouse movement, this is the absolute physical turnover of 1000 oz bars from the various warehouses manually loaded into trucks and carted away and the unloading of trucks with metal manually brought into the warehouses.

In the case of the SLV (and other silver ETFs), the only data available indicate only whether metal has been deposited or withdrawn from holdings, with identifying serial numbers, bar weights and hallmarks. But the data doesn't indicate that the metal was physically moved into or out from official warehouses (in London), in that the reported metal may have already been in position prior to a deposit or may remain in position after a withdrawal.

So whereas the turnover of silver into and out from the COMEX warehouses is true movement in every sense of the word, the deposits/withdrawals in SLV and other ETFs, may or may not be actual physical movement. This is not a particularly important issue in terms of the analysis involved, but I did want to state it correctly. In any event, the $\hat{?}$ movement $\hat{?}$ in the SLV the past few days was quite extraordinary.

On Wednesday, I commented that the deposits and withdrawal pattern in SLV has been counterintuitive in that recent withdrawals seemed to come when deposits should have been made (on rising prices and heavy trading volume as has been the case in GLD). I also indicated that as a result of the strong price rise and heavy trading volume of Friday Jan 16, some 6 million oz or more were due to be deposited and the delay in that deposit could be considered a shortage. Well, not only did we not get a big deposit of metal, after the close that day, close to 7 million oz were withdrawn from SLV (followed by a one million oz deposit Thursday). Aside from having to come up with a more intensive and descriptive word to describe counterintuitive, what the heck is going on?

Best as I can imagine and contrary to my original take, there must have been a big buyer on that Friday and rather than risk having to disclose ownership, that buyer converted shares into metal to avoid going over the 5% reporting ownership level mandated by the SEC. There's no way of knowing, as there never is, whether the metal was physically moved out or remained where it was in the warehouse with just the form of ownership changing (from shares to private allocated metal). At a minimum, the changes in holdings in SLV, particularly compared to the "normal" pattern exhibited in GLD, must be considered unusual and it remains perplexing why so few are commenting on this. Most importantly, such unusual changes in physical silver holdings are completely compatible with physical tightness.

Unfortunately, the changes in this week's Commitments of Traders Report (COT) were fully expected and then some, in that there was a very significant increase to the headline number of the total commercial net short position in both gold and silver. Considering that gold prices rose as much as \$60 and silver by more than a dollar during the four-day reporting week ended Tuesday, it was no surprise that there was strong speculative buying and offsetting commercial selling. The only surprise was the intensity of the commercial selling, particularly in gold.

In COMEX gold futures, the total commercial net short position increased by a very hefty 40,100 contracts to 177,800 contracts. This is the largest (most bearish) headline number since early 2013, as gold was embarking on a more than \$400 slide from over \$1600. Of course, it must be pointed out that gold is still \$300 lower than it was in early 2013 and JPMorgan is no longer massively short as it was back then (to the tune of 75,000 contracts). Still, it is sobering to think 40,000 net contracts, the equivalent of 4 million oz and \$5 billion were sold short by the COMEX commercials during the four day reporting week. And judging by the large increase in total open interest since the cutoff on Tuesday, it would appear the commercials sold short a lot more COMEX gold contracts.

By commercial category, it was an old-time all for one manipulative effort, as all three categories joined in by shorting gold contracts. The big 4 added more than 16,000 new shorts, the 5 thru 8 more than 5000 and the raptors close to 19,000 new shorts. It appears now that the commercials, as a cohesive (and collusive) group decided to load the short side boat on the move up in gold during the reporting week. As I often invoke in silver, the commercial selling did not appear to be related to legitimate hedging, but was exclusively in response to speculative buying.

I want to remain fair here Â? it does not seem to me that the leveraged speculative buying that drove gold prices higher during the reporting week is how prices should be set for real world producers and consumers of gold; as the tail is still wagging the dog. But the commercials (mostly domestic and foreign banks) seem to exist solely to game the speculators for profit, whereas the speculators are not so much interested in collusively gaming the commercials as they are following price signals.

Oddly enough, the simple solution to eliminate speculators setting the price for real world producers, as well as having banks not game the speculators is the same Â? legitimate position limits, enforced individually and on classes of traders. To those who whine that no one complains about manipulation when prices are going up, only down; let me be clear that the commercial selling this week in COMEX gold and silver was manipulation in its purest form as prices would have been much higher without the concerted commercial short selling. Not that the spineless and conflicted regulators are interested in cleaning up the current distorted price discovery process, but the solution of legitimate position limits is simple. Don't think the regulators are conflicted? Please read this – <http://www.bloomberg.com/news/2015-01-22/cftc-official-tied-to-wall-street-profits-from-merger-fight.html>

On the buy side in gold, it was primarily a technical fund affair, as traders in the managed money category accounted for more than 27,000 net gold contracts bought, including more than 23,000 contracts of new longs. The smaller non-reporting traders bought nearly 8000 net gold contracts as well. Managed money longs, at 155,000 contracts, have held larger long positions in the past, but not in the last two years. And it would appear that long position is larger since the cutoff.

