January 3, 2015 – Weekly Review

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Crossing over to the New Year, the price of gold and silver fell for the holiday shortened trading week. Gold ended $7 (0.6%) lower, while silver finished 30 cents (1.9%) down. As a result of silver's relative price underperformance, the silver/gold price ratio widened out a full point to 75.5 to 1; close to the most undervalued silver has been to gold in many years.

Given the nature of how silver and gold prices are set on a daily basis on the COMEX, it is foolhardy to predict the short term direction of prices, but the facts are still compelling that silver's extreme undervaluation won't continue on a long term basis. Even from a technical (chart) basis (of which I am not a strong adherent) the silver/gold price ratio is overextended in that it is further above the ratio's moving averages than any time in years, suggestive of a coming sharp adjustment in which silver outperforms.

But even more than silver's extreme undervaluation relative to gold, I can't help but notice two things about the recent daily price action in silver and gold. One is that, despite the gradual widening of the price ratio, gold and silver are still joined at the hip in terms of minute by minute (actually second by second) price movement. I know gold and silver are similar in many ways, but they are also decidedly dissimilar in one very important way Â? the size of each market. The total value of all the world's gold is more than $6.5 trillion, while the total value of all the world's silver (including coins and small bars) is $30 billion (and only half that when considering just industry standard 1000 oz bars). It is patently absurd for a commodity 200 to 400 times larger than another commodity to trade in lockstep with the much smaller commodity on a second by second basis.

The other standout in the recent trading of gold and silver is the growing degree of daily price volatility. It has become common for there to be daily price movements of 2% or 3% or more and on low to moderate trading volume. It goes without saying that there has been little hard news to account for the growing volatility, for the simple reason that the volatility can be traced to COMEX dealings and those dealings are as separate from real changes in actual metal supply and demand as is possible. This past Wednesday (New Year's Eve) is a case in point – silver fell 75 cents (4.5%), mostly in sudden price gaps lower on what was close to the lowest trading volume of the year. Yes, there was a near 3% price gain the day before, but that's my point Â? giant price movements on low volume accompanied by no real news, actual supply/demand or otherwise. I know reasons are always invented afterward to Â?explainÂ? every price movement, but a fair reading is that it is not any actual real news moving gold and silver prices; it is something else.

That Â?something elseÂ? both in the case of the lockstep movement in gold and silver and the tremendous increase in daily price volatility is the price setting process on the COMEX. In a very real sense, both occurrences prove just how corrupt and crooked the CME (owner of the COMEX) has become. Look, something must explain the increasingly unusual and even bizarre trading patterns in gold and silver and it certainly isn't legitimate investor behavior or bona fide changes in actual supply and demand. By process of elimination, the exchange operator, the CME, and the trade practices it encourages is the only explanation. It is the CME which allows JPMorgan and other large manipulative traders to dominate and control gold and silver prices, aided and abetted by a compliant federal regulator, the CFTC.

It's too soon to trace the marked increase in the daily mindless price volatility in gold and silver prices to my premise that a number of smaller commercial (raptors) were eliminated (taken out back and shot) as a result of the crushing losses they incurred recently in silver, but perhaps I'm just being modest. Certainly, these departed traders did provide a measure of market making and if that market making has been removed (as I believe), real liquidity has also been removed and that alone could explain the increase in volatility. But there may be more to it than that.

In the loss of market liquidity due to the departed raptors, it appears the biggest silver crooks, JPMorgan and the other big 8 silver shorts have taken a tighter control of daily trading. That was suggested in last week's COT report and I'll be looking for that again in Monday's report. Let me sum this up this way Â? as the whole world seems to be moving against artificial computer generated pricing, at least in principal, the COMEX has become more artificial than ever and that shows up in the lockstep movement in gold and silver pricing and in the increased daily price volatility. On a gut level, I believe there is no way I could continue to get away with calling the CME (and JPMorgan) crooked if I was wide of the mark.

