March 1, 2014 – Weekly Review

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Gold managed to eke out a gain for the fourth week in a row, finishing $2 higher, while silver fell a more substantial 65 cents (3%), breaking its previous three weekly gains. As a result of gold's outperformance, the silver/gold ratio widened out more than a point and a half to 62.6 to 1. The fluctuations in the ratio have been volatile but still within the broad trading range of the past year.

As is usually the case, the short term price movements appear unrelated to any actual metal supply/demand fundamentals and as such indicate one should not rely on these price changes in long term considerations. This thought was echoed by the famous (and former silver) investor, Warren Buffett, in his annual letter to shareholders of Berkshire Hathaway this week. Mr. Buffett compared relying on short term price changes in investing to be akin to watching a baseball game by only looking at the scoreboard. Instead, he recommended studying the players to understand how a game might turn out. Come to think about it, that's what I try to do; no wonder Buffett bought so much silver 15 years ago (before losing it).

Turnover or movement of metal into and out from the COMEX-approved silver warehouses held around 3 million oz this week, as total inventories rose to a new 16 year record of more than 182.8 million oz, up 2.4 million oz for the week. I continue to believe the turnover is more important than the totals and, in addition, would point out it is normal to witness increases in COMEX silver inventories into the start of a traditional delivery period, which began yesterday for the big March futures contract.

I didn't know what to expect for deliveries in the March silver contract, as JPMorgan had taken delivery of a total of 3000 contracts (15 million oz) combined in December and January, but had issued 200 contracts in February. (I'm speaking of deliveries that JPM took or made in its proprietary trading account, not for clients). My uncertainty had to do with what JPMorgan did in gold – after taking more than 6200 gold deliveries in December, it turned around and issued more than 1700 gold contracts in February. It appeared to me that since JPMorgan controls every facet of gold and silver (and other metals), the bank would do anything it had to do to maintain its control over prices, even temporarily making delivery to contain prices when it actually wanted to acquire more and would do so at a later date. Hence my uncertainty over what JPM would do in the March silver contract on the COMEX.
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

After two days of delivery for the March silver contract, JPMorgan took 997 contracts, or two-thirds, of the 1494 issued. Since deliveries are generally assigned by the amount of open interest held by respective clearing members, unless many new contracts are established in the March COMEX silver futures contract before month end, it can be guessed that JPMorgan will likely take 600 or so of the roughly 1000 contracts still remaining open (after adjusting for Monday's deliveries). All this would tend to confirm that JPMorgan is still interested in acquiring physical silver despite its recent increase in silver futures shorting on the COMEX. It may not be far off to suggest that JPMorgan might be shorting silver futures contracts in order to buy physical at depressed prices, even though that's as illegal as it gets.

The bottom line is that JPMorgan has taken delivery of close to 4000 silver contracts (20 million oz) since December and is in position to take another 3 million oz if March plays out as I've outlined. I still maintain that this a small percentage of the 100 to 200 million physical oz (or more) of silver that I believe JPMorgan has acquired over the past three years. I'll come back to this with a new kind of far out theory later.

The short interest report on stocks issued mid-week wasn't shocking in any way, although the short position in both SLV and GLD did increase. The short position in SLV grew by almost 1.2 million shares to nearly 17.7 million shares, while the GLD short position grew by less than 400,000 shares to 12.9 million shares. At around 5% of total shares outstanding in each, the short positions are still too high, but are way less than previous peaks. As such, the short positions will only become problematic if they increase sharply from here.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

The final sales report for the month from the US Mint confirmed that more Silver Eagles were sold this year than in any February in the Mint's 27 year history. Likewise, more Silver Eagles were sold relative to sales of Gold Eagles this month than ever before. I don't know if the torrid pace of sales of Silver Eagles will continue, but I do know the extraordinary demand is not reflected in the price of silver, as it should be; but what's new with that?
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

By any conventional measure, the changes in this week's Commitments of Traders Report (COT) were horrid, in that the headline total commercial net short positions in both COMEX gold and silver increased dramatically. The increase over the past three reporting weeks is even more dramatic.

In COMEX gold futures, on not much more than a $20 gain for the reporting week ended Tuesday, the total net commercial short position increased by a significant 24,900 contracts to 116,700 contracts. This is the highest level of commercial shorts since last April (after the big two-day downdraft). By commercial category, it was somewhat strange, as the 8 biggest shorts actually bought back more than 4600 short contracts, so the big increase in the commercial net short position had nothing to do with increased commercial shorting; it had everything to do raptor (smaller commercial) selling out of 29,500 long contracts.

