June 13, 2015 – Weekly Review

Weekly Review

Gold bucked a three week losing trend and finished $9 (0.8%) higher, while silver fell for the fourth week in a row, ending 15 cents (0.9%) lower. As a result of silver's continued weakness, the silver/gold price ratio also widened for the fourth consecutive week, ending just over 74 to 1, at the upper band of a trading range lasting many months, but not yet breaking that range.

While this is usually where I say that I am still convinced of silver's coming long term outperformance over gold, but am unsure in the short term; based on the spectacularly bullish new COT report released yesterday, it's hard for me to see how silver won't soon begin to outperform gold in the short term as well. I hope everyone knows that every aspect of gold and silver price performance is tied directly to positioning changes in COMEX futures and nothing else. COMEX positioning has been so extreme and monumental recently that even as a long term student of the COT report for decades, I am shocked by recent results.

There's no question that the new COT report is the key development of the week and I will delve into it after reviewing other developments that were notable, if somewhat overshadowed by the new futures positioning report. Not to keep you in suspense, however, the COT market structure in COMEX silver did swing from bearish to strongly bullish, a very rare one week turnaround.

Turnover or the physical movement of metal brought into or taken out from the COMEX-approved silver warehouses literally exploded this week as 8.2 million oz were moved as total inventories increased by 1.3 million oz, to 179.9 million oz. This week's movement, when annualized, comes to more than 400 million oz, or half of the entire world's annual mine production. No other commodity shares the frantic turnover pattern that exists in COMEX silver, or even comes close to silver's extraordinary physical inventory movement. It's a wonder that this pattern, which has existed since the very top of the silver price in April 2011, goes largely unmentioned in analytical circles.

This week's turnover in COMEX physical inventories did have a special feature which I have mentioned previously, namely, the JPMorgan connection. A good portion of this week's very large turnover can be traced directly to JPMorgan. On Wednesday, I noted that JPMorgan had moved 1.6 million oz into its own COMEX warehouse over the past week or so to that point. I also pointed out that it looked likely that the bank would probably move the remainder of the 4 million oz it took delivery on in the May COMEX futures contract; just as the bank moved the entire 7.5 to 8 million oz it had taken delivery on in the March futures contract into its warehouse.

Remember, I am only referring to the silver that JPMorgan took delivery of in its own proprietary trading account and am ignoring what the bank did for customer accounts. All the physical silver moved into the JPMorgan warehouse was in the eligible category, making it much more likely this was silver owned by the bank and not customers.

As it turns out, since my Wednesday article, JPMorgan moved the remaining 2.4 million oz of silver I thought it might move into its own COMEX warehouse, making it look like it may have completed the movement of the 4 million oz it took delivery on in May. Perhaps more will come in, but the pattern at this point is clear Â? JPMorgan moved every ounce of the 7.5+ million oz it stopped in the March delivery period and every ounce of the 4 million oz it stopped in the May delivery period into its own COMEX warehouse in full view.

I recognize that the near 12 million oz that JPMorgan took in the combined March and May COMEX delivery periods is small potatoes compared to the 350 million oz of physical silver that I claim the bank has accumulated over the past 4 years. But the recent COMEX silver acquisition is the most visible and impossible to deny accumulation of all. For the vast bulk of JPM's historic silver accumulation, the bank relied on stealth and cunning; so cunning that it would be years before I began to openly speculate what the bank was up to. Taken with other developments, it appears to me now that JPMorgan may have been so open and transparent with the recent COMEX accumulation of 12 million oz because it is nearing the end of the acquisition and, if so, may have lit the fuse for the coming silver price explosion.

