

## June 14, 2014 – Weekly Review

### Weekly Review

Gold and silver turned in their best performance in months, as gold rose \$24 (1.9%) and silver 65 cents (3.4%) for the week. As a result of silver's relative outperformance, the silver/gold ratio tightened in a full point to settle just under 65 to 1; still within the broad trading range of the past year and longer. While there were new world developments (mainly Iraq) to account for price strength in gold and silver, I'm convinced that the primary price driver was the deeply oversold condition in each as evidenced in their market structures on the COMEX.

Just a week or two ago, the popular consensus, undoubtedly caused as a result of the break to new recent price lows, held that prices would move lower still. Even those bullish on an intermediate to long term basis seemed resigned to new lows before prices turned up. About the only thing arguing for an immediate turn up in price was the bullish set up in the COT market structure on the COMEX, especially in silver where the technical funds held extreme record short positions. I'm not making short term price predictions necessarily, I'm just explaining why prices snapped back this week. More on the COTs in a moment.

Turnover or movement of metal into and out from the COMEX-approved silver warehouses remained relatively subdued this week as less than 3 million oz were moved. Total COMEX silver inventories rose 600,000 oz to 176.2 million oz. While 3 million oz is off the torrid pace of movement this year, it is still an unusually large turnover compared to any time pre-April 2011 or compared to the inventory movements in any other commodity. Movement, tightness and eventual shortage still seem to be the logical sequence to me.

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Sales of Silver Eagles continue to signify that the former large buyer may have stepped aside, as the US Mint is no longer allocating (rationing) the coins. Ironically, reports from the retail coin dealer front suggest that retail demand has recently picked up even as the large buyer (JPMorgan) backed off. It's not as if demand for Silver Eagles has completely dried up; it's more a case that the end of rationing adds credence to the suggestion that there was a big buyer. One reason I'm not that concerned the big buyer has retreated is because this big buying over the past three years has occurred during the most dismal silver price environment in memory. Who's to say the opposite won't occur and silver prices will climb without the big buyer? I never thought the 100 to 1 sales ratio of Silver Eagles compared to Gold Eagles would last indefinitely and even this month's 70 to 1 rate is truly extraordinary. Year to date, Silver Eagles have outsold Gold Eagles by 96 to 1, although that should contract over time.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

The increase in price and trading volume in the big silver ETF, SLV, over the past two days suggest some metal (1 to 2 million oz) is owed to the trust. It is important to remember that whatever the motivation of new buyers of SLV shares, any net new buying results in physical silver being purchased; tightening up what may be an already tight physical silver market. The only thing that could short-circuit the physical deposits into SLV would be new short selling of shares. That is why it's important to monitor short interest levels.

Mid-week, it was reported that the short position in SLV, as of May 30, rose 1.2 million shares to 14.2 million shares (oz). There was a much larger decrease in the prior reporting period, so this increase is not much to be concerned about at this time. At 4.1% of total shares outstanding, the short position in SLV is still closer to its lows and not its previous highs, although it should be closer to zero considering the structure of the trust. There was a significant deposit of 2.4 million ounces a day or two after the reporting period of the short report, so the short position may be lower in the next report, all things being equal. The 1.2 million ounce withdrawal from SLV earlier this week looks the same as the metal being shuffled in and out of the COMEX, namely, metal being needed elsewhere. <http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

The changes in this week's Commitments of Traders Report (COT) were mostly in the expected range given price movement during the reporting week and the extreme technical fund positioning that previously existed in silver. Silver rose close to 40 cents and gold \$15 in the reporting week, but silver did touch the 20 day moving average which may have accounted for the fairly large increase in the commercial total net short position.

In COMEX gold futures, there was a slight reduction of 300 contracts in the total commercial net short position to 63,200 contracts, another new low extending to January. With such a small change in the headline number, there isn't much to report in individual category changes. JPMorgan looks to have reduced its concentrated long position by 1000 contracts to 37,000 contracts. The technical funds added almost 700 contracts of new shorts, so as of the Tuesday cut-off date, the pure buying power provided by technical fund shorts remained intact.

Gold price strength after the cut-off likely caused some technical fund short covering, but as of yesterday's close, the covering to date doesn't appear excessive, although the 20 day moving average was violated.

