

November 22, 2014 – Weekly Review

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Both gold and silver rose again this week, gold by \$14 (1.2%) and silver by 15 cents (0.9%). While the cumulative gains have been rather subdued, for gold it was the third weekly increase in a row, while silver put in its second weekly increase, the first such back to back weekly increase in months. For the year, silver has only been able to muster a two week or longer consecutive gain on three occasions.

This is a price pattern that has developed over the past couple of years in silver, namely, a type of price "smothering" for weeks on end interrupted by sharp rallies that end in short order. I can only attribute the price pattern to the manipulation on the COMEX, because despite looking closely for actual supply/demand explanations, there are none to be found. It remains to be seen how this budding silver rally will turn out, but I am hopeful it will be more meaningful than the two prior rallies this year.

As a result of this week's relatively equal price performance, the silver/gold price ratio remained slightly above 73 to 1, very close to its highest point in years (also reflecting silver's extreme undervaluation to gold). Because I am so convinced of silver's extreme undervaluation relative to gold (on a long term basis "not for short term trading purposes") let me point out a new record extreme for evaluating just how undervalued silver is compared to gold.

One of the metrics I reference from time to time when comparing silver to gold is to compare the dollar value of each relative to how much physically exists of each in the world. We use relative dollar comparisons for everything, including how much we make and spend and what we own and owe; quite simply, we measure everything in terms of dollars and other currencies.

Admittedly, I employ a somewhat unorthodox tally for how much physical gold and silver exist in the world, but for a very practical reason. For gold, I use all the gold in existence, some 5.5 billion oz, because all gold is held for jewelry or investment purposes and as such is available to the market at some undetermined price. For silver, I only include the metal in industry standard 1000 oz bars, because that is the form in which industrial users and large investors will someday compete. That same competition can't occur in gold since so little of the metal is consumed industrially. For silver, I calculate about one billion oz exists in 1000 oz bars (although I concede it could be 20% to 30% higher).

At current prices, that means there is \$6.6 trillion worth of gold in the world and a little over \$16 billion worth of silver. In other words, on a dollar (or any other currency) basis, there is more than 400 times more gold in the world than silver. Expressed differently, all the silver in the world is worth only one-quarter of one percent (0.25%) of what all the world's gold is worth. Even by doubling the amount of silver by including coins and small bars (most of which will never be converted into 1000 oz bars), one would still end up with the gold being worth 200 times what the silver is worth or silver being worth 0.5% of what the gold is worth. These are the most extreme valuation differences ever.

Like investors in everything else, precious metals investors seek out the best relative value available. Investors everywhere want the best value, lowest risk and biggest bang for their buck. Due to an increasingly obvious price manipulation on the COMEX, silver has reached a degree of undervaluation relative to gold that is so extreme as to be almost unbelievable, even when expressed in simple arithmetic terms. And because gold is so cheap compared to other asset classes that automatically means silver is even cheaper compared to every other asset.

The pace of the physical transport of metal into and out from the COMEX-approved silver warehouses bounced back from last week's somewhat subdued pace. Over 5.9 million oz of silver were physically turned over in the COMEX warehouses, as total inventories fell a half a million oz to 177.6 million oz. For the year, much more than 100% of total COMEX silver inventories has been turned over, continuing and accelerating a pace that has existed for nearly four years. Any time an inventory turns over that rapidly, it would seem to indicate a strong demand for that inventory. That the price of the item in that inventory, industry standard bars of silver, would be down substantially for years would seem to elicit questions for how that could be. I say due to price fixing by the commercial crooks on the COMEX and I have been struck by the lack of rational alternative explanations.

The US Mint continues to produce and sell Silver Eagles at their maximum production capacity, but sales are still rationed, indicating more demand than supply. As with the unusual demand for wholesale bars in the COMEX silver inventories, the great demand for Silver Eagles is usually a free market mandate for higher prices according to the law of supply and demand. But the operative term is free market mandate and, once again, the only plausible explanation for great silver demand and lower prices is a market that is being manipulated.

