

July 21, 2012 – Weekly Review

Weekly Review

With the range-bound price movement now pressing into its third month, both gold and silver finished with particularly narrow price changes for the week. Gold was off about \$5 (0.3%), while silver ended the week virtually unchanged. This left the gold/silver ratio little changed and near the 58 to 1 level. Although there were no major price movements this week, the presence of daily price control from the COMEX hangs heavy in my perspective and I feel like I'm always expecting a sudden intentional smack in gold and silver prices. One aspect I left out of my war on silver article is the psychological effect that I think is part of the manipulators' crooked game. Prices feel like they are falling even when they are unchanged.

For a change, there were no new revelations of a major financial scandal over the past couple of days (I think), but it is difficult to think of a time when more financial scandals have surfaced than the present. I'm not going to direct today's report to the ongoing scandals, other than confess to my amazement over how so many have occurred. Big banks involved in collusive and manipulative behavior at the highest level (LIBOR), accompanied with ongoing awareness from the regulators is the same theme of the allegations of the silver manipulation on the COMEX for the past 25 years. The only differences I can see are that silver is a much smaller market (and, therefore, easier to rig) than interest rates and that the alleged silver manipulator (JPMorgan) has been clearly identified for almost 4 years. Unless I missed it, I had never seen Barclays name mentioned until the settlement was announced.

Based upon my turnover premise, conditions in the wholesale silver market continue tight. It was another week of silver being moved in and out of the COMEX warehouses at a rapid pace, with total ending inventories falling 2 million oz to just under 142.7 million oz. If metal in motion is metal in demand, then COMEX silver is very much in demand.

The budding delivery drama in the July COMEX silver futures contract was extinguished this week with a hefty delivery by Jeffries followed by an even heftier delivery from JPMorgan (from their propriety house account). That there was a higher than normal number of open contracts for delivery well into the month was the cause of the drama. What made JPM's 2 million oz silver delivery notable was that the bank was previously a standout acceptor (stopper) of silver deliveries up until that point.

The JPMorgan silver delivery turnabout smacks of the same type of market gamesmanship and control that I accuse them of on a regular basis. Why such an important bank is even involved in such intense and dominant silver trading in this day and age, so distant from what should be their core banking business, continues to puzzle me. In a rational world, one would think JPM would just exit the silver market completely rather than continue to stand to accused of wrongdoing. I can only conclude that JPM has such a stranglehold on silver that they can't let go without wide notice.

Other silver physical market barometers signaled little. Silver ETF metal holdings were largely unchanged and it was the recent decline in gold ETF holdings that attracted notice. Over the past month, more than 860,000 oz (worth almost \$1.4 billion) have been withdrawn from the big gold ETF, GLD. I can't tell if that was plain vanilla investor liquidation or movement of metal to another location. Silver Eagle sales from the US Mint are not at all impressive so far for the month, but at least Silver Eagle sales remain strong relative to Gold Eagle sales. Of course, it would be better if both were stronger.

The changes in this week's Commitment of Traders Report were consistent with the slight jump in gold and silver prices during the reporting week. In each market, the headline total commercial net short position increased, but not excessively so. In gold, the total commercial net short position increased by a bit over 6,000 contracts, to 158,800 contracts. The standout was that the four largest traders accounted for almost all of the increase, as they added to their short positions by 5500 contracts.

In silver, the total commercial net short position increased by 1000 contracts to 15,100 contracts, still among the lowest (bullish) readings in history. As was the case in gold, the big 4 (read JPMorgan in silver) added 800 contracts to their short position, accounting for most of the week's total net increase. The raptors (the smaller commercials apart from the big 8) also sold around 700 contracts, reducing their net long position to 22,900 contracts. Counterbalancing big 4 and raptors selling, the big 5 thru 8 traders bought back about 600 contracts of their short positions. In round terms, I'd still peg JPMorgan's concentrated short position to be in the 15,000+ contract range.

One last comment on the silver COT is that the tech fund short position (the gross short position in the managed money category of the disaggregated COT report) has nudged up to almost 16,000 contracts this week, not far from its recent extreme. If there's one category of silver shorts you would like to see high, it is this category, as this type of silver short seller is most likely to aggressively buy back on increasing prices.

For eleven weeks running, since the report as of May 8, the COT structure in both gold and silver has been close to where we stand currently. This narrowly-fluctuating COT structure does more than coincide with the narrow price trading range in gold and silver over that time; it mostly explains it. It's not that gold and silver prices can't change dramatically without a corresponding dramatic change in the COT structure, just that it's not highly likely to occur otherwise. If, as I contend, gold and silver prices are manipulated by collusive commercial activity on the COMEX, then prices should follow the path that the commercials dictate. For the past 11 weeks, the commercials haven't changed their positions dramatically and neither have gold or silver prices. I would call this additional proof of manipulation.

Just because the COT structure hasn't varied much in almost three months, that doesn't indicate that the COT analysis has no meaning. To be fair, it also doesn't mean that the collusive commercials can't rig or try to rig prices still lower, at least temporarily. The bigger takeaway should be that the extremely bullish overall COT structure in gold and silver will likely explain a coming rally of some significance, timing aside. For almost three months, the COT structure in gold and, particularly, in silver has indicated the majority of speculative selling (and commercial buying) was completed. In the past, this configuration has presaged price rallies of significant proportions.