In COMEX silver futures, there was a significant increase of 4700 contracts in the total commercial net short position, to 14,300 contracts. In last week's review, I had anticipated as many as 2000 contracts of net commercial shorts may have been added thru last Friday, so the increase while large was not totally unexpected. Undoubtedly, the total commercial net short position in silver increased further since the cut-off, particularly on Thursday, as all moving averages up to and including the important 50 day moving average were violated to the upside.

By commercial categories, the raptors were the biggest sellers, reducing their record net long position by 3100 contracts, to 47,100 contracts. This is still the third largest raptor net long position in history, although it most probably was reduced further after the cut-off. The 8 largest silver shorts added 1600 contracts and JPMorgan may have accounted for 500 of that. I would peg JPMorgan at holding 14,500 short silver contracts at the cut-off. I'll return to this in a moment.

The technical funds bought back just over 3500 short contracts, reducing their net short position to 39,270 contracts as of the cut-off, still the second largest short position in history. Even extrapolating for another significant reduction after the cut-off, the technical funds in silver still likely hold the largest short position in history save for the last three reporting weeks. I did note that the number of technical fund traders (in the managed money category of the disaggregated COT report) were reduced by 4 to 29, suggesting that the technical fund late comers were quick to cover silver shorts (as expected).

While it would appear that there was additional technical fund short covering in COMEX silver since the cut-off, this must be put into proper perspective. The standout feature to recent COT reports in silver was the extraordinary level of technical fund short positions. Even after reported and projected reductions in technical fund short positions, it is remarkable how excessive these positions became and still are. There should be no doubt that extreme technical fund shorting accounted for the extreme price weakness in silver, as well as explaining the recent lift in prices.

Where to from here? The remarkably bullish setup in silver, while somewhat diminished by technical fund short covering and a climb in price, is still largely intact. While a short term price sell-off is always possible since COMEX silver is a crooked and manipulated market, the market structure in silver (and gold) points to much larger price advances than declines. All things considered, the odds overwhelmingly favor the upside. As such, a full long side exposure is warranted, regardless of what the COMEX commercial crooks have up their sleeves.

The silver raptor selling this week and since the cut-off has resulted in profits to the raptors, although those profits are not particularly large. It now appears to me that the remaining large raptor long position in COMEX silver futures, acquired over the past 2 to 3 months, is held at close to a break even cost basis. Unless the raptors try to induce the technical funds into adding new shorts at new lows in the price of silver (not likely, in my opinion), their logical next step is to book profits on higher prices.

Logic doesn't always prevail in a manipulated market, but the technical fund shorts have started to cover and moving averages are continuing to be progressively violated to the upside, so unless the raptors have some unknowable game plan to delay large profits from accruing to them, it would appear higher silver prices are in store.

I continue to be thunderstruck by the growing analysis and commentary pertaining to the COTs in gold and silver. Hopefully, you see it as well. And let me state openly that most of the commentary is quite good. In fact, there is more COT commentary and analysis in gold and silver than in any other market from what I observe. This is as it should be given the quality of the report and because COMEX positioning is the single most important factor in determining gold and silver prices. I've even recently witnessed former COT skeptics openly embracing the message of the reports. This is a very good thing.

In what might seem to be a development unrelated to the COTs, I read this week that Elon Musk, all-around business genius and founder of Telsa, has offered to reveal patents on a good faith basis to aid in the overall development of electric cars. <http://www.bloomberg.com/news/2014-06-13/musk-applies-contrarian-style-to-patents-to-boost-tesla.html>

Met with both praise and ridicule, Musk's plan got me to thinking about the growing commentary around the COTs. As I've written previously, I think the more observers that study the COTs, the better. That's because I believe that the COTs, in addition to explaining past price moves and predicting future moves better than anything else, also prove the silver manipulation beyond question. I've been particularly impressed with recent reports that highlight the record technical fund short position. Because the managed money position is presented so clearly, the long and short position is easy to see and is chartable to boot. By that, I mean that the disaggregated report lists the managed money by number of contracts.

In contrast, the most important COT categories in silver are not given in number of contracts form but are given in a form that requires some very simple math in order to convert to numbers of contracts. These most important categories are the concentrated short positions of the 4 and 8 largest traders in COMEX silver futures. The long form futures only report, both legacy and disaggregated versions, state in percentage of total open interest form, the precise (to the contract) holdings of the 4 and 8 largest traders, but one must multiply the total open interest by the net percentages given each week to arrive at the number of contracts held in concentrated form.

