

## March 29, 2014 – Weekly Review

### Weekly Review

Gold and silver prices were down sharply for the second week in a row, with gold falling \$40 (3%), while silver fell 50 cents (2.5%). As a result of silver's relatively less bad performance, the silver/gold ratio tightened in ever so slightly to 65.5 to 1, still at the upper end of the past year's trading range and signifying extreme undervaluation to gold. While it was somewhat surprising to see silver hold up on a relative basis to the downside, it seems unwise to place too much significance in one week's showing. Looking back from some point in the intermediate future I would be very surprised if the ratio wasn't much tighter, regardless of the short term.

I remain convinced that the price weakness in silver and gold is directly attributable to positioning on the COMEX, to the virtual exclusion of every other factor. In simple terms, the anticipated technical fund selling has materialized and that is why we are down \$87 in gold and \$1.65 in silver in two weeks. Now the measure becomes how much more technical fund selling can be induced by JPMorgan and other collusive commercial traders on the COMEX. I'll talk about that in a moment.

Of course, not everyone accepts my version that the technical funds are consistently snookered by the commercials and that is at the heart of the COMEX manipulation. Often I am asked why the technical funds don't see this, to which I reply because it's in their own best interest not to see it; otherwise they would have to shut down their operations. I have pointed out that one of the largest technical funds, John W. Henry, did shut down in the past due to poor performance caused by the snookering on the COMEX and other exchanges, but that was some time ago. Now, I can point to another circumstance that appears to confirm my premise.

One of the best all-around traders and money managers of our time, Paul Tudor Jones, is offering investors the opportunity to cash out of a managed futures program due to poor performance over the past few years. As the article indicates both the Tudor program, as well as technical funds in general, have had poor performance for years. I have a high regard for Jones and can only conclude that if his technical fund found the going rough for so long, there had to be a reason for it. I think I already know the reason and the article points to government intervention in many markets. It very well may be the government, but even if so, in gold and silver (and copper), the government's agents are JPMorgan and the CME Group and others.

<http://www.bloomberg.com/news/print/2014-03-25/tudor-to-return-money-from-managed-futures-fund-amid-loss.html>

Unfortunately, the technical funds are most likely to keep plodding along, so don't expect any immediate result from the action taken by Tudor Jones. In addition, to the confirmation of subpar performance (as one would imagine from the constant snookering), the development also suggests there is just too much money deployed in the technical fund approach and the funds are too big of a factor in the market for their own good.

This has been a recent theme of mine, namely, these technical funds operate so similarly to one another that their collective positions are too large and, therefore, manipulative to prices. I don't believe the technical funds are acting collusively (as I do of JPM and other commercials) but the collective nature of their trading has the same effect, intentional or not. My main point, however, is still that prices are being set by technical funds and crooked banks trading against them, to the exclusion of real producers and consumers. Now that we see technical fund performance has been poor, I have to ask myself how long can this market insanity continue?

Just about every week for the past three years, I comment on the turnover or movement into and out from the COMEX-approved silver warehouses. Prior to April 2011 (memorable for other reasons as well), I had noticed no particular pattern in COMEX silver inventories. Since that time, however, there has been a very noticeable pattern of large and consistent daily and weekly deposits and withdrawals of silver from COMEX warehouses. One of the most notable features to the turnover in COMEX silver inventories is that it has been confined to silver, with no similar pattern obvious in other COMEX metals, like gold or copper. I wasn't expecting such a silver inventory turnover to commence or persist, but it has.

I would guess that there has been about a 3 million ounce weekly turnover average in COMEX silver inventories over the past three years, or 150 million oz on an annual basis. This week, the silver warehouse turnover hit over 8 million oz, or 400 million oz annualized, one of the largest in my memory, as total inventories fell 3.1 million oz to 179.7 million oz. As has been the case, I'm less concerned about the total level of silver inventories (which I generally expect to increase over time), than the unusual turnover.

It's important to remember that this silver warehouse turnover is no simple bookkeeping entry; this is take metal out of the warehouses and put in on trucks and take it off trucks and put it into the warehouse. Since I'm convinced that the surest (and maybe only) end to the silver manipulation is a physical shortage, how could I not notice a distinct and unique physical factor suddenly bursting onto the scene and then persisting for three years? And how could I not connect the dots and notice that the turnover pattern suddenly started just as silver was entering into a physical shortage in the spring of 2011?

As for the data being reliable, this silver turnover involves trucks, insurance, warehouses and auditors and assorted middlemen that track movement to the ounce. A typical truckload runs 600,000 oz of silver or \$12 million, not an amount that wouldn't be closely accounted for every step of the way. And it certainly costs money to move this amount of metal (or more) every day. That means that the silver is being moved for a good reason. Some still claim that the data is phony (because of some boilerplate disclaimer on the CME website), but what would be the point in reporting rapid turnover when it didn't exist?

