

July 12, 2014 – Weekly Review

Weekly Review

For the sixth week in a row, the price of gold and silver rose; gold by \$20 (1.5%) and silver by 30 cents (1.4%). Both finished at four month highs. As a result of the nearly identical percentage increases, the silver/gold price ratio remained at 62.5 to 1. Since I'm unsure of near term price direction, I'm also unsure of short term fluctuations in the silver/gold price ratio. Longer term silver looks like a lead-pipe cinch to the upside in absolute terms and relative to gold, but anyone who claims to know what will happen near term should invite skepticism.

Truth is that over the past six weeks we have witnessed one of the most, if not the most, extreme turnarounds in the market structure of COMEX gold and silver in history. The most amazing aspect is that the turnaround in market structure is also the most widely observed and written about, as more follow the COT reports than ever before. To their credit, I can hardly think of a single Internet commentator who failed to report on the record extreme short position of the technical funds in silver as being bullish six weeks ago. Now that the technical funds in silver hold a near-record long position, opinion is more divided.

Some commentators have turned bearish and I understand why, although I am reluctant to part with core positions given silver's extreme undervaluation. Other commentators suggest we've just begun the move up despite the historic turnaround in positioning, although I'm also reluctant to add to speculative long positions given how much technical fund buying has already occurred. The standout observation to me is how many contracts changed ownership on such a moderate price advance. I'll return to this line of thought in a moment.

While there have been big changes in the paper market structure on the COMEX, there doesn't appear to be any let up in the persistent movement of actual metal into and out from the COMEX-approved silver warehouses. This week, an astounding 5.8 million oz of silver were physically moved in and taken out from the COMEX warehouses, as total inventories fell 2.1 million oz to 173.4 million oz. Annualized, this week's turnover comes to more than 300 million oz, truly an extraordinary amount of silver. Could anything being physically turned over to such an extent not be experiencing extreme demand?

A subscriber inquired how I accounted for changes between eligible and registered forms of silver in my turnover analysis. My answer is that I don't include them at all because they don't represent physical movement or even ownership change; just a classification change. Having pondered the difference between eligible and registered metal over the years, my conclusion is that the differences between the two aren't meaningful. In any event, such classification changes are not included in my actual turnover reporting.

The long awaited short report on shares of the big silver ETF, SLV, as of June 30, came in close to my expectations. Where I had expected as many as 7 million shares being added to the short position given the price action and trading volume, around 5.5 million shares (oz) were added, the largest increase in some time. At 19 million shares held short, the short position in SLV represents 5.7% of total shares outstanding. There was a smaller increase in the short position of GLD, the big gold ETF, where the short position now represents the same percentage of shares outstanding as in SLV. <http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

While the level of the SLV short position is about half the level of peak shorting a few years back and this increase was fully expected; the increase was expected by me for one reason, namely, the short sellers were unable (or unwilling) to secure physical silver to deposit. In addition to no metal being deposited over the recent silver rally, a substantial amount of silver was removed from the trust, some 10 million oz. I do plan to take the matter up with BlackRock, the sponsor of SLV, as I indicated I would in the event of a large increase in the short position, but let me review the subject briefly.

I believe BlackRock is a reputable financial institution as is befitting the world's largest asset manager with over \$4 trillion in assets under management. And I still believe SLV is a valid silver proxy with only one potential flaw — the ability for short sellers to short its shares, particularly when physical silver is not available. I believe these short sellers intentionally evade the clear requirement of the prospectus that a strict amount of metal back each share outstanding. Since short sellers are, in effect, issuing unauthorized shares with no metal backing, the intent of the prospectus is being violated.

Further, I don't believe for a minute that BlackRock is behind the short selling of SLV and I am hopeful of persuading them that it is in their best interest in addressing the short selling issue. Since the assets of SLV total around \$7 billion, or two-tenths of one percent (0.2%) of BlackRock's total assets under management, it is inconceivable to me that it would put its reputation at risk by ignoring what amounts to fraud and manipulation occurring in one of its sponsored trusts. Time will tell.

That aside, both the increase in the short position of SLV as well as the hefty withdrawals of metal point to physical tightness. For sure, there was net buying in SLV over the past six weeks as it would be virtually impossible for there not to have been given price action and trading volume. For silver to be withdrawn and for the short position of SLV to have increased is a double-whammy pointing to physical tightness.

