

May 3, 2014 – Weekly Review

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A sharp rally on Friday pulled gold and silver to nearly a flat finish for the week, but fell short in late trading. Gold fared better, finishing down only \$3 (0.2%), while silver ended 25 cents lower (1.3%) for the week. Considering the pounding each received for the first four days of the week, Friday's price action could accurately be termed a relief rally. In a moment I'll try to explain why it may be more significant than just a relief rally.

As a result of gold's relative outperformance, the silver/gold price ratio ended nearly a full point higher, to just under 67 to 1, after trading over 68 to 1 late in the week; at the very top of a trading range extended back a year or so. It's not hard to see that silver has been weaker than gold this year, since gold is up more than a hundred dollars from year end, while silver is down for the year and close to its price lows.

Considering everything but price, namely, all the facts surrounding actual supply and demand, it's also not hard to see that silver is an investment bargain compared to gold and every other asset. Admittedly, recent price performance strongly influences how most people judge supply and demand and there is no escaping that silver's rotten price performance has led many to conclude its fundamentals must be negative; otherwise why would the price be so weak? That there is a clear answer to that question (manipulation) turns the perceived negative sentiment into the investment opportunity of a lifetime.

What actual supply and demand facts point to the investment prospects in silver being markedly different than what the price would suggest? For starters, let's look at the turnover or movement of metal into and out from the COMEX-approved silver warehouses. Please keep in mind that this is as physical (and not paper) as it gets; every bit a reflection of actual metal as would be the mining and fabrication of silver. This week (after two weeks of "average" movement), more than 5 million oz of silver flowed into and out from the various COMEX warehouses, as total inventories fell again, to 173.1 million oz, down a significant 3 million oz for the week. Again, it's not the ocean, it's the motion.

While I am virtually alone in my focus on this easily verifiable daily data series, I remain convinced of its importance and the message it is sending. No one moves this quantity of metal for no good reason. This week's 5 million oz turnover equates to 250 million oz on an annual basis, a truly staggering amount. As I explained on Wednesday, after subtracting the amount of silver that is owned by investors (and therefore would not be involved in the turnover), there may be a core working inventory of 35 million oz or much less in the COMEX silver warehouses. This week's turnover is staggering compared to total inventories; compared to the true working inventory, it is almost beyond description. Tightness, hand to mouth supply conditions or any other depiction is inadequate to explain this phenomenon. That this physical turnover exists against a backdrop of chronically weak prices is other-worldly; with that other world being price manipulation in COMEX futures trading.

Another hard metal fact at odds with depressed silver prices, both on an absolute and relative basis is the movement in the metal holdings in the big silver ETF, SLV. On Wednesday, I described my surprise at the big 3.3 million oz withdrawal following the strong, high volume price action the previous week. I was actually more surprised by an even larger 4.2 million ounce deposit into SLV following a high volume price decline earlier this week. Has the world gone mad? metal withdrawals on price strength and deposits on weakness? I think there is an alternative explanation in conformity with my previous findings.

Previously, I explained the big withdrawal on price strength as related to a large buyer's desire to avoid hitting SEC reporting requirements that a 5% share ownership would mandate. Converting shares to metal accomplishes the avoidance of reporting. Having reduced SLV share ownership (but not silver metal ownership), the large buyer was free to buy shares again without having to report to the SEC.

Since there are more than 347 million shares of SLV outstanding, a 5% stake would amount to more than 17 million shares. As long as a large entity keep its share ownership below that level, it would not have to report under the 5% mandate. I believe the previous withdrawal reduced the large buying entity's share ownership sufficiently lower that it was able to buy more than 4 million new shares without breaching the 5% reporting cap. If there is an alternative explanation, it escapes me.

I remain convinced that the sell-offs in silver are intentional and deliberate; with the intent of the commercials (JPMorgan and the raptors) being to buy as much silver in any form as possible. Everything points to that, including the activity in SLV and in COMEX futures trading, which just happen to be the two most important silver markets in the world.

