

## March 15, 2014 – Weekly Review

### Weekly Review

As has been the case for most of the New Year, gold rose for the week, jumping by an impressive \$42 (3.1%) for its sixth weekly gain in a row. Gold has had only one weekly loss since year end and is up \$175 (almost 15%) year to date. Silver did finish higher by 55 cents (2.6%) for the week following two weekly losses and sits up \$2 (10.5%) year to date. As a result of gold's relative outperformance for the week, the silver/gold ratio widened out a bit to almost 64.5 to 1. Year to date, the ratio has widened out by at least 3 full points, but still remains at the upper levels of the trading range of more than a year.

It is rare when silver underperforms gold on as strong an upside move as we've witnessed the past couple of months, but not nearly as strange as the wild price shenanigans of the past few years. Even stranger was that there was almost a universal opinion at year end that silver was set to outperform gold by just about every commentator I follow. (I'm a stick in the mud when it comes to believing silver will outperform gold on a long term basis). So, I'm sure the thought must be on many minds – what the heck is ailing silver?

The answer is that nothing is ailing the supply/demand fundamentals in silver; just that something is ailing the price of silver. That ailment, as is always the case, revolves around the twin price setters of silver (and gold), the COMEX and JPMorgan. I'll get into this week's changes in the Commitments of Traders Report (COT) in a moment, but the only plausible explanation for the rise in price this year and the sub-par performance in silver relative to gold is speculative positioning on the COMEX, particularly by JPMorgan.

In fact, most data indicate that the rise in gold this year may be exclusively due to COMEX positioning, as is usually the case. Since just before year end (December 24) thru last Tuesday, speculative buying (mostly technical fund short covering plus new buying of long contracts) and speculative selling (by traders classified as commercials) of a net 100,000 contracts is just about the sole reason for gold's price advance. That's the equivalent of 10 million ounces of gold, worth around \$13 billion. It is not real gold, just a derivative of real gold, but it has a real effect on the price of real gold. In contrast, verified data on physical gold demand indicate fairly lackluster demand year to date.

The big gold ETF, GLD, has added about 600,000 oz since year end, a notable change following last year's bleed of 18 million oz; but 600,000 oz is only 6% of the 10 million oz equivalent that changed hands on the COMEX. And some of the gold deposits in GLD appear related to short covering as opposed to straight new investor buying. Gold coin demand from the US Mint is much softer than in previous years (especially related to silver). India has yet to change its import restrictions against gold and while China does appear to be continuing its gold buying demand, other reports suggest a recent cooling (in the form of premium reductions).

Let me be clear about what I am saying. Given the level of world geopolitical and economic stress, it would not be surprising to see gold extend its price run, especially if tensions resulted in more physical buying. But since it appears that the price run to date has been based, almost exclusively, on COMEX speculative positioning, it would not be surprising if the run came in for a sudden adjustment. As for why silver has lagged gold, that's easy – the commercials, led by JPMorgan, have kept a much tighter grip on prices because a flare up in physical buying is much more critical in silver. I hope to expand on this later.

Turnover or physical movement of metal into and out from the COMEX-approved silver warehouses amounted to around 3.5 million oz this week as total inventories rose a half million oz to 182.8 million oz. Over the past two weeks, more than 7.5 million silver oz have come in and departed the COMEX warehouses as total inventories have remained unchanged. This metal isn't flowing for no reason and if that reason doesn't point to tightness, then I don't know what it points to.

This week's COT report didn't feature substantive changes, reflecting a reporting week with relatively subdued price changes, although gold prices did surge after the cut-off (suggesting an additional increase in commercial selling).

In COMEX gold futures, the total commercial net short position increased by 4200 contracts to 125,400 contracts, another new high water mark from last April. For the third week running, the 8 largest gold shorts reduced their net short position, this week by around 2600 contracts, so that means the raptors (and JPM) sold. In fact, it was JPMorgan accounting for almost all the commercial selling again this week, as it sold another 6000 contracts of its long market corner, reducing that corner to 47,000 contracts or just under 15% of the entire net COMEX open interest. On the buy side, it was all the technical funds (again) as they bought back another 5400 short contracts.

Interestingly, since the end of January (when gold was around \$1260) and on the 60,000 contract increase in the total commercial net short position, there has been no increase in the total short position of the eight largest commercial shorts. Instead, the 60,000 contract increase is a result of selling of gold contracts by JPMorgan and the raptors (the smaller commercials apart from the big 8).

I had JPMorgan holding 62,000 long gold contracts as of Jan 28, so the bank accounted for 15,000 of the 60,000 net commercial contracts sold since then, or 25% of the total. More importantly, JPMorgan has sold 11,000 gold contracts over the past two reporting weeks, more than the 9000 contract total increase in commercial shorts over this time. What this means is that over the past two reporting weeks, JPMorgan has, effectively, been the sole commercial seller in COMEX gold futures. Please think about that for a moment.