Even though I believe that price manipulation is the most important current factor in gold and silver, I thought I would take a break from that today to comment on some other stories. I don't know if I've written much on this, but when my good friend and silver mentor Izzy Friedman first infected me with the challenge 27 years ago of explaining why silver was priced to ignore the then-structural deficit consumption pattern, the manipulation wasn't the very first thing that captured me. Before I discovered the manipulation on the COMEX, Izzy's prompting had me thinking of silver in many strange ways, truly outside the box. I still think of silver in those terms, even though I don't often write about them. Let me try to do so today.

The first story has to do with the widespread reporting this week of the discovery last year and current recovery of a large amount of silver from a British merchant ship, the SS Gairsoppa, sunk by a German U-Boat in 1941. Normally, I don't comment on most of the developments that appear in the press about silver as I feel I should be concentrating on analyzing the most important factors in silver, as opposed to reporting all of them. But I think I can add some perspective on this silver shipwreck, in a different manner than has been reported to date. <http://news.yahoo.com/48-tons-silver-recovered-world-war-ii-shipwreck-202726264-abc-news-topstories.html>

Between the Gairsoppa and another ship sunk in World War I (also by German U-Boat), some 240 tons of silver may be recovered by the salvage company for both wrecks. That's around 7.5 million ounces of silver, certainly not chump-change. I can't think of many (or any) entities or individuals throughout the world that own such a large amount of silver. Certainly, a good number of silver ETFs own much bigger quantities of silver, but in reality it is the shareholders who own that metal and public records don't indicate any individual concentrated holdings.

7.5 million ounces is a lot of silver, equal to one percent of all the metal mined throughout the world annually. I don't think such an amount will be recovered from old shipwrecks each week or month, so it's not a critical factor in long term silver supply and demand. (I remember when I first became intensely interested in silver back in 1985, Mel Fisher soon discovered the mother lode of silver and gold in the Atochia, sunk in 1622).

What I can't help but think is that the 7.5 million ounces of silver that may be recovered is not only a lot of silver, it is also the same amount (1500 contracts) that I have long proposed as being the natural speculative position limit for the COMEX and not the 25 million oz that the CFTC has approved. One percent of world production is more than enough for any one speculator to hold in the derivatives of any world commodity. If 7.5 million oz of silver wasn't a large amount, the discovery of it wouldn't have been so newsworthy. Away from position limits, other things about the silver shipwreck set me to thinking.

The sinking of the Gairsoppa occurred more than 70 years ago, before I was born (yeah, I know - that's a really long time ago). The great thing about history is that it forces you to think in a perspective different from the present. Therefore, I can't help but think of the overall state of silver in the world 70 years ago compared to the present. Interestingly, there were some 10 billion oz of silver bullion existing in the world 70 years ago, with almost 6 billion oz of that amount held by the US Government. Today, with only a bit over one billion ounces of silver bullion in the world (with USG holdings fully depleted), or 10% of what existed 70 years ago, the 7.5 million oz sunk then was a drop in the bucket at that time, as opposed to being a lot of silver today. Funny what the passage of 70 years can result in.

Another thought that I have is how the world used silver 70 years ago, as compared to today. Back then, silver was mostly used in common coinage, in silverware and in photography, its main industrial application. Silver investment was non-existent back then. Today, there is no silver coinage in circulation, modern brides tend to shun polishing silver and the use of silver-halide in photography has been largely replaced by digital. Instead, the modern industrial applications for silver are as varied today as they were unimaginable back then. Please take a moment to reflect on the everyday electronic and other devices requiring silver that we take for granted today and compare our lives to life back then. It is simply incredible to think how much the world of silver and the world itself have changed over the past 70 years. And to think that the world just woke up to the merits of investing in silver over the past 6 years, suggests to me that the investment trend has just begun. It is amazing the perspective you can gain from history.

The other story that got me to thinking this week wasn't focused on silver, at least at the outset. There was an interesting story in the NY Times about something of which, quite literally, I had no clue. The story was about a tiny bean grown in India that had come to radically alter the lives of the formerly poor farmers who grew it. Just in case the link doesn't allow viewing for non-subscribers, I'll summarize the story briefly, but it is a fascinating tale if you can read it in its entirety. <http://www.nytimes.com/2012/07/17/world/asia/fracking-in-us-lifts-guar-farmers-in-india.html?pagewanted=all>

It seems that the bean, called guar, due to its hardness became an essential ingredient in the energy drilling process, hydraulic-fracturing. Adding ground guar to the fluids used in fracking makes the fluids "harder" and the whole process much more efficient. Buyers for the drilling industry can't get enough guar. As a result, the price of guar has gone through the roof, enriching the formerly poor farmers. What was most interesting is in how the farmers in India reacted to the sudden windfall. There used to be an old American TV series called "The Beverly Hillbillies" that came to my mind. But I must say that in the modern Indian version, the farmers spent their new-found riches much more prudently than their fictional TV counterparts, the Clampetts .

The farmers of guar in India bought tractors and built houses for their families with stone walls and roofs, to replace those of mud. It was all quite heart-warming and you couldn't help but feel good for those given the opportunity of improving the lives of their loved ones. But the kicker was that some of the unexpected windfall went to gold and silver for a child's dowry and for silver bracelets in another case. It was a silver twist I was not expecting.

Real life stories like these can be instructive in how we view the world and help put things in a different perspective. While it is true that the dominant feature in current silver pricing is the ongoing manipulation, it is also true that in an historical perspective, the manipulation will prove to be a temporary interlude in a world rooted in age-old beliefs and values. Were any of these Indian guar farmers aware that silver is priced lower than it should be, due to the manipulation, I'd bet they would thank JPMorgan for the bargain.

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Silver – \$27.25

Gold – \$1585

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