When considering the activity in GLD, the big gold ETF, the activity in silver stands out even more. Where the SLV had a huge deposit on price weakness this week, GLD has had nothing but the steady drip of metal withdrawals on price weakness. I don't believe GLD will be significantly drained further, but the big deposit in SLV does stand in stark contrast and points to someone desiring to own more silver and knowing that can be more easily accomplished by manipulating prices lower.

Finally, another fact of supply and demand at odds with the rotten price action in silver has been the unusually strong demand for silver coins, both on an absolute and relative basis compared to gold. I don't have much to add to my comments on Wednesday concerning sales of Silver and Gold Eagles from the US Mint, other than Silver Eagles are still outselling Gold Eagles by more than 100 to 1 on a year to date basis.

However, a new report on sales of Silver Maple Leafs from the Royal Canadian Mint indicates surging silver sales are not confined to US coins, as new records were established in Canadian coins in 2013. As was the case with Silver Eagles, it does not appear that plain vanilla retail buying was responsible for the surge in Silver Maple Leafs. By process of elimination, that leaves a big buyer being behind the silver coin sales surge.

http://srsroccoreport.com/canadian-silver-maple-leaf-sales-shatter-all-records/canadian-silver-maple-leaf-sales-shatter-all-records/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+SrsroccoReport

Please consider these silver demand facts against the backdrop of persistently weak prices and see if you can make sense of them, without resorting to the price manipulation explanation. I'll wager you can't and therein you will embrace why silver is the investment opportunity of a lifetime. Physical silver metal is being moved and gobbled up at a rate that can't be sustained against a backdrop of paper price manipulation.

The changes in this week's Commitments of Traders Report (COT) were relatively minor and in keeping with price action during the reporting week ended Tuesday, which included mostly flattish silver pricing and slightly higher gold price action. And even with yesterday's price turn around, I would guess that the commercials were net buyers through Friday on the price weakness on Wednesday and Thursday after the COT cut-off.

In COMEX gold futures, the commercials increased their total net short position by 6600 contracts to 97,200 contracts. The eight largest shorts accounted for almost all of the increase, although their net short position is still very much on the low side historically, which allows for an upside move in gold. I'd peg JPMorgan's net long position as remaining at the 38,000 contract level.

Somewhat surprisingly, the technical funds (in the managed money category of the disaggregated COT report) only bought 300 gold contracts net and actually increased their gross short position by 900 contracts. If the commercials succeed in manipulating gold prices sharply lower, it still appears to me that can only occur if the technical funds increase their gross shorts by significant amounts. At least through the latest COT report that has not occurred. In fact, the contrast between the technical funds' gross short positions in COMEX gold and silver remains striking.

In COMEX silver futures, the commercial total net short position increased by a scant 600 contracts, to 23,400 contracts. As was the case in gold but even more so, this is a level that suggests higher prices to come. The 600 contract increase was mostly due to the 8 largest shorts, as the raptors' net long position remained mostly intact at 41,000 contracts. Also as was the case in gold, JPMorgan's silver position remained unchanged, although opposite to its gold long position at 20,000 silver contracts net short.

The biggest difference between gold and silver is that the 8 largest shorts in gold are holding an historically low short position, while the big 8's silver short position is historically large at more than 320 million oz. The difference can be explained by JPMorgan having been successful in getting to be the biggest long in gold, while remaining the largest short in COMEX silver. The fact that the actions of one bank can explain the difference also makes it easy to point to JPMorgan as the prime market crook in COMEX gold and silver.

Under the hood, there also was a surprise with technical fund positioning in silver (as was the case in gold) in that they increased their gross short position by more than 1800 contracts. This is unabashed good news as it puts the technical fund gross short position over 30,000 contracts and close to the historical high water mark. Aside from the role that JPMorgan plays, a real standout in COMEX gold and silver is the technical funds' gross short positions in each market.