What it comes down to is that the CME (and CFTC) has intentionally encouraged the market making process to become perverted. Certain large traders (like JPMorgan) are designated as market makers for the purpose of providing liquidity and Â?smoothing outÂ? price movements. Market makers are supposed maintain efficient markets and price stability and some semblance order. Instead, in COMEX silver and gold, the remaining market makers have come to intentionally distort the price to scare and confuse not only smaller traders, but more importantly, legitimate producers and investors which are abandoning the COMEX. Every day I wake up thinking what do these COMEX crooks have planned for today? That's not the way markets are supposed to work and is at the core of what makes the CME and JPMorgan crooked. The sooner this is recognized the better the prospects are it will be changed.

There was a continued cooling in the turnover of physical metal moving into and out from the COMEX-approved silver warehouses this week, as had been the case in the two previous weeks. This week only a little more than one million oz were moved, mostly all out, as total inventories fell a million oz to 175.5 million oz. This is the lowest weekly movement I can remember in quite some time and coupled with the two prior week's movement of 2 million oz each, may indicate a change in the unusual pattern of the past more than 3.5 years is at hand. I have no reason to fear a change in the COMEX silver inventory movement pattern since the last three and a half years have been rotten price wise, but it is still too soon to draw definitive conclusions.

Since there is no COT report to comment on (I'll do so late Monday), let me discuss a different matter. As I reported on Tuesday, I made my recent article, Â?The Perfect CrimeÂ? public, in which I spelled out the reasons why I believed JPMorgan had, since May 2011, amassed upwards of 300 million oz of physical silver, including as many as 70 million oz of Silver Eagles, or half the amount produced by the US Mint since April 2011. I was careful to note that I had Â?yetÂ? to notice any response to the publication. As it turned out, a response was soon forthcoming in which one of my contentions (the one about Silver Eagles) was disputed.
http://www.silverseek.com/commentary/market-data-proves-overwhelming-public-demand-silver-eagles%E2%80%A6-not-jp-morgan-13951

First off, I appreciate the non-personal tone that the author (Steve St. Angelo) took in the article, particularly his acknowledgement (as he has on past occasions) that he got interested in silver after reading my articles. And I was gratified with him for writing his critique, as the worst thing that could happen to any commentator is to have his analysis ignored. Disagree if you must, just don't ignore. And I can't help but feel that the disagreement was rooted mainly in the fact that what I speculated about was so at odds with Steve's preconceived notion of who was buying so many Silver Eagles that it was a knee jerk rejection on his part, as opposed to a genuine factual rebuttal.

However, I was disappointed that he focused exclusively on the issue of Silver Eagles (which comprised only about 20% of the physical silver I claim JPMorgan has acquired) and ignored the other evidence I presented Â? the counterintuitive SLV metal flows, the unprecedented COMEX silver warehouse movements which began in April 2011, the opening of JPM's COMEX warehouse in May 2011 and now the largest COMEX silver warehouse, the movement of 100 million oz of silver from JPM's warehouse to Brinks in London in 2012 in order to make room for JPM to store their own silver, etc. Regular readers know that I have solicited comments on these topics and others and I will re-extend the invitation to Steve for further comment. I suppose I'll have to make this segment public in the near future, as Steve is not a subscriber (although he probably should be). For now, I'll just deal with his contentions on the Silver Eagle issue.

Certainly there is no disagreement that just over 44 million oz of Silver Eagles were sold in 2014 and 140 million since April 2011. The only disagreement is in the composition of the buyers.
I happen to agree with Steve that it was broad public demand that drove sales of Silver Eagles (and Maples and Philharmonics) up to and including early 2011 for the simple reason that the public tends to buy investment assets on rising prices, be those assets stocks, bonds, real estate or precious metals. Collectively, the public gains confidence and reinforcement as asset prices rise, even as those assets may get overpriced.

However, the converse of that is also true in that the public doesn't normally buy investment assets on falling prices. As it turned out, silver prices have been falling since May 2011, so the conventional wisdom would hold that as collective confidence erodes and negative reinforcement takes hold, broad retail buying dissipates. Steve does agree with me that there has been a marked disparity between very strong Silver Eagle sales vs weak Gold Eagle sales and goes one step further in stating that the same disparity exists between Silver and Gold Maple Leafs, yet he offers no explanation for why this is so. To me, the most plausible reason is the presence of a big buyer in silver coins, whether those coins are Silver Eagles, Maple Leafs or Philharmonics.

