May 28, 2016 – Weekly Review

Weekly Review

After hitting one year price highs at the end of April, gold and silver have now fallen for four straight weeks. This week gold ended down $40 (3.2%) and silver by 30 cents (1.8%). Due to silver's relative outperformance this week, the silver/gold price ratio tightened in by more than a full point, to under 75 to 1. Yes, it's somewhat unusual for silver to fall less than gold percentage-wise in general price declines, but I'm hesitant to read too much into short term price moves. For the record, I still feel silver is vastly undervalued relative to gold on a long term basis, but I'm assuming you already knew that.

I'm also assuming that you understand why gold and silver have fallen over the past four weeks, namely, due to the only potential negative price factor in place, the extremely bearish market structure on the COMEX, as depicted in the Commitments of Traders (COT) Report. There is some good news in that regard as this week's report indicated a big improvement (as expected) in the market structure. The bad news is that there still appears some way to go before the structure can be considered bullish.

Considering the broad attention the analysis of the COT report has attracted of late, it's hard for me to understand how everyone can't see what drives gold and silver prices Â? the private betting game between the two major trading forces on the COMEX; the speculators in the managed money category and the speculators in the commercial category, mostly banks. At this point, it should be clear that the banks set up the managed money technical funds like bowling pins from the end of February thru the end of April and have begun to knock them down since.

Having induced the technical funds into record long positions in COMEX gold and silver futures contracts, the speculating commercials built up record short positions at average prices high enough that made it easy to turn big open losses into big open and, increasingly, closed out profits, particularly in gold. I would point out that, based upon Friday's close, anyone who bought a gold contract (or gold) at any time from near the end of February thru the middle of May (a period of three months) and didn't sell, is now holding at a loss or no profit.

Aside from that being kind of remarkable in a year where gold has performed so well, it helps frame the mindset of a technical fund which only buys on rising prices and sells on falling prices. In other words, the steadily falling prices (rigged by the commercials) feeds additional technical fund selling. Over the past eight trading days, gold has established successive new price lows, fueling and reinforcing additional technical fund selling. If there's a better term to describe this than salami slicing, I don't know the term.

I'll come back to the only potential negative factor for gold and silver later, when I get into the specifics of the new COT report. All, or most of the other factors at play in gold and silver appear to be positive to very positive.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses cooled off this week to just under 3 million oz, as total inventories fell 1 million oz to 153.6 million oz. Moreover, virtually all the movement took place in the first two days of the week, with hardly any movement for the past three days. I wouldn't assign a bullish or bearish tag on any of this, I'm just remaining consistent in reporting on the highly unusual and unprecedented physical inventory turnover in COMEX silver over the past five years. This week saw a notable pickup in turnover and net inflows into the COMEX gold warehouses, which looked due to the large number of open contracts in the COMEX June futures contract (more in a moment).

Yesterday was the final delivery day for the COMEX May silver contract and a large 552 contracts were delivered, with JPMorgan taking nearly 400 of those contracts and thus ending up with the maximum monthly allowed number of contracts (1500) for any one speculator. As you know, I have been expecting JPM to come close to taking the full amount of allowable contracts since the monthly delivery period began, although I started to think the bank might fall short of the full amount due to the inability of the shorts to deliver, as has occurred over the past year or so. It did look nip and tuck until the last delivery day, but that day also revealed that JPM knew all along it would get the full 1500 contracts (for its own account) because the biggest issuer was a customer of JPM (which JPMorgan had to know all along).

So, once again, JPMorgan was the standout stopper or taker of COMEX silver deliveries in its own house or proprietary trading account, just as it has been for more than the past year. All told, JPM has taken about 45 million oz of silver via COMEX futures contract deliveries over this time. I would remind you that this is the most visible and blatant method of acquiring physical silver, as the information is published openly. Admittedly, it is only a small percentage of the 500 million oz of physical silver I claim JPMorgan has amassed over the past five years, but it is the easiest form to confirm. Yet I can count on one hand, with fingers to spare, the number of commentators who mention it.

