June 11, 2016 – Weekly Review

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Gold and silver rose for a second week, with gold tacking on another $30 (2.4%) while silver surged 89 cents (5.4%). As a result of silver's large relative outperformance, the silver/gold price ratio tightened in by more than two full points to under 74 to 1. While certainly volatile on a short term basis, the price ratio remains in the broad trading range of the past year and longer. Predicting short term movements is a fool's game, but it still seems almost impossible to me for silver not to vastly outperform gold on a longer term basis. And I would remind you that the long term creeps into reality on a day to day and week by week basis, almost without notice Â? one day we wake up and the long term has arrived.

Wednesday's decisive upward penetration of the 50 day moving averages in both gold and silver seems to be the proximate cause for this week's price strength, given trading volume and total open interest increases on the COMEX, as managed money technical funds bought and commercials sold over the past three days. This COMEX futures contract positioning remains the primary price driver for gold and silver, but strong signals from the physical market are increasingly hard to overlook. Throw in some new data from this month's Bank Participation Report suggesting a developing double cross, particularly in gold, and there's plenty to discuss today.

The turnover or physical movement of metal brought into and taken out from the COMEX-approved silver warehouses picked up to nearly 5 million oz this week, as total inventories fell a sharp 3.2 million oz, to 150.8 million oz. I'm still more concerned with the frantic and unprecedented turnover these past five years than total levels, but there has only been one other week in the past three years where COMEX silver inventories have been lower and that was in February and only by less than 0.5 million oz. There was an increase of 0.77 million oz in the JPMorgan warehouse this week and if the pattern of the past year or so holds to form, I would surmise it might be the start of the movement of the 7.5 million oz the bank took delivery on in the May futures contract.

Let me jump ahead a bit and mention that I have been thinking a lot about the big gold deliveries that JPMorgan and its client(s) have been taking on the COMEX June futures contract and one question I have is whether the gold stopped will find its way into the JPM COMEX warehouse, as has been the case with the silver JPMorgan has taken delivery on for more than a year. Of course, there's no strict connection between deliveries and resultant warehouse movements and it is possible for there to be a big out movement of gold to places unknown or for there to be little warehouse movement at all. At this point, all I have are questions, but any resultant gold warehouse movements might go a long way to shedding light on true meaning of the extraordinary June gold deliveries.

Deliveries in the COMEX June gold contract do remain extraordinary , with total deliveries through this coming Monday now exceeding 14,000 contracts or 1.4 million oz, an amount not much less than last year's total COMEX gold deliveries. Based upon the number of remaining contracts still open in the June contract, it would appear total June deliveries might increase by another 10% or so until the end of the month. Netting out redeliveries from those who turned around and reissued their contracts immediately after they were stopped, Â?pureÂ? deliveries were closer to the 12,000 contract mark, which would still constitute the heaviest COMEX gold delivery period in memory.

Of the pure gold deliveries, JPMorgan stopped (took) 6192 contracts in its own house or proprietary trading account and customers (or a single customer) of JPM took another 3460 contracts, or a total of 9652 contracts, or 80% of all pure deliveries made to date. On the issue side, HSBC accounted for 5554 contracts and Bank of Nova Scotia issued 2524 contracts, with both banks issuing from their house accounts. As is usually the case, COMEX gold (and silver) deliveries are concentrated among these three banks.

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

By month's end, JPMorgan and its client(s) are on track to have stopped more than 10,000 gold contracts or one million oz of gold. In fact, if you were to remove JPMorgan and its client(s) from the June deliveries, as well as the redeliveries, the June delivery process would be a non-event. But as is typically the case, the presence of JPMorgan in anything related to gold and silver makes the ordinary quite special. Perhaps the most special aspect is something not mentioned anywhere Â? the combined house and client accounts of JPMorgan have taken delivery on an amount of gold more than three times the supposed hard spot month position limit of 3000 contracts. (HSBC has also delivered more than the spot month limit, but that's not unprecedented on the issue side).