The main Â?proofÂ? that Steve advances for there being strong public demand for Silver Eagles is feedback from three retail coin dealers, consisting mostly of contact these dealers have with the authorized distributors for the US Mint which serve as suppliers and not hard sales data. I've done this as well with very different results. I don't want to get into a dealer versus dealer debate because I've long disclosed I consult for Investment Rarities, Inc., and avoid like the plague badmouthing any dealer. I would point out that only two of the dealers Steve mentions are included in this fairly objective list of dealers and those two have not been in business as long as most dealers on the list. http://www.bulliondealerdata.com/

Based upon Steve's own words, he seems upset with the idea that there might be a big buyer of Silver Eagles because it doesn't give Â?creditÂ? to the public buying the coins. I understand that sentiment, but not to the extent it distorts analysis. Let me give you some additional facts that support my big buyer premise.

As I've written previously, on the three dollar silver rally that started in early June, sales of Silver Eagles fell off dramatically to a rate of only 2 million oz a month, the lowest rate of the year. Yet this is precisely when retail sales should have been expanding and always had expanded in the past. I do believe the public was buying at that time but that what accounted for the sharp falloff in overall demand was the big buyer stepping aside. I further concluded that because JPMorgan had greatly expanded its concentrated COMEX silver short position it was highly likely that it stepped away from buying Silver Eagles until silver prices fell; which is exactly what occurred. I even put a price tag on it, claiming that JPMorgan saved about $15 million by stepping aside from buying Eagles until it had succeeded in manipulating silver prices lower on the COMEX, in turn cheating not just the US Mint, but US taxpayers.

My point is that because of JPMorgan's price manipulation in the summer, we got to witness something else entirely – the true level of demand for Silver Eagles by the retail public emerged only after JPMorgan stepped away from buying. As it turns out, the base level of retail demand, 2 million oz per month or 24 million coins annually, leaves JPMorgan (or whoever the big buyer is) at buying 20 million Silver Eagles this year, the amount I've estimated. And if I'm correct that retail buying accounted for 24 million of the 44 million coins sold this year that is still a very healthy amount, particularly when compared to sales of Gold Eagles. In fact, with a little over 524,000 Gold Eagles sold in 2014, 24 million Silver Eagles would still be way above historical relative levels of Silver vs. Gold Eagle sales. The most plausible explanation for why such an extraordinary number of Silver Eagles were sold this year relative to Gold Eagles is the presence of a big silver buyer.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The year 2014 also saw the demise of two large retail coin dealers, Tulving and Merit Gold and Silver. Tulving was perhaps the largest Internet retail coin dealer (because it offered prices that turned out to be too low) and it is thought that $20 million or more may have been lost by customers left hanging by its sudden bankruptcy. Generally, even unscrupulous coin dealers can stay afloat in a strong retail buying environment and most often meet their demise when retail demand is soft. The fact that at least two Â?nameÂ? dealers bit the dust in 2014 would seem to confirm an overall weak retail demand environment, not at all supporting the contention that broad retail demand explains completely the record amount of Silver Eagles sold.

Finally, I have a fairly decent subscriber base and while I haven't formally canvassed that base, I do get feedback. My take is that a few are buying silver and Silver Eagles, with fewer still selling and the vast majority sitting pat. I don't get the sense at all that subscribers are plowing into Silver Eagles with the reckless abandon suggested if the record sales reported by the Mint were exclusively retail demand. In fact, I remember a recent article by a coin dealer saying that one shouldn't purchase Silver Eagles. I don't agree with that but that also points to someone other than the public behind the record sales.

I think it's constructive that this critique/debate has occurred, but Silver Eagles only account for a small slice of what I allege JPMorgan has acquired in terms of physical silver. I am not convinced in the least by the above disagreement and I am still disappointed that no one has stepped forward to rebut my more important evidence. In a positive note, let me add, as I did before, not yet.

