

November 5, 2016 – Weekly Review

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Gold and silver prices rose for the third straight week as the gains accelerated, with gold ended the week up by \$28 (2.2%) and silver by 65 cents (3.7%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly a full point to 71 to 1. While this is the most fully-valued silver has been relative to gold in four weeks, we're still in the same relative valuation band extending back two years. As always, changes in this price ratio have little to do with actual metal repositioning by investors and everything to do with COMEX paper dealings.

Later, I'll talk about a possible severe market jolt coming as a result of this week's US presidential election and some very interesting developments related to JPMorgan and silver in the new Commitments of Traders (COT) and Bank Participation Reports issued yesterday. Let me run through the usual format first.

The turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses picked up slightly this week to 5.1 million oz, as total inventories rose by 0.7 million oz to 174.2 million oz. Thus, the same basic pattern that has existed for the past six weeks and the greater part of the past six years remains intact, namely, absolutely huge turnover or physical movement and relative small change in total COMEX silver inventories.

The massive turnover is unique to silver and I started commenting on it when it first commenced in earnest, around April 2011. I wasn't sure what was causing the unusual turnover, but knew it was way out of the ordinary, having followed daily COMEX silver inventory statistics for more than 30 years (before the Internet, I got the data by phone or by a daily snail mail COMEX data subscription). It took me a couple of years (until late 2013) to conclude that JPMorgan was involved in an epic accumulation of physical silver, but having already done that, it's a snap now to make the connection with the unprecedented COMEX silver warehouse turnover and JPM's silver accumulation.

I'd long suspected the frantic COMEX physical turnover represented tightness and that someone could "skim off" a small sliver of the turnover to slowly amass a large quantity of metal without anyone else noticing. Now other signs point to that someone as being JPMorgan, almost to the point of being undeniable. JPMorgan now hold more than 80 million oz in its own COMEX warehouse or 46% of total COMEX silver inventories (it added another half million ounces this week), where it held zero ounces in April 2011. I don't remember any individual COMEX silver warehouse ever holding as large a percentage (46%) of the total inventories as does JPM presently.

It's remarkable that so few have seemed to notice the record large silver holdings in the JPM COMEX silver warehouse, to say nothing of meaningful conclusions to what may be behind it. Therefore, is it any wonder that the 80 million ounces held there represent less than 15% of the 550 million ounces that JPMorgan holds in total would seem almost incomprehensible? Yet I see nothing in the continuing flow of data that doesn't support the fact that JPMorgan owns one-third of all the 1.5 billion ounces in the world in the form of 1000 oz bars. Nothing could be more important to the future bullish prospects for price and that's true no matter how few or many people know it.

I've had a few questions recently about where would JPMorgan (or anyone) keep 500 million ounces of silver and wouldn't that be such a large amount that we would see it? The short answer is if someone wanted to hide 500 million oz of silver, it could be easily done. While there are CFTC reporting requirements for futures contracts and other derivatives, as well as SEC reporting requirements on common stocks above certain ownership levels; there are no reporting requirements on metal held off an exchange. That's a big reason why JPMorgan went the physical silver ownership route in the first place.

As far as warehouse storage capacity, I would remind you that more than half a century ago, there were 10 billion oz of silver in world inventories. This silver wasn't lying on the street, it was in secure warehouses of some type. Just because we used up the silver doesn't mean all the warehouse capacity was used up. With world silver inventories down as much as 90% since WW2, the much smaller world inventories today make it easier to conceal ownership, not more difficult. I remember a time, in the early 1990's, when total COMEX silver inventories reached 280 million oz (100 million oz more than today) and there were close to 12 or 13 different COMEX silver warehouses (versus the 6 warehouses of today). I think JPM holds much of its silver in London, but the logistics suggest it could be held anywhere and, essentially, out of sight. And yes, the dollar amount is around \$10 billion, which for JPM is nothing more than a meaningful position easily hid from prying eyes.

And while we're on the subject, it would appear that JPMorgan converted another 2.8 million shares of SLV, the big silver ETF, into actual metal this week, following last week's 5.7 million oz conversion. That's 8.5 million oz in two weeks. Over the past four weeks, JPM has added nearly 4 million oz to its COMEX warehouse stash. That's 12.5 million oz from these two metrics alone and a big reason why I think JPM has added a total of 50 million oz to its silver holdings over the past six months or so. Please be mindful of this data when I get to discussing JPM in COMEX paper dealings this week.

