

## January 30, 2016 – Weekly Review

### Weekly Review

Gold and silver prices rose for the week, with gold up by \$20 (1.8%) and silver ending 25 cents (also 1.8%) higher. The flat relative percentage performance nudged the silver/gold price ratio up by a bit to 78.5 to 1, still at the upper bounds of a year+ tight trading range. But I was surprised with the slight change in the price ratio because silver seemed so much weaker than gold this past week.

Gold closed at 12 week highs and is now up nearly \$60 from its six year weekly closing low at year end (four weeks ago). In contrast, silver has struggled, up barely 40 cents since year end. Given the extremely bullish market structure created by the selloff of early November, I would have thought the rally since year end would have been much more impressive, particularly in silver, but also in gold.

So far, at least, this was not the explosive rally in each indicated by the COMEX market structure and I'd be lying if I said I was not somewhat disappointed. But the market structure still looks quite bullish in gold and is no worse than neutral to bullish in silver, as I'll get into later. It's just that if you told me at year end that gold would have closed above its 50 day moving average for almost every day of January, I would have expected more than a \$60 price pop. As for silver and its multi-day penetration of this important moving average, I would have expected fireworks. And that is separate from all the outside turmoil in world stocks markets and oil which only adds to expectations of a larger price rise than seen.

Before the usual weekly format, I've received a few questions on the reported disorder in the London Silver Fix this week, in which some sort of failure in the process resulted in a sharp 80 cent drop from prices prevailing at the time. I've not been a big fan of the precious metals pricing process in London, ever since the Bank of England formed the London Bullion Merchants Association (LBMA) in 1987. Because everything about the pricing process is opaque with nowhere near the data available from the COMEX, I've never been able to uncover the documentable facts necessary for legitimate analysis from anything in London. To me, the LBMA is Oz the great wizard behind the curtain and little else.

I admit to being biased about the LBMA because I am biased against market data that can't be verified. I don't place any significance on any report concerning the LBMA or the London Fix. It's all make believe to me. I am, however, of an open mind on the matter and if anyone uncovers any legitimate data from the LBMA, please send it my way. The sharp selloff Thursday attributed to the London Fix look to me to be a typical flash crash on the Globex (COMEX) and, despite some breathless commentary about things falling apart in London, the price of silver is not set there.

Just so I keep this in perspective, I have no doubt that the crooks in London are one and the same as the crooks on the COMEX, so I do concede there are artificial price forces in London. It's just that, thanks to the mandated transparency on the COMEX, the case for price manipulation can be substantiated on this side of the Atlantic. This makes dwelling on the London Fix a time waster.

Not even an epic snowstorm in the Northeast US could slow the weekly physical turnover of metal brought into or taken out from the COMEX-approved silver warehouses. This week, 8.3 million oz were moved, as total COMEX silver inventories rose 2.9 million oz to 158.3 million oz. This week's fairly large increase still leaves the total COMEX inventories only 3 million oz above the lowest levels in three years and more than 26 million oz below the highest levels over that time. The key feature is still the turnover.

Over the past three weeks, an astounding 24.9 million ounces were physically transported into or out from the COMEX silver warehouses. That's more than 50% of what the world mined in the last three weeks. Why in God's world would so much silver physically pass through six warehouses in the NY metropolitan area? And why has this physical turnover pattern both erupted and remained persistent over the past five years in COMEX silver and not in any other commodity? Most puzzling of all, of course, is why this glaring anomaly is hardly mentioned. I've stopped soliciting alternative explanations for my physical tightness conclusion, because not many were forthcoming; but if anyone has an explanation for why the COMEX physical silver turnover is not mentioned anywhere else, please let me hear from you. (Ed Steer excepted).

There is, of course, close attention and commentary being given to the changes in the two categories of gold and silver in the COMEX warehouses, registered and eligible; which I do find puzzling. It is undeniable that COMEX registered gold has shrunk to the lowest level in history, with zero holdings clearly in sight. Now it appears COMEX registered silver may be headed in that direction as well. Yesterday, close to 8 million oz of COMEX registered silver were transferred to the eligible category, reducing total registered silver to under 29 million oz, the lowest level in several years and down 40 million oz from early in 2015.

Total COMEX gold and silver inventories are not down by such large amounts, but the registered category certainly is. So the question is why the big shift out of registered and into eligible? Many are convinced the decline in the registered metal category is clear proof of shrinking deliverable supplies, but there are limits to that explanation. For instance, how is it possible for the owners of 8 million oz of registered silver in three different warehouses to suddenly decide yesterday to make their silver no longer available for delivery and switch those ounces owned into the eligible category? We're not even in an active delivery period for COMEX silver.

The transfer of metal from the registered category to the eligible category does not involve any physical movement or change in ownership — just a category change. In contrast, the physical turnover I speak of involves nothing but physical movement out from and into the warehouses. While many things point to physical tightness in gold and particularly in silver, I still believe the physical silver turnover in the COMEX warehouses is much more significant than category reclassifications. I'll do my best to resolve this matter soon.