I believe the turnover statistics to be true and can conceive of no plausible reason to believe otherwise. What I can't say is why the silver turnover is so high. (Please accept this as a standing open invitation to offer why you think it is occurring). My best guess is that the silver is being moved because it has to be moved. It has to be moved because there is some type of large physical demand that requires the movement. Isn't that the same as tightness and pending shortage? That doesn't mean that the technical fund/commercial tango on the COMEX won't determine price in the short term, but if I am close to why this COMEX silver warehouse turnover exists, then there may be a new price sheriff in town in time – a physical shortage.

The other standout in silver this year is in the large amount of Silver Eagles being sold, both on an absolute and relative basis from the US Mint. There may be one more update on Monday, but the data through yesterday continue to confirm a very large number of Silver Eagles being sold this year. From what I hear, it is not John Q. Public doing the buying. I don't know who it is, but someone sure is buying Silver Eagles aggressively. Since I don't know who is buying, I also can't know if the buying will continue.

What is most peculiar is that the demand for Gold Eagles has trailed off in the face of Silver Eagle demand. Year to date, 13 million oz of Silver Eagles have been sold versus only 142,000 oz of Gold Eagles, a record ratio of 91 Silver Eagles to every one oz of Gold Eagles. Just to put this into perspective, the year 2013 witnessed the highest number of Silver Eagles to Gold Eagles in history at 50 to 1. This year, in the face of rotten relative price performance for silver compared to gold, the Mint is reporting relative demand has increased 80% for Silver Eagles compared to Gold Eagles. I keep saying this pace can't continue and hope that I will continue to be wrong.

[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)

This week's Commitments of Traders Report (COT) featured reductions in the headline total commercial net short positions in both COMEX gold and silver, as would be expected in a reporting week where gold declined by \$45 and silver by 80 cents. As has been the case in the past, there were some surprises under the hood.

In COMEX gold futures, there was a reduction of 18,300 contracts in the total commercial net short position, to 127,600 contracts. While fairly sizable at first blush, this week's reduction was a bit less than the previous week's increase. Perhaps more importantly, even after this week's reduction, the total commercial net short position in gold is still 100,000 contracts higher than where it was on December 24, when gold bottomed under \$1200. Even accounting for a further reduction of the commercial net short position on the gold price weakness after the cut-off, if the commercials intend to induce extreme technical fund selling, there may be some decent room for lower prices to come.

By commercial category, the 8 largest commercial shorts bought back around 3500 short contracts and the raptors (smaller commercials) bought back 15,000 short contracts. JPMorgan looks to have bought some very small number of new longs and I'm going peg them as remaining at 40,000 contracts net long. Since JPM was the big issuer of 2470 of the 2642 gold contracts delivered for Monday's first notice day in their proprietary trading account, the bank had to have short positions in the April delivery month. It also looks like JPMorgan intended to tamp down gold prices with the deliveries because if the bank had stood for gold deliveries, it would have sent a bullish signal instead. As is too often the case, JPMorgan is dominant in too many instances of the gold and silver to be healthy.

When I first discovered that JPMorgan had amassed a giant long position of as many as 85,000 contracts last summer and that such a position constituted a long market corner; it was natural to think of how high JPMorgan could and would drive prices. JPMorgan did manipulate gold prices higher by virtue of their dominant long position, but was careful to cap gold prices on several occasions after moves of \$100 or \$200 by selling into the rallies. What this suggests more than anything else is the absolute price control this crooked bank possesses and its intent to continue the control.

Less impressive in the gold COT report was that the technical funds sold around 14,000 contracts, including only 2000 contracts of new shorts. On the \$200 gold price rally since year end, the most forceful technical fund buying was the more than 60,000 contracts of short covering. After giving back, fairly quickly, almost \$100 of that rally the technical funds are a long way from getting that short again. If JPMorgan and the commercials can induce the technical funds to sell like the funds had sold into the December price lows that is not good for price prospects.

In COMEX silver futures, the total commercial net short position decreased by 4100 contracts. Almost all the commercial buying was by the raptors and then some, as the smaller commercials added 5700 new long contracts to a net long position now at 31,700 contracts. The four biggest shorts (JPM) bought back 700 short contracts, while the 5 thru 8 largest shorts added 2300 new shorts. I'd peg JPMorgan as holding around 19,000 silver contracts net short.

What was somewhat encouraging was that the technical funds sold more than 7800 silver contracts (almost double the net commercial buying), including 6900 contracts of new shorts. Considering how much weaker silver has been relative to gold pricewise recently, it is no big surprise that silver appears to be further along in the commercial process of inducing technical fund selling than in gold. In other words, the technical fund selling is more advanced in silver than it is in gold.