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

Turning to the big COMEX June gold delivery contract, a sizable 3508 contracts were issued for Tuesday's first delivery day, but an even more sizable number of contracts remain open Â? close to 13,000 (after deducting first day deliveries). This is about the largest number of contracts I recall being open after the first notice of delivery day, a sign of tightness. Somewhat offsetting that is that the spread differentials involving the June contract widened slightly yesterday, suggesting no real tightness, but it's too soon to reach firm conclusions. I did notice something else, however. JPMorgan (again in its house or proprietary trading account) took a big chunk (1436) of the total deliveries and I would guess the bank may be in position to take the full 3000 contracts allowed in gold for any one speculator.

Just the other day, a friend asked me something that has come up often, namely, a question as to whether JPMorgan was acquiring gold, in addition to the silver I claim they have and are acquiring. The short answer is yes, that's quite probable. But if JPM has been acquiring gold, it appears to me that is more recent, say over the past year or so, as opposed to the very determined and almost maniacal accumulation of physical silver that JPMorgan has been engaged in for more than five years. Between all the many ways that JPM has been acquiring physical silver, it's no exaggeration to say that the bank has picked up every ounce of silver that hasn't been nailed down for the past five years.

And more than anything else, if JPMorgan is now acquiring physical gold in addition to silver, it helps illustrate the basic difference between gold and silver as prospective investments. JPMorgan, should it desire, could buy, in dollar terms, much more gold than it could buy silver. That's because there is so much more gold in the world, in dollar terms, than there is silver (there is also more gold than silver in ounce terms, particularly when talking about available metal, but that's a separate issue).

In dollar terms, or in any currency you choose, there are 200 or 300 times more gold in the world than silver. That's not a typo, it is simple math. Everything I look at tells me there are several times more physical gold available for investment than there are physical ounces of silver available for investment, by a factor of 3 or 4 or much more. There can be no debate that gold is priced 75 times more expensively than silver per ounce, so multiplying 75 by 3 or 4 gets you to 200 or 300 times more gold in the world than silver in dollar terms.

Last week, I reported that 2 million ounces of gold were deposited in the big gold ETF, GLD, in a matter of the first few weeks of May. That amount of gold was worth around $2.5 billion. Despite the large purchase and deposit in GLD, the price of gold went down. I pointed out that if someone bought $2.5 billion worth of SLV instead, that roughly 150 million ounces of physical silver would need to be bought and deposited into that trust. What was very possible in gold (and in fact occurred) would be impossible in silver. $2.5 billion is not that unusually large in broad world financial terms, but if someone tried to buy 150 million oz of physical silver in a hurry without disturbing the price, it would be impossible. That's the key difference between gold and silver.

As far as JPMorgan buying gold, it could spend a lot more on gold than it ever could spend on silver and knowing how this bank operates, it could buy a large amount of gold and end up making a very large profit. But buying large amounts of silver is much more difficult and tricky and it's clear much more time and finesse would be needed to buy silver without causing the price to explode and that explains why JPMorgan has spent the last five years buying so much silver. If a large entity had all basically unlimited buying power and desired to buy both gold and silver, it would buy silver first, not after buying gold. Take it from the pros at JPMorgan Â? buy all the silver you can first, then buy gold.

The new short report on stock shares was released mid-week and featured a very large reduction in the short position of SLV, among the largest I can recall. For the two week period ended May 13, the short position in SLV declined by a whopping 44%, or by 6.8 million shares, from 15.3 million shares to 8.5 million shares (ounces). You'll remember that while the short position in SLV had increased markedly and as expected into the end of April, it didn't quite reach the levels at which I was prepared to complain to the SEC or BlackRock (the trust's sponsor).