Away from the registered/eligible category debate, the first two days of delivery against the COMEX February gold contract featured 604 contracts delivered and an estimated 3600 contracts still open for delivery or futures trading closeout. One notable feature has been the lack of any role by JPMorgan for its own trading account as either an issuer or stopper, but we'll see what emerges as the delivery month plays out. I still sense that gold for delivery is tight and should an aggressive big buyer emerge, it would be reflected in price more than typically.

Back to COMEX silver, I sense a change in pattern for JPMorgan. The bank did not take into its own warehouse the last 3 million oz it took delivery of in December and in fact shipped out more than 600,000 oz (120 contracts) to another COMEX warehouse this week. I sense that JPM may be finally reacting to the publicity of its physical silver accumulation and is now trying to cover its tracks. In addition, JPMorgan made a delivery of 16 contracts (80,000 oz) at the end of the January delivery month, the first delivery of silver it has made in its own proprietary trading account in more than a year. The amount is puny, but what I sense is that JPM wasn't necessarily looking to make delivery, but there were few other candidates willing to do so at the time.

The sense I have is that JPMorgan is now micro-managing the silver market and that is not incompatible with my tight physical premise. To skip ahead, I also sense JPM is micro-managing in their purchase of Silver and Gold Eagles from the US Mint. This month, 124,000 oz. of Gold Eagles (plus 32,500 Gold Buffaloes) and nearly 5.9 million Silver Eagles were sold, truly enormous amounts and by a razor thin amount close to the Mint's production or blank supply capacity. With reports from the retail front still indicating extremely weak demand, such strong sales from the Mint can only be rationally explained by the presence of a large single buyer.

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[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

The new twist is that the sales of Gold and Silver Eagles seem to come just shy of the Mint's supply of coins available. For example, the Mint fell just 74,000 oz short of selling the full amount the Silver Eagles available for sale this month (6 million). I don't think this was an accident, but instead that JPMorgan decided to hold back a slight bit so that the Mint wouldn't have to declare officially that it ran out of coins. I think JPMorgan has done this in the past and one would think it reasonable for a federal agency to be concerned it was being gamed by JPMorgan.

But, as you know, the Mint won't even disclose who is buying American Eagle bullion coins and who ever heard of a federal agency not fully disclosing who they do business with? I don't recall if I mentioned this previously, but a little while back a subscriber filed a Freedom of Information Act request for a list of the authorized dealers the Mint sold coins to and was, effectively, refused. Did I ever mention that I thought JPM dictated policy to the US Government and not vice versa?

There was another 1.1 million oz removed from the holdings of the big silver ETF, SLV, which has all the earmarks of a big buyer converting shares to metal to avoid ownership disclosure requirements. There was a slight increase in the short positions of SLV and its gold counterpart GLD, as of January 15. The short position in SLV rose by 870,000 shares to 11.2 million shares (ounces) and in GLD by 415,000 shares to 9.2 million shares (0.9 million ounces). These are relatively low levels by historical standards and not a particular feature at this time. Let's hope it stays that way.

<http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%99>

The changes in this week's Commitments of Traders (COT) Report were in the broadly expected, if unwelcome range. With gold higher by \$30 and silver by 50 cents, both to new recent highs in the reporting week, it was easy to forecast an increase in technical fund buying and commercial selling. I was less sure of the actual amounts and left my prediction by how much to "plenty." However, there were some nuggets of interest under the hood.

In COMEX gold futures, the total commercial net short position increase by 19,700 contracts to 59,800 contracts. This is the largest total commercial net short position since November 10, but in many ways, not so large at all. As I indicated at the start of this review, I would have thought so many days above the 50 day moving average would have caused a bigger price pop in gold year to date. Likewise but in the good news category, I would have thought there would be much more commercial selling in gold at this point than is indicated in this COT report.

Among the positive developments in gold is that, despite an increase in the total commercial net short position, there was no new commercial short selling – only commercial long liquidation by the raptors (the smaller commercials away from the big 8). I understand how it's hard to reconcile an increase in the total commercial net short position with no new short selling, but that's the beauty of the detailed data in the COT report. This week, all the commercial selling and then some was long liquidation by the raptors to the tune of 24,000 contracts.

That means, of course, that the largest commercial shorts actually bought back short contracts on rising prices; an unusual and potentially bullish development. The 4 big commercial shorts in gold bought back 2000 short contracts and the big 5 thru 8 a bit more than that. This put the concentrated net short position of the 8 largest commercial traders in COMEX gold at the lowest level in many years. I make a big deal about the concentrated short position in COMEX gold and silver and when that position reaches historic extremes, as it has in gold, it becomes an even bigger potential deal.

