November 16, 2013 – Weekly Review/True Market Share

Weekly Review

For the third week in a row silver fell in price, this time by 75 cents (3.5%). Gold, after also falling sharply earlier in the week, came back to finish a dollar higher. As a result of silver's underperformance, the silver/gold ratio widened out two full points to just over 62 to 1. While this was a big jump for the week, the fairly tight trading range of the ratio going back months and years remained largely intact.

While I remained as convinced as is possible that silver will outperform gold in the long run based on the fundamentals, the near term is always a crap shoot. As always, my suggestion is to switch gold metal into silver metal on a fully paid for basis; not a leveraged trade simultaneously involved in shorting gold and buying silver or anything of the sort. The silver/gold ratio could move 5 or 10 points in either direction without warning or connected to any real world developments, potentially crippling any highly-leveraged trader. A metal for metal cash switch basically immunizes the switcher from short term price ratio volatility and enables one to hold for the long term.

While silver was weaker than gold this week, more amazing to me is that on most time frames the two metals usually move tick for tick. What makes it amazing is that silver and gold are two different commodities. Of course, I am mindful that they are aligned in most investors' and observers' eyes as the two primary precious metals for investment/insurance/monetary purposes. But considering the differences, from industrial usage to the money flows needed to impact the price of each; there is more to suggest silver and gold prices should not be trading in the lockstep manner to which we have become accustomed.

I think it's mostly that we've become so used to silver and gold prices moving rigidly up and down on almost every tick that it has become expected. It's hard to question something that has become universally accepted. Just the fact that there is a widely followed silver/gold price ratio (I certainly write of it each week), reinforces the idea that they should move together. But on an analytical basis, I see little reason silver and gold should move in constant lockstep. More individual patterns in silver and gold, from exchange warehouse stock levels and movements, to ETF inflows and outflows, to production and consumption statistics and to the fact that central banks own, buy and sell gold and not silver, argue that price action shouldn't be joined at the hip.

The question becomes what is causing gold and silver prices to move in tandem, or more broadly, causing most absolute price movement? The answer is almost undeniable Â? electronic trading on the COMEX. Gold and silver prices rarely move on real world supply/demand considerations; prices usually move when the commercials are zooming the technical funds in some way; rigging prices to induce tech fund buying or selling. I'll cover this more in the COT section and in a new market share article later, but the basic point is this Â? the silver/gold ratio is as artificial as is the individual price of silver and gold. Because I believe the price of silver is much more controlled and artificial than is the price of gold, when that artificial control is lifted, silver will climb much higher than gold on a percentage basis.

The pattern of rapid turnover or movement of metal in and out, continued in COMEX-approved silver warehouses. Around 4 million oz were moved this week, as total inventories fell 700,000 oz, to 168.6 million oz. There's no particularly rapid turnover in COMEX gold inventories and just a steady drain in copper inventories, so the high turnover pattern is unique to silver. I still believe it equates to wholesale tightness.

There were withdrawals of around 3.5 million oz earlier in week in the big silver ETF, SLV, but yesterday about a tenth of that amount came back in. Considering the weak price action, most of the withdrawal could have been due to plain vanilla investor liquidation, but I sense some of the withdrawal might be silver being needed elsewhere more urgently. I didn't mention it on Wednesday, as there was no big change, but the short position in SLV was down slightly for the period ended Oct 31, by 575,000 shares to 17.2 million shares (ounces). At just under 5% of total outstanding shares, the short position is too large, but much lower than peak levels of 12% of outstanding shares. The short interest in the big gold ETF, GLD, increased by more than 450,000 shares to 24.45 million shares (2.45 million oz). At almost 8.5% of total shares outstanding, the short interest in GLD looks more problematic than does the short interest in SLV.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%2599

It's going to be difficult to gauge Silver Eagle sales through the rest of the year as the US Mint is in change-over mode to producing coins dated 2014, as it is every year at this time. We did crack the 40 million coin record recently as numerous headlines proclaimed, but the truth is that demand for Silver Eagles, while still stronger than Gold Eagle sales, is off from levels earlier in the year. That said, retail demand is generally not the price driver that wholesale demand is, at least in the short term.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were largely as expected, with one potential surprise. Since the reporting week featured large price declines of as much as $50 in gold and more than a dollar in silver, it was expected that there would be large reductions in the total net commercial positions in COMEX gold and silver. After all, this is what dictates gold and silver price movement, namely, collusive commercial behavior on the COMEX.