Still, we have crossed the 40 million oz mark in Silver Eagles sold this year, only the second such year in the 28 year history of the program. And yes, I still believe it has not been broad retail demand that has accounted for the record Silver Eagle sales these past few years, but a certain Mr. Big. For some reason, Mr. Big hasn't taken a shine towards Gold Eagles, as year to date sales are down close to 40% this year compared to last and even more compared to the past few years. I suppose if you are going to manipulate prices more in one commodity compared to another, it would follow that you would buy much more of the more manipulated item – silver in this case.

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 both expected and unexpected, both on the surface and under the hood. It was reasonable to expect an increase in the headline number of the total commercial net short positions in both gold and silver as prices rose in the reporting week thru Tuesday. Gold had rallied by as much as \$40 and had penetrated the 20 day moving average, while silver had rallied by more than 70 cents (but hadn't closed above the 20 day moving average until yesterday, well after the cut off). These are the type of price moves where increased technical fund buying and commercial selling should be expected.

In COMEX gold futures, the total commercial net short position increased by a hefty 21,000 contracts to 71,000 contracts. Despite the sizable increase, the commercial net short position is still relatively low and therefore bullish; just not as bullish as it was last week. In mid-October, we did see an increase of 40,000 contracts in the headline number that did turn into a move to new lows in the gold price; so any time the commercials sell, caution must rise for some type of sell-off. But on balance, the COT structure is bullish in gold.

By commercial category, the 4 and 8 big commercial shorts added a combined 8000 contracts of new shorts, meaning the raptors chipped in by selling 13,000 gold contracts. JPMorgan's net long position in COMEX gold futures slipped to 18,000 contracts, but the truth is that JPM's long position in gold (and short position in silver) has come down by so much that it is hard for me to calculate. I think there's a good reason for that, as I'll explore in a moment.

On the buy side of COMEX gold futures, it was mostly a technical fund affair as traders in the managed money category bought a net 17,785 contracts, including a buyback of almost 8700 short contracts. No doubt some rocket buying fuel has been spent, but that's why gold prices rose. Also, I should point out that the smaller, non-reporting traders in gold now hold a net short position larger than any time in the past 15 years.

These non-reporting traders don't deal in the same quantities of contracts as, for instance, the managed money traders, so their price influence is small compared to the technical funds. Still, a record net short position by the non-reporting traders tell you all you need to know about sentiment in gold being putrid. Putrid, in this case, is bullish. Strictly in COT considerations, gold could climb a hundred dollars or more easily should the commercials deem that to be the case. I still think things are different in silver.

In COMEX silver futures, the total commercial net short position increased by a scant 800 contracts, to 18,400 contracts. As was the case last week, despite the increase in the total commercial net short position, there was no increase in commercial short selling. The increase in the total commercial net short position came from a net reduction in commercial long positions held by the raptors.

For those who take the time to look at the legacy (simple) COT report, I can hear you exclaim "Ted, have you lost your mind, the report shows an increase in gross commercial shorts of 5179 contracts, so how the heck can you say there was no increase in commercial shorting?" In simple terms (and I admit this is hardly simple), it has to do with the difference between net and gross, including spreading, made more complicated because not all commercial spreading is listed in the report. Rather than tell you not to believe your lying eyes, let me run through the report and see if I can explain this more fully.

By commercial category, the raptors (smaller commercials) sold 2600 contracts of their net long position, now totaling 30,000 contracts. Since the headline number increased by 800 contracts, that means the other two commercial categories of the big 4 and the big 5 thru 8 short holders, had to have bought back 1800 shorts, which they did (big 4 by 1000 contracts and the big 5 thru 8 by 800 contracts). So despite the legacy COT report showing a large increase in commercial shorting, there was no real increase in commercial silver shorting at all, as the eight big shorts bought short contracts back they did not add to shorts. The raptors can't net short any silver contracts because they are net long any raptor sales represent long liquidation, not new shorting. Before explaining why this is important (to me), let me look at the big commercial shorts and the technical funds.

