July 11, 2015 – Weekly Review

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While gold and silver did finish lower for the third week in a row, establishing significant new low price water marks intraweek, by the end of the week both recovered to finish marginally lower Â? down $5 (0.4%) in gold and down 5 cents (0.3%) in silver. As a result of the relatively flat finish in each, the silver/gold price ratio remained stuck at just over 74.5 to 1 for the third week in a row; although the price ratio blew out to the highest it had been in years on the pronounced silver weakness on Tuesday.

Truth be told, if you could have guaranteed me the week's actual finish during the depths of the Tuesday smack down, I would have kissed you. Let's face it Â? this precious metals decline over the past four years, particularly in silver is, well, getting old. But it's also getting clearer to many just what has been the prime cause of the extended price decline, namely, positioning changes in COMEX futures contracts. This argues against an indefinite continuance of the COMEX positioning price manipulation. Later, I'll try to explain something new that points to the current market structure as being the last great setup.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses accelerated this week to nearly 4.8 million oz. Total inventories broke a four week pattern of increases and declined by a hefty 3.5 million oz to 180.2 million oz, negating the prior month's increase. My focus still remains on the unusual and unprecedented turnover of silver going in and out of the COMEX warehouses and not on the levels of total silver inventories which have stayed flat for more than a year.

Another notable feature I've monitored regarding the COMEX silver warehouses is that JPMorgan has emerged as the largest individual warehouse starting from scratch four years ago. And beginning with the March futures deliveries this year, JPMorgan has shipped 12 million oz into its own warehouse which represents the total amount the bank took (in its own name) of March and May deliveries. Having taken another more than 5.3 million oz in the ongoing July delivery period, it looks like JPM may move that amount into its own COMEX warehouse if the recent pattern persists.

The new short report for stocks was somewhat subdued considering the big changes in the last few reports. For positions held as of June 30, the short position in the big silver ETF, SLV, increased by 1.7 million shares to 13.5 million shares (ounces). Despite the increase, the percentage of shorted shares to total shares outstanding, now at just under 4%, is low by historical standards (which is good). The short position in the big gold ETF, GLD, tumbled by 4 million shares, to 9.4 million shares (0.9 million oz), bringing the percentage of shorted shares to total shares outstanding also to just under 4%. All's quiet on the hard metal ETF shorting front and let's hope it stays that way.

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

The US Mint reported another 100,000 Silver Eagles being sold after the announcement earlier in the week that it had exhausted its supply of the coins, but nothing after that. Sales of God Eagles, still available for sale, have surged; and I can't help but feel some buyers have been attracted to Gold Eagles because Silver Eagles have sold out temporarily.

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

After consistently reporting of generally weak retail sales for Silver and Gold Eagles over the past four years (JPM being the big buyer of Silver Eagles), there was a dramatic surge in retail buying this week in silver, with some dealers reporting their strongest volumes in years. I suppose the US Mint's Silver Eagle announcement whetted investor appetites, as that which is no longer available makes it that much more desired. In any event, this silver buying surge has set off an explosion in the premiums charged for silver retail items, from Eagles to bags of junk coins (I still hate that term).

Whether this sudden outburst of the retail buying surge has legs remains to be seen, but considering all factors, it could; and certainly it should, considering the long drought in silver retail buying. Once again, it proves a fact about silver that should not be underestimated, namely, how even in times of weak demand and rotten price action, the amount of silver truly available for sale at then-current prices remains low and highly susceptible to being sold out on a sudden surge in demand. This is one of the most important differences between silver and gold; available silver can disappear much quicker than available gold.

While I realize I am talking today about the availability of retail silver items, I believe the same backdrop exists in the most important form of silver Â? 1000 oz bars. Just like the supply lines may be broad but very shallow in retail silver items, I believe the same basic structure exists in 1000 oz bars and it wouldn't take much, say an extended period of retail silver shortage, to cause demand to jump the firebreak separating retail and wholesale forms of silver. I'm not necessarily predicting this is occurring currently, but it could be starting and if that does occur the speed with which a wholesale physical silver shortage can arise will be astounding.

The changes in this week's Commitments of Traders (COT) Report were largely in the expected bullish range, although new managed money short position records Â?onlyÂ? occurred in COMEX gold and silver and perhaps copper, but missed slightly in NYMEX platinum and palladium. I guess I've become so accustomed to expecting new short position records that I have become to take them somewhat for granted.