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

So what happened in SLV? Best as I can surmise, the short position increased notably into the price rally to the end of April, as silver prices surged during that month. Then prices fell off close to a dollar into the end of the reporting period for this short report. What I believed occurred was that the short position increased into the end of April for the reason it always increased in the past, namely, it was a heck of a lot easier for the big shorts (JPM) to sell shares of SLV short than to have to buy (or part with) physical silver to deposit into the trust.

What was different this time was that on the subsequent price decline into May 13, the shorts took advantage of the falling prices to close out the short position the old fashioned way Â? by buying back shares in the open market as others sold. I'm always encouraged when the short position in SLV declines, but in addition to that I'm encouraged the short position was reduced at this time as it may indicate the short sellers are more sensitive to the uniqueness of SLV and GLD as securities that really shouldn't be shorted in the first place. It may be wishful thinking on my part, but I don't think the shorts want to tempt a closer look by the regulators that a sharp increase in the short position may bring, for the simple reason this issue can't stand the light of objective review. Of course, I may be all wet, but it's good to have positive thoughts at times, even if wishful, rather than the steady drumbeat that the world is coming to an end. Somehow, I find it much more likely that we'll all come to our individual ends long before the world does.

The changes in this week's COT report were significant and expected and most likely, the largest reduction in the commercial short position in history for gold. I was a bit under in my 50,000 contract estimate in gold and 5,000 to 10,000 contract silver estimate on the commercial headline number, but closer on a managed money basis. (I consider the headline number to be both the total commercial net short position and the managed money changes). Predicting big numbers wasn't especially hard this week, considering the large price drop of nearly $60 in gold and a dollar in silver during the reporting week, particularly when factoring in the high volume and moving average penetrations in gold.

In COMEX gold futures, the commercials reduced their total net short position by 65,000 contracts to 225,200 contracts. While still large on an historical basis, this is the lowest total commercial net short position since April 5 and when extrapolating for the changes since Tuesday's cutoff, it appears certain the commercial short position is lower still. By category, all the commercials got the collusive short covering memo. The raptors (the smaller commercials apart from the big 8) bought back the most shorts, some 39,800 contracts worth, reducing their net short position to 7000 contracts, the lowest since mid-March and probably a net long position as of yesterday's close. The big 4 bought back 16,000 short contracts and the big 5 thru 8 bought back a further 9200 short contracts – in a near purely collusive buying manner Â? all for one, one for all.

On the sell side in gold, the managed money traders sold nearly 56,000 contracts, including the liquidation of 41,879 long contracts and the new short sale of 14,101 contracts. As is the case most weeks and certainly when big changes are recorded, the private betting game on the COMEX is largely contained between the collusive commercials and the managed money traders. As a reminder, I think it's only fair to call the commercial speculators as being collusive because even though the technical funds traders as one, it's not right to call them collusive because they always seem to lose. Who colludes in order to lose?

In COMEX silver futures the commercials reduced their total net short position by 11,600 contracts to 78,300 contracts. By commercial category, the big 4 (read JPM) reduced their net short position by 1500 contracts and the raptors, as was the case in gold, did most of the heavy lifting in adding 10,200 contracts to a net long position now amounting to 14,200 contracts. The big 5 thru 8 added less than a hundred new shorts and, unlike the case in gold, still hold their largest net short position in history. I would peg JPMorgan silver short position at 24,000 contracts but await the next Bank Participation Report in two weeks for further clarity.

On the sell side in silver, the managed money traders accounted for 10,203 contracts (just a shade outside my 5000 to 10,000 contract estimate), comprised of the liquidation of 7428 long contracts and the new short sale of 2775 contracts.

