

## May 31, 2014 – Weekly Review

### Weekly Review

The recent tight trading range in both gold and silver was broken this week to the downside in dramatic fashion, as gold fell \$42 (3.2%) and silver dropped 65 cents (3.3%). The matching percentage performance, obviously, left the silver/gold price ratio unchanged at 66.5 to 1. Aside from noting that silver usually does worse on sharp moves down, I am more taken aback by the nearly identical percentage declines.

And it wasn't just the tally at week's end; it's no secret that gold and silver have been moving in lockstep for quite some time, as is seen in the tight trading range of the price ratio over the past year. Let me jump to my point  $\hat{A}$ ? what would most likely account for the lockstep relative performance this week (and longer) in gold and silver, including the notable drop in price of each? Originally, I had planned to mention that I could uncover no actual supply demand news to account for a decline in either and that actually reinforces my point.

I usually focus on the price of silver moving contrary to verifiable supply/demand data and end up explaining that the real cause of price movement can be attributed to positioning on the COMEX. But considering the nearly identical percentage change this week in gold and silver, all doubt should be removed that the COMEX is setting the price of each (and other commodities) to the exclusion of actual supply/demand fundamentals. Let's face it  $\hat{A}$ ? gold and silver have very different supply/demand characteristics, making it virtually impossible that real supply and demand could account for this week's identical performance. So if this week's decline in gold and silver had nothing to do with supply and demand in the real world, what caused the decline?

The most important price commonality for gold and silver is that they are not only traded (almost as a package) on the COMEX, but that the COMEX is the world's largest verifiable trading market for gold and silver. As such, trading on the COMEX sets the price for gold and silver. Some say London is bigger, but that argument falls apart when it comes to actual independent documentation of London trading details. Others say that emerging exchanges in China and elsewhere will overwhelm the influence of the COMEX and that may be true in time; just not currently. I'm still struck by the fact that gold and silver price movements are almost always determined by what occurs in COMEX gold and silver futures trading. That was particularly the case this week as I'll discuss in a moment.

I was all set to report that the turnover of physical metal into and out from the COMEX-approved silver warehouses had come to an abrupt halt this week, as there was little movement reported for the first three days of the holiday shortened week. However, we had a 2.6 million ounce movement reported yesterday, which left the week's movement at close to 3 million oz. Total COMEX silver inventories declined by 1.5 million oz, to 174.7 million oz. Even if the big movement yesterday hadn't been reported, I would have reserved judgment about the turnover coming to an end. After all, the rapid turnover has persisted for three years and whatever the reason behind it, it is more likely to peter out rather than end suddenly. As you know, I continue to feel tight supply conditions in the wholesale physical market is the most plausible explanation.

However, I am more inclined to think a sudden end to the record pace of sales of Silver Eagles from the US Mint is more likely and, in fact, may be at hand. For the first time in more than a year, the Mint announced it was no longer allocating (rationing) sales of Silver Eagles. To be clear, sales of Silver Eagles have been torrid this year, nearly matching last year's record pace for the first five months of the year. Moreover, sales of Silver Eagles relative to Gold Eagles has never been higher and despite coming off allocation, for the first five months of this year more than 98 Silver Eagles were sold for every ounce of Gold Eagles sold. This is almost double last year's ending pace of 50 to 1.

[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)

As I have commented on numerous occasions, what was so unusual about the record pace of Silver Eagles sales, particularly relative to sales of Gold Eagles, was that reports from coin retailers and wholesalers didn't reflect broad and strong demand from the retail public. In fact, if anything, silver retail investment demand was downright soft. Not to the point of silver investors turning net sellers, but the rotten price performance over the past three years had taken its toll on buying enthusiasm.

This was completely at odds with past experience, say prior to the past three years or so, in which the public was clearly out in force in buying the growing amount of Silver Eagles being produced by the Mint. I concluded that if the Mint was reporting record sales of Silver Eagles and there was no clear evidence that the public was doing the buying, the most plausible explanation was that there had to be a big buyer that accounted for demand at the margin.

Moreover, the sudden break in demand for Silver Eagles, as evidenced by the Mint suspending the rationing process, has its most logical explanation in the big buyer stepping away from the buy side. After all, a big buyer can change its behavior quicker and a lot easier than the public as a whole. I speculated in the past that the big buyer of Silver Eagles might be JPMorgan, since the bank was dominant in just about every aspect of silver (and gold). I still feel that way, although I do admit I can't prove it one way or another. Almost perversely, reports of good retail demand for silver and Silver Eagles surfaced yesterday, due to the sharp drop in price as the Mint ended the rationing process. This further points to a big buyer stepping aside.