These smaller commercials are also big HFT traders and, obviously, they sold out thinking they will be able to rig prices lower to repurchase. It was one of the largest weekly changes for the gold raptors in memory. What made them all decide to sell this reporting week is open to question, but whatever it was it had to include collusion. (I never said JPM was the only COMEX commercial crook, just the most dominant).

The big surprise to me was that JPMorgan, despite the heavy raptor selling didn't appear to sell any of its 58,000 contract long gold market corner. (For those trying to follow the calculations closely, the concentrated position of the 4 biggest gold longs hardly changed at all). You'll remember that last week, JPMorgan was the dominant commercial seller, accounting for 10,000 contracts or more than 50% of all commercial selling for that week. JPM not selling any contracts this week stood out to me. The 58,000 contracts that the bank is long is still close to 18% of total net COMEX open interest and a blatant market corner.

On the buy side of gold, it was all the technical funds which bought back more than 23,000 short contracts and added 4000 new longs. We always knew the technical funds would aggressively buy back their short contracts with a vengeance when prices penetrated the moving averages, so the only surprise to me was how easy the commercials (raptors) let them off the hook by selling so aggressively. I thought we would get much more of a gold price advance given the number of contracts bought by the technical funds.

Over the past three reporting weeks (since Feb 4), the price of gold has risen by around $80 on total net technical fund buying of 52,000 contracts (new long contracts plus short contracts bought back) and total commercial net selling of just about the same number of contracts. Since technical funds are pure speculators (as are the commercials, effectively), this supports my recent statements in silver that COMEX trading has nothing to do with real producers and investors aside from artificially setting the price they will receive for their mine production or for investments.

52,000 COMEX gold contracts equate to 5.2 million ounces with a nominal total value of $7 billion. 5.2 million ounces is also what the world collectively mined over the past three weeks. The only difference is that the real gold came from a multitude of different countries and hundreds of gold mining companies hour by hour and that collective production had no influence on the price of gold. On the COMEX, 30 or 40 paper gamblers on either side didn't mine an ounce yet bought and sold 5.2 million equivalent ounces that did set the price. These COMEX electronic gamblers have nothing to do with real gold. Why do we allow them to set the price?

In COMEX silver, the total commercial net short position increased by 6100 contracts, to 39,000 contracts, another new high not seen in a year. Unlike in gold, all the commercial categories sold; the big 4 (JPM) shorted 1000 contracts more, the 5 thru 8 sold 800 additional contracts short and the raptors sold out 4300 long contracts. From an extremely high net long position three weeks ago of 42,700 contracts, the raptor net long position is down to 21,800 contracts. The raptors sold the equivalent of more than 100 million ounces of silver on the $2.50 rise in silver prices thru Tuesday. As was the case in gold, the raptors must believe they can buy back on lower prices.

Also as was the case with gold, the technical funds accounted for all the silver buying this reporting week with new long purchase of more than 3800 contracts and more than 2600 contracts of short covering. I should point out that silver prices were only marginally higher during the reporting week and finished unchanged, although prices were at multi-month highs and above all the popular moving averages.

JPMorgan's short market corner in COMEX silver increased by 1000 contracts to 18,500 contracts by my calculation, or more than 15% of net open interest. Given how much JPM added last week and the total commercial increase of 6100 contracts this week, I thought the bank would have added more than 1000 contracts.

Over the past three weeks and on a $2.50 increase in the price of silver, the technical funds bought and the commercials sold just over 24,000 net silver contracts, or the equivalent of 120 million ounces. Whereas the speculative buying and selling in COMEX gold roughly equaled the world gold mine production over that time, the 120 million ounce equivalent silver speculative trade was 2.6 times what the world mined.

The important point here is that the COMEX gold and silver trade over the past three weeks has had absolutely nothing to do with the legitimate hedging the exchange purports to be conducting. No gold or silver miners or metal users were hedging on the COMEX; the trade was completely between speculators Â? technical funds versus other speculators pretending to be commercials but with no legitimate hedging connection. Simply put, the COMEX is not legitimate.

What does all this suggest for prices ahead? I started out this COT discussion by calling the current report horrid by any conventional measure. That's because after big bouts of technical fund buying and commercial selling, the prognosis for lower prices rises, although the timing is always uncertain. Sometimes, after big increases in the total commercial net short position, we quickly get a sell-off. Other times, new price highs are made in which the commercials sell even more and on past occasions, this process can take weeks or even months. I've yet to see the occasion where the commercials panic and rush to cover shorts to the upside, but we did come close in April 2011.