Let me try to clarify the matter of speculative position limits in COMEX gold and silver. There have been no position limits in COMEX metals for decades concerning the maximum number of contracts any one trader could hold on an all months combined basis. This was the great promise of Dodd-Frank and Gary Gensler; finally instituting speculative position limits on an all months combined basis as has always existed in the grains and other commodities. That effort has fallen by the wayside, to say the least, as the 8 largest short traders in silver, for instance, hold average positions that are double the CFTC's staff recommended levels.

But separate from the failed enactment of aggregate position limits on an all months combined basis, there always existed hard position limits in the spot delivery month of 3000 contracts for COMEX gold and 1500 contracts for COMEX silver. A trader could get an exemption from the hard spot month position limits for legitimate hedging purposes, by petitioning the exchange, with general regulatory oversight residing with the CFTC. You can count the exemptions granted for gold and silver over the decades on one hand and I can't recall an exemption on the buy side, particularly for gold.

Gold is a unique commodity in that it has very little demand (less than 10% of annual mine production) for industrial consumption. Most gold demand is for investment or monetary purposes. Therefore, an exemption from the spot month limit of 3000 contracts is not likely due to a legitimate hedging requirement by an industrial consumer of gold. Very few (actually no one) are asking why a hedging exemption would be granted on the buy side for gold for investment demand, but it is a legitimate question. About as many (again no one) are asking why such an exemption should be granted to JPMorgan, but the answer here is easier Â? JPM owns the regulatory process. What it comes down to, strictly in my opinion, is that JPMorgan wanted to buy a lot of gold, more than $1.2 billion worth on a combined basis with its client(s), and the hard spot month COMEX position limits that apply to everyone else were arranged so as not to apply to JPM. Marvelous.

And it's not just in COMEX gold futures deliveries that JPMorgan seems to be acquiring large amounts of gold. I have previously speculated that the big deposits into GLD, the big gold ETF, over the past month (1.5 million oz) and continuing over the past couple of days (400,000 oz), seem to be connected to JPM. And on many occasions I have pointed to JPMorgan as being the big buyer of Gold Eagles from the US Mint. Get the feeling JPMorgan has a yen for gold (in addition to its documented appetite for silver)? Clearly the investment implications must be considered bullish for price. And don't look now, but there are already more than 3000 contracts of open interest in the non-traditional COMEX July gold futures month, highly suggestive of additional large delivery demands. It looks like it's going to be a long hot summer.

Still, it is most extraordinary that the heavy demand by JPMorgan for delivery on the June COMEX gold contract has not resulted in the slightest change in the spread differentials on the June contract relative to other months, suggesting little, if any hint of physical tightness. I know that the spreads are tightly controlled by big commercial interests and I don't doubt for a moment that may be behind the lack of premium indicated in the June futures month. My best guess is that it fits in with my overall take on COMEX pricing, particularly in silver, namely, that all COMEX pricing is a scam, including the spreads, and when it blows, it will shock everyone.

And I can't help repeating again that while JPMorgan's combined COMEX gold deliveries this month are shockingly large, at more than $1.2 billion for one million oz of gold, if it could, JPM would rather buy $1.2 billion worth of silver in a month. The problem is that $1.2 billion is too much for silver, as it would come to 70 million oz of silver. In other words, JPMorgan has and is taking physical delivery of gold in one month for double the amount of silver it was able to take delivery on over the past year and longer on the COMEX. Having steamrolled the exchange and the CFTC in getting them to allow it to buy as much gold as it wanted and the heck with hard spot month position limits, JPMorgan could have done the same in silver if it wanted. Certainly, JPM could afford to spend $1.2 billion or any multiple of that on silver or anything else it wanted to purchase. The only reason JPMorgan didn't do so is because there is not enough silver available and that's the most bullish factor of all.