Most importantly, what does weaker demand and a potential end to the allocation of Silver Eagles portend for the price of silver? Admittedly, I understand that the knee jerk reaction, particularly in the depths of the current malaise of low prices, would be "oh no, not weak demand for Silver Eagles now, as that will be devastating to price." I have a different take. Sure, we can always get short term price weakness at any time, but the truth is that we had rotten price action for three years as sales of Silver Eagles boomed. What this proved, more than anything, is that the record demand for Silver Eagles was not an important silver price influence. That's because something else controlled the price of silver, namely, COMEX positioning. (Please see above and every past article of mine).

Please allow me to speculate further. If I am correct that JPMorgan was the big buyer of Silver Eagles (at the margin) over the past three years, the bank could have accumulated 40 to 50 million ounces of Silver Eagles. As you know, I had previously speculated that JPMorgan could have acquired up to 200 million ounces of silver since the deliberate price break of May 2011, so the amount of Silver Eagles I am attributing to JPMorgan is proportionate. To summarize, I've held JPMorgan to be the prime silver manipulator all along and its control of the price action of the past three years not only allowed JPMorgan to whittle down its giant COMEX short position, but also accumulate a much larger physical holding in silver.

I'm more inclined to view the ending of allocation for Silver Eagles by the Mint to be a sign that JPMorgan might be full up on physical silver holdings and that could just as easily support much higher prices as suggest silver is down and out forever. Surely, whomever may have been the big buyer of Silver Eagles over the past three years, did not buy in order to collapse prices from current depressed levels. Certainly my notion is in keeping with what has transpired in the single most important silver price influence " positioning on the COMEX, as is revealed in this week's Commitments of Traders Report (COT).

In Wednesday's article, I speculated that we might see a reduction of as many as 4000 contracts in the total commercial net short position in COMEX silver futures and a reduction in gold of at least 20,000 contracts (and as many as 30,000 contracts as Ed Steer quoted me). That I came so close to the actual reported reductions of 3400 contracts in silver and 27,400 contracts in gold is not intended as a pat on my own back. Instead, it is intended to demonstrate that it is this positioning that is responsible for price movement, as my calculations only occur after prices have moved and open interest has changed. Let's go through the reports first.

In COMEX gold futures, the total commercial net short position was reduced by 27,400 contracts to 78,600 contracts. This is the lowest level of total net commercial shorts in gold since February 11 and as expected, pushes the COT market structure in gold from neutral to bullish. The trading action since the Tuesday cut off, were it to be calculated thru Friday's close, suggests to me that an additional further reduction in total net commercial shorts of similar quantities to this week's report have occurred in both gold and silver. Accordingly, I would peg the market structure in gold to be very bullish, up from bullish. (In silver, the degree of bullishness is off the charts).

By commercial category in gold, the 8 largest shorts bought back less than 2000 contracts and the gold raptors bought more than 25,000 contracts, including JPMorgan buying 4000 new longs, pushing its net long position up to 34,000 contracts. The technical funds, as expected, were the big sellers, accounting for more than 23,600 contracts sold, including selling more than 22,300 new short contracts. If the tech funds sold short an additional quantity since the cut-off (as I expect) that would put the technical fund short position, effectively, at near-record extremes.

Recently, I have commented that if gold were to go down in price (as it has), the only way that could occur would be if the commercials induced the technical funds to add aggressively to their COMEX short positions. There is, of course, some uncertainty as to how much more the commercials can lure the technical funds onto the short side; but there should be no question that technical fund short selling is why gold prices have declined. I think every analyst, commentator and observer would acknowledge the effect of technical fund selling on prices. The only possible disagreement is what role the commercials play in moving prices to orchestrate technical fund selling. How anyone could see this as a random and free process is beyond me.

In COMEX silver futures, the reduction of 3400 contracts brought the total commercial net short position to 14,200 contracts, the lowest level since December 3. While significant, I find the record extremes in certain specific categories to be more profound. Although not at a record extreme, I do note that the concentrated short position of the 8 largest traders only declined by less than 400 contracts and remains very large at 63,000 contracts or 315 million ounces. It does appear that JPMorgan was able to reduce its silver short position by 1000 contracts to 18,000 contracts (90 million oz).