Before some concluding remarks on gold and silver, I'd like to comment on the COT structure in two other markets, copper and the US Dollar Index. A subscriber asked about the market structure in COMEX copper early yesterday (before the COT report was issued) and I told him that over the recent past, the commercials seem to have manhandled the managed money technical funds pretty effectively and it appeared that the commercials were in position to run the copper market higher because the technical funds were heavily short. Yesterday's COT report on copper indicated that the managed money gross and net short position jumped again, not quite but close to a record. Based upon how things normally work in such circumstances, the path of least resistance in copper prices would appear to be higher. How much, who know? Â? But probably up through the popular moving averages and upwards of $2.25 or $2.30 or higher. Nothing to do with copper fundamentals, mind you, strictly based on COT considerations.

In the US Dollar Index, the commercials hold a fairly low net short position and the non-commercials a fairly low net long position, in each case near the lowest in more than a year. It would appear, strictly in COT terms that the dollar index has more room to the upside than the downside. I'm hesitant to wade into the currency speculation arena, because it is simply not my cup of tea and because the dollar index may not fully represent the much larger world of currencies. But there has been a recent correlation between a rising dollar index and falling metals prices and strictly in terms of the COT structure, the dollar index seems to suggest further dollar strength.

Back to gold and silver, it would appear the technical fund long liquidation and new short selling process is more advanced in gold than in silver. That's a result of greater concerted selling in gold than has occurred in silver. In simple terms, the salami slicing has been more pronounced in gold than in silver to date. I'm hesitant to read anything deep into it, because there have been too many occasions where perceived relative strength or weakness in either gold or silver can turn on a dime. Based upon my approach to analyzing the market structure, I try not to focus too deeply into price action as the focal point and am more interested in what causes price change, rather than what price change may portend.

Given just how extreme the COT market structures had become in COMEX gold and silver at the end of April/beginning of May, even though there has now been very significant managed money selling/commercial buying, particularly in gold, it still looks like there is more to go. I mentioned on Wednesday that I thought we would need to see at least 100,000 to 150,000 contracts repositioned in gold (30,000 contracts in silver) before we could talk of a COT bottom and extrapolating through yesterday, we might already be at or close to the lower number in gold (100,000 contracts). But I did caution that those were very imprecise guesstimates on my part and not to be relied upon. I'm more comfortable in monitoring how the commercial buying evolves, because to date, the commercials seem to be in more control on the COMEX than ever.

Over the past few months, I have read numerous stories and explanations for why the price of gold and silver would soar in the immediate future and how the commercials on the COMEX would get overrun in the very near future. Stories of Chinese buying, new exchanges set to replace the COMEX, shortages of gold and silver in NY and London, the collapse of the dollar and stock markets around the world, the complete demise of the financial system, along with the end of life as we know it. Maybe the worst is directly ahead of us, but it gets too depressing to contemplate.

The one constant at this point still seems to be the only potential negative factor that I can objectively identify Â? COMEX positioning. It would appear that the COMEX commercials are still in control until proven otherwise. Only a fool or the deranged would deny the commercials turned things in their favor and would appear to now have the technical funds on the run. The good news, apart from the number of technical fund contracts sold to date, is the speed with which those contracts have been sold. At this week's pace, it won't take long to complete the liquidation cycle.

The other big positive factor is that JPMorgan has not relented at all in its acquisition of physical silver and has now apparently added gold to the mix. That this has been vastly overlooked does not make it any less important and one could argue actually makes it more powerful a factor as it becomes more noticeable. I'm amazed that both the US and Royal Canadian Mints continue to report record sales of silver bullion coins and few ask who is buying all these coins? I can assure you that the retail public in not buying, so by process of elimination, someone else must be buying all these coins. In fact, where I have used a rule of thumb that JPMorgan had been buying 50% of the all the Silver Eagles and Maple Leafs produced over the past five years, informed sources tell me that due to particularly weak retail sales, JPM may be accounting for upwards of 80% of all new coins produced.

When I first raised this issue a few years back, there were a few who openly disagreed with my contention that JPMorgan was the big buyer of all things silver, including Eagles and Maple Leafs. And this was well before JPM surfaced as the big and almost exclusive stopper of silver futures deliveries on the COMEX. Funny, I haven't heard many disagreements recently.

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