March 26, 2016 – Weekly Review

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The holiday-shortened trading week featured a sharp precious metals selloff, with gold falling $39 (3.1%) and silver ending lower by 60 cents (3.8%). As a result of silver's relative underperformance, the silver/gold price ratio widened out by half a point to 80 to 1. Silver still remains shockingly undervalued relative to gold and, on a long term basis, will greatly reward anyone who switches gold to silver.

On a short term basis, however, nothing would surprise me involving the silver/gold ratio, precisely because its level has nothing to do with investors switching between the two metals or anything related to actual metal supply/demand fundamentals. I continue to maintain that the only thing that drives price in the short term is COMEX futures contract positioning, as is reflected in the COT report.

While I try to stress that the market structure approach should not be used for very short term trading and timing, the approach has been quite reliable beyond a day-to-day basis and always the most plausible explanation for big price moves, like we've seen this year and this past week. It's no coincidence that gold and silver sold off sharply last week, considering that as of the Tuesday cutoff, the market structure in COMEX gold and silver was the most bearish it has been on this year's rally and beyond that. I'll come back to the COT analysis later.

The turnover or physical movement of metal brought into and removed from the COMEX-approved silver warehouses slowed in the four day week to the lowest level since mid-November, as 2.3 million oz. were moved and total COMEX silver inventories rose by 0.7 million oz to 155.8 million oz. Even at this week's low level, on an annualized basis that still amounts to 120 million oz and remains head and shoulders above any warehouse turnover in any other commodity.

I just report on and try to analyze the unprecedented COMEX silver warehouse turnover, as I've done for five years running, since I know of no legitimate way to predict future warehouse movements. I can't imagine this COMEX silver warehouse turnover getting any stronger that the recent two-month stretch of 8.5 million oz weekly turnover and have contemplated on many occasions that it might end altogether. That doesn't bother me much because if the movement suddenly stopped, the most plausible conclusion that comes to my mind would be that JPMorgan had finally accumulated enough silver and was ready to let Â?er rip.

JPMorgan is certainly the largest acceptor (stopper) of silver in this month's March COMEX futures contract, just as the bank has been in every traditional delivery period over the past year. And I'm only talking about the silver JPM has stopped in its house or proprietary trading account, not for its clients. With only a couple of days and a hundred contracts remaining open in the March delivery month, JPM has stopped 1006 silver deliveries out of the total 1285 contracts issued. But even that understates the real percentage of silver deliveries JPM has taken Â? when you net out those entities who both stopped and issued silver deliveries this month, JPM has taken around 98% of all the silver deliveries issued.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

JPMorgan has been, not just the largest stopper of COMEX silver deliveries over the past year, but has been closer to having been the exclusive silver stopper, taking around 30 million oz in all. I don't remember any one entity ever taking as much silver in COMEX deliveries as persistently as JPM has taken over the past year. On this basis alone, silver analysts everywhere should be concluding that JPMorgan has been acquiring silver; perhaps not to the extent that I conclude (close to 500 million oz over the past five years), but at least to the extent indicated in COMEX statistics. Maybe someday some will.

Finally, I haven't mentioned it this month, but if the pattern established over the past year plays out again, I would expect that JPMorgan might move the 5 million+ oz it has taken in delivery this month into its own COMEX silver warehouse in the weeks ahead. I still maintain, based upon the data flow this month that JPMorgan (and its customer) was in position and set to stop or take delivery of 3000 March COMEX contracts, or 15 million oz, and had to settle for a third of that amount. The only plausible explanation for why JPM didn't press its advantage was because the physical silver market was so tight that a demand for full delivery would have set off a price conflagration to the upside. Based upon other data (mostly the COTs), JPM wasn't quite ready to light the silver bonfire.

I don't think I published a prediction, but I was expecting an increase in the short positions in SLV and GLD, as of the March 15 cutoff, simply because both were up on high trading volume for the two-week period up until the cutoff and there was strong concurrent commercial short selling on the COMEX. In fact, I thought the increases in the short positions of SLV and GLD would be greater than was reported. The short position in SLV increased by 1.5 million shares, to 13.6 million shares (13 million oz), while GLD's short position also increased by 1.5 million shares, to 13.4 million shares (1.3 million oz).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

It's not good that the short positions in SLV and GLD rose, but relatively good that they didn't rise even more. In any event, you may want to keep in perspective that while SLV and GLD transactions are more Â?physicalÂ? than COMEX futures contracts, the equivalent volume and position changes are much larger on the COMEX. For instance, 1.5 million shares of SLV are equal to only 300 COMEX silver futures contracts and 1.5 million shares of GLD are equal to 1500 COMEX gold futures contracts. In the price-setting scheme of things, it's hard to get excited about 300 COMEX silver contracts or 1500 COMEX gold contracts. In terms of price influence, the thousands of silver contracts and tens of thousands of gold contracts typically seen in the COT report represent much more force.