In a bit of irony the US Justice Department has discovered that a Â?cartelÂ? of commercial bankers exists in FX Trading that manipulates exchange rates and is just the Â?tip of the iceberg.Â? I guess that makes it official that every market that the big banks are involved in are manipulated; except gold and silver. I have to laugh (it still hurts) that none of these other markets were alleged to have been manipulated beforehand, just silver for more than 25 years. And in none of these other markets was the proof of manipulation contained in official government reports, like the COT reports in gold and silver.
http://dealbook.nytimes.com/2013/11/14/u-s-investigates-currency-trades-by-major-banks/?src=dlbksb

At this time last week, I had estimated that the total net commercial short positions in COMEX gold and silver would be down 25,000 contracts in gold and more than 3000 contracts in silver, if the report was cut-off last Friday (and not the coming Tuesday). I should have left out the qualifier, as more than 28,000 contracts of gold and 3200 contracts of net commercial shorts were eliminated as of Tuesday.

The fact is that many COT mavens were expecting big declines in the commercial short positions, so my point is not to pat myself on the back. My point is that more observers who study the COT reports can see that what moves prices are how the tech funds behave on the COMEX. If you think about that for a moment, it's kind of extraordinary. I agree that not everyone makes the connection that the commercials are tricking and controlling when the tech funds buy and sell, but to my mind it's just a matter of time before they do. As backing for my assertion I would point out that a few years ago, a very small number of precious metals investors even considered the COTs. Now, many are making predictions of what the new reports may show based upon reporting week price action. That's just a short distance away from viewing the reports as being what caused prices to move and the realization of that is price manipulation.

In COMEX gold, the total commercial net short position was reduced by 28,100 contracts to 65,800 contracts, near the low end of the past couple of months. This is among the very largest of weekly reductions and a standout feature was that the technical funds sold net more than 32,000 contracts, including close to 28,000 new contracts short. By commercial category, the four big shorts bought back 10,000 short contracts, but the big 5 thru 8 sold 5000 new shorts (most likely tech funds). The raptors added 23,000 new longs.

There were mixed signals for determining the exact level of JPMorgan's gold market corner which I had expected to grow to 80,000 contracts. Suggesting that JPM's long COMEX gold position did increase was the increase in raptor buying and the increase in the producer/merchant category of the disaggregated COT report. Arguing for a reduction was the decrease in the concentrated long position of the four big longs by 6000 contracts. It's possible that the other three longs in the big 4 category reduced positions and not JPM, but there's no way of confirming that at this time.

It's also possible that JPMorgan did reduce their long position on lower prices, although I have never witnessed that before and it must be considered strange beyond belief if that occurred. Searching for a plausible explanation for why JPMorgan may have reduced its long gold market corner on the COMEX on a sharp decline in price, only one comes to mind. This reporting week ended as of Nov 12, which is the first trading week following the somewhat surprising CFTC vote to proceed with position limits on Nov 5.

I guess it could be possible that JPMorgan did reduce its long market corner in gold in reaction to the Commission's vote and if this is the case it would have potentially profound implications for gold, and especially silver. I'll return to this in a moment, but to be conservative I would peg JPMorgan's long COMEX gold futures position to be at 70,000 contracts, down 2000 from my guess on Wednesday. This is still almost 21% of the total open interest of the market (minus spreads) and as blatant a market corner as ever existed.