In the current disaggregated COT report, the technical funds' gross short position in silver is actually slightly larger than these funds' gross short positions in gold; something that I believe has not occurred previously. It's not so much that the gross short position of the tech funds is slightly larger in silver than it is in gold, but more the fact that COMEX gold is two and a half times or more the size of the COMEX silver market in contract terms. For silver to be larger in any category compared to gold must be considered highly unusual.

For instance, the technical fund gross long position in gold is three times larger than the technical fund long position in silver, even though I wrote recently that in gold the tech fund gross long position was low and the position in silver high. I know these reports are complicated to most observers, but please take a moment and see if you can find any category where silver has more contracts than gold (other than the managed money gross short position)

http://www.cftc.gov/dea/futures/other_lf.htm

What this means to me is that silver is locked and loaded to the upside. Yes, the commercial crooks on the COMEX can always rig prices lower temporarily, but there is a limit to how far and how long. That limit is defined by me as the maximum number of contracts the commercials can lure the technical funds into selling. When we get to historical extremes in technical fund short sales in silver, as we are now, it is reasonable to conclude that we are full up or as close to that as is reasonably practical.

Both recently and in the more distant past I have explained why technical fund short covering is the nitroglycerine of buying. That's because as prices rise losses accrue to shorts and those losses can't be fully calculated because there is no limit as to how high prices could rise (as opposed to how far prices could fall). One might hold off on buying new long positions if prices are running higher at a fast clip in the hopes of buying lower; but there is a different mindset with a short position running higher. The mindset is more akin to get me the heck out of this short position now to prevent even larger losses.

One thing I haven't mentioned until now is that there is an historical pattern which indicates that when the technical funds do put on an extremely large gross short position in COMEX silver, it usually isn't long time wise before they buy back short positions. To be fair, large managed money gross short positions only began to occur in 2012 and afterwards, so I can't cite decades of experience with this phenomenon. But in studying what happens after extremely large tech fund short positions are established (like now), I am struck by how quickly these silver short positions are covered.

In fact, my main concern is not whether these technical fund silver short positions will be bought back and most likely in the very near future, but in how aggressive the commercials will sell to accommodate the technical fund buying to come. In other words, I'm more concerned with how far the coming silver rally will carry, rather than whether it will occur. But in the overall scheme of things, that's not a concern we should obsess over, as more observers are convinced silver will not rally for a long time. After all, the persistent low silver price has poisoned sentiment to a remarkable degree.

At times like this, particularly after the crummy price action of the past few years, it's more important than ever to try to understand why the price of silver has been so punk. At the core, there is one reason and one reason only \hat{A} ? silver prices have been put lower so that the commercials could buy. That's evident everywhere one looks; in COMEX futures, ETF positioning, the wholesale market and in newly-produced silver coin sales. The outward strains on the wholesale physical market are evident in the COMEX warehouse movement. Easily dismissible by the documented facts are all the stories of growing silver over supply and lack of demand.

Therefore, it's not a question of whether silver can rally, as silver certainly could and should rally. The question is how far the rally will carry. Lost in the current debate is the thought of a shocker to the upside, yet that is precisely what the current set up and flow of facts suggest. Such a set up should rule out pronounced price risk ahead, although no one knows more than me just how corrupt are the commercials.

It's what's on the scoreboard that counts. Every single day of silver price decline has featured commercial buying and there is virtually no chance that the commercials will reverse course and dump silver on lower prices. So not only is there a set up for a possible moon shot, there is little chance, to my mind, of prolonged price weakness. Try as I might, I can't recall a better risk/reward set up in silver than currently exists. I'm not given to depend strictly on past price action, but I can't help but notice that each time we've breeched \$19 to the downside over the past year, as we did this week, a rally has resulted. I don't see why it would be different this time.

Ted Butler

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Silver – \$19.45

Gold – \$1300

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