There's no way of determining in advance how that might translate in terms of price if we move lower in gold and silver prices, as prices will be what the commercials decide prices will be; same as always. But in potential numbers of technical fund contracts that could be sold in each, there is more to go in gold than in silver at this point.

One would think that considering the unique factors present in silver, such as the incredible COMEX warehouse turnover and relative sales of Silver Eagles, in addition to the more advanced COT clean-out in COMEX silver that should have some effect in strengthening silver prices relative to gold. But, of course, JPMorgan and the other collusive COMEX commercials will be the sole deciders of price in the short term. I know a sharp down move in gold and silver prices may break the back of precious metals investors and demoralize sentiment, but that just may be the crooks' intent. Ironically, should that occur it may represent the last great buying opportunity in silver (especially if the silver warehouse turnover indicates what I think it indicates).

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A quick word on COMEX copper. Even though copper prices have stabilized (and have moved higher after the Tuesday cut-off), this week's COT report indicated that the technical funds continued to add to short positions, albeit at a much slower rate. We're in a different position in copper than in silver and gold in that the technical funds are close to being maximum short copper in historical terms. Of course, that is about as maximum bullish as it gets in technical fund terms. While it's possible the commercials could toy with the technical funds further by establishing new lows intended to generate more technical fund selling, there is more a chance the commercials could rip out the technical funds' lungs to the upside.

As and when we do go higher in copper prices, all the talk about the liquidation in copper collateral in China will hopefully abate and more will be able to see that this whole move down in copper was a standard COMEX rig job by the commercials. If anything, the data indicate that things may be tight in real copper supply and demand. A large amount of copper flowed into COMEX inventories during the past week or so, apparently brought in to satisfy longs who were standing for delivery. Close to the same amount was brought in as was delivered at the expiration of the March contract (around 7000 tons). Plus the March contract traded at a notable premium for the whole month (backwardation), so it can be inferred that those demanding delivery wanted the material much more aggressively than the talk of metal being dumped would indicate.

Trying to look at it as objectively as possible, there was a mini-squeeze in copper this past week by all normal measures. How can that possibly square with plunging prices and stories of metal dumping? Quite simply, it can't. And by the process of reasonable elimination, the only plausible explanation for the apparent mini squeeze in COMEX physical copper in the face of plunging prices is my technical fund/commercial tango on the COMEX.

Of course, if JPMorgan and the commercials can arrange to get the technical funds extremely short in copper in the face of strong physical delivery demand, they can do so (and have done so) in silver. But at some point, if the physical tightness becomes pronounced enough, it will trump the paper games. Too many factors suggest physical tightness in silver amid stupid cheap prices. That doesn't mean prices can't get cheaper still in the very short term, but prices don't stay stupid cheap for long.

There were reports this week indicating that the appeal to overturn the dismissal of the civil silver manipulation case against JPMorgan was rejected and the case would appear dead or close to that. Somewhat ironic was that word of the case being snuffed (again) came shortly after my suggestion that JPMorgan and the COMEX be sued. I had thought the original case was already dead on arrival, so the news wasn't that shocking.

<http://www.reuters.com/article/2014/03/27/jpmorgan-silver-lawsuit-idUSL1N0MO13E20140327>

Still, I believe the decision creates cause for reflection. I also noticed that the news was mostly featured on sites that previously had denied that a silver manipulation existed and featured the news as absolving JPMorgan of any wrongdoing; thus proving manipulation talk was bogus to begin with. Not so fast. What this indicated was that JPMorgan's lawyers were more resourceful than the plaintiffs' lawyers; not that JPMorgan isn't a thieving crook. Reflecting on all that has transpired over the years, this is hardly the great JPMorgan vindication some try to make it out to be.

Over the past ten years, there have been three intensive CFTC investigations into a silver manipulation, more than in any other commodity. The very idea that an important bank like JPMorgan could be sued on a civil basis for a silver manipulation is so extraordinary as to defy description. The fact that the CFTC weaseled out each time and JPMorgan's lawyers kicked butt in court is beside the point. What matters most is what remains in peoples' minds.

When I embarked on the silver manipulation journey almost three decades ago, there was exactly one person who believed silver was manipulated on the COMEX, based upon correspondence between the CFTC and the COMEX and me. It's much different today. The precious metals community is not large in numbers, but from what I can tell, more believe in the premise that silver and gold are manipulated in price on the COMEX than believe the markets are free. Likewise, more believe that JPMorgan is the big manipulator than those who do not. As a result, more observers than not hold the CFTC, the COMEX and JPMorgan in very low regard; exactly the opposite of what those organizations hope to achieve.

These organizations rely on the investing public's trust for their long term survival. By every measure I am capable of judging, the public's trust is waning for these organizations. Yes, JPMorgan won a legal battle, but I doubt it has changed any minds or restored trust. Just as with the coming physical silver shortage, let's see what happens in the long run.

Ted Butler

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Silver – \$19.80

Gold – \$1295

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