In COMEX silver, the reduction in the total commercial net short position of 3200 contracts brought the commercial short position down to 22,600 contracts. As was the case in gold, a standout was the net selling of 8,000 contracts by technical funds, including more than 7500 contracts of new short positions. At some point, all these new technical fund shorts in silver and gold will be bought back when prices rise enough; the only question is whether the prices will be close to current levels or much higher.

For the silver commercials, the raptors were the biggest buyers picking up 2200 new long positions. The four big shorts (JPM) bought back 1200 contracts and I would peg JPMorgan's short market corner in COMEX silver to be 14,000 contracts, or slightly less than 13% of total net open interest.

As a result of the reductions in the commercial short positions in gold and silver, both market structures are more bullish. In looking over the price action caused by changes in market structure this year, it seems apparent that JPMorgan was much more successful in buying back all their COMEX gold shorts and getting massively long gold than the bank was in closing out its silver short position. Let's face it Â? there were enough willing and able sellers of gold, both in futures contracts and in gold ETFs, to enable JPMorgan to buy an historic number of long COMEX gold contracts.

To this point, there haven't been enough willing sellers in silver (despite greater deliberate price weakness) for JPMorgan to get long COMEX silver. What this portends is the same key to future silver prices as has been the case since JPMorgan acquired the big silver short position more than 5 years ago. The key factor remains if JPMorgan adds to shorts on the next silver rally, as they have done on every silver rally this year. On some future rally JPMorgan won't add to silver shorts and that's the silver rally we are all waiting for. It's simply amazing it can be distilled down to this one factor; both from a market prediction perspective and as the ultimate proof of manipulation.

True Market Share

My main thrust in advancing the precious metals manipulation allegation is to focus on the concentrated holdings of one or a few traders on the COMEX, the principal trading exchange in the world for precious metals. For years, I wrote of the concentrated holdings of the four and eight largest traders on the short side of COMEX silver because that is the format provided by the CFTC indicating concentration. Commodity law prevents the agency from identifying traders by name.

In the fall of 2008, I came to learn that JPMorgan was the biggest short in silver and gold as a result of the Bear Stearns takeover. Since that time, I have focused on JPMorgan's share of the market because its share is large enough by itself to prove manipulation. This year, I discovered that for the first time ever, JPMorgan had amassed such a large and concentrated long position in COMEX gold that it must be considered a market corner by any reasonable standard.

I've always calculated the large market share that JPMorgan controls in terms of the total COMEX market in true net terms, i.e., after deducting spread positions. On that basis, JPMorgan has held as much as 25% of the total COMEX gold futures market on the long side. It's not possible that such a large share of any market would not be a market corner. Today, I would like to introduce a new way of expressing just how extreme and manipulative is JPMorgan's long gold market corner.

As always, my approach will rely on public data in the reports published by the CFTC. Over the years, I've come to marvel at the extensive data included in the Commitments of Traders (COT) and Bank Participation Reports and up until now I have always felt that the data is accurate. In fact, it was a new look at data I have studied for decades that led me to the new approach today.

First, a bit of background. Commodities futures trading is allowed and regulated by the US Government for the purpose of enabling real producers, consumers and processors to hedge or lay-off price risk incurred in their normal operations to other entities, called speculators, willing to assume the risk in the hope of profit. In CFTC parlance, the largest hedgers are broadly classified as commercials and the largest speculators are classified as non-commercials. The largest traders are those that hold a minimum of 200 gold futures contracts (150 contracts in silver) and they must report changes in holdings to the CFTC under the large trader reporting system. There is one other group called the non-reporting traders made up of both speculators and hedgers but who hold less than the minimum reporting level. This group is also called the small traders.

In most markets, the commercials constitute the largest percentage of the total market, which is fitting since the purpose of allowing commodity trading in the US is to facilitate hedging. In most markets the large reporting speculators (non-commercials) make up a percentage of the market that rivals the commercials' share. The non-reporting traders make up the smallest percentage share of most markets. Certainly, this is the case in COMEX gold (and silver). In every COT report, a detailed breakdown of traders in all categories is given in percentage terms and number of traders on both the long and short side. The CFTC wouldn't bother to publish these percentages if it wasn't as important as I am suggesting.