In COMEX silver futures, the total commercial net short position increased by a very significant 8800 contracts (44 million oz), to 55,600 contracts (278 million oz). This is the largest (most bearish) total commercial net short position since last July and among the largest over the years. Interestingly, it is also the largest commercial net short position over the past five years at the lowest average price of silver during that time.

What this proves is that the commercials are so focused on gaming the silver speculators and controlling and capping the price of silver that they have lost track of where the price is. It makes no difference to the commercials that the price of silver is below the average primary cost of production or that world investors are buying, not selling actual metal on balance; the commercials' focus is strictly to sell when COMEX speculators are buying, regardless of the price. Nothing could be more manipulative or point to a defective price discovery mechanism.

By commercial category, it was (once again) largely a raptors' affair as the smaller commercials sold out another 6200 long positions, reducing their net long position to 6300 contracts. This is the lowest raptor net long position in more than two years and no doubt reflects the departure of 8 or so raptors to losses taken on the drop in silver prices several months back. I'm still convinced the loss of these traders will have continuing effects in the future, primarily in the loss of market liquidity and increase in price volatility.

The one thing I didn't want to see was an increase in the concentrated short position of the largest COMEX short sellers as nothing proves that silver is manipulated in price more than the continued existence or growth of the largest concentrated short position of all commodities. The bad news is that the four largest shorts (read JPMorgan) increased their net short position by 4000 contracts.

Somewhat good news is that the big 5 thru 8 silver shorts bought back 1400 short contracts, putting the commercials' activity in silver not as collusive as was the case in gold. Where all three categories of gold commercials added new short positions, only one category, the big 4, did so in silver. I'd peg JPMorgan's concentrated and manipulative silver short position at 18,000 contracts, although I'll have to wait for the new Bank Participation Report in two weeks to confirm that.

On the buy side in COMEX silver, it was primarily a technical fund affair, as traders in the managed money category bought more than 7700 contracts net, including a further short covering of 4340 contracts. There should be only a few thousand managed money short contracts left to cover and that may have already occurred since the cutoff. While the managed money long position isn't excessive once it is adjusted for the 15,000 to 20,000 contracts apparently belonging to non-technical fund traders, it's impossible to predict if and when the commercials will attempt to rig prices lower and if that rigging will prove successful.

Trying to be objective, there is no question that we've swung from a strongly bullish COT setup in November in both gold and silver to a decidedly bearish structure currently, as a result of an approximate \$160 rally in gold and \$3 rally in silver. Silver's rally looks particularly anemic and manipulative considering the price is still below the average primary cost of mine production and that 43,000 net contracts (215 million oz) have been bought by speculators over the past two months.

The real problem, of course, is not that speculators have driven the price of silver too high based upon current economic realities, but rather that the commercials have been far too aggressive in the short selling of COMEX futures contracts. In fact, we have a larger concentrated short position by the big 8 today at \$18 silver than we had at close to \$50 in April 2011. Please try to comprehend just how preposterous and illegitimate is this circumstance. What legitimate set of circumstances could account for 8 traders holding the equivalent of nearly 310 million oz of silver short – nearly 40% of annual world mine production and 30% of all the silver bullion in existence – at prices below the primary cost of production and nearly 70% below prices four years ago?

More than anything else, the outrageous concentrated short position in COMEX silver in addition to being manipulative on its face, is a potential danger of systemic dimensions. Because the 8 concentrated COMEX shorts are largely systemically important domestic and foreign banks, including the most important of all (JPMorgan), should something force some of these eight traders to cover to upside (like a physical shortage), the damage won't likely be confined to silver. If you know of any honest politicians left, this is the question that should be demanded to be answered by the regulators at the CFTC – what would occur if the 8 big shorts were forced to cover?

There is no question that silver (and gold) could run higher in the short run, even if the crooked commercials prevail in the end. All the many factors away from the sole bearish factor of the COMEX concentrated short position point upward and if we do go lower, it can only be traced to the COMEX. I wouldn't abandon long term silver positions completely because an overrun of the big shorts (Izzy's Full Pants Down) would spark the silver rally of all-time. But neither would some defensiveness be out of the question.

Ted Butler

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Silver – \$18.30

Gold – \$1294

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