July 8, 2015 – Extraordinary Developments

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Before I get into the sharp price drop in commodity prices yesterday, I'd like to comment on the US Mint running out of Silver Eagles due to high demand. Having exhausted existing inventories of these coins yet again, the Mint was forced to suspend new sales for a number of weeks until it could build up a working inventory. While demand for Gold Eagles has also increased, the rationing of coins applies strictly to the silver version, as has always been the case over the past four years.

A little over five weeks ago, I chastised the US Mint on their announcement in late May that it had plenty of Silver Eagles and was then able, for the first time in quite a while, to offer as many Silver Eagles as anyone wished to buy. Specifically, in the May 30 Weekly Review, I devoted a good number of paragraphs to the situation with Silver Eagles, including this one Â?

Â?Also funny was an announcement from the US Mint that it had lifted its rationing restrictions on sales of Silver Eagles and anyone could buy all the Silver Eagles it demanded without restriction. I don't mean to be disrespectful to the Mint, but is it serious or has it decided to branch out into standup comedy? Its own reported sales indicated it was finally producing more Silver Eagles than it was selling, so it was elementary that anyone could already buy as many Silver Eagles as demanded, making the announcement of availability meaningless. If any entity tried to buy more Silver Eagles than the Mint had on hand or could produce, rationing restrictions would immediately return, no matter what the Mint announced.Â?

So, in little more than a month, the US Mint is right back in the position of not being able to supply a sufficient amount of Silver Eagles to meet demand, as required by law, making its previous announcement look, well, comical. But please don't think I'm picking on the US Mint Â? to my mind, it's an honorable federal institution with a rich history. And as a silver protagonist, I recognize the contribution the Mint has made to the world of silver Â? producing a mind-boggling total of more than 160 million Silver Eagle bullion coins over the past four years, to say nothing about the tens of millions of ounces of other silver coins it produced and sold over that time. For this, the Mint deserves a tip of the hat.

But, despite the prodigious quantity of Silver Eagles produced by the US Mint over the past four years, it has still spent the majority of the time struggling to keep up with demand and for a greater percentage of the time than not has been forced to ration Silver Eagles. Again, this great demand and resultant rationing was specific to Silver Eagles, as there were no signs of a broad based rush into precious metal coins in general (including gold and platinum). And, as I have been reporting much more often than not over the recent past, retail demand has been mostly very weak over the past four years, even for Silver Eagles. So what's behind the unusual and specific demand for Silver Eagles?

Regular readers know that I attribute the unprecedented demand for Silver Eagles to buying by JPMorgan, which I claim has acquired more than 350 million ounces of physical silver over the past four years, including what could now be 100 million Silver Eagles alone. I know some still scoff at my suggestion that JPMorgan has accumulated as many Silver Eagles as I claim, but what has occurred over the past five weeks provides all the proof one would need.

As I indicated, the US Mint is not some rinky dink outfit incapable of following the laws mandated by Congress; yet it has clearly been unable to keep up with demand for Silver Eagles, by far the largest selling bullion coin in the world. Why is that? The simple answer is because the US Mint has been played like a fiddle, no scratch that, played like a Stradivarius by JPMorgan.

The simple truth is that if there was consistent and broad based retail demand from the public behind the record sales of Silver Eagles, the US Mint would have adjusted to that long ago and would have come to avoiding rationing. In time, and certainly less than years, the Mint would have increased production sufficiently to meet any level of demand, again as required by law. After all, the Mint has a guaranteed profit on each coin it sells and would have devoted enough resources to meet its mandate of producing Silver Eagles to match demand.

Instead, because JPMorgan was the big buyer and it knew of the Mint's capabilities and responsibilities in producing sufficient quantities of Silver Eagles, the bank tailored its demand to what the Mint could produce. Let's face it, if JPMorgan tried to buy much more than the Mint could produce, that would become known in the wholesale distribution community immediately. In other words, JPMorgan couldn't and wouldn't try to buy 10 million coins in a month since the Mint couldn't possibly meet that demand and word would likely get out what JPM was up to. So JPMorgan bought as many Silver Eagles as it could without causing other buyers to be denied and thus mostly avoided detection as to its buying.

Not content to steadily accumulate Silver Eagles at a pace dictated by what the Mint could produce and whatever residual public retail demand might be (JPM bought what the public didn't), the greedy pigs at JPMorgan got bored and engineered another scam. (Yes, I know that JPMorgan is the master of the financial universe and is now positioned on the same side of silver investors, but let's face it Â? they're still greedy pigs).