Just to be clear, I don't believe that all the large commercial traders are actually hedging when they trade, but are often speculating (some call it market making). (Conversely, I can't imagine why a non-commercial trader wouldn't always be speculating, as why would such a trader misrepresent that to the CFTC?)

Since any legitimate hedging by large reporting traders must take place in the commercial category and because hedging is the economic justification for futures trading in the US, any suspected concentrated position or market corner must be considered not only in terms of the total market (as I've done until now), but also as to what percentage such a position would constitute among like traders in the same category. In other words and much more specific, what percent of true market share does JPMorgan hold on the long side of COMEX gold in terms of the other commercials on the long side? By this measurement, JPMorgan's true market share is shocking.

In the COT report of Nov 12, I've calculated JPMorgan's net long position in COMEX gold futures to be 70,000 contracts. In terms of total open interest (minus spreads) JPMorgan holds almost 21% of the long side. As extreme as this is, in the two categories of commercial traders listed in the disaggregated report (again minus spreads) JPMorgan's share rises to 46%. Stated differently, even though there are 43 separate large reporting commercial traders on the long side of COMEX gold futures holding a total of 152,050 contracts, one of them, JPMorgan, holds almost as many long contracts as all 42 other commercial traders combined. Please take a moment to think about that.

One commercial trader (which happens to be, arguably, the most important US bank) holds a massively disproportionate share of what should be a large and diverse regulated futures market Â? COMEX gold futures. I challenge anyone to explain, in legitimate terms, how such a concentrated position could have any bona fide economic roots. And before anyone does, let me include that the same bank, one year ago, held a massively concentrated short position in gold. I mention this because this would invalidate the excuse that JPMorgan is only hedging for clients. What clients of JPMorgan and that bank alone needed to maintain a short market corner in gold a year ago and a long market corner today?

In fact, this is the point of this discussion. It doesn't matter what excuse is offered to justify JPMorgan's long market corner in gold (or short corner in silver) – no excuse is possible; not even hedging or market making. That's because there is never a legitimate excuse for a market corner. For one trader to hold as much as all other traders combined in the most important commercial category is an outrage and is indefensible. It represents a level of concentration and market control formerly unimaginable. It is not possible that JPMorgan's market corner in COMEX gold has not and will not artificially influence the price of gold. Above all else, the more concentrated a position, the less legitimacy there is for it, as there is never a legitimate explanation for a market corner.

The simple fact is that without JPMorgan's 46% ownership of the commercial long side of the COMEX gold futures market, the price of gold would have fallen much more than it has this year. The irony is that JPMorgan was the prime cause of the gold (and silver) price decline this year and their motive was nothing more than profiting on their massive short position at the beginning of the year and accumulating as many long gold positions as possible once all shorts were covered. In reality, I believe JPMorgan succeeded beyond their wildest dreams in how low they could drive the price and in how many long gold contracts the bank could accumulate. I calculate JPMorgan made about $4 billion so far this year in COMEX gold and silver trading.

The facts, as provided in CFTC data, show how dominant JPMorgan has been in COMEX gold (and silver) this year. All the traders in the commercial category bought 240,000 net contracts of COMEX gold futures contracts from the peak in total net commercial shorts of 259,000 contracts on Nov 27, 2012 to the trough of 19,000 total commercial shorts held on July 9. This, as gold fell from near $1800 to $1200 in price. Of the 240,000 contracts bought by all large commercial traders combined, JPMorgan accounted for two-thirds of those contracts, or 160,000 by itself, as they flipped a 75,000 contract short position to an 85,000 contract net long position at the start of August.

It is not possible for JPMorgan to account for such a large share of total commercial net positioning over the past year and for that not to be blatant proof of manipulation through market control. These are percentages of total commercial actual

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