Combined with the extraordinary level of physical turnover in the COMEX silver warehouses, it's hard to imagine more compelling signs of wholesale tightness in silver, shy of a public announcement of a physical silver shortage. After all, the COMEX silver warehouses and SLV are, by far, the two largest repositories of physical silver in the world; holding a combined total of nearly 500 million silver oz, or close to 60% of all the recorded and visible silver bullion in the world.

In fact, it would be irresponsible to even think that there could be tightness in wholesale silver if there were no supporting indications from the two largest silver stockpiles on the face of the earth. That we do have such signs of tightness in both the COMEX silver warehouses and in SLV, begs the question "if there are clear signs of tightness, why isn't that reflected in the price of silver?" The answer, of course, is rooted in the numbers "where we are talking about millions and tens of millions of ounces of actual silver moving in the COMEX warehouses and SLV, we are talking about hundreds of millions of ounces of paper silver moving in COMEX futures trading.

The pace of sales of Silver Eagles from the US Mint has appeared to collapse over the past month from their former record levels over the past couple of years. I'm still convinced this is not an indicator of short term silver price direction as should be seen in the recent price rally almost coinciding perfectly with the fall-off in sales of Silver Eagles. I can't help but think that the sales fall-off is rooted in the stepping away of the former big buyer. I can make a speculative case that the buyer stepped away because signs of an overall silver tightness were emerging and that the buyer didn't wish to contribute to that tightness. While speculative on my part, if accurate, would be more bullish than bearish.

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

Another Commitments of Traders Report (COT), another new extreme in technical fund buying and commercial selling. It was somewhat surprising so many technical fund contracts were bought and commercial contracts sold during what was a holiday shortened and lackluster trading week. I suppose I would attribute the changes to two things – delayed reporting in the previous report and the trading style of technical funds to establish and liquidate positions over time and not put on or take off full positions in one day or week. The changes for the week weren't enormous given recent changes, but given the cumulative changes over the past six weeks they were very significant, particularly in silver.

In COMEX gold futures, the headline number of the total commercial net short position increased by 5500 contracts to 166,000 contracts. This is another new high water mark dating to Feb 2013 (when gold was over \$1650). By commercial category, the 4 largest shorts added 4000 new shorts and the big 5 thru 8 added 3500 new shorts. The smaller gold raptors bought back 2000 contracts with JPM going the other way and selling 1000 contracts, reducing its net long position to 25,000 contracts.

There was no surprise on the buy side of gold as the technical funds (in the managed money category of the disaggregated report) bought more than 7800 contracts, including almost 5500 new longs and closing out another 2300 short contracts. Of the nearly 103,000 gold contracts sold by the commercials since June 10, the technical funds have accounted for more than 95,000 contracts on the buy side. Clearly, without technical fund buying, there would have been no \$90 rally in gold prices. A better question is why there has only been a \$90 rally and not a bigger rally considering the number of technical fund contracts purchased?

In COMEX silver, the total commercial net short position increased by 6100 contracts, to 58,000 contracts, another new high extending to December 2012. The commercial selling was fairly evenly divided by category, with the big 4 adding 2500 new short contracts and the big 5 thru 8 adding 800 new shorts, in establishing another new all-time extreme for the 5 thru 8. I'd peg JPMorgan as having increased its silver short position by 2500 contracts to 17,500 contracts. The raptors sold another 2800 contracts, reducing their net long position to 9800 contracts, their lowest net long position since December 2012.

Of note, the concentrated short position of the 8 largest silver shorts, at nearly 68,000 contracts (340 million oz) is the highest in four years. As I believe I indicated before the rally commenced, the key would be if the concentrated short position and that of JPMorgan increased dramatically. Up until this week, the increase in concentrated shorts hasn't been dramatic, but I still get the sense that the big 8 shorts and certainly JPMorgan are the DH's, or designated hitters on the short side of silver – that come into the game at critical times. Now is such a critical time in silver.

On the buy side of COMEX silver, it was all technical funds, as these traders bought more than 7700 contracts, including nearly 6300 new longs, while buying back more than 1400 short contracts. The extreme market structure change in COMEX silver since June 3 is truly stunning. In a matter of six weeks, the technical funds have gone from a record large net short position to very close to a record net long position. Never has that occurred before.

