

June 6, 2015 – Weekly Review

Weekly Review

Despite an after normal trading hours bounce back late Friday, gold and silver prices finished lower for the third week in a row; with gold ending \$18 (1.5%) lower for the week, while silver ended 60 cents (3.6%) lower. As a result of silver's relative weakness, the silver/gold price ratio widened out by one and a half points to just under 73 to 1. This is the cheapest silver has been relative to gold in three weeks, but the price ratio still remains within the trading range extending back for many months.

While I'm looking over my shoulder to see if I'm going to get hit by a runaway freight train for saying this, it is somewhat unnerving to observe just how in line recent price action has been to expectations based upon the COT market structure and how the commercials usually operate. Not only in COMEX gold and silver, but also in COMEX copper where managed money selling has caused prices to collapse by nearly 25 cents per pound over the past two or three weeks, after causing copper prices to rise by 40 cents from February on outsized buying.

I'm not going to dig it up here, but I know I recently commented that copper prices had risen originally because of managed money (technical fund) buying and inferred prices were vulnerable to sell off on prospective selling by those same traders. (To be fair, I also commented on crude oil prices for the same reason and that has yet to be resolved). My point here is not that I'm promoting myself as some type of hotshot short term predictor of prices for different commodities, but instead to highlight the commonality for why prices move – speculative traders rushing in and out of markets in such massive quantities so as to unquestionably set and dictate the price to the actual producers and consumers of world commodities.

It's not just silver and gold, but a variety of markets have become captive to the easily-proved price control of the speculative tango between managed money traders and speculating banks; all while the frontline self-regulator, the CME Group, and the federal commodities regulator, the CFTC, do their best to avoid the obvious. That's what is so important about having real producers step up to the plate and questioning the regulators about the preposterous circumstance of allowing speculators to set the price of important world commodities. On this front, I have a bit of additional good news to report. Having just written how we all should be grateful to Keith Niemeyer of First Majestic Silver Corp for writing to the CFTC about this matter, I have another miner to add to the honor roll.

As it turns out, Jason Reid, CEO of Gold Resources Inc., not only wrote to the CFTC, but according to the date on his letter, appears to have done so first, back on May 28, when I first made my request public.

<http://www.sec.gov/Archives/edgar/data/1160791/000155837015001018/goro-20150528ex991effcf7.htm>

That makes two miners that have stepped up to the plate and have asked the eminently logical question of how it can be in keeping with the spirit and intent of commodity law to have speculators dictate prices to real producers and consumers. It's a question all producers should be asking and, for the life of me, I can't conceive of a legitimate explanation why more wouldn't ask as well. The whole intent, of course, is to have the regulators address the issue in a fair and open manner and to generate wider attention to this matter. To that end, I'm also highly encouraged that not only is there no strong objection possible to such an open debate, but support for such a debate appears to be growing. <http://www.mineweb.com/news/silver/silver-manipulation-first-majestic-question-cftc/>

Last week I commented that the weekly turnover or physical movement of metal brought into and taken out from the COMEX-approved silver warehouses had slipped to less than one million oz for the previous four day week and what it may signify (JPMorgan coming close to completing its massive accumulation of physical silver). I also mentioned how whenever I wrote in this manner, I was usually greeted with a big turnover week, making my comments look silly. I kept my record intact, as this week, COMEX silver warehouse turnover exploded to over 5.2 million oz, as total inventories fell by 0.7 million oz to 178.6 million oz. Annualized, this week's turnover amounts to more than 270 million oz and while this is only one week and is close to the average weekly movement of last year, it still highlights just how unprecedented and unusual silver's physical movement has been when compared to all other commodities. I'll just go back to monitoring this turnover for now and stop trying to handicap it.