Another notable development this week was the continued increase in metal deposits in the big silver ETF, SLV. I mentioned on Wednesday how deposits into SLV had reached just over 7 million oz, which coincided exactly with the new short report on SLV which indicated a 7 million share (oz) increase in the short position. Since my article, another 3.7 million oz has been deposited into the trust, all while there have been nothing but withdrawals in the companion big gold ETF, GLD. With price action in gold and silver mostly punk over this time, the GLD withdrawals seem to be in keeping with how things normally work, but the sharp deposit increases into the SLV are beyond counterintuitive. Metal should not be coming into the SLV on weak price action and punk trading volume, yet it has. What gives?

The only plausible, or even possible explanation is that the silver coming into the SLV is designed to reduce the short position. The only ways a short position in SLV or GLD can be reduced are for short sellers to buy back shorted shares or to deposit metal in exchange for new shares and use those shares to extinguish the short position. The only question that comes up is why resort to bringing in metal to extinguish a short position in SLV, when it would clearly be so much cleaner and easier to simply buy back shares in open trading? The answer is not only just as clear when you think about it, but points directly to JPMorgan once again.

The reason why a trader (I say JPMorgan) would go to the trouble of bringing in metal to extinguish a short position in SLV and not simply buy back shorted shares in the open market has to do with the effect either action would have on price.

Even an open market purchase of a million shares of net new buying would cause the price of SLV to rise. Yes, I know the daily trading volume in SLV is close to 6 million shares a day, but just like every other traded security or derivative, 95% or more of the daily volume of everything is day trading and not net new buying or selling. Therefore, net new buying of shares of SLV of even a million shares would have an impact on price, to say nothing of the nearly 11 million shares represented by the recent deposits into the trust. Yet silver prices and the price of SLV were lower over the past week and longer, indicating there was little to no net new buying. In other words, had someone came into the open market to buy 11 million net new shares of SLV over the past week or so, there would have been a profound upward impact on the price of SLV and silver. Since prices didn't advance, it is clear that there was little net new buying.

If a big short seller in SLV wished to close out a significant short position without causing the price to rose, attracting other buyers, the most efficient and effective method of doing that would be not to buy shares on the open market, but by depositing physical metal, converting that metal into newly issued shares and then delivering those shares against the short position. If there is one entity on the face of this earth that would be in the very best to position to accomplish this, it would be JPMorgan. And there is no doubt in my mind that this particular operation fits in perfectly with every other action that JPMorgan has taken in silver, most definitely including the dramatic changes in this week's Commitments of Traders report (COT).

In last week's review and again on Wednesday, I estimated that the new report would indicate a reduction in the total commercial net short position in COMEX gold futures of 25,000 to 30,000 contracts and between 10,000 to 15,000 contracts in silver, although I admit to getting a touch of cold feet simply because those changes would be extremely high on a weekly historical basis. As it turned out, my guess on gold was so precise as to be unnerving (including my guess as to the increase in managed money shorts), but I was way under in silver, much to my surprise and delight.

In COMEX gold futures, the commercials reduced their total net short position by 29,600 contracts, to 78,600 contracts. This puts the gold market structure into the strongly bullish category, which to me means that while prices can move lower on a very short term basis, the probabilities point to gold prices moving higher until the strongly bullish structure no longer exists. Any new price lows from here, should they occur, would only make the gold market structure more bullish. Thus, this is not a time, in COT terms, to be bearish on gold.

By commercial category, it was back to the full Three Musketeer mode, as all three categories bought gold contracts. The big 4 bought back a bit over 2100 short contracts, the big 5 thru 8 bought back 4400 short contracts and the raptors did the heavy lifting in adding 23,100 new longs to a net long position now totaling 68,400 contracts. You have to go back to the mid-March gold price lows to find a larger raptor long position. The larger a raptor long position, the more bullish is the structure.

On the sell side of gold, it was mostly managed money selling, as is usually the case. These traders sold more than 24,000 net contracts, including more than 4100 contracts of long liquidation (down to just over 121,000 contracts) and added just over 20,000 contracts of new shorts, which increased the managed money short position to a record 83,486 contracts, as I had expected and hoped for. A record managed money short position means the rocket fuel buying tanks are fully loaded in gold (although it is always possible for the collusive commercials to lure the technical funds into add more rocket fuel on lower rigged prices).

