May 10, 2014 – Weekly Review

Weekly Review

With no follow through momentum from last Friday's reversal to the upside, the price of gold and silver retreated again this week, with gold falling $10 (0.8%) and silver down by 30 cents (1.5%). Silver's relative underperformance pushed the silver/gold price ratio out to nearly 67.5 to 1, effectively the most undervalued silver has been relative to gold in three years.

At the end of April 2011, the silver/gold ratio was in the low 30's to 1, so silver has fallen twice as much as gold since then. That's a fact that can't be overlooked by someone (me) who consistently advocates the conversion of gold into silver. Those switching to silver from gold over the past three years would have been better off not making the switch (until now). Three years is a long time in some measures and not so long in other ways. As is usually the case, things need to be put into perspective.

While silver was twice as valuable compared to gold back then as it is today, the history of the silver/gold price ratio didn't suddenly begin three years ago. In fact, the ratio in April 2011 had just run to the highest relative value for silver compared to gold in more than 30 years. And get this Â? that run to a 30 year high for silver relative to gold had occurred in about six months' time. In the late summer of 2010, the silver/gold ratio was exactly where it is today, around 67.5 to 1. By the spring of 2011, the ratio was cut in half as silver's relative value doubled compared to gold.

I would ask you to first consider what caused silver to double in value relative to gold in six months, before tackling why silver has fallen in half relative to gold these past three years. What were the specific silver supply/demand events that caused the dramatic price run up and then the three year price grind down? Please get back to me if you feel I misstate those events, but this is a subject I think about incessantly.

The only supply/demand event behind the price run up into April 2011 that I have been able to uncover is that growing physical investment demand (mostly in silver ETFs), as a result of rising prices pushed silver close to a world physical shortage for the first time in history. I didn't know this at the time, but it seems clear to me now. I know what didn't cause silver prices to rise to nearly $50 at the end of April 2011; it wasn't trading on the COMEX, as there was no wild build up in speculative long positions into the price highs. Many observers to this day insist it was COMEX speculative positioning behind the historic price run; but easily-retrievable COT data rule that out. Neither was there any dramatic supply disruptions or anything close to that.

There was speculative buying in the silver ETFs, particularly the big silver EFT, SLV, that came to be liquidated in the deliberate price smash of May 2011, but that's my point. It was that physical buying that brought us to the brink of a silver shortage and it will most likely be that type of buying again that will ignite silver to the upside. As for what has accounted for the dismal silver price performance over the past three years that seems abundantly clear. Once the back of silver price momentum was broken in 2011, the big silver investment demand was broken as well. With physical silver investment demand muted, JPMorgan and the other crooks on the COMEX have had an easy time controlling prices with their dirty trading tricks.

The only question for the future is if silver investment demand will ever revive and overpower the COMEX price control? To me, and for anyone buying and holding silver, the answer is, of course, silver investment demand will grow again to the point where a world shortage is back in the crosshairs. Just like occurred, beginning in late 2010, silver investment demand will squeeze available physical supplies. No one can tell you exactly when that will occur; all we can do is monitor developments most likely to tip us off.

The point of all this is to assert my conviction that despite the rotten three year performance of silver, both absolutely and relative to gold (and all other assets), now is a better time to switch to silver because the set up today is better than it was in the summer of 2010. What will cause the set up to be activated is nothing more than a sufficient amount of investment demand Â? not necessarily the end of the financial world or of life as we know it or having to do with any really big deal Â? just an increase in investment demand for the world's most undervalued asset. Looked at differently, why wouldn't that occur?

As for the signs of increased physical demand, the turnover or movement of metal into and out from the COMEX-approved silver warehouses continues to astound me. This week, some 4.6 million oz were physically deposited into or physically removed from the various warehouses, an annualized rate of more than 230 million oz. For the first time in six weeks, total inventories increased by 1.8 million oz, to 174.9 million oz, although total inventories matter little.

There was a large withdrawal from the SLV of close to 2 million oz on Tuesday that I didn't comment on mid-week, but that withdrawal followed much larger deposits and still appeared to be the work of a large buyer seeking to avoid SEC stock reporting requirements. In contrast, the drain from GLD has continued, albeit at a reduced rate.