Sales of Silver Eagles achieved weekly sellout levels yet again, as another one million coins were sold this week, bringing to 14 million the total number of Silver Eagles sold year to date. Sales of Gold Eagles continue relatively soft as of late, with the daily sales run rate this month 50% less than the previous month and 70% below the level of January's sales. Since I allege that JPMorgan has been the big buyer of Silver Eagles for the past five years and of Gold Eagles for much of the past year, the question I ask myself is not why has JPM stepped away from buying Gold Eagles, because I think I know the answer, namely, because JPM knows it will likely rig the gold price lower ahead. I ask myself instead, why haven't they done the same thing with Silver Eagles, as they did a year ago when they stepped away from buying until prices fell? I don't have a firm answer yet, so feel free to pass along anything you can think of.

Leaving possible explanations aside, I would point out that with the month coming to an end, more Silver Eagles have been sold relative to Gold Eagles in March than in quite some time (no, I'm not going to look it up). There aren't many months in the 30 year history of the bullion coin program that Silver Eagles have outsold total ounces of Gold Eagles by a ratio of more than 100 to 1, as has been the case this month. My point is that on both an absolute and relative to gold basis, Silver Eagles sales are phenomenally large. On this, no one would disagree after looking at the data.

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

At the same time, reports from the retail dealer front indicate weak to downright putrid retail demand for silver and gold, not just currently, but for much of the past five years. Based upon recent Mint statistics, the weak demand can be seen in Gold Eagles (now that JPM has stepped aside), but it can't be said that Silver Eagles are not being sold to the Mint's maximum production capacity. Silver Eagles are being sold in the quantities reported by the Mint, for sure, but who the heck is buying them?

Perhaps the biggest question/disagreement raised in my allegation that JPMorgan has accumulated hundreds of millions of silver ounces has been my insistence that the bank has acquired 100 million Silver Eagles (plus as many as 50 million Canadian Maple Leafs) over the past five years. I'm going to address the most important reactions to the article I just made public soon (but not today), but I would ask those who doubt that JPM has been the big buyer of Silver Eagles, to at least try to reconcile and explain the strong actual sales against weak retail demand. More than any other single factor, it was this very curious circumstance Â?strong reported sales but weak retail demand Â? that first led me to the JPM connection. And I am not too proud to beg for alternative explanations, so please send them my way.

It would be an understatement to say that the changes in this week's Commitments of Traders (COT) Report came in as expected. If prediction accuracy were measured in the horse shoe tossing template, this week's predictions were so close they would constitute a ringer. Before you start thinking I'm patting myself on the back and that my head has swollen, let me be quick to say that predicting changes in upcoming COT reports never amounted to dollar one for anyone. It's not like I'm predicting prices week by week, as that would be impossible and presumptuous on anyone's part. Besides, if anyone could accurately predict prices in the short term with certainty (and not just on probabilities), they would surely keep such valuable insights for their own use and not openly share it with others.

So if predicting COT changes doesn't put money in anyone's pocket, then why do I do it? For a number of reasons. First, my predictions are not really predictions in the normal sense, in that I'm not guessing about something that might occur. What I am predicting has already occurred to the Tuesday cutoff date, so it's about analyzing trading and positioning that has already occurred and that will be reported a few days later.

Like much, if not everything I write, I'm just sharing what I would be thinking about if I kept it to myself. I've had a private prediction about what every COT report would indicate in silver and gold (and other commodities) each week for more than 25 years. I don't know how it would be possible for anyone who did study or write about the COT data not to have a strong sense of what upcoming reports would show once the reporting week was completed. How else would one be capable of knowing if one's analysis was correct? If anyone was constantly surprised every time a new COT report was published, I would submit that something was wrong. In fact, with so many now embracing COT analysis, I'm surprised that there isn't a widespread poll of expectations.

Let's face it, the premise of COT analysis, at least as I see it, is that prices go up when and because the technical funds buy (and commercials sell) and go down when the technical funds sell (and the commercials buy). When the technical funds get full up on either the buy or sell side, prices will turn. At least that's been the pattern for years and because there have been very few exceptions, it is not surprising that more commentators than ever are discussing the COTs. Let me run through this week's changes before I return to a good general question about the COTs asked by two separate subscribers.

In COMEX gold futures, the total commercial net short position increased by 14,500 contracts, to 200,000 contracts. This is the largest (most bearish) headline number since last February (just before gold fell by $200) and before that extending to early 2013 (when gold fell by $400). As part of the prediction that the headline number would increase by 10,000 to 15,000 contracts, that also included the prediction that a new high in the commercial net short position would be established for the rally this year. In COT terms, the case for the price top being seen is highly probable.

By commercial category, it was straight out of the Three Musketeers as all three commercial groups got the memo and added to short positions. The big 4 added 4600 new short contracts, the big 5 thru 8 added 4300 new shorts and the raptors (the smaller commercial apart from the big 8) adding 5600 new short contracts. I pay particular attention to the concentrated short positions of the 4 and 8 largest traders for the simple reason that if a market is manipulated, it must be manipulated by a few big traders. The short positions of the big 4 and big 8 in gold are larger than any time since December 2012, when gold traded close to $1700.