I'll walk you through the calculations, but first let me explain (again) why this is important. The cornerstone of the silver manipulation is the outsized concentrated short position of the 4 and 8 largest traders, of which JPMorgan has been the largest short holder since acquiring Bear Stearns six years ago. The concentrated short position in COMEX silver is larger than any other commodity relative to real world production and consumption. You can see this clearly in the days production chart regularly featured in Ed Steer's letter and compiled by Nick Laird at [sharelynx.com](http://sharelynx.com).

Without the extreme concentrated short position in COMEX silver, there would be no manipulation. Without it, I wouldn't have a leg to stand on in alleging manipulation and JPMorgan and the CME Group would have crushed me like a gnat long ago. There is no legitimate explanation for the outsized concentrated short position in COMEX silver, otherwise it would have been offered many years ago. The CFTC investigated for 5 years and before that as well and still couldn't explain or justify or even mention the concentrated silver short position. It has little to do with naked short sales and everything to do with massive short positions held by a handful of large traders (mostly banks) for no legitimate purpose, aside from intentionally depressing silver prices.

Right now, we are at a very critical point in the silver market. We know that the technical funds are heavily short and have begun to cover. Even if that short covering gets delayed, it must come eventually. Many current articles point this out clearly. We also know that the raptors are heavily long and will sell and take profits on higher silver prices. But there appears to be a bit of a potential mismatch in that raptor selling alone has never been enough to cap silver prices once technical fund short covering reaches full force.

In the past, an increase in additional shorting by the big concentrated silver shorts has been the deciding factor in capping silver price rallies. Therefore, if the big concentrated shorts, including JPMorgan, did not sell additional quantities of COMEX silver short on price rallies, the price would fly upward and the manipulation would, most likely, come to an end. This is something that would benefit mightily every silver investor in the world. As such, it should be known and written about as widely as possible.

As much as I am heartened by the growing commentary and analysis on the silver COTs, especially including the short position of the technical funds, there is no growing commentary on the concentrated short position of the 4 and 8 largest traders. This is a lost opportunity that must be addressed. Quite frankly, if as much attention were placed on the concentrated short position in COMEX silver as is currently placed on the technical fund short position, it would be only a matter of time before the manipulation would end.

To encourage greater awareness of the concentrated short position in COMEX silver, let me spell out how to calculate it each week. I'll use the long form futures only legacy report this week (as of June 10) since silver is the first market listed, but the long form disaggregated report would also work. <http://www.cftc.gov/dea/futures/deacmxlf.htm>

The first number is total open interest of 161,532 contracts. Multiply total open interest by the percentages given at the bottom of the silver report for the 4 and 8 largest traders by net positions (ignore gross entirely). The percentage given for the 4 largest short traders on a net basis is 24.6% and 38% for 8 largest short traders (which obviously includes the 4 largest traders). Simple calculations indicate that 39,737 contracts are held net short by the 4 largest traders and 61,382 contracts are held by the 8 largest short traders on a net basis.

61,382 contracts are equal to 306,910,000 ounces of silver (5000 oz in each contract). That's the equivalent of 38% of world annual production and 35% of the world's visible silver bullion inventory (875 million oz). This holding of the 8 largest silver shorts represents an increase of 1628 contracts from the prior week. This is not a particularly large increase and the prior week's concentrated short holdings were the lowest in a few months, but any increase is troublesome because the position is illegitimate to begin with. There are very few silver mining companies actively hedging or selling forward future production because silver prices are too low.

Locking in low silver prices at or below the cost of production makes no economic sense. Therefore, any increase in the concentrated short position in COMEX silver makes no economic sense away from deliberately depressing the price. Deliberately depressing the price of anything with uneconomic purpose and an already giant market share is as purely manipulative as is possible. Yet that is what any future increase in the concentrated silver short position will represent. To me, it is real simple – a big increase in the concentrated short position in COMEX silver on the coming silver rally proves silver is still manipulated; no increase and the price should explode.

These are incredibly specific data points that are at the heart of the silver manipulation and, therefore, the most important consideration for silver investors. I'm convinced this concentrated short position in COMEX silver cannot be legitimately explained away or defended. If more commentary and analysis are directed on it there is a real chance the light of day will expose it for the fraud it represents. It's a little more difficult to follow than the technical fund short position, but should enough commentators focus on it, it could and should make a world of difference.

Ted Butler

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Silver – \$19.65

Gold – \$1276

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