JPM's new scam involves the bank standing aside and refraining from buying Silver Eagles whenever it knows it will cause a short term drop in the price of silver due to its dominant role in COMEX dealings. This results in very low monthly sales of Silver Eagles until the price of silver is rigged lower. Then, after JPMorgan has driven the price lower on the COMEX, it steps in and buys as many Silver Eagles as possible at the new lower price including the ones it didn't buy at higher prices.

I reported on this last summer and now it has occurred again. Following two of the weakest months of the year for Silver Eagle sales (April and May) in which less than 5 million coins were sold in total, the last five weeks has seen nearly 7.5 million coins sold , completely depleting the US Mint inventory.

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

It's clear what occurred. Because JPMorgan stepped aside in late April and into May from buying Silver Eagles (because it knew it would rig prices lower soon, the Mint started to build inventories of Silver Eagles and began to get worried about what it would do with the excess coins. That prompted the Mint to announce in late May that it had all the Silver Eagles anyone wanted to buy. But because it was JPMorgan's show, once the bank rigged prices lower, it stepped in and cleaned out the Mint's inventory at the lower silver prices, saving several millions of dollars in the bargain.

What happens with Silver Eagles from here is anyone's guess, but what has occurred up until now is no guess. I suppose some will conclude that this is clear proof of a silver shortage, but a temporary shortage of Silver Eagles is not the same as an overall silver shortage. I think that overall shortage is coming, but only at much higher prices and circumstances. Let's face it, we've had nearly consistent rationing of Silver Eagles for the past four years and not only has there been no general physical shortage, but prices have moved ever lower. The real story in Silver Eagles has been the total number sold and who's doing the main buying, which I claim is JPMorgan.

Now about that wicked price action yesterday. While I have been super careful never to rule out the possibility of a sudden severe selloff, that doesn't mean I wasn't taken aback with the force of yesterday's broad decline. The worst part of it was that silver investors couldn't complain much considering the severe selloffs this week in much bigger commodity markets, like copper and crude oil. And I can't shake the feeling that the broad commodity selloff was deliberate for the very fact that everything got pummeled.

I mean trying to explain the broad commodity selloff by what happened to managed money traders and the COMEX and JPM is particularly difficult because so many potential real explanations abounded. If one is not the least concerned with what's going on in Greece and, most particularly, with what's going on in China stock market wise, then one is most likely heavily medicated. But the greater weight of the evidence indicates that futures market positioning changes were the prime factor in the broad commodity decline this week.

I'm not suggesting that there weren't other important forces at work, such as margin calls generated on the broad sharp decline, which is a special invitation to over-leveraged traders to sell; or the triggering of long in place stop loss orders in many futures and securities including shares of SLV. It's not strange to think that some investors would bail out on sudden new price lows not seen in years. The extremely high trading volumes point to many selling forces being at play in the broad decline.

But the remarkable thing is that even these other selling forces (stop loss and margin call liquidation) are very much in synch with the usual futures market positioning of which I speak continuously. These are position changes after all, just position changes in addition to the usual managed money/commercial position changes on the COMEX. My guess is that there was substantial additional managed money selling and short selling on balance thru yesterday that will be reflected in Friday's COT Report, but some individual managed money shorts may have taken partial profits (while others sold more).

What makes the stop loss and margin call selling constructive is that these are largely one-off selling events, meaning the negative price effect they have is fleeting. Once positions are sold to avoid meeting margin calls or because stop loss orders have been hit, those positions can't be sold again. They may not have to be bought back, like managed money short positions must be bought back, but the downward impact on price ends fairly quickly in any event.

In addition to downward price pressure abating once the longs who would sell have sold, the remaining longs automatically take on the growing aura of strong hands. After all, the liquidation cycle is always about flushing out holders until only strong holders remain at price bottoms. It's not that I don't have sympathy seeing market participants forced to liquidate due to the manipulative forces in place because I do. But the aftermath of a market carpet bombing like we've seen this week, by definition, improves the market structure.

I wouldn't blame you if you thought, Â?Enough already with this improving market structure, the more it improves the poorer I get,Â? but the fact is that the market structure has improved immensely as a direct result of the price smash, not just in silver, but also in gold, copper, platinum and palladium, all traded on CME exchanges. In fact, I will be very surprised if all five CME metals markets do not indicate record managed money short positions in Friday's report (although I do have some concern that all of yesterday's trading will be properly accounted for).