The new stock short sale report indicated fairly sizable increases in the short positions for both SLV and GLD, but not to the point of alarm. The short position in SLV jumped by nearly 2.5 million shares, or 20%, to 14.9 million shares (oz). The increase, while sizable in percentage terms, equates to 500 COMEX contracts and just over 4.3% of total shares outstanding. In GLD, the short position grew by almost 1.5 million shares (15%) to 11.5 million shares (1.5 million oz), or 4.4% of total shares outstanding. Over the past few months the short positions in SLV and GLD have declined noticeably, so I am not inclined to hit the panic switch at this time. There always exists the possibility, particularly in SLV, that shares were shorted because physical silver was not available for deposit, but more data are needed before definitely concluding that.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

There is not much new to report on sales of Silver Eagles from the US Mint, as Mondays are usually the days of the largest reported sales. But we are now ahead of the record pace of 2013 year to date, which is somewhat remarkable in that January of 2013 was the single largest sales month in the 27 year history of the American Eagle bullion coin program. Equally remarkable is that the year to date pace of Silver Eagles relative to Gold Eagles has remained over the 100 to 1 pace that I find almost impossible to contemplate continuing. The extraordinary pace of Silver Eagle sales must be factored into any contemplation of future silver investment demand (discussed above).
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I wasn't quite sure what to expect in this week's Commitments of Traders Report (COT) or in the companion monthly Bank Participation Report given the high volume price reversal to the upside last Friday. I am sure that the commercials buy on sell-offs and sell on rallies, as this is the rhythm of the market; but when there are sell-offs and rallies within a reporting week, one has to wait for the COT report to be released. As it turned out, because silver had been weaker than gold recently and during the reporting week, it was logical in hindsight that the commercials were net buyers in silver and net sellers in gold.

In COMEX gold futures, the total commercial net short position increased by 13,300 contracts to 110,500 contracts, a five week high. By commercial category, the eight largest commercial shorts increased their total net short position by around 6500 contracts and the raptors (the smaller commercials apart from the big 8) sold the balance of 6800 contracts. Interestingly, the largest commercial long, JPMorgan actually added more than 3000 new long contracts, bringing its corner on the long side of COMEX gold futures to 41,000 contracts (12.8% of total net COMEX open interest).

The technical funds (in the managed money category of the disaggregated COT report) accounted for almost all the buying by adding nearly 12,500 new long contracts. Since the technical funds held a relatively low number of short contracts, it was not expected that there would be significant short covering. It still appears that additional new buying is needed by the technical funds to power gold prices higher, but this week's increase in new technical fund long positions also raises the odds that these new longs are at risk of being liquidated on lower prices. Accordingly and is almost always the case, the COMEX commercials will dictate near term gold price movement.

In COMEX silver futures, the total commercial net short position was reduced by 2800 contracts, to 20,300 contracts, a three month low (in contrast to the one month high in gold). Let me stop here for a moment to give you another factor to consider in switching gold to silver (on a cash, not margined basis) Â? their respective COT positions. The lower the total commercial net short position, the more chance of an eventual price rally. The commercial net short position in COMEX silver is relatively and comparably much lower than in COMEX gold.

By commercial category in silver, the four and eight largest commercial shorts stood pat, including JPMorgan which holds 20,000 contracts net short, or 15.7% of total net COMEX open interest on the short side. This means that the raptors accounted for all the commercial buying. In fact, the increase of 3000 contracts in the raptors' net long position to 44,000 contracts brought that net long position to the highest level since last summer.

May 28, 2013 was the first time the raptors breeched the 40,000 contract net long threshold. Silver had fallen to $22 in late May from $32 earlier in the year and would still fall a further $3 into July, before rallying to $25 in September. At the very bottom, the raptors held a record extreme 46,700 silver contracts long. Considering silver's price weakness since the cut-off this week, I believe the raptors have increased their net long position of 44,000 contracts in the current report.

There has never been an occasion when the silver raptors have held more than 40,000 contracts of silver net long that prices haven't eventually rallied; ranging from $6 last summer, to $1.50 this past December, to $3 in February. Last week, I mentioned that it was virtually impossible for the commercials (meaning the raptors) to turn around and dump silver contracts at lower prices and this week's COT report still bears that out. Let me finish with the COT report before returning to a discussion about the silver raptors.

On the sell side of COMEX silver, the technical funds increased their gross short position by more than 1300 contracts, to 31,480 contracts. This is the second largest technical fund short position in history, exceeded only by the 32,332 contracts of tech fund short positions on Dec 3. Considering the price weakness in silver since the cut-off, it's entirely possible for the technical fund short position to be at, or soon be at new record extremes.