But when I step back and consider the radical shift in market positioning on the COMEX over the past month or so, it's hard for me to remember bigger changes in market structure occurring in the past in so many CME markets. One thing I've been thinking about a lot but haven't mentioned is the peculiar pattern of COT market structure changes occurring in shorter time periods and to more extreme degrees than ever before. It's as if we are experiencing COT type earthquakes in market structure more and more and within shorter timeframes. I can't help but think it reeks of deliberate control and that it might portend this current structure as the last great setup, since it's hard to imagine the managed money traders at getting much shorter than they are currently.

In COMEX gold futures, the commercials reduced their total net short position by a hefty 22,200 contracts to 52,600 contracts. This is the lowest (most bullish) commercial short position since November. I can't recall a time over the past five or ten years where a total commercial net short position in gold of near 50,000 contracts or less hasn't resulted in a price rally of some significance and I have no reason to believe it will be different this time.

I'm going to forgo my commercial category breakdown because it looks like gold may be mimicking the pattern in silver where some managed money and/or other reportable traders may have entered into the ranks of the eight largest traders, rendering my normal analysis misleading at this time. Instead, I'll focus on the speculative sellers in the reporting week since it is a given that the gold commercials are buying every contract made available to them.

Managed money traders, as expected, were big sellers of more than 13,500 gold contracts, including the liquidation of 3706 long contracts and the addition of 9818 new short contracts. Total managed money shorts now stand (as of the Tuesday cutoff) at 109,383 contracts, the most (and most bullish) in the seven year history of the disaggregated COT report. In addition, the net long position of managed money traders (gross longs minus gross shorts) is the lowest (also most bullish) in the history of the report.

This reporting week, there was an increase in gold shorting by other large reportable traders (6189 contracts) and by the smaller non-reporting traders (5425 contracts). While there is no question that the best shorts to have (meaning they are sure to buy back at some point) are managed money traders, the next best type of short would be the smaller traders. I wouldn't normally hold out other large reporting traders as being weak shorts, but considering the large number of managed money shorts and the addition of small trader shorts, all within the confines of this being a great setup; the other reportable traders which just added gold shorts in the price hole look certain to cover and add to the rocket fuel of short covering already in the tank.

In COMEX silver futures, the total commercial net short position decreased by a very notable 6800 contracts, to 14,300 contracts. This is the lowest (most bullish) level since last November and, based upon history, should result in a rally of some significance in time and, most likely, not much time from here. I'm going to gloss over the breakdown of the commercial categories because it's impossible that managed money shorts don't make up a significant proportion of the 4 and 8 largest short traders.

As was the case last week in silver (and this week in gold) managed money traders didn't account for all the selling. This week, managed money traders only accounted for 2085 new shorts (of the 6800 commercial contracts bought). Still, that did establish a new record in total managed money shorts (56,859 contracts). Managed money longs held strong during the reporting week of new price lows, actually adding 158 contracts to a long position now amounting to 44,311 contracts and appearing to me to be a pure non-technical fund core long position unlikely to get liquidated on further price lows.

I am not in the least concerned with the managed money traders slowing their pace of adding new silver shorts as that appears to me a sign that these mechanical traders are reaching the maximum capacity of how many short contracts they are capable of selling. I've long held that when the last short contract is added by the managed money traders that should equate to the price bottom. Instead, I am more encouraged with the new short selling of 2861 contracts by the small non-reporting traders and the liquidation of 892 long contracts by these small traders. I can't help but think that these new non-reporting shorts will panic just as aggressively as the managed money shorts on higher prices. That anyone would ever hold a short position in silver, given all the facts that point to it moving sharply higher, is almost beyond my comprehension. That anyone would do so at this particular time is as incomprehensible to me as is the advanced study of nuclear physics.

One thing that threw me a curve was in the simultaneous release of the monthly Bank Participation Report. I've been reporting for the past month on the steadily declining short position of JPMorgan and was awaiting the release of this report to help calibrate JPM's short silver position. Specifically, I was looking for a sharp drop in the gross and net short positions for US banks from the levels of June. That we got a very minor drop (2000 or 3000 contracts where I was expecting a decrease of more than 10,000 contracts) first suggested to me that JPMorgan had not reduced its COMEX silver short position as I had been reporting. But after thinking it over, other developments made me think otherwise and I still think JPMorgan has largely cast its COMEX silver shorts aside.

Considering the massive restructuring of positions on the COMEX (for all five CME metals) from the time of the last Bank Participation Report of June 2 to the new one for July 7 and even more if you extend the time to two weeks earlier, it would appear impossible for JPMorgan not to have sharply reduced its silver short position to almost zero on the COMEX. The overall net changes in positions, particularly in silver, were so large and JPMorgan is so clearly the main force in silver that it's impossible for JPMorgan to have sat this one out and not taken advantage of the record amount of managed money selling over the past month or so.

