July 4, 2015 – Weekly Review

Weekly Review

Gold and silver prices have been under such relentless downward pressure lately, that it comes as a bit of surprise that gold ended only $6 (0.5%) lower this week and silver fell by only 10 cents (0.6%). And for the second week in a row, the silver/gold price ratio ended unchanged at 74.5 to 1.

Despite the shallow price dip this week, silver has been lower for six of the past seven weeks, while gold lower in five. Plus, we're at the lowest prices in quite some time, even though we ended the first half mostly unchanged from year end levels. And if anything, the very recent trading action has been a steady drip lower; as both silver and gold traded lower or to new lows (either intraday or on closing basis) on six of the past seven trading days on the COMEX (since the June 23 cutoff date of the last COT report).

I know that no one could make a plausible case for the price action being caused by the actual supply/demand circumstances in either metal (without sounding foolish), so I won't try to solicit such an explanation for the steady drip of prices lower. More than ever, gold and silver price movement is dictated by positioning on the COMEX and what we've just witnessed is world-class salami slicing.

There is no doubt that the traders called commercials (and led by JPMorgan) have been rigging prices lower in small slices to the downside to lure as many managed money traders as is possible into selling short. We'll have to wait until Monday to learn how successful the commercial rig job turned out (thru Tuesday), but since managed money shorts were already at or close to new records in silver and gold, the commercials have already succeeded and any new managed money shorts are just icing on the cake of the next rally.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses picked up to 2.8 million oz (during a 4 day week), as total inventories rose by 0.8 million oz to 183.7 million oz, another new high in what is still a narrow inventory range over the past year. For what it's worth, the increase this week was largely due to a 0.6 million oz deposit in the JPMorgan warehouse (in the eligible category) making this warehouse the largest of the 6 COMEX silver warehouses with total holdings of nearly 60.5 million oz. Four other COMEX warehouses hold between 25 and 30 million oz of silver, so the JPM silver warehouse is twice as large as any other COMEX warehouse.

And even though the JPMorgan silver warehouse is the largest by far in the COMEX system, that is made more notable since it began operating as a unique COMEX warehouse in 2011 (the actual facility dates back to Chase Manhattan days, I believe) and at that time, it held zero COMEX silver oz. For the record, I believe JPM owns at least 50 million of these silver ounces as bank property/investment, which in turn makes up 15% or so of the 350 million oz+ (and still growing) hoard of actual silver I allege it owns.

While there have been some very small number of disagreements with my findings that JPMorgan did acquire 350 million oz of silver over the past 4 years, instead I am dumbfounded by what appears to be overwhelming acceptance of my premise. If anything, there is more disagreement about what it portends for the price, with many convinced it will prolong the manipulation. I understand such feelings, even if I disagree with them; but that is a separate issue. Even those concerned with a continued price suppression are part of the overwhelming majority that accepts my JPM silver ownership premise and that was my only intended point. I'd like to think that I've made such a continuous and convincing case as being behind the acceptance, but I know that's only part of it.

The reason I'm dumbfounded by the apparent acceptance of my JPM silver ownership premise is that I have very little control over which findings I put forth will or won't be accepted. I guess the determination is up to the audience to some large extent. For instance, I could have easily imagined that my finding that JPMorgan or any of the other four large commercial silver shorts never taking a loss and only profits on any COMEX short positions added over the past seven years would cause collective outrage. But that doesn't seem to be the case or, at least, hasn't been the case to date. Then again, I've spent more time describing the JPMorgan silver accumulation than the no loss premise. And the evidence of accumulation rolls on.

The first three days of the big COMEX July silver delivery period featured JPMorgan, in its proprietary (house) trading account as once again the biggest stopper of deliveries, taking 917 (38%) of the 2408 total silver contracts issued so far. Customers of JPMorgan also took large numbers of deliveries (and issued some as well), but I don't include that in any of my calculations for how much silver JPMorgan is acquiring on its own behalf Â? just the stuff taken in its own name.

This COMEX delivery month, JPMorgan has acquired another 4.6 million oz of physical silver in its own name. In March, JPMorgan took 1500 contracts (the legal maximum) and another 808 contracts in May, so for the last three traditional COMEX silver deliveries, the bank has taken 3217 contracts of silver deliveries, or 16 million oz of actual metal. It has already moved the 12 million oz it took delivery of in March and May into its own COMEX warehouse and I would assume JPM intends to move whatever metal it acquires this month into that same warehouse facility. Based upon the number of contracts still remaining open in the July futures contract, I would guess JPMorgan may stand for another 200 contracts or so before month end.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

What's so remarkable about this is that JPMorgan's move to acquire silver via COMEX deliveries commenced well after I started making the case that the bank was accumulating massive amounts of physical silver. Up until the March delivery period, I never suggested that the bank was using the COMEX futures delivery process to acquire silver. I did suggest that JPMorgan was behind the frantic turnover in the COMEX silver warehouses and was Â?skimmingÂ? a good chunk of the movement into its silver holdings; but not via futures deliveries.