The first big standout in the silver COT report was that the raptors (the smaller commercials apart from the big concentrated shorts) accounted for most of the commercial buying, adding 3000 contracts to a net long position that now stands at a record 48,800 contracts. The previous record for a raptor net long position was last June 25, when silver made a bottom close to current levels. The price then mostly chopped around for a month or so before racing to \$25 in late August. The important point here is that the rally only occurred because the raptors were as net long as they were (and that the technical funds were as short as they were).

That brings us to the main standout of the silver COT report, namely, the massive amount of new technical fund selling in the managed money category of the disaggregated report. Already at the highest amount short in the previous COT report, the technical funds added an astounding 5177 new shorts to a record short position now measuring nearly 38,500 contracts. And it would seem reasonable, given the volume and price pattern since the cut-off that the technical funds sold short even more silver contracts thru yesterday.

The bottom line is that there are now at least 30,000 net contracts of pure high-octane buying power already pumped into the COMEX silver tank and possibly more than that. It was also notable that the managed money long position which I have referenced recently did not decline on the price weakness of the reporting week. This further suggests the extra 10,000 contracts that moved onto the long side late last year and earlier this year may be available for sale only at much higher and not lower prices.

Here's another item I feel is worthy of mention. Back when the raptors held their previous record long position last June 25, there was a corresponding record gross technical fund short position that was around 26,500 contracts (as opposed to the 38,500 contracts in Friday's report). On the subsequent silver rally to \$25 in August, approximately 15,000 contracts of technical fund short covering was the primary price driver of the rally, as the technical funds didn't add a noticeable number of new long contracts on that rally. The current tech fund short position clearly indicates twice as much potential buying power as existed in June 2013 exists now.

One last note — back in June 2013, there were 36 traders in the managed money category holding the 26,500 silver contracts short. Even though the current managed money short position is 45% larger in contract terms, the number of traders holding the record technical fund short position is down to 28 traders, meaning there are now fewer traders holding bigger positions. I can't prove it beyond doubt, but my sense is that when silver prices turn up there will be more urgency to cover the larger short position held by fewer traders.

What should be seen as being beyond doubt is that COMEX positioning is the price driver in silver and gold. Nothing else even comes close. We went down in price this week and on every previous price sell-off because the technical funds got snookered into selling on price signals rigged by the commercials. We will go up when the technical funds have sold all they can sell and then begin to buy. No one knows the day of the price turn up in advance, but it will come and should most likely come soon, given the extreme COT readings, particularly in silver.

Of greater importance is what the coming silver rally will look like; will it be a mediocre rally of a few dollars or a humdinger of many dollars? As always, it seems advisable to me to treat the inevitable silver rally as the big one because if it is the big one you don't want to be selling too soon and risk missing the substantial profits that will result. Besides, if the commercials sell aggressively on the coming silver rally, this will be reflected in future COT reports, providing ample warning. Admittedly, I've always felt this way in the past when bullish COT extremes were registered and none of the previous occasions resulted in the big one. There were always meaningful rallies when COT readings got extremely bullish, just that we haven't experienced the big silver rally yet. In contrast, the big price run to almost \$50 in 2011 had more to do with physical silver tightness and not the COT set up.

Despite past experience, I think there may be a special factor at work presently suggesting the extreme COT set up may lead to the big silver move. The only reason the commercials (raptors and big shorts alike) may sell aggressively on the coming silver rally would be that they expect to be able to then position the technical funds on the short side once again, as the commercials have always been able to do in the past. But the rigged game is more widely appreciated today than ever before and that is reflected in the news and commentary that surrounds silver and gold price manipulation.

In other words, more are aware of the scam and fraud of metals pricing and that awareness argues against the continuation of the fraud. After all, the COMEX price manipulation is best conducted (according to JPMorgan and the other CME crooks) out of full view. That more observers see it than ever before is not in the crooks' best interest and may prompt them to stand aside and not sell aggressively when the technical funds move to the buy side.

Accordingly, now is the time to be positioning and expecting large moves to the upside and not to whatever further price weakness that still may be wrung out in the short term. In the interest of full disclosure and not because I'm tempting anyone to do likewise, I did flush some additional money down the virtual toilet of call options this week to try to take advantage of a strong short term lift off in price. As always, I formally bid farewell to the funds and only mention it to indicate how I view the silver market currently.

Ted Butler

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Silver – \$18.80

Gold – \$1251

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