One notable feature of this week's COMEX silver warehouse movement was the transfer of just over 411,000 oz to the JPMorgan warehouse in the eligible category (from the Scotia warehouse registered category). Having recently dismissed the obsession of many to dwell on the two different categories, the only reason I mention them now is because the metal held by JPM in the eligible category in its own vault is more likely to belong to the bank than to customers (because it's cheaper to hold without being warranted). And more than 48 million oz in the JPM warehouse is in the eligible category (out of the nearly 56 million oz held there).

But the reason for noting the movement of 411,000 oz into the JPM warehouse this week is that it is most likely related to the 4 million oz that the bank accepted (stopped) in the recently completed May futures delivery month. This may suggest a pattern that was seen in the COMEX March futures deliveries in which JPM first stopped 7.5 million oz of deliveries (the most allowed) and then transferred that amount (and slightly more) to its own COMEX facility during April. If, and that's a pretty big if, JPM moves the remaining 3.5 million oz or so of the May deliveries it took into its own warehouse over the near term, that would confirm the bank is still accumulating physical silver. The fact that it recently added substantially to its paper COMEX short position while still accumulating physical silver just confirms this bank is crooked.

While there still continues to be outflows of metal from the big gold ETF, GLD, amid the recent weakness in price, which appears to be logically consistent with how this ETF works; it also continues to be highly counterintuitive that there have been inflows of metal into the big silver ETF, SLV. This week some 2.5 million oz were deposited into the silver trust on lower silver prices. Even if the deposits were earmarked to reduce the now relatively low short position in SLV, that won't be visible until the short report following the next one due next Tuesday, June 9. My most plausible explanation for the consistent counterintuitive deposit/withdrawal patterns in SLV is some type of unusual accumulation, but I am open to all other plausible explanations.

Sales of Silver Eagles maintained their erratic pattern of days with sales in excess of 300,000 coins, followed by days of very low or no sales. This while Gold Eagles maintain a steady but lower pattern of sales than seen historically. As expected, the strong surge in Silver Eagles in the first few days of the month have moderated and the gap between Silver vs Gold Eagles sales has narrowed substantially, but as of yesterday, more than 81 times more Silver Eagles have been sold for every oz of Gold Eagles sold this month. Year to date, an incredible 85 times more Silver Eagles have been sold compared to every oz of Gold Eagles sold. I have no other explanation than there being a single big buyer in Silver Eagles which is apparently not buying comparable quantities of Gold Eagles.

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

The changes in this week's Commitments of Traders Report (COT) were not of the blockbuster variety, but I wasn't quite sure what to expect (given the volatility of last Monday amid otherwise fairly stable price action during the reporting week), so I chickened out in not making any predictions. Much more important was the substantial change in market structure on the strong price declines since the Tuesday cutoff. That doesn't mean, however, that there were not notable developments in this week's report.

In COMEX gold futures, the commercials reduced their total net short position by a rather insignificant 1600 contracts to 108,200 contracts. While the numbers themselves were minor, there was somewhat of a break in the normal Three Musketeers commercial routine (although the break in this routine was very pronounced in silver). The big 4 bought back around 500 shorts and the raptors added 3400 new longs, while the big 5 thru 8 swam against the commercial tide in selling short an additional 2300 gold contracts.

On the sell side in gold, the standout feature was that the managed money traders added more than 4600 new shorts and now total nearly 63,500 short contracts. Given the price action (salami slicing) and trading volume since the cutoff, it is not hard to imagine the managed money short position to be at or above the previous record short position of just over 80,000 contracts. Combined with a near certain reduction in the managed money long position which was not historically large at 125,000 contracts in the current report, I would now change the market structure in gold from neutral to bullish.

Extrapolating for the last three trading days, I would estimate some 30,000 contracts of managed money selling (both long liquidation and new short selling) and the reciprocal amount of net commercial buying occurred. After all, we had three classic days of salami slicing — successive new price lows — accompanied by heavy trading volume. This would put us back to the structure we had in early to mid-May just before gold rallied more than \$50 and above all the important moving averages.