COMEX futures deliveries are among the most transparent of activities, particularly when a clearing member (like JPM) is making or taking delivery in its own name because that must be made public according to exchange rules. If JPMorgan was accumulating massive amounts of silver over the past four years and if it desired to accumulate without widespread notice (a reasonable assumption), the very last mechanism of accumulation it would use would be by taking delivery of COMEX futures contracts in its own name. That would be the equivalent of taking out a full page ad in the Wall Street Journal announcing the planned acquisition.

And that explains why JPMorgan didn't take delivery on COMEX silver contracts until near the fourth anniversary of the start of its silver buying binge. I'm assuming you're already asking yourself, as I have been asking myself, why is JPMorgan showing its hand now? And I can't help but say it, but why now in light of many already believing the bank has acquired the largest stockpile of silver in history? Or, in other words, why would JPMorgan, in effect, validate my premise of its massive accumulation by beginning to accumulate silver is the most visible and transparent of all acquisition techniques? I mean, I'm glad it confirms what I have been saying, but why should JPM do it and do it now?

In addition to being the most transparent of accumulation techniques, taking delivery on COMEX futures contracts is the most cost effective method of acquiring significant quantities of physical silver in a hurry. Let me repeat that Â? there is no better or more effective method of acquiring physical silver in size in a hurry than in buying COMEX futures contracts and standing for delivery.

This happens to be the flip side to the argument that COMEX silver trading has morphed into a Frankenstein of a market in which paper speculators dictate the price to real world producers and consumers. While such paper speculation has clearly set the price, it also opens up the possibility for the reverse, namely, that actual metal could be demanded at what is an impossible price to deliver at. So much time has been spent trying to figure out at what low artificial price set by paper speculators on the COMEX will curtail real world production, that an equally important question has been overlooked Â? can the silver shorts deliver if they had to?

When the COMEX silver shorts were mostly the commercials, no matter what amount of paper contracts they were short and regardless of how much silver they owned or that existed in the world, the answer was always the COMEX commercials, by hook or by crook, would insure there was enough silver to deliver at the then current price. This is proven in the fact that there has been no delivery default. But the biggest transformation in the COMEX silver market over the past two years is the gradual ascendency of the managed money speculators (the technical funds) to the shorting forefront.

Combined with JPMorgan's abandonment of the short side of COMEX silver, the pronounced inability of the managed money shorts to deliver physical silver creates the greatest opportunity for a short covering squeeze ever. I couldn't make this up if I tried Â? the entity most capable of making delivery (JPM) is taking delivery of silver instead; and the entities least capable of making silver deliveries hold their largest short position on record.

Don't get me wrong Â? I'm not predicting a COMEX silver delivery default, as why in the world would the COMEX allow a default when its most important and influential members are positioned to score on a short squeeze and those potentially caught by the squeeze are super deep-pocketed and capable of withstanding massive losses on a price rise. You must remember that the managed money technical fund shorts in addition to having no ability to deliver actual metal are also capable of sustaining unimaginably large losses if silver did explode without defaulting or not meeting margin calls. That's because the managed money traders are financially conservative and only risk a small portion of their overall assets in any one trade. I've know this forever, but don't believe I've advanced the idea quite like this before. The technical funds are the perfect patsies to have on the short side because, if needed, the commercials can really put it to them.

So, going back to the question of why JPMorgan is taking delivery of silver in the most transparent manner possible after not doing so for the first four years of its physical silver accumulation, I can only conclude that it sees little reason to hide its activities because the end is near. It's either that or because it's too difficult to secure silver from other sources. That this would occur while the entities least capable of making delivery are holding their largest short positions ever is unbelievable, but I've said that too often already. If you have any thoughts on this matter, please drop me a line and share them with me.

Lately, the weaker retail demand has been, the stronger are sales of Silver Eagles from the US Mint. If that doesn't confirm the presence of a big buyer (JPM) then I don't know what does. There weren't any sales of Silver Eagles on the last two days of June and sales ended at over 4.8 million oz as I indicated in last week's review, the second highest sales month of the year. But on the first two days of July, some 782,000 Silver Eagles were sold. My guess is that JPMorgan didn't want to push sales over 5 million for the month of June, so waited a couple of days to buy a big chunk after June ended. If anything JPMorgan seems to be accelerating its physical silver accumulation.

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

Since I won't be able to discuss the new COT report until Monday, let me comment on some of the other news from the past week. A number of subscribers sent me the following article from Zero Hedge concerning revelations in the new quarterly derivatives report for US banks from the Office of the Comptroller of the Currency (OCC). http://www.zerohedge.com/news/2015-06-29/jpm-just-cornered-commodity-derivative-market-and-time-we-have-proof

I've followed the OCC report for many years and in all that time, the only thing of value that I ever got from the report is the names of individual US banks involved in OTC derivatives contracts. Mostly, the report confirmed my contention that JPMorgan was the big entity in silver. More recently, Citibank has been prominently featured. There is also an indicated change in how the OCC measures gold derivatives, now incorporating them with foreign exchange. My big gripe with this report was that it wasn't nearly transparent enough. With the change in how gold is calculated, the most opaque of all government reports, just became even more non-transparent.