It is said that all prices are set at the margin. What this means is that prices are set by the relatively small but influential amount of buying or selling that comes after most trading is factored out. But rarely can one identify a single trader as being the price setter at the margin. Even rarer is a situation where one trader accounts for all the buying or selling in a large group of traders, such as JPMorgan and the entire grouping of all commercial traders in COMEX gold. Government data indicate that JPMorgan accounted for all the net commercial selling over the past two weeks in COMEX gold futures.

Therefore, it is easy to conclude that JPMorgan has, single-handedly, prevented the price of gold from rallying further over the past two reporting weeks. Yes, I know this crooked bank was long gold (I'm the one who first noted that last year) and some might say it is only selling what it owns. Regardless of what JPM owns, if it sells primarily to contain and control prices, it is guilty of price manipulation. No wonder I can call JPMorgan crooked without retaliation.

In COMEX silver, there was a reduction of 2100 contracts in the total commercial net short position, which now totals 37,600 contracts. The raptors accounted for all the reduction as they added 2000 long contracts (which mathematically decreases the total net commercial short position). This is still an extremely large and dangerous short position to the silver market as a whole. It is an outrage that the largest eight traders are short nearly 60,000 contracts or the equivalent of 300 million oz, with JPMorgan holding 18,000 (90 million oz).

If the concentrated short position of JPMorgan and the seven other big silver shorts did not exist, the price of silver would be several to many times higher than it is presently. If the outsized concentrated short position did not exist, there would be little to no chance of a sharp sell-off. Someday, this concentrated short position won't exist and all will be aware of that day because it will be reflected in the price of silver. Our only goal is to be alive and holding silver when that day arrives.

A few words on COMEX copper and the dramatic decline in price discussed here recently. I was off by a wide margin in my expectation of 20,000 contracts in net technical fund selling, as the tech funds sold close to 8,000 contracts. I still had the direction correct and let's wait until the next COT before final judgment (I had mentioned there can be delays in reporting when big changes occur on Monday and Tuesday of the reporting week, as was the case in copper this week). But 8,000 COMEX copper contracts is the equivalent of 100,000 tons of metal or almost 9 times COMEX copper inventories.

Other than the miss in the number of contracts sold by the technical funds, the data for copper completely justified my conclusion on Wednesday that copper prices were manipulated on the COMEX (and that the exchange should be closed). First, the commercials increased their total net long position by almost 11,000 contracts (closer to my original guess) to 30,000 contracts on the big drop in price. (Please note that whereas we always talk of the commercials' total net short position in COMEX gold and silver and whether it is increasing or decreasing, in copper the commercials swing both ways, net long and short).

Not only is it rare for the total commercial net long position in COMEX copper to reach or exceed 30,000 contracts, on the five previous occasions this has occurred, the net long position resulted in an eventual copper price rally of at least 25 cents to as much as two dollars (in 2009). My point is not that there will likely be a rally in copper prices that you should take advantage of. In fact, that is the last thing I intend, as I hope I've been conveying. Instead, my point is that copper can prove that the COMEX manipulates prices in copper every bit as much as it manipulates the price of gold and silver. And least surprising of all is that JPMorgan plays the biggest role in the manipulation (according to COT and Bank Participation Report concentration data.)

In the disaggregated COT reports, there are two commercial categories shown, the producer/merchant category and the swap dealer category. There is a gross long and short position in each category, or four commercial data points (there is also a spread category for swap dealers which doesn't apply to this discussion). In this week's copper report, every one of the four commercial categories in copper indicated buying of contracts, either adding to long positions or decreasing short positions. There was zero commercial selling of any kind on the 27 cent price plunge in copper for the reporting week. In other words, all the selling was by technical funds and other speculators and all the buying was by commercials. This is at the heart of my suggestion that the COMEX be closed because it has no connection to the real world of copper (or gold or silver).

All the selling in copper was speculative and all the buying was commercial in name only. Certainly copper miners didn't sell and it is unlikely they bought (since they weren't short to begin with), so it can be reasonably concluded that there was no real producer/consumer involvement in the big copper plunge. This was strictly a case where one narrow group of speculators sold and another narrow group of speculators (called commercials) bought in a private gambling den or bucket shop. The problem is that the COMEX bucket shop sets prices for the mining and consumption of a critical world commodity with a real value of more than \$125 billion annually in copper and about the same amount in gold.