While I can classify the gold COT price structure as now bullish, please know that doesn't mean that the commercials can't rig prices lower still to where gold's structure develops into the strongly bullish category. Given the proximity of the historical lows (around the \$1140 level) and the fact that there is some downward momentum in force, it would be expected that the commercials would press the matter and try to induce as many managed money traders into selling as possible. My point is always that it is best to measure the developing structure on a numbers of contracts basis and not advanced precise price predictions.

In COMEX silver futures, the total commercial net short position was reduced by 3900 contracts, to 57,600 contracts. The reduction was fairly large, but the total was still too large by recent standards to be considered anything but bearish. The breakdown of the commercial categories was notable. The big four basically stood pat for the third week running, neither increasing nor decreasing their net short position (around 51,200 contracts). And the release of the companion monthly Bank Participation Report enabled me to pinpoint JPMorgan's net short position to around 19,000 contracts or very close to the 19,000 to 20,000 contracts I had been estimating recently. Actually, I was somewhat disappointed in that I was hoping JPM would hold less.

The raptors (the smaller commercials away from the big 8) were the big buyers in adding a hefty 6300 contracts to a net long position now totaling 20,300 contracts. The big surprise was that the big 5 thru 8 largest commercials added 2400 new short contracts to what is now the largest 5 thru 8 net short position in memory, 26,752 contracts.

As a result, the concentrated net short position of the 8 largest traders (big 4 plus big 5 thru 8 combined) is now larger, at 77,936 contracts than at any time since early 2008, when Bear Stearns went under and later in that year when JPMorgan held more than 40,000 contracts net short and which triggered the 5 year non-investigation by the CFTC. The only difference between then and now in the near-record big 8 net short position, is that the big 4 (JPMorgan) held a much larger percentage of the big 8 short position then than it does now.

Why that is the case is open to debate (my guess is that JPMorgan or the CME or the CFTC arranged for others to take the slack off JPM by getting others to do their dirty work and shielding JPM from being the big identifiable short manipulator), but it doesn't change the facts. That the concentrated short position in COMEX silver is now larger than at any point since 2008 and close to the highest level in history. But it does highlight just how crooked the silver manipulation has been.

In fact, I must confess that I had long anticipated such a possible underhanded attempt by the crooks at JPMorgan or the crooked regulators to resort to such a scheme of enlisting straw men to short silver contracts where JPMorgan had always did it alone previously. That's because it had become too easy to document and pinpoint JPMorgan as the big silver crook (and how I could get away with saying that openly). Others would be needed to short silver on rallies and not just JPMorgan and that is exactly what has developed over the years. But because the quantities of contracts needed to be sold short was growing larger (to keep the price in check) other big traders would be required for the scheme and not lots of smaller traders.

That's why I always maintained that the concentrated short position of the 8 largest traders was the key to the silver manipulation; to make allowances for such an attempted scheme to enlist other big traders away from JPMorgan. Admittedly, I was forced to rely on the fact that the COT report itself would not be compromised and that only a small number of traders could be brought into the plot to take the heat off JPMorgan. Intentionally compiling and publishing false COT data would and should result in jail time. Enlisting large traders to participate in a scheme to maintain orderly markets perhaps less so.

77,936 contracts is the equivalent of 389,680,000 ounces of silver, or just about 50% of world annual mine production, according to the CPM Group (790 million oz). In simple terms, 8 large traders, mostly US and non-US banks and other large financial firms hold a net short position in COMEX silver that is equal to half the world's annual production, with not a silver producer represented (except by secret and contrived involvement). And this short position is held after silver has declined close to 70% in price, not after it had risen to historic highs. Who the heck shorts the most massive amount of any commodity in history after its price is in the gutter? Or, how can a commodity with the biggest concentrated short position of all not have its price in the gutter?