It's not so much that this week's increase in commercial shorting was so large, it is more a case that the headline number has increased by nearly 185,000 net contracts since December 29, the equivalent of 18.5 million gold ounces. That's more than double the number of ounces deposited into the world's gold ETFs over this time. Technical funds bought that same amount and it was that buying that caused gold to rally more than $200 this year.

On the buy side this week in gold, technical funds bought just over 15,000 contracts, all of which involved the buying of new long contracts. At more than 174,000 contracts long, the managed money technical funds hold one of their largest long positions in history. I shouldn't have to tell you that's very bearish.

In COMEX silver futures, the total commercial net short position increased by 7,200 contracts to 77,200 contracts, the largest (most bearish) headline number since 2008. (I had predicted an increase of 5000 to 7000 contracts). As was the case in gold, by commercial category, all three groups sold. The big 4 (read JPM) sold nearly 2800 additional contracts short, the big 5 thru 8 added 600 new shorts and the raptors sold off 3800 long contracts. This is the largest concentrated commercial short position since the October price highs.

I'd peg JPMorgan's silver short position to be 24,000 contracts (120 million oz), up 3000 and about the most short this crooked bank has been over the past couple of years. The 8 largest commercial shorts on the COMEX are now short nearly 83,000 net silver contracts, the equivalent of 415 million oz, or more than 50 million oz each on average and not one of these traders is holding a bona fide short hedge position Â? this is all pure speculation and manipulation. The one potential negative for the silver price, a bearish market structure, is nothing more than the short position of 8 traders, with the biggest pig at the trough being JPMorgan.

Since December 29, the commercials have sold more than 47,000 net contracts of COMEX silver, the equivalent of 235 million oz or more than the 210 million ounces mined in the world over that time. With that degree of aggressive and concentrated selling, it's a wonder that silver rose the measly two bucks it did rise.

On the buy side of COMEX silver, the managed money traders accounted for net buying of around 4000 contracts including more than 5400 new long contracts. As I have been suggesting, the short positions held by managed money traders had gotten so low in both gold and silver, that is was unreasonable to anticipate big remaining short covering. Somewhat ominously, both the gross and net long position of the managed money traders is now at its largest and most bearish since the CFTC started publishing the disaggregated version of the COT report back in 2007.

Two different subscribers asked me the same question last week, which suggests to me that it might also be on the minds of others. Both readers asked me, in light of the unquestioned growing popularity of the COT report in published commentary, if it was likely that the COT market structure approach was becoming Â?crowdedÂ? and because so many now write about the report, it would become self-defeating. I understand the sentiment Â? too many doing the same thing might make the approach invalid. This is not unreasonable at first glance, but deeper analysis would suggest otherwise. (In this same sense, a few readers have cautioned me over the years not to highlight extremely bearish readings as it might aid the bad guys).

The concern was that if too many were following the market structure approach, it would eventually prove counterproductive. That would be valid if too many were using the COT market structure to trade COMEX futures. But very few of those writing about COT analysis or their clients trade futures in the first place. I hope I've made it clear that I don't trade futures and that I strongly suggest to readers that they shouldn't either (although I know some do). Even if I'm wrong and more of those that write about the COTs and their readers actually trade COMEX futures in greater numbers than I suspect, that wouldn't change my mind because those who do account for nearly 100% of the trading that matters – the technical funds Â? sure aren't heeding the message of the COT report.

No one could convince me that the technical funds actually read or heed the growing COT analyses and then turn around and shoot themselves in the foot by playing into the commercials' hands. For the managed money technical funds to know full well that they are the suckers at this poker table and for them to continue to be the suckers is beyond all reason Â? it is not possible that anyone could be that stupid. Simply put, the proof that the traders that matter, the technical funds, are not reading or heeding the real message of the COTs is evident in the fact that they still persist in being the fall guys.

The current situation is a case in point. Recently, I mentioned that the commercials made out like bandits on the initial gold and silver rally in the New Year, having taken realized collective profits of as much as $750 million as the technical funds rushed to cover the record short positions they held at year end. That was only half the story, as now the technical funds hold record long positions (as I just described above) and are now in position to get reamed again on a selloff.

The technical funds added 100,000 contracts of new COMEX gold longs on the rally into last Tuesday (separate from any short covering). These contracts are held long by the technical funds and short by the commercials at what I would estimate at an average price of $1230 (as previously mentioned). As of Thursday's close, the commercials' short positions are already ahead in unrealized profits, meaning the technical funds are already holding long gold positions with unrealized losses.

If the commercials end up taking the same $100 realized profit on the short side of gold as they took on the long side that means the commercials will make a collective billion dollars on a gold price decline, in addition to keeping what they made on the gold rally. I've been studying the COTs for years and I can't recall when the commercials were better positioned or in control. It's a similar situation in silver, although in dollars and cents, not as extreme as in gold. Like many, I await the day when the COMEX doesn't control the price, but that day doesn't appear to be at hand. If anything, the COMEX commercials exert more control than ever an

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