On the (less than) \$3 silver rally, the commercials sold more than 48,000 net contracts (240 million oz), with the raptors accounting for more than 40,000 contracts of that. Almost unbelievably, the technical funds bought more than 51,500 net silver contracts or the equivalent of 257.5 million oz. These totals are truly staggering.

While the physical movements of real metal reported above in the COMEX warehouses and in SLV were significant and indicative of physical tightness, the equivalent amount of paper silver transacted on the COMEX so dwarf movements of actual metal as to prove beyond question that paper trading on the COMEX sets the price of silver (and gold). In this regard, it makes perfect sense that the crooked CME would take over the London Silver Fix (as reported), as I can't think of a single entity more experienced or proficient in artificially setting silver prices.

To repeat myself, the real wonder is how the equivalent of nearly 260 million oz of silver could be bought in six weeks with less than a \$3 price rally. In other words, why did the commercials (mostly raptors) sell so aggressively and collusively on such a small price rally?

The dramatic turnaround in COMEX positioning, particularly in silver, has been or will be noted by just about every Internet commentator. Interestingly, it has led to price predictions both extremely bearish and bullish. Some say it's only a matter of time before the commercials rig prices lower and force the tech funds to sell. Others say it is just the start and the commercials will get overrun. I agree and disagree with both takes, but I can only see the commercials getting overrun on a physical shortage. The truth is that no one knows for sure and everyone has to decide and prepare for him or herself.

Instead, I'd rather raise a different issue. The unprecedented turnaround in market structure in COMEX gold, silver and copper and extreme current readings represent a danger to both longs and shorts and, most importantly, to the markets themselves. Sooner or later, the current market structure extreme will be resolved, either at much higher or lower price levels. The world's gold, silver and copper producers, users and investors will bear the consequences of the COMEX paper contract resolution, even though few directly participate in COMEX dealings.

Think of how preposterous is the circumstance I just described ^? purely speculative paper trading games on the COMEX dictating profits and losses to the world's metals industry and investors. And it's real easy to place the blame for this absurd and illegal circumstance squarely on the CFTC and the CME Group. These two regulators have sat by and have allowed this dangerous situation to develop without an apparent concern in the world.

These two regulatory organizations are charged with preventing manipulation and maintaining orderly markets. Instead both have looked the other way despite the concentrated nature trading on the COMEX (by the technical funds and raptors) being pure price manipulation and creating the extreme structural set up that must be considered potentially disorderly to future price. Would anyone dare suggest that the current extreme market structures in COMEX gold, silver and copper (all a result of technical fund trading and commercial gaming) are conducive to low price volatility and the orderly functioning of these markets?

I've heard from a number of subscribers regarding my report of there being a conspiracy in silver. A couple asked about the motivation for such a conspiracy. I know there is a broad consensus among many in the precious metals world that government authorities in the US and elsewhere manipulate the price of gold (and by extension silver) in order to maintain stability in the dollar and other financial markets. This is a reasonable premise with which I neither agree nor disagree. While it could very well be correct, it's not the motive I see in silver.

Instead, the silver conspiracy looks to be pure cover up to me. In fact, another subscriber suggested I call it the silver cover up, rather than the conspiracy. The CFTC has so bungled the proper regulation of the COMEX silver market that it has been forced to cover up past missteps because any coming clean now might be serious enough to cause the dissolution of the agency. Sadly, instead of covering up and using the time constructively to resolve the underlying manipulation, the agency has squandered the time and allowed the silver disease to spread to COMEX gold and copper, markets now infected with the same artificial pricing caused by technical fund/commercial speculative games as in silver.

As to where we go from here in the short term, I would tell you if I thought I knew, but I do not. If a physical silver shortage takes hold, all paper shorts are subject to annihilation in an upside melt up. If a silver shortage is delayed to a future time, it is hard to see the technical funds not selling at some point on price weakness in gold, silver and copper. It's just a shame that the regulators at the CFTC and CME are so negligent and corrupt.

Ted Butler

July 12, 2014

Silver – \$21.45

Gold – \$1340

Date Created

2014/07/12