July 19, 2014 – Weekly Review

Weekly Review

After climbing for six consecutive weeks, the price of gold and silver fell (in lockstep) this past week; gold by $30 (2.2%) and silver by 55 cents (2.6%). Am I the only one bothered that gold and silver trade in lockstep more than 99% of the time? Knowing that both are very similar, yet very different, this price action alone screams out to me Â? artificiality. As a result of gold's slight relative outperformance, the silver/gold price ratio widened slightly but still remained under 63 to 1.

There was a price spike upwards on Thursday in apparent reaction to the downing of the commercial airliner over the Ukraine and increasing world turmoil, but not enough to overcome price weakness early in the week and again on Friday. No doubt sudden news events can influence gold and silver prices, but it would be unrealistic to assume that such events largely determine prices. I'm a bit of a stick in the mud on this point, but all the evidence points to COMEX positioning being the prime determinant to world gold, silver and copper prices.

I'll get into this more in a moment, but there's a good reason why gold and silver prices are less sensitive to sudden world events than they used to be in the past. That reason is because the COMEX price setting influence has come to completely dominate prices more than ever before, as can be seen in the COT data. The technical funds (in the managed money category of the disaggregated report) are the Â?hot moneyÂ? category of the COT report and have taken increasingly larger market shares which most COT commentators would readily agree with.

Leaving aside whether my contention that the technical funds are being snookered by their commercial counterparties is accurate, neither would anyone argue that technical funds, as their name implies, don't follow technical fund signals or price changes. These funds buy on higher prices and sell on lower prices – period. Therefore, while it may appear that the technical funds bought on Thursday's rally due to the airline disaster, the actual news had little to do with why the technical funds bought. The technical funds bought because prices moved higher, no less, no more. This may seem to be a distinction without a difference, but it is a key fact to be aware of.

Recently, I read a report which claimed these funds (which weren't referred to as technical funds) bought so many gold and silver contracts because of what Fed Head Janet Yellen said. These funds couldn't care less what anyone said as far as buying or selling gold and silver contracts; all that matters to them is price action. The downside to this is that if prices are controlled on the COMEX by the commercials (as I contend), the technical funds can be influenced to buy and sell at the commercials' control. That's why I get an uneasy feeling when the technical funds are overloaded on the long side (like now).

I certainly wasn't expecting it, but the weekly turnover or movement of metal into and out from the COMEX-approved warehouses almost precisely equaled the prior week's extraordinary level of 5.8 million ounces. This week, total inventories increased by one million oz, to 174.4 million oz (compared to the previous week's 2 million oz decline). As has been the case since the beginning of the year, total COMEX silver inventories have narrowly fluctuated around the 175 million oz level, while weekly movement has averaged over 4.5 million oz. I know I make a big deal about this COMEX silver warehouse turnover, but that's only because I find it so unusual and specific to silver and not to any other commodity (including COMEX gold and copper).

Here's another attempt to show this silver physical turnover in proper perspective. The average weekly turnover this year has been 4.5 million oz or 2.5% of total inventories, yet total inventories have rarely varied more than 1% week to week and are virtually unchanged year to date. How is it possible for there to be the highest weekly turnover of exchange warehouse inventories (in history) and for the total level of inventories to remain virtually unchanged? I've offered the only plausible explanation I can come up with for this three year phenomenon (that it is a sign of extreme physical tightness), but aside from that, I find the frantic turnover and flat total inventories to be strange indeed Â? almost to the point of being spooky. Then again, I find much about the COMEX to be spooky Â? in the criminal sense.

Over the past six weeks and on the rally in silver prices, sales of Silver Eagles have collapsed, both absolutely and relative to sales of Gold Eagles (which also aren't particularly robust). Ironically, retail demand from the public has picked up over this time according to reliable industry sources. I'm not particularly concerned about demand for Silver Eagles having a negative effect on silver prices (at least not near as much as I am concerned with COT considerations), but my main takeaway is that the most logical conclusion for the fall-off in demand is that it confirms my speculation that a single big buyer (JPMorgan?) may have stepped away from the buy side.