Back to silver, there were more than 3 million oz deposited into the big silver ETF, SLV, this week in accordance with what looks like plain vanilla investment buying demand. And there were no big surprises in this week's report on short selling in SLV and GLD, as the short positions in each fell, always good news, as of the close of business May 31. In SLV, the short position fell by 700,000 shares to 7.8 million shares (ounces) and in GLD by nearly 1.7 million shares to under 9.8 million shares (0.9 million ounces). These are among the lowest levels in quite some time and considering that there should be no short position in these two securities, it must be considered good news (and another hint that the next rally could be the big one).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

There hasn't been much to report on sales of Silver Eagles, other than sales generally remained strong amid weak retail demand, although retail demand did pick up in the past few days. However, the Mint is not selling as many coins as it has produced and may go off allocation (rationing). There is no question in my mind that this is due to JPMorgan stepping slightly away from taking all the Silver Eagles it has been taking for some crooked reason which is impossible for a non-criminal mind to conceive.

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

On to the changes in this week's Commitments of Traders (COT) and the companion monthly Bank Participation Reports. I refrained from making predictions this week because I wasn't sure if last week's report was timely considering the trading action over the Memorial Day holiday into the Tuesday cutoff and also because I wasn't sure what to expect in silver, since it wasn't quite as strong as gold on the June 3rd price surge due to the monthly employment report.

However, I did mention in the beginning of last week's review that I thought the technical funds had bought and the commercials had sold between 20,000 and 30,000 net gold contracts and as it turned out, that proved to be somewhat prescient. Considering how wide of the mark I have been recently in my COT predictions, I should have made that my official prediction.

In COMEX gold futures, the total commercial net short position increased by 29,700 contracts to 243,700 contracts. Since Monday and Tuesday were fairly featureless trading affairs, the commercial selling can be attributed to the high volume price surge the previous Friday. So while I am attributing the price surge that day to the monthly employment report, since the technical funds which bought don't care about any stinking reports of any type and only price signals, I hope you know the employment report was little more than an excuse for the commercials to rig prices higher to induce the technical funds into buying.

By commercial category, it was obvious all three groups got the office memo to sell as all three categories did sell. The big 4 added 11,000 new shorts, the big 5 thru 8 added 2300 shorts and the raptors (the smaller commercials apart from the big 8) sold 16,400 gold contracts, flipping a small net long position into a net short position of 14,900 contracts. Undoubtedly, there has been further commercial selling on the gold price strength since the cutoff and at this point I would quantify it as similar to this week's change. As a result, we may not be at the record bearish extremes seen at the beginning of May, but neither are we miles away. Also, I am not encouraged at the increase in the concentrated short position of the 4 and 8 largest gold traders and it's easy to imagine these traders being close to their bearish extremes of May 3, as a result of new selling since the cutoff.

On the buy side of gold, it was almost strictly a managed money technical fund affair, as these traders bought 28,755 gold contracts, including 19,901 new longs and the short covering of 8854 contracts. Weeks like this should eliminate any doubt that the positioning of contracts between just two sets of traders – the commercials and the managed money technical funds Â? is what drives gold and silver prices. As was the case with the commercials selling, additional buying by the technical funds since the cutoff puts us closer, but not quite at, the extremes of managed money buying that accounted for the top in prices at the start of May.

In COMEX silver futures, the commercials reduced their net short position by 4100 contracts, to 71,800 contracts. This is the lowest (least bearish) headline number reading since the beginning of April (8 weeks ago) and no doubt was instrumental in silver's price strength into yesterday since there was ample room for technical fund buying. As was the case in gold, we most likely got decent technical fund buying since the cutoff, to the tune of 5000 contracts or more thru yesterday.

By commercial category in silver, the big 4 bought back 1200 contracts, the big 5 thru 8 bought back 400 shorts and the raptors added 2500 new longs to a net long positioning now amounting to 19,000 contracts. While there has been a notable reduction in the headline number of total commercial net shorts over the past two months, the concentrated short position of the eight largest traders, at 90,801 contracts, is still very close to all-time bearish extremes.