Managed money traders added more than 46,000 new shorts in silver over past six weeks, the equivalent of 230 million oz and the most in history. That's nearly the identical number of contracts bought back by the commercials over this time. And over this same time, JPMorgan has continued to be the most visible force in silver, from taking delivery on the COMEX, reducing the SLV short position, bringing silver into its own COMEX warehouse and buying Silver Eagles to the point of causing the Mint to run out. Moreover, there has never been a big decline in price or in the net commercial short position in COMEX silver (one and the same) where JPMorgan hasn't drastically reduced its own COMEX silver short position.

I think it is much more likely that JPMorgan did sharply reduce its COMEX silver short position as I have been reporting and there's a different explanation for the Bank Participation Report not fully reflecting this. I think the reason the BP Report doesn't show a larger drop in the US bank category for July is due to some other US bank replacing JPMorgan as the big US bank short. Recently, I speculated that Citibank may have found itself to be the big short to JPMorgan's big long position in OTC silver derivatives. I'm still speculating, of course, but it looks like JPMorgan pushed off its remaining COMEX short positions to Citibank as well. It's just not in keeping for JPMorgan not to have done so.

I know it is still hard for many to conceive that the managed money traders (technical funds) would add so aggressively to COMEX silver short positions, but if you step back and look at it through the perspective of the technical funds, it's easier to see how this unusual situation came about. I've noticed that all three COMEX metals (gold, silver and copper) are near four or five year lows and also have the lowest 200 day moving average and close to the lowest 50 day moving average over that time (NYMEX platinum also has this same configuration but it's a little different for palladium).

For years, you've heard me describe that the only thing that causes the technical funds (managed money) to buy and sell is penetrations of the moving averages either to the upside or downside. That's it, this type of trader looks not at anything else – not supply or demand developments, current events or value considerations; just what the moving averages have been dictating them to do. These technical fund traders buy as prices are rising and sell as prices are falling, until they reach their maximum position. And the longer a trend persists, the larger the total position will get.

Since the 50 and 200 day moving averages are at or close to the lowest levels of the past five years, it's not at all surprising that the short positions in all three COMEX metals, gold, copper, and silver (plus platinum), are at record levels. That silver, in particular, is screamingly undervalued by any reasonably objective measurement matters not at all to the technical managed money traders. If the moving averages signal short selling to the highest level ever, that's all that matters. Therefore, from a technical fund perspective, record short positions are completely justified.

The problem for the technical funds is that the world doesn't always accommodate or reward exceedingly narrow perspectives on a permanent basis. Invariably, something comes along to completely invalidate narrowly held perspectives, particularly narrow perspectives that have been in force for a good while or to an extreme degree. As to highlight the narrowly held perspective of the technical funds in COMEX silver, it is instructive to remember there are only 31 such traders (as of the current COT report). A narrowly-held perspective held by an incredibly narrow slice of total traders.

Aside from the outrage that real producers and silver investors should feel at so few traders having such a large influence on price, even when large numbers of traders embrace a narrowly-held perspective to an extreme, unforeseen negative results can occur. The current example is the stock market in China where large numbers of non-value thinking traders rushed to buy stocks simply because they were going up. Narrowly focused perspectives, even when adopted by many tens of millions of individual traders can and does end badly when taken to extremes.

But, it seems to me, narrowly focused perspectives when adopted by the smallest number of large traders is even more prone to end badly (for those traders). The short position of the managed money traders in COMEX silver (and gold and copper) seems to me an accident waiting to happen. Perhaps these traders will be, once again, bailed out by JPMorgan and other commercials and allowed to buy back their massive short positions will less than crippling financial losses.

But, more than anything, the extreme low level of the important moving averages suggests the price grind down has run out of road to the downside, mainly because it's causing too much attention and impact in the real world. It's been four years downward and the moving averages will have to flatten out and begin to move higher in time, if only to come up to the primary cost of silver mine production. Then the technical funds will transition to buying as prices move higher and short selling will be abandoned. I just don't see how this can be a smooth transition and not a case where the managed money traders move to buy back their massive amount of shorts and find there is not enough aggressive commercial selling to keep prices from exploding, just as stocks in China imploded on not enough buying when many moved to sell.

Ted Butler

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Silver – $15.60

Gold – $1163

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