Simply put, the record extremely small concentrated short position in COMEX gold means that the biggest and arguably most influential traders are better positioned for a gold price rally than in a decade or more. That this position has come to exist on a price rally over the past month is so unusual as to be in the man bites dog category.

On the buy side in gold, it was mostly a managed money affair as these traders bought more than 16,300 net contracts, including new longs of 11,691 contracts and the short covering of only 4673 contracts. This looks very bullish to me as the managed money long position is still quite low, being below 96,000 contracts – makes big long liquidation on lower prices unlikely. Additionally, with nearly 79,000 contracts still held short by managed money traders, there is more than a decent amount of potential rocket fuel type buying still in the tank.

There still appears to be 100,000 net contracts to be bought by the technical funds and sold by the commercials on higher gold prices to reach the bearish extremes of last October 27 (25,000 contracts in silver). Price is secondary to the contract count, but that's a very decent amount of potential contracts to be bought. With so few relative gold contracts bought to date, it would appear that a penetration of the 200 day moving average in gold (\$1133) will be required to generate that buying. And it's more than possible that delayed price fireworks in gold could be the result.

In COMEX silver futures, there was a hefty increase in the total commercial net short position of 9100 contracts to 45,100 contracts. As was the case in gold, this was the largest total commercial net short position since Nov 10. As also was the case in gold, the smaller commercials did the bulk of the selling, as the silver raptors sold and liquidated 8800 long contracts. The 4 largest shorts (read JPMorgan) added nearly 1000 new shorts for the week, but the big 4 still hold a smaller net short position than they did at year end, even as the total commercial net short position increased by 15,000 contracts since then.

JPMorgan appears to hold 17,000 silver contracts net short and next week's release of the monthly Bank Participation Report should help calibrate its position more precisely. While I am disappointed that the silver rally (if you can even call it that) has been so puny, I am encouraged that there have been no real signs of increase in the concentrated short position of the big 4. I have been quite specific in the past that the key to any genuine move up in silver is dependent on whether JPMorgan adds to its short position. As of today, the jury is still out on that determination.

On the buy side in COMEX silver, it was almost a strict managed money affair as these traders bought a net 8947 contracts including new longs of 1425 contracts and another 7532 contracts of short covering (in addition to last week's short covering of 9122 contracts). My biggest disappointment is in how little a price impact the last two weeks of technical fund short covering has had. A different way of stating that same disappointment was in how aggressive the smaller commercials were in selling out long positions to the more than 16,600 contracts of tech fund short covering.

But because JPMorgan has not strongly added new shorts (yet) and because the managed money longs are not far above the core non-technical fund long position (now at 50,614 contracts) and not apparently in position for extreme liquidation on lower prices, the overall market structure in silver is no worse than neutral and most likely still bullish. Perhaps not as bullish as gold's market structure, but certainly not horrid in any way. And I would remind you that silver's COT market structure was no better than neutral to bullish on the entire rise from \$18 in late 2010 to the top in of \$49 in April 2011, so please step away from the ledge. That doesn't mean the COMEX commercials crooks won't rig prices lower at will, but that's always the case anyway.

I don't know why the smaller silver commercials sold so aggressively to the technical funds on such a piddling silver rally over the past few weeks, but sense it may be related to the premise I offered a while back about growing competition to sell to the technical funds in a game that has gotten long of tooth. I also sense, from looking at other markets, like copper and oil, a greater propensity of the technical funds to close out short positions when it seems prices may be too low. The technical funds are not usually that subjective, but then again maybe they're starting to wise up a bit.

The real question in silver (aside from whether JPMorgan adds to short positions) is if the technical funds can be lured back strongly to the short side on lower prices. I don't think so, but then again, I don't decide such matters. I do know that the signals emanating from the physical market suggest only higher prices. While that has been true for quite some time, there does seem to be a quickening pace to the growing physical tightness, particularly in silver.

In addition to all the physical signs discussed above (COMEX silver inventory turnover, Silver Eagle sales, SLV shares to metal conversion, etc.), new reports of silver miner production cutbacks add to the bullish mix. To top it off, a new press release from the Silver Institute appears more bullish than any I can recall over the years. The only thing missing, of course, is any rational explanation for why silver prices are so low in the face of supply/demand fundamentals as outlined by the Institute. Then again, some will insist price manipulation is impossible regardless of the open facts.

<http://www.silverseek.com/article/2016-silver-market-trends-15243>

Despite the deterioration in the silver COT market structure (not so much in gold), it's hard to be bearish currently. Certainly, the market structure approach has explained the price rise to date, as meager as that rise has been. The truth is that silver prices are so low that even a bearish market structure, should it come into being, would not cause me to retreat to the sidelines at this time. That's because the drumbeat coming from the physical side is starting to drown out the artificial low prices created on the COMEX.

Ted Butler

January 30, 2016

Silver – \$14.25      (50 day moving average – \$14.08)

Gold – \$1118      (50 day moving average – \$1078)

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