So, if things play out as they have in the past, conventionally speaking, gold and silver prices are cruising for a bruising and no one should be terribly surprised if this happens again. After all, this is the rhyme and rhythm of the gold and silver manipulation. As such, we must all be prepared (as best is possibly) for a deliberate price smash ahead. But a new thought, definitely way out there, has occurred to me that I feel obligated to discuss.

Unquestionably, at the heart of the gold and silver manipulation sits JPMorgan and there is little else that I think about. Therefore, I have taken to putting myself in their shoes, as it is always advisable to see things from JPM's perspective. The bank has remained silent in the face of increasing allegations of impropriety, even to the extent of being referred to as crooks. This is so outside normal behavior on JPMorgan's part with anything that has ever occurred previously, that my common sense tells me it can't continue indefinitely for a variety of reasons, including the inevitable physical silver shortage. Yes, I know that the US Government is in bed with JPM, but that only increases the significance of the circumstance, not its eventual resolution. In the end, the US Government is in no position of resolving a world-wide physical silver shortage as it holds little to no physical silver.

So what would I do if I was in JPMorgan's predicament? First, I would buy back as many silver short contracts as possible on lower prices and acquire as much physical silver as I could (remember money is no object). Then I'd do the same thing in gold, even to the point of going long gold in futures and physical if possible. Finally, I'd try to devise a cover story before I let prices rip upward that would deflect accusations that the upward move was engineered by JPM.

Aside from increased shorting of COMEX silver of 5500 contracts over the past two weeks, JPMorgan has largely accomplished a massive reduction of its silver and gold short positions to the point of establishing a long market corner in COMEX gold, as well as amassing prodigious quantities of silver and gold metal. Despite the very recent selling, JPMorgan is fully positioned for a lift off in prices, the best it has been positioned over the past six years. The only thing missing is how to deflect accusations that any resultant price rise was caused by the bank.

After all, the proof of JPMorgan's manipulation lies in the CFTC's COT data as to market share. So some way must be arranged to make it look like the proof of manipulation was never really proof in the first place. Since the changing market structure as reflected in the COT reports has always explained big price moves in the past and provided proof of manipulation; the final big move must go unexplained by changes in the COT structure. In other words, JPMorgan needs a way to make it appear like it had nothing to do with an explosion in prices.

I admitted to this being way out there, but after the very large increase in the commercial net short positions of COMEX gold and silver over the past three weeks, this would not seem to be the time when gold and silver should explode in price based upon previous COT circumstances. Conventionally speaking, past patterns suggest a sell-off at some point. If prices exploded now, it just might relieve the increasing stench of manipulation associated with JPMorgan.

A sharp price rise now would discredit my brand of COT analysis and undermine my allegations of manipulation; both beneficial to JPMorgan. Let's face it Â? sharply higher gold and silver prices would also remove the financial pain of investors and interest in a premise of manipulation would dissipate. Who can be angry while making tons of money? With few angry, attention to JPMorgan would likely disappear. Exploding prices would bring attention instead to whatever the current story de jour happened to be Â? China, the Ukraine, the dollar and away from JPMorgan.

I've labeled this as way out, but given all the facts, it is going to take something like this to make this all go away for JPMorgan and the COMEX. Barring such an occurrence, it is likely that the allegations of manipulation will grow, particularly if the commercial crooks on the COMEX thump prices down again. Just this week, stories of gold manipulation appeared in the Financial Times (temporarily) and on Bloomberg, an almost unheard of circumstance. http://www.bloomberg.com/news/2014-02-28/gold-fix-study-shows-signs-of-decade-of-bank-manipulation.html While the article fails to mention JPMorgan and the COMEX and therefore misses the mark, general suspicions of gold and silver price manipulation are growing. If we get another manipulative price smack down ahead, it's hard for me to see how suspicions won't grow even further.

A number of subscribers have recently asked me something I've been thinking about already, namely, that JPMorgan may be in better shape to continue the manipulation seeing how it has acquired a large quantity of silver and gold metal. Unfortunately, this is a real fear that must be acknowledged; but also one that must be put into perspective.

There is little real economic incentive for JPMorgan to continue the manipulation indefinitely. The bank made big money on the engineered sell-off of 2013 and added immense quantities of physical gold and silver. Big money won't accrue to the bank if we stay in the same manipulated price ranges of the past eight months or so. The really big money will only flow to JPMorgan on sharply higher prices. As for the timing of such a move, I plead ignorance. I do sense we must be prepared for anything and the best way to do that is by studying the players and not the scoreboard.

Ted Butler

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Silver – $21.20

Gold – $1328

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