In COMEX silver futures, the total commercial net short position was reduced by a resounding 21,600 contracts to 35,900 contracts. Since I'm travelling and writing this on the road, I don't have ready access to all my records, so if I misspeak slightly please forgive me. I know we had a record weekly increase in the total commercial net short position in the COT report of May 19, but this week's reduction looks like a record weekly commercial reduction. Recently, I commented that it would be a long time, if ever, that we saw weekly changes on the order of what occurred in the reporting week of May 19, and I had a much longer time frame in mind than three weeks. I'll have more to say on this in a moment.

By commercial category, the big 4 (read JPMorgan) bought back a very significant 6600 short contracts and the raptors added an even more phenomenal 19,000 contracts of new longs to a net long position of 39,300 contracts, the largest raptor long position since last Oct-Nov and near the largest raptor long positions on record. (Yes, I remember what happened to a number of long silver raptors last fall, but those traders had established long positions at much higher prices back then and are much less prone to getting bombed out again. Plus, there are still fewer raptors operating today than back then).

If the big 4 and the raptors bought a combined 25,600 contracts (which they did) that means the big 5 thru 8 had to sell and add 4000 new shorts (which they also did). Since I'm already on high-alert that JPMorgan is up to something big in silver, my initial thought was that the bank had double-crossed other commercials in the big 5 thru 8 category, since that category now sits at the largest level in history, at 30,700 short contracts.

But then it dawned on me that the actual explanation for the sharp increase in the big 5 thru 8 short position this week of 4000 contracts was not due to new commercial short selling, but because at least one and maybe two managed money traders have entered into this normally exclusive commercial domain. And hands down, a big concentrated short position held exclusively by collusive commercials is much less likely to panic and cover short positions on higher prices than is a concentrated short position populated by a big short technical fund or two.

Going back to JPMorgan, I would attribute most of the reduction in the big 4 short position to this crooked bank and would now calculate JPM's net short position in COMEX silver futures to be 13,000 contracts, a reduction of 6000 contracts in just one week. That's the equivalent of 65 million oz and if this bank holds the 350 million oz+ that I believe it holds in physical silver, then it is ideally positioned to let silver rip to the upside whenever it decides, particularly considering how it just massively reduced its short position in SLV and moved all the silver it took delivery on in March and May. In general matters JPMorgan is a very bad bank, but when it comes to underhanded actions in silver, bad means very good for the prospect of higher silver prices.

On the sell side of silver, it was all managed money and then some. These traders sold more than 28,200 net contracts, equaling the record 28,200 contracts that they bought net during the reporting week of May 19. Please remember, it was the historic changes that week that finally prompted two mining companies to write to the CFTC about the broken price discovery process on the COMEX, where speculators set prices and real producers and consumers are excluded. If anything, this week's changes in the COT report are even worse, because this week it was the speculators in the managed money category selling, not buying. Why else would silver prices have fallen?

Of the 28,200 contracts, the equivalent of 141 million oz, sold by the managed money traders, just over 4400 contracts were attributed to long liquidation, bringing the remaining long position in the managed money category to just over 44,000 contracts and leaving only 4000 contracts of additional long liquidation likely if my core long non-technical fund premise is correct. Most remarkable was the nearly 24,000 contracts of new short selling, which brought the total managed money short position to 35,651 contrcats, much higher than I would have ever imagined, given how modestly and orderly silver prices fell during the reporting week.