Finishing up on the silver COT report, because the short position of managed money traders (and other reporting traders) is so low, it's easy to conclude that none of them can be among the 8 largest traders, meaning that the biggest traders must be commercials. In this week's report, there was net selling by managed money traders of more than 5600 contracts, including more than 4300 contracts of long liquidation and new short selling of over 1300 contracts. Managed money longs now (as of the cutoff) hold just under 49,000 long contracts, leaving only 9000 contracts to go if my 40,000 contract non-technical fund core long position is still valid. And with less than 12,000 contracts held short, there is plenty of room to add additional short contracts.

The key question, of course, is how many managed money longs were liquidated and how many new managed money shorts were put on in the three day selloff since the cutoff? It had to be a significant amount since this was the first time the critical 50 day moving average (critical to the technical funds, not necessarily to me) was penetrated to the down side on heavy volume. My guess is in the 10,000 to 15,000 contract range. If the actual amounts are less than that then we have more contracts to go; if many more than that have been sold, then we are that much closer to the bottom in terms of contracts.

Please don't hold me to this, because there is no way of being certain, but my sense is that we may have completed 80% or more of the gold liquidation and managed money short selling necessary to form a bottom and anywhere from 50% to 70% of the number of contracts needed in silver. That doesn't mean we can't go up from here or certainly that we can't experience sharp rallies even if the lows haven't been seen. It just means that the probabilities, according the COT market structure analysis alone, suggest more managed money contracts need to be sold in silver than have been sold to date and the only known way for those contracts to get sold is on lower and not higher prices.

Along those same lines, namely, that what matters more is the number of contracts that the commercials can induce the managed money traders to sell rather than how much prices can move lower; I'm struck that we've seen that play out this week. The commercials have such complete control over prices, by means of HFT algorithms, spoofing and other dirty market tricks that they can put prices on a short term basis anywhere they desire. If they wanted to smash silver for a dollar or more in a day, even at current depressed price levels, they could do so. But such a vicious move lower at this point I sense would have been unproductive for two reasons. One, if prices had been so smashed a good number of technical funds might have backed off from aggressive short selling simply because the logical point of closing those new shorts out would have involved too much price risk to the upside. Second, much lower prices at current levels might and should invite more mining company petitions.

So I guess what I'm saying is that this move down appears to have been tightly choreographed by the commercials to effect the maximum number of technical fund sales and that's why the decline has been as orderly as it has been. In this regard, the commercials seem to be endorsing my premise that the number of contracts is more important than the price. That's not to say that the commercials won't get more vicious along the way, particularly when they get to the tail end of the contracts they think they can induce the technical funds to sell, at least very temporarily.

Then again, that's not to say that I'm not full of hooey and we go up from here for the multitude of bullish factors away from the COT analysis. A reader just wrote in suggesting that he believed that the reason silver had been relatively contained to the downside was due to mining companies finally stepping up to the plate and complaining about the manipulation on the COMEX. That's not a point I wish to argue with and told him that those words should go from his mouth to His ears. While I don't want to diminish the impact that the miners complaining to the CFTC might have on the price, my sense is more that it might force the commercials to hurry up and get this crooked liquidation cycle completed, perhaps for the last time (Yes, I know Â? I've said that before).

In summary, we are closer to the bottom in silver but may not be there quite yet Â? all in terms of the COT analysis and nothing else. I don't think it must take an extended period of time, but it's only been three days so far (in terms of the 50 day moving average). According to everything else but the COT analysis, including supply/demand considerations, what's going on in the world and plain old fashioned relative value comparisons, silver is as cheap as dirt and is an accident waiting to happen to the upside. If hadn't been absorbed in COT analysis for three decades, I would disregard it on the greater weight of the outside evidence. But we're all captive to our experiences.

On an unrelated matter, my friend, Ed Steer, wrote his last daily letter on the Casey Research website today after eight years, due to a takeover of Casey by Stansberry Associates. Ed's striking out on his own and I wish him the best. I'm happy to provide the link of where to go to get your daily fix of what's going on in the world of precious metals.

<http://www.edsteergoldandsilver.com/>