One could almost feel the hidden hand of intent in the broad decline, as such man-made financial occurrences are rarely accidental. And if not accidental, then the question must be asked as to who might benefit from such a decline? Certainly we can eliminate those forced to liquidate, as they would be the most damaged. The existing managed money shorts certainly profited from the decline, at least in terms of unrealized open profits. But there is scant evidence that the managed money traders are calling the shots on significant price moves. These traders certainly impact prices enormously, but there is much more pointing to them being pawns of the commercials than vice versa.

That leaves the commercial traders as the true force in charge. On moves like we've seen this week, it is entirely possible, if not probable that some smaller commercial traders may have misjudged the extent of the decline and been forced to liquidate (like last fall but on a smaller scale). But you can rest assured that JPMorgan didn't misjudge anything and is the prime candidate for orchestrating the broad decline. JPM has been hell bent on buying as much silver in every form possible and yesterday was tailor made for the bank to gorge itself on the massive quantities of silver put up for sale.

Of course there's a buyer for every seller, but on broad price declines attention is naturally focused on the sellers. But if I am correct in stating that the move down was deliberate, the deliberation was on the part of the buyers, not the sellers and there is more to be gained by focusing on the buyers. By that perspective, the market structure setup, which was never better as recently as the last COT report (discussed on Monday) is even better today.

JPMorgan could never have bought the quantity of silver I believe it has purchased over the past four years and much more recently on rising prices; it needed consistently lower prices to buy what it has bought. Had silver prices stayed flat or trended higher there would be no historically large managed money short position in place or yesterday's dramatic surge in stop loss and margin call selling. A buyer can only buy what a seller will sell to him.

And just so you don't think that I am maligning JPMorgan unfairly (like I'm the market bully and not it), in addition to their involvement in Silver Eagles, other evidence points to the bank as the big silver buyer. Certainly, COT data has shown the big commercials to being aggressive buyers over the past month, as do data from the SLV in terms of short covering and deposits and withdrawals. And my recent speculation about JPM aligning itself massively long in OTC silver derivatives against Citibank has elicited no challenges.

Even the current delivery pattern in the ongoing July COMEX futures month points to JPMorgan as the big buyer. So far this month, JPM has stopped (taken), in its own proprietary (house) trading account, 999 contracts of physical delivery out of the 2707 total contracts issued so far. That's 37% of all deliveries and that makes JPM, once again, the largest acceptor of physical silver deliveries, both for this month and year to date. And with several days of new buying occurring in the expiring July contract (somewhat unusual), it looks certain that JPMorgan will pick up 200 and maybe more deliveries before the delivery period ends. Already, JPM is roughly 200 contracts ahead of the 808 silver deliveries it took in May and 500 less than the maximum allowed 1500 contracts the bank took in March. All told, JPM has taken delivery of 16.5 million oz in the last three traditional delivery months and no one can deny that any other method of acquiring silver is more transparent than in taking delivery on COMEX futures contracts in your own name.

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

In a conversation yesterday, I remarked that since silver looks to me to be the very best investment in the world at this time and price and with all things considered; it occurred to me that automatically meant that, if I was correct, it was the worst short sale candidate as well. What's so unbelievable is that the worst short sale candidate in the world has the largest short position in history held by traders which, by their own admission, do not consider anything except the current price trend. These managed money traders believe that all you need to focus on is price direction; as to a man and woman, these technical fund traders will tell you that all you need to know about any commodity is already reflected in the price and known to the market. Focusing on supply/demand and value is a waste of time.

At the same time, I am struck by how similar that sentiment was until June 12 in China's stock markets, as tens of millions of unsuspecting investors plowed into the market simply because prices had been and were rising. It was all about prices going up and little else. It's hard to believe how much that sentiment has changed in just three weeks; from wanting to be all in to now wanting to be all out (and not being able to sell in many cases). It was no secret to anyone viewing from the outside what was happening on the great rise and what would happen eventually, but even to those who expected the China stock bull run to end, the violence of the downturn is surprising. At the same time, those doubting the sustainability of the rise in Chinese stocks looked foolish right up the top. Kind of like silver bulls today.

I can't help but believe that when the tide turns upward in silver, as it must, given the similarity of the price is all mentality of the managed money shorts; that the turn up in silver could be as violent as the turn down in the Chinese stock markets. I can't swear that the bottom has been seen in silver, but I am more inclined to believe that given what occurred yesterday than I was the day before. I guess I'll just have to come up with more bullish adjectives to describe the market structure setup.