The reason I dismiss the OCC report is that it tells you one headline number Â? the total notional value of derivatives contracts held by US banks and nothing about the net positions held, like whether any bank's position is net long or short or completely flat (even number of longs and shorts). You can't realistically compare the OCC's report to the COT report from the CFTC. Yes, they are both reports from US government agencies on derivatives, but to go beyond that is like saying a used Yugo is the same as a new Ferrari.

The COT report offers such exquisite detail and has improved so much over the years that any one focusing on the OCC report is missing more than I could ever explain. But having said how lacking in detail that the OCC report is, there is something there that I would like to speculate on, namely, the rise of Citibank in the precious metals category (excluding gold) believed to represent silver (along with platinum and palladium).

I have tried to demonstrate over the past seven years that JPMorgan is the big Kahuna in silver, by showing that it has been the dominant force both on the COMEX and in physical silver dealings, but that doesn't mean that I haven't noticed the rise of Citibank in the OCC reports of the past few years. I always found it odd that Citibank would come to be so prominent in OTC derivatives dealings but would hardly be a factor at all on the COMEX or in physical dealings. For example, Citibank very rarely shows up as an issuer or stopper, either for itself or customers in any COMEX/NYMEX commodity, even though one would think it would since it was so big in the OCC report. Such a big role in OTC dealings and such a small role on the COMEX is simply not compatible.

Here's my speculation and please take it as just that Â? speculation. I don't dwell on the OTC derivatives market because accurate and detailed data there are as rare as hens' teeth. But many insist that this is a very large market consisting largely of direct bank to bank dealings. For the sake of argument let me accept and stipulate that is true. In doing so, I can't disregard the one notion that seems inescapable, namely that JPMorgan has snookered Citibank into going short big in OTC silver derivatives.

JPM, in addition to the massive physical silver position I claim it has amassed and the giant short positions in COMEX and SLV that it may have eliminated completely, now may hold a gigantic long position in OTC silver derivatives with Citibank as the big potential short counterparty and designated bag holder. I'm an outsider with no strong alliance to either entity, but if it came down to betting in a contest between JPMorgan and Citibank, I'd take JPM as prevailing every day and twice on Sunday. Heck, in financial matters I'd take JPMorgan against the devil himself. Wouldn't it be fitting to see JPMorgan loaded up on the long side of OTC silver derivatives?

I received a very interesting email from a long term subscriber this week which asked if the big vote in Greece tomorrow might not result in the same price smash witnessed the last time a big vote was held on a Sunday Â? the Swiss vote on gold last November 30. Andre went on to remind me that I had written an article last November 26, titled Â?The Best Setup Yet?Â? and in the weekly review of November 29 (both in the archives) I mentioned the Swiss vote might result in great volatility. In addition, the COT report back then, just like this week was delayed until Monday. This week, as I'm sure you realize, I wrote an article titled Â?The Best and Last Setup?Â? Even I would have to admit to the uncanny similarities (although I had forgotten about the old articles completely).

The first thing I did was go back and read the articles and compare what happened pricewise afterward. As it turned out, the closing price of silver on November 29 was $15.45 and that low held on a closing basis after the overnight drop of more than a dollar in silver. The great setup would be dissolved by the much weaker than anticipated rally to $18 in late January, but the setup did result in a rally as is always the case. By the way, I'm not the only one free to reference anything I've written in the past. Just as Andre did, please feel free to question anything I've ever written. Of course, I'm allowed to admit to having been just plain wrong about something I wrote, so I'm reserving that as a possible answer.

I did answer Andre that COMEX silver is such a manipulated and crooked market that a big selloff could be arranged at any time and for any reason imaginable (including a local weather forecast of fair to partly cloudy skies). And if such a selloff was thought to result in additional managed money shorting, then the selloff could become a sure thing. But that's always the case. I don't think whatever the news may be that it has any influence on the managed money shorts for the simple reason that they pay no attention to news, just price movement.

In fact, of all COMEX traders, the managed money traders are the least interested in or motivated by news. Have the commercials rig the silver price sharply lower or higher and tens of thousands of managed money net contracts will be quickly sold or bought. Have the biggest news come out with no immediate price movement and the managed money technical funds won't buy or sell a single contract. That's just how these boys roll. For them, it's not the news or the facts or the value; it's the price alone

Not ruling out the omnipresent risk of a sudden selloff for any contrived excuse possible, there are important differences between the end of November and today. For one thing, the managed money shorts are much greater today, maybe 20,000 contracts (100 million oz) greater; thus holding that much more rocket buying fuel. JPMorgan is both a lot less short than it was back then, both on the COMEX and in SLV and a lot more long in physical silver holdings (by 50 to 60 million oz or more). And a considerable additional number o

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