The new Bank Participation Report suggests to me that JPMorgan's concentrated short position is closer to 20,000 contracts than the 24,000 I had been pegging them at. This is not so much a change from last week as it is a reinterpretation of the data in last month's and the current BPR. In the weekly review of May 7, I indicated that JPMorgan may no longer be the largest short holder in COMEX silver (for the first time since it acquired Bear Stearns in 2008) and may have passed the title to Bank of Nova Scotia and that I would need data to clarify the matter. The data aren't completely clear, but I am persuaded that the Bank of Nova Scotia is the big silver short holder (with around 22,000 contracts net short) and JPM slightly behind. Let me finish up with silver before getting to the real surprise in the Bank Participation Report which concerns gold.

On the sell side of silver, as was the mirror image case in gold, it was exclusively a managed money affair, as these traders sold 4755 net contracts, including long liquidation of 2529 contracts and new short selling of 2226 contracts. Of course, I'm assuming the price strength since the cutoff has largely reversed this week's improvement in market structure. Then again, when you assume, you risk making an ass of yourself.

Since I have been reporting on the ongoing financial results of the commercials and the technical funds in both realized and open profits and losses from the beginning of the year, let me offer a back of the envelop update for this week. Year to date, I estimate the commercials have booked a cool billion dollars in closed out profits in gold and silver and now sit with an open unrealized loss of around half a billion dollars (based on an average short sale price of around $1260 in gold and $16.80 in silver).

The standout feature of the Bank Participation Report in gold was the dramatic reduction in the short positions of the US banks. By contrast, in silver the reduction in the short positions of both the US and non-US banks report o were somewhat comparable; in gold, the US banks covered three times as many shorts as did the non-US banks. In fact, the US banks went from holding a larger short position in COMEX gold in May to a noticeably smaller short position than their foreign counterparts this month. And when you are talking US banks in COMEX gold and silver, you are essentially talking JPMorgan.

My conclusion is that JPMorgan burned rubber in its rush to buy back its COMEX gold short positions over the past month. Coupled with the extraordinarily large gold deliveries the bank has taken over the past two weeks (as well as the big recent deposits in GLD), I would agree with recent reports that something big is up in gold and silver; although my interpretation is that JPMorgan is at the heart of whatever is up. Even if JPM is acting on behalf of a third party, that changes little the bank's involvement and just concerns its motivations. Whatever those motivations may be, the verifiable actions of JPMorgan matter more. I'll save for another day a separate accounting of how JPMorgan is at the core of all the things that are important in gold and silver, but I must tell you that given all the documented evidence, I am dumbfounded that so few are shining the light on this bank.

I have long speculated that JPMorgan would someday double cross its comrade commercials in crime in the silver manipulation and am still of that mind. Now I must add gold as well to the double cross premise based upon recent happenings. As always, however, the exact timing is unknowable; although it would seem we are very close.

Against the backdrop of nothing but bullish developments in the real world of gold and silver, there remains, also as always, only one potential negative factor Â? the current COMEX market structure as indicated in the COT report. I know I may sound like a broken record in highlighting just how extreme the bullish forces of the physical market have become compared to the current market structure, but the facts are hard to argue with. I must confess that the two opposing forces – the physical realities vs. COMEX futures positioning – have each become so extreme that I am more unsure than ever how this gets resolved. I still sense there may be one final selloff before the final lift off, but I urge you to weigh all the facts and decide for yourself and not rely on me (as far as the final selloff is concerned).

Finally, I recently pointed to potential bullish COT setups in copper and the US dollar index and both markets have continued to decline in price. I'm not much of a currency maven, but the weakness in copper has come, in my opinion, as a result of continued managed money technical fund selling, which hit a new extreme in the COT report issued yesterday. And, as a result of further price weakness and increasing total open interest since the Tuesday cutoff, I would be very surprised if new technical fund shorting records in copper weren't established (at least through yesterday). I just wish the technical funds were as short silver as they are in copper.