Even more remarkable was that 13 new traders established short positions during the reporting week, raising from 22 to 38 the number of traders on the short side of managed money. I'm not a technical trader and perhaps because of that, I find it almost incomprehensible that 13 traders would establish new short positions and other traders would add to existing short positions in a commodity so deeply in the price hole that actual producers are writing to the regulators about the artificial low price for the first time in decades. Just how low do these technical fund traders think the price of silver may fall from here and, more importantly, just who do they imagine will be willing to sell to them enough silver contracts so that those who just shorted can exit this position gracefully and profitably? I can assure these new technical fund short sellers that it won't be me or anyone I can think of, most assuredly including JPMorgan or any of the big commercial traders, that will be selling aggressively at lower prices

It is precisely the inability to conceive of who could possibly bail out the new managed money short sellers on lower prices that the conclusion must be reached that the short sellers will undoubtedly be forced to buy back their short contracts at higher prices. This is what puts the potential rocket fuel in the buying tank being filled. In reality, the managed money short sellers only sold because the 50 day moving average was penetrated and salami-sliced so expertly to the downside by the collusive commercials that the short sellers had no choice but to sell. When the 50 day moving average is penetrated to the downside, the technical funds sell; when penetrated to the upside they buy. As the historic COT report of May 19 and the equally historic current report prove, this is the complete story to price movement. Nothing else matters.

Just like throwing stones, waving a red flag or otherwise agitating an aggressive bull until he charges, penetrating the 50 day moving average is what motivates the technical funds. Now, or whenever the managed money short position is fully topped off, the direction in price must be up. At that point, all that will matter is how easy or hard the commercials then let the technical funds off the short side in gold and silver.

On this question, I have been consistently wrong in the sense I insist that silver prices will seriously explode as and when the commercials decide to put it to the technical fund shorts and not sell aggressively into certain aggressive technical fund buying. Yet that explosion never comes as the commercials have always let the technical funds off the hook. But what the commercials may do on the next set up, meaning the setup we are now faced with, is always open. We always get the rally, just as we will this time at some point; there's just no way of knowing for sure beforehand how big the rally will be. But considering the unique ways in which JPMorgan has positioned itself and knowing that JPM controls the market more than any single entity, the case for the big move may be in place.

I have been encouraged by the continued growing awareness and commentary of the importance of the COT market structure on the price of silver, gold, copper and other markets. I try to read everything available on these markets and can't help but notice that more discuss the COT market structure than ever before and for good reason. Yes, someday the COT reports may not matter and prices will be dictated by developments in China, India or elsewhere. But that day is not this day, as positioning on the COMEX is more important to the price of silver and gold and other commodities than ever and the recent historical changes prove that. It's actually gotten to the point where I place analyses and commentary on silver and gold into my mental trash bin if there is no mention of the COT structure. I mean, how valid could any precious metals analysis be if it leaves out the most dominant influence on price?

Still, the COT structure can be complicated and not all commentary that references it is automatically on the mark. I just read some recent commentary that focused on the large amount of the total open interest in COMEX silver and how that meant silver prices must explode. While in general agreement, instead I found myself thinking Â? it's about time. As I have recounted on many occasions in the past, my Eureka moment in silver occurred 30 years ago when in attempting to answer a challenge from Izzy Friedman as to why silver prices remained so low in the face of a documented physical deficit, I discovered that what set silver apart from all commodities was the massive size of the total open interest in COMEX silver futures when compared to the real world production and consumption and total open interest of all traded commodities.

Upon making that discovery, I then embarked on a campaign that would last for many years in getting more senators and congressman than you could shake a stick at to write to the CFTC about the massive size of the total open interest in COMEX silver. This was all done in the pre-Internet era and I have a large collection of fancy looking official stationary from elected officials and just about every chairman and chairwoman of the CFTC at the time discussing the question of total open interest in COMEX silver futures. So while I am in general agreement with the new commentary on the total open interest, part of me is screaming out Â? what the heck took you so long?

Having long and exhaustive experience in trying to engage the CFTC, or anyone else, on the merits of the total open interest in COMEX silver, it is not, in my opinion, the right discussion at this time. That's because there are better ways to engage the regulators. It wasn't until I changed the discussion of total open interest into the concentrated short position and, more recently, how only speculators set the price of silver on the COMEX and not actual prod

Date Created
2015/06/13