Further, I am still of the opinion that the big buyer's motivation for stepping aside is probably rooted in a desire not to exacerbate a wholesale physical tightness, which is more bullish than bearish. Of course, sales of Silver Eagles are not the prime driver of silver prices and a slowdown, especially relative to sales of Gold Eagles has long been expected by me. A couple of months ago, Silver Eagles were outselling Gold Eagles on a 106 to 1 oz basis, the highest level in history. The most recent data indicate the pace has cooled to 86 to 1, but I would point out that this is still substantially higher than any other time in history (save for the first six months of this year). http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) didn't feature the continued significant increases in the headline number of the total commercial net short position in silver or gold (where there was a reduction), but there was a large increase in copper (more in a moment). The reporting week did include the big price declines in gold and silver on Monday and Tuesday, but it is always uncertain whether all the data was captured when there are big price movements into the cut-off day.

In COMEX gold futures, the commercials reduced their total net short position by 9100 contracts, to 156,900 contracts. It's hard to call this reduction, which is less than 10% of the 100,000+ net contract increase over the previous five weeks, meaningful in COT terms. By commercial category it was all a raptor affair, as the smaller commercials away from the big 8, bought 10,000 gold contracts. The big 8 actually added 1000 new shorts. JPMorgan, notably, sold another 3000 contracts, reducing its net long position to 22,000 contracts, its lowest gold long position in quite some time. One might reasonably conclude that JPMorgan was the big commercial gold seller during the reporting week and as such wins the crown of being most responsible for the price weakness during the reporting week.

If the commercials were net buyers (thanks to the raptors), the Â?hot moneyÂ? technical funds in the managed money category were the big sellers in gold this week. The technical funds sold more than 11,600 contracts, including more than 5400 contracts of long liquidation and over 6200 contracts of new shorts added. If I had to guess, I would say that those new technical fund shorts were bought back on Thursday's rally.

In COMEX silver, there was less than a 700 contract increase in the total commercial net short position to 58,700 contracts, and seeing as we established multi-year records in the previous week, we did so again this week. Since June 3, the total commercial net short position in COMEX silver has increased by 49,000 contracts or the equivalent of 245 million oz. It would appear that all the commercials on the COMEX received the office memo in early June to sell aggressively no matter how slight the silver rally might be.

By commercial category, the selling was split between the raptors and JPMorgan, with the big 5 thru 8 shorts actually buying back a hefty 3000 short contracts for a change. The raptors sold another 2500 contracts of a long position now down to 7300 contracts, their lowest net long position since December 2012. The big 4 (JPMorgan) sold 1200 new short contracts and that would increase JPMorgan's concentrated short position to a rounded off 19,000 contracts. Designated hitters don't have to sell a lot, just enough to control the price and JPM earned its DH designation during the reporting week in both gold and silver.

The technical funds bought 2000 net silver contracts, almost all of that being further short covering. Where the commercials sold 49,000 net contracts since June 3, the Â?hot moneyÂ? technical funds bought more than 53,000 net contracts or the equivalent of more than 265 million oz. Of course, technical funds don't deal in actual silver, just paper contracts and none of them would even think of making or taking delivery, as they are strictly paper speculators.
It's amazing then that these pure speculators would be able to buy an amount of silver nearly three times greater than all the silver mined in the world during the six weeks in question. Amazing, that is, until you recognize that the regulators at the CFTC and CME are part of a conspiracy to cover up the ongoing silver price manipulation.