And despite other selling from speculators large and small this week, the unusually large gross long position in the managed money category that I recently highlighted actually increased again this week. This further solidifies the idea that the more than 10,000 contracts that have come into the silver market since before the end of the year are not likely to be liquidated on lower prices.

Certainly, the observation I made last week about the technical fund short position in silver being larger than the tech fund short position in gold for the first time has been further extended. It is quite extraordinary for the technical fund short position in silver to be 2700 contacts larger than that position in gold, considering that COMEX gold is 2.7 times larger than COMEX silver in total open interest. http://www.cftc.gov/files/dea/cotarchives/2014/futures/other_lf030414.htm

While silver could still be pushed lower as the commercials seek to induce even more technical fund short selling and other speculative selling, it would be unreasonable to assume massive new amounts of speculative selling considering the many instances of extreme positions in many separate categories. I'll grit my teeth and run through my extensive vocabulary of curse words on new price lows, but at least I'll know why silver may move lower, namely, that this is the most corrupt market in the world and that is why silver is also the most undervalued asset. No matter what happens in the short term, silver is still locked and loaded for higher prices.

Allow me to return to the silver raptors. While there is no doubt in my mind that JPMorgan is the kingfish of silver crooks, its COMEX short position hasn't varied much in many weeks. In contrast, the raptors have increased their net long position by more than 24,400 contracts since March 4 on the $3 decline in the price of silver. Therefore, to be fair, it was more the raptors responsible for actively manipulating the technical funds recently (although without JPMorgan, no manipulation would be possible). As such, I would like to draw attention to the other big market crook that I reference Â? the CME Group, owner/operator of the COMEX.

The only reason the raptors have been able to more than double their net long position since March 4 on lower prices is that they have been successful in inducing the technical funds to tripling their short position on the $3 decline that the raptors rigged. And the only reason the raptors were able to rig prices lower for their own benefit is because the CME is running a crooked exchange. I would define a crooked exchange as one in which the governing rules of trade are set to the advantage of insiders. In a nutshell, that defines the COMEX, an exchange run by and for the benefit of insiders.

Think I'm exaggerating? Then consider this – how is it possible for a small group of traders, say no more than 30, to consistently and profitably amass and liquidate giant positions on a regular basis with no regard to actual supply and demand? The very basis of my analysis for many years revolves around what the commercials have done, are doing and will do to the technical funds. This would not be possible were it not for a fundamental dishonesty in how the exchange operates. The raptors (and JPMorgan and other large commercials) are able to rig the silver market because the CME allows it to happen; no, scratch that, because the CME encourages the deceptive trade practices.

Just like it is easy to isolate and identify JPMorgan as the big silver crook, it is just as easy to identify the CME Group as the prime enabler and encourager of the silver manipulation. One simple proof of this is that the CME (just like JPMorgan) never says Â?booÂ? when accused of the worst behavior possible for an exchange, namely, of running a crooked operation. Recently, the head guy at the CME, Terry Duffy, explained on CNBC how the CME had nothing to do with High Frequency Trading, when that is one of the prime dirty tricks the commercials use to position the technical funds. The clueless panel wasn't capable of raising an intelligent rebuttal because there is little to no knowledge of what transpires on the COMEX (a real problem).

Despite the lack of detailed knowledge of what occurs on the COMEX, more observers know intuitively that something is rotten with the CME from price activity alone. I've chastised the CFTC for not regulating the COMEX silver market adequately, but front line responsibility rests with the CME Group. Like the CFTC, the CME has said nothing about the two historic price declines in silver in 2011, up to saying nothing about the repetitive positioning between the commercials and technical funds that determines the price of silver.

So let me state it as clearly as possible Â? the CME deliberately and intentionally runs the COMEX on a crooked basis for the benefit of its most important insider members to the disadvantage of everyone else in the business of silver. This is so contrary to why Congress has allowed regulated futures trading that it defies explanation. They are crooks that should they be put out of business and that would result in a great net good for the rest of the world. I never thought I would be able to state that openly, just like I never imagined I could get away with labeling JPMorgan as the prime crook in silver (Yes, of course, I'm sending this and every article I write about these crooks to them directly).

That such historical extremes are being recorded in so many different COT silver categories and so many other unusual events are occurring simultaneously (COMEX warehouse movements, Silver Eagle sales, etc.) augers well for silver prices in the future. But greater widespread knowledge to the point of preventing JPMorgan and the CME from behaving illegally in silver would be the best news possible.

Ted Butler

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Silver – $19.15

Gold – $1290

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