[http://en.wikipedia.org/wiki/Bucket\\_shop\\_\(stock\\_market\)](http://en.wikipedia.org/wiki/Bucket_shop_(stock_market))

I know I am all alone in this explanation for why copper prices have plunged and may plunge more until the technical funds are finished being tricked into selling any more contracts. I know that most believe that the selling in copper was China-related and that is the story being parroted everywhere. The problem is that while the China story sounds plausible, it is either unsubstantiated or doesn't make sense. Here's a representative explanation that includes both the unsubstantiated and nonsensical. Please take a moment to review it, particularly the financing explanation at the end. <http://www.mineweb.com/mineweb/content/en/mineweb-base-metals?oid=232932&sn=Detail>

My problem with this story is that it mentions speculative trading everywhere except on the COMEX. Yet, it is only in COMEX trading that we get any objective and detailed breakdown of trader positions. In other words, there is no equivalent government published COT report for the LME or in China; that data is only available for trading on the COMEX, to my knowledge. Certainly, no definitive statistics were quoted in the story, as I did above with COMEX copper. The other big problem is that while the stories concerning the financing of loans in China by means of copper collateral are universal, they make little sense. Who would buy copper for collateral to finance a loan to buy real estate when one could merely use the original funds to buy real estate and eliminate buying copper in the first place? Maybe I'm just a bit thick; so if anyone can explain this to me, I'm all ears. In the interim, I'll stand by my documented and more logical (at least to me) version of events.

As JPMorgan's role in the copper, gold and silver COMEX manipulations get clearer, it is natural for those concerns to elevate anxiety about an eventual sell-off. While I have those concerns as I follow COT developments closely, I am more concerned about missing the big move in silver because of a COT fake out. I'd rather get kicked in the teeth by a temporary silver sell-off at the hands of JPMorgan and the COMEX, than miss the big move due to fears of the sell-off and end up kicking myself for eternity. Certainly, if we do get the silver sell-off, at the very least, I do not intend to remain quiet in my criticism of JPM and the COMEX.

As for why, it comes down to something that must occur at some point, or more precisely, must reoccur in the future. I'm speaking of the coming day when there won't be enough physical silver to meet demand. This is a day that has occurred in varying degrees several times in my lifetime. The first time was when the US Government was forced to stop the production of common coinage using silver in the mid 1960's and was quite forthwith in explaining that there was simply not enough silver for that purpose any longer. According the US Government, silver was too rare and valuable to be used as money.

Next came the Hunt Brothers whose buying dried up available silver around 1980, before COMEX rule changes and government intercession. In early 1998, Warren Buffett was forced to reveal he had bought so much silver (130 million oz) that he had to offer those who owed Berkshire Hathaway delivery would be given time to fulfill their obligations due to not enough silver being available. Then in April 2011, with silver approaching \$50, there developed another period of physical silver unavailability due to widespread investment buying. This was the very first time a physical silver shortage arose absent a big singular buyer like the Hunts or Buffett. As such, it was the most serious of all and resulted in a coordinated effort by JPMorgan, the COMEX, and the US Government to smash the price and prevent widespread buying.

That brings us to the present. The low prices of the past few years have succeeded in postponing enough investment buying from developing into the next physical silver shortage. But, while widespread investment buying has been postponed, it has not and cannot be eliminated forever. In fact, while widespread investment buying has been postponed, the backdrop has actually improved. That's because the amount of silver available for purchase is much less today than it was in the mid 1960's, or when the Hunts or Buffett bought.

While there is more silver in the world than there was six or seven years ago, there's a heck of a lot less than there was 50, 30, or 15 years ago. And every indication points to the silver that does exist today being held in non-concentrated hands, not by the likes of a US government, the Hunt Brothers or Berkshire Hathaway. Yes, I do believe JPMorgan may hold a significant chunk of silver currently and while that opens the possibility of them selling to contain the price, I would remind you that Buffett sold out at \$7 and the price jumped seven fold over the next five years. So if JPMorgan decides to sell low, let them.

The key to silver is not how many paper contracts can be sold on the COMEX, but in how many physical ounces can be bought or sold in the form of 1000 oz bars. The 1.3 billion ounces of such silver in existence is different from how many of those ounces may be available for sale, plus how many new ounces can be created each year after total industrial and other fabrication is subtracted from total new supply. I peg the number of new silver ounces at 100 million ounces, or around \$2 billion annually. I don't think much of the 1.3 billion oz of existing silver is available for sale anywhere near current prices.

Against the 100 million silver ounces available for purchase by investors, we must measure potential world investment buying power. We live in a world with total debt of \$100 trillion, with a net worth of \$80 trillion by US citizens and total world assets and buying power measured in the many tens of trillions of dollars. The thought that \$2 billion can hardly be measured against the tens and hundreds of trillions of dollars that could be tapped is what tells me that JPMorgan's and the COMEX's days of manipulating prices with paper contracts are limited.

In the future, silver and gold prices will continue to be set at the margin. The only difference is that instead of JPMorgan using the COMEX to set prices at the margin with paper derivatives contracts; the world will set prices at the margin in physical ounces. When that occurs we'll all sit back and marvel at how the phony price structure lasted for so long.

Ted Butler

March 15, 2014

Silver – \$21.45

Gold – \$1382

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