In covering 1800 short silver contracts, the big 4 and big 8 now have net short positions lower than they've held in a long enough time to matter. In fact, JPMorgan now holds a silver short position that is near impossible for me to calculate because it is so small. Not only does it appear obvious that JPMorgan is no longer the big COMEX silver short, I can't be certain the bank is even in the big 4. Based upon the extraordinary Senate hearings on Thursday and Friday (which I'll cover later), it's not hard for me to imagine why JPMorgan would choose to eliminate their COMEX long gold and short silver positions. But that still doesn't soften the shock of just how unprecedented this transformation is to me.

On the silver price rally during the reporting week, the technical funds bought more than 2500 contracts, including 2388 contracts of short positions, reducing that gross short position to just over 38,000 contracts. Thus, the technical funds have now covered more than 8000 short contracts at great profit and, unfortunately, using up that much rocket fuel for higher prices. Once again, this was not in the least expected by me, but my only lament is the amount of rocket fuel expended to date (I have no reason to care who wins, the commercials or the technical funds).

But despite this unexpected short covering by the technical funds, other more welcome and equally unexpected developments seem to greatly outweigh the loss of 8000 contracts of technical fund buying power. First, there still are 30,000 contracts of technical fund short covering on higher silver prices, just to get to the level of shorts held by these funds in July. Plus, there is a minimum potential for another 15,000 contracts of new longs to be added by these same funds, bringing to 45,000 contracts as a reasonable estimate of total potential tech fund net buying ahead. To this 45,000 net contracts of technical fund buying potential should be added the buying of other reporting and non-reporting traders which could easily total another 10,000 to 15,000 contracts.

Where it gets real interesting is in calculating the amount and distribution of potential commercial selling against total potential speculative buying. The great thing is that over the past three reporting weeks in reducing their net long position by more than 12,500 contracts, the raptors have that many less long contracts to sell on a silver price rally. I can't remember in the past 4 or 5 years the raptors ever being net short silver and the prospects of them going net short any time soon is extremely remote. For one thing silver is dirt cheap, making new shorting completely unattractive even at higher prices; but the losses that the raptors who have sold and have taken are so massive over the past three weeks that these traders are simply not capable of putting on a big new short position — even if they wanted to. At most, the raptors can sell between 20,000 and 30,000 long contracts on higher silver prices. That's only half the potential buying power currently existing.

In a very real sense, even though we've used up 8000 contracts of technical fund buying power, the COT structure is better than it was before those contracts were purchased over the past three weeks. How can that be? It can be because the raptors sold 12,500 long contracts over the past three reporting weeks, in effect, using up more potential selling pressure than the technical funds used up in potential buying pressure. Yes, it is unfortunate that we used up 8000 contracts of potential technical fund buying, but it is more fortunate that 12,500 contracts of potential raptor long liquidation has also been used up.

The real key here is the big 8 silver shorts, who collectively have bought back more than 8000 short contracts over the past three weeks. On the one hand, I suppose that could be looked at as these big shorts now having more "room" to add new short silver positions and contain the price (as has always occurred previously). On the other hand, if the big shorts (including JPMorgan) were ever to decide to end the decades' long COMEX silver manipulation, I can't recall a better time than right now.

Please make no mistake that the manipulative line of demarcation has never been more clearly drawn than it currently is in silver (For what it's worth, I don't see such a line in gold. I'm not bearish on gold in any way; it's just that the silver circumstance is radically different). There is not enough potential raptor selling now possible to contain silver prices on any rally of significance (over the 50 and 200 day moving averages) without massive new short selling by the big 8. I recognize that this is always the case, namely, it's mostly raptor selling that has satisfied the bulk of technical fund buying on recent rallies and that the big 4 and 8 sell short enough additional contracts at the margin to ensure silver prices don't run away. That's the essence of the silver manipulation.