The price carnage in crude oil continues, with prices now down 50% from levels of six months ago. In fact, crude oil has fallen more than silver over that time, although silver is still down more on a longer term basis. I thought a few observations on oil and silver might be in order. I am leery of those who pretend to be an expert on every market, but I have followed crude oil for most of my professional life, starting with the Arab oil embargo in 1973, shortly after I became a commodity broker with Merrill Lynch.

I'm still convinced that the initial downturn in oil prices was derivatives driven, but the decline has now taken on a supply and demand life of its own. As I have previously written, while I don't think Saudi Arabia, the world's largest oil exporter, engineered the decline, it now has no choice but to fight to maintain its dominant market share by not cutting production. The time for the kingdom to cut production to support prices appears to me to have passed and this lesson was learned 30 years ago when it continuously cut production to the point of almost eliminating itself as an exporter. For Saudi Arabia to cut production now to restore prices would be unproductive, although it is within its power to do so.

However, there is no doubt in my mind that world oil production will be cut and prices restored in time. That's just the nature of the oil market in that even a slight oversupply can have a disastrous consequence on price. Since it does not appear that Saudi Arabia (or Russia) will voluntarily cut oil production (which theoretically could occur on a much shorter timeline), it is more likely that the certain future production cuts will be of the involuntary type and take longer to achieve.

The most likely candidates for involuntary production cuts appear to be the higher cost North American producers, mainly the frackers and oil sands producers. For OPEC and Russia to cut production now and restore prices would only encourage more production from North America and make the pain on the part of the exporters to date wasteful and counterproductive. It is the law of supply and demand in the unique crude oil category that will bring balance and higher prices in time. In the interim, it is impossible to predict how low prices can fall, albeit with great price volatility.

What's this got to do with silver? Both crude oil and silver are subject to their own unique categories of supply and demand, with both similarities and differences. Silver prices, of course, are basically set (illegally) by paper speculative trading on the COMEX, where oil is mostly a cash market affair (with paper control at times). Crude oil is expensive to store because storage capacity is limited (to oil tanks and ships); silver is among the least expensive commodities to store (although those paying annual storage fees of 0.5% annually complain when prices are depressed). After all, one can store physical silver in their own possession for free; try doing that with crude oil.

While the world awaits the price of crude oil that will bring about the certain future production cuts, the current price of silver is already below the average primary cost of production. I base this on the public earnings of most of the primary silver miners. While these miners continue to engage in the silly and unproductive exercise of announcing their cash and all-in production costs, earnings for the third quarter of 2014 were mostly nonexistent with losses reported. That's no wonder since the average price of silver for the third quarter was the lowest in four years. Now with silver prices down another $3 (15%) in the fourth quarter, the losses must increase. I just wish the silver miners would take a New Year's resolution to stop tripping over themselves in announcing how low their production costs might be and start talking about why the crooks on the COMEX are allowed to manipulate prices so low.

In a very real sense, the current price of silver is already the equivalent of $30 oil. While the world waits to see what price of oil will bring about involuntary production cuts, we're already there in silver. The most amazing thing is that everyone understands why oil prices have crashed 50%; as all would (correctly) point to the oversupply caused by growing North American production and the refusal of OPEC and Russia to cut production. In silver, the price is down close to 70% from the peak in 2011 and few can come up with a legitimate supply/demand explanation for the drop. Quite a few could come up with the correct but illegitimate explanation that silver declined because of manipulation on the COMEX, but that's my point.

Can the commercial crooks on the COMEX press silver prices lower still? You know as well as me that is possible, but lower prices from here is overkill since the price is well-below the cost of production and no legitimate answer can explain why we are so low in light of strong fabrication and investment demand, even if JPMorgan is the biggest buyer.

One last observation Â? when silver ended the year at $30 two years ago, there were few calling for sharply lower prices. When silver ended last year at $20, there were fewer still calling for sharply lower prices. This year, with prices ending below $16 and below the primary cost of production, it seems all I hear are predictions for sharply lower prices of $12 and $8. I don't think those predictions are based upon anything legitimate and the fact that they are emerging after a 70% decline tells me just how rotten collective sentiment is currently. Of course, rotten collective sentiment is a classic hallmark of an historical price bottom.

Date Created
2015/01/03