Every once in a while, I mention the going's on in COMEX copper, also an integral component of the CFTC/CME/JPM ongoing conspiracy. I'm not a copper analyst, per se, but the recent data prove a COMEX manipulation and dangerous market structure beyond doubt. It makes me wonder if all the copper analysts and producers have lost their senses, not to have noticed the same Â?hot moneyÂ? price distortion on the COMEX as exists in gold and silver. What's really crazy is that copper is such a large market in total value, with some $130 billion worth of copper being mined annually, compared to the $16 billion mined in silver. So much for only small markets being manipulated.

Back around the end of March, with copper prices around $2.95 (per lbs.), the Â?hot moneyÂ? technical funds in the managed money category of the disaggregated report were net short 25,000 contracts. This was one of the largest net short positions in the history of the disaggregated COT report going back the 7 years since the detailed report was first introduced by the CFTC. I would contend that the price of copper fell to $2.95 from $3.25 precisely because of the heavy technical fund selling and not due to any developments in real copper supply and demand.

Since the end of March, copper prices rallied back over $3.25; again because the technical funds bought roughly 74,000 net COMEX copper contracts as of the latest COT report and now those technical funds hold a record net long position of 49,000 contracts. I would contend that the net buying of 74,000 contracts by the technical funds, the equivalent of 925,000 tons of copper, is the sole reason for why copper prices rose to over $3.25. After all, 925,000 tons of copper is more than five times the combined total of LME and COMEX copper inventories and worth more than $6 billion.

Now that the technical funds are so overloaded to the long side of COMEX copper futures, the copper market is in the same dangerous territory as is COMEX silver and gold. And just as is the case in COMEX gold and silver, if there is a substantial price decline in copper, it will undoubtedly be caused by technical fund selling (after the collusive commercials pull the price rug out from the funds). At the very least, all three markets are set up for disorderly pricing regardless of price direction, the exact thing that the regulators should be striving to avoid. There is too much outsized speculation on the COMEX and it only exists because the CME greedily seeks trading volume without regard for the consequences to the rest of the world. Why else would the crooks at the CME preside over such a scam?

The potential for disorderly pricing is a clear and present danger in COMEX silver irrespective of which way prices move. Some say the commercials will get overrun to the upside (Izzy's Full Pants Down Premise); while others contend a sharp price move lower will be the result. As for me, on strictly COT considerations, there is a lopsided probability of a decline not considering anything else. But how can you not consider anything else in silver other than the COTs? Even if the actual COT odds of a silver price decline were 99 to 1 (strictly for illustrative purposes), I also know that if the 1% chance to the upside kicks in, the move will be many, many times greater than any decline could be. As much as I fear another COMEX rigged silver take down, I fear missing the big move up even more.

In Wednesday's article on pool accounts at Kitco, I bemoaned the loss of a previous article I wrote on the topic, entitled Â?Make the Switch NowÂ? in 2002. Fortunately, a tech-savvy subscriber showed me how to retrieve lost articles (thanks Joshua). Here are the concluding sentences of that old article which is more than relevant today Â?

My advice for those holding paper silver in questionable form is to get your silver into unquestionable form. Get out of pool accounts and unallocated silver, and into real and allocated silver. Hold your silver in hand or with someone you trust. The additional costs will prove well worth it. Make the switch now, while you can. Don’t wait for the price to rise, it may be too late. I can’t think of a worse outcome than for someone to have invested in silver for a long time, to be denied a profit when the price rises, because he held the wrong form of stored silver. Please don’t let that happen to you.

https://web.archive.org/web/20021004212721/http://www.investmentrarities.com/10-01-02.html

With my newfound ability to retrieve lost articles from long ago, here's one that I wrote nearly 13 years ago that I have tried to retrieve on numerous occasions for those seeking a general description of the Commitments of Traders Report. But please remember I wrote this many years before the CFTC introduced the more detailed disaggregated report. Just for the heck of it, I looked up the price of silver on the day the article appeared – $4.17
https://web.archive.org/web/20070812085857/http://www.gloomdoom.com/08-14-01.html

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Silver – $20.90

Gold – $1310

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