But what makes it potentially very special at this time is that the number of contracts required for the big 8 to sell short in order to cap prices is extraordinarily large because (I believe) the big shorts already double-crossed the raptors and forced them to sell at very low and not high prices. In number of contract terms, it would appear the big 4 and 8 shorts would need to sell short an additional 30,000 contracts or so to even off and balance raptor selling against much larger speculative buying as things stand now.

I know that more believe it will be no different on this go around than it has been on past occasions and I freely admit that could turn out to be the case. Still, I know it must come to an end, to a time when the big concentrated silver shorts quit this crooked silver scam. Aside from not being able to know when they will quit, it has always been debatable as to what type of market structure would exist at the end; would it be with a massive concentrated short position (Izzy's full pants down) or my preference for the big silver shorts being relatively light on the short side.

Clearly we are configured presently in the way I always thought it would be before we went boom, but perhaps that just might be me seeing things as I expected them to be. But clearly, the data indicate the big shorts have bought many short contracts recently in a manner not previously witnessed (double-crossing the raptors). Perhaps I'm being naïve but because the big 4 and 8 have been so aggressive in buying back short positions recently, they are less likely to be as aggressive on the sell side on the next silver pop, particularly at silver prices under \$20.

But even if I'm too close to all this to objectively imagine what the big silver shorts will do from all the above, there is another very important consideration arguing against them adding big new silver shorts. On Thursday and Friday, there were some rather remarkable hearings on the big banks dealing in commodities by the Senate Permanent Sub Committee on Investigations, headed by Senators Levin and McCain. Carl Levin is an old warhorse soon to retire after some 36 years in the Senate. He didn't hold much back in his disgust for the big banks in this area. I watched most of the proceedings live and am not aware of a link to a recording of the hearings, but here's a link to explore <http://www.levin.senate.gov/newsroom/speeches/speech/levin-opening-statement-permanent-subcommittee-on-investigations-hearing-wall-street-bank-involvement-in-physical-commodities-day-two>

I have to confess, just like watching a really good football game or a comedy that makes you laugh so hard that it brings tears to your eyes, watching a US Senator rip apart snooty Wall Street bankers is highly enjoyable to me (please don't think less of me for such a petty pleasure). And I am thankful for subscriber Jim Hanson for alerting me to the hearing in the first place. In fact, Jim had prompted me earlier this year to publicly comment to a Federal Reserve open invitation seeking input on whether the banks should be restricted in commodities dealings. What was most interesting is that these public comments were mentioned in the hearings.

As it turned out, the Fed received over 17,000 public comments, but because more than 99% were robo-copied and sent mass emails, only 133 public comments, or less than 1% were published. I considered, but quickly dismissed, asking others to write in to the Fed with a cookie-cutter prepared response and if I had done so, those comments would likely have been unpublished. But those that did write in independently (and I recognize several subscribers on the list) did get their letters published in what turned out to be a very limited grouping. About the only negative was that the list included the likes of the CME, Goldman Sachs and Morgan Stanley (JPM was conspicuously absent).

http://www.federalreserve.gov/apps/foia/ViewAllComments.aspx?doc_id=R-1479&doc_ver=1

The hearings on Thursday featured Levin going after Goldman Sachs, Morgan Stanley and JPMorgan for amassing alleged dominance and control, in aluminum, copper and natural gas through the purchase of physical transport and storage facilities. It was mostly a case of the Wall Streeters bobbing and weaving to blows by Levin amid much parsing of technical terms. I can't say the Senator landed any knock-out blows but you know how slick these bankers can be. Still, it was enjoyable to watch them squirm.

The hearings on Friday were the best because they got down to the nitty gritty. In addition to two top notch regulators from the Fed and FERC (you may remember the Federal Energy Regulatory Commission as tagging JPMorgan with \$400 million for manipulating electricity rates in Calif

Date Created

2014/11/22