Not much to report on Silver Eagles from the US Mint as there have only been four reporting days in November so far and sales are way off even when accounting for short time. I can't shake the sense that JPM is holding back for some reason from buying the coins aggressively, as it had been doing over the past five and a half years.

<https://competition.usmint.gov/bullion-sales/>

The changes in this week's COT report looked very much within expectations at first glance, but deeper digging in silver indicated something that was quite unexpected. I withheld a guess in terms of numbers of contracts, but fully expected increases in the commercial total net short positions in both gold and silver, given the price action and trading volumes of the reporting week, in which gold rose more than \$15 and silver by 60 cents.

In COMEX gold futures, the commercials increased their total net short position by 21,700 contracts to 239,300 contracts. This is the largest commercial net short position in four weeks and no doubt has increased further in trading since the Tuesday cutoff. Even assuming a comparable number of commercial short contracts have been added over the past three trading days that would put the total commercial short holdings about mid-way of the extremes over the past few months. Except perhaps in money scorecard terms, one could say it could go either way for gold in the short term.

By commercial categories, the big 4 added 13,000 shorts, a disproportionate percentage of the total selling (not a good sign on its face), while the raptors added 9300 new shorts and the big 5 thru 8 bought back 600 short contracts. (The big 5 thru 8 did add a disproportionate 7700 new shorts in the prior reporting week).

On the buy side of gold, it was a typical managed money affair, as these traders bought nearly 22,400 net contracts, including 4576 new longs and the buying back of 17,781 shorts contracts, a large number considering there were only a little over 55,000 short contracts open in the previous week. The biggest takeaway is the usual one, namely, positioning and price change is determined by speculative dealings by the commercials and the managed money traders — no actual producers or consumers are involved.

In COMEX silver futures, the commercials increased their total net short position by 3500 contracts to 76,900 contracts, which on the surface looked a little light, given the 60 cent+ rally during the reporting week. The biggest surprise was that only the raptors were sellers, having sold 5200 long contracts, leaving a net long position of 16,200 contracts. The big 4 (read JPM) bought back 1400 short contracts and the big 5 thru 8 bought back 300 shorts contracts.

The numbers of contracts may not be particularly significant, but the trading pattern certainly is unusual. As way of comparison, I just commented that in gold the big 4 were disproportionately large sellers; in silver, not only didn't the big 4 sell, they actually bought on a fairly decent up move in price. I can't say that this has never happened before, but certainly not often. Admittedly, I'm overly sensitive to any signs that JPMorgan may be breaking ranks with the other commercials, as it could represent a double cross and the end of the silver manipulation. And I've long held a premise that the last chapter of the silver manipulation contained the thought that JPMorgan might buy on rising prices while the raptors sold, as just appeared to have occurred.

Based upon yesterday's Bank Participation Report and the latest COT report, I'd peg JPMorgan silver short position at around 22,500 contracts, down from the 24,000 contracts of the past few weeks, with the reduction looking to have occurred in the current reporting week (and not out of a general monthly recalibration). Also of interest in the Bank Participation Report is that for the entire month (from Oct 4) just about all the reduction in bank net short positions came in the US bank category with little change in the non-US bank category. There can be little dispute that JPM dominates the US bank category.; quite literally, JPM is the US bank category.

I'll get into some speculation about the US presidential election momentarily, but must point out that if my estimates are accurate that JPMorgan now holds 550 million oz of physical silver and it is currently short 22,500 COMEX contracts (112.5 million oz), that means JPM is now net long nearly 440 million oz. This would be the most net long silver JPMorgan has ever been and as such would mean that should silver prices explode, JPM would benefit more than at any other point until now.

There was also a surprise on the managed money side of silver this week, as these traders bought a very large number of net contracts; more than 9200, including only 777 new longs and a massive 8489 contracts of short covering. This is similar to what occurred in gold, but in gold, the big 4 added aggressively to short positions; in silver the big 4 (JPM) didn't add shorts at all and bought back. It's hard for me to quantify precisely what this means, but if you told me the managed money traders would have bought more than 9200 silver contracts this reporting week and the raptors sold 5200 (as occurred); I would have guessed the big 4 (JPM) would have added the balance of 4000 contracts. Instead, they bought 1400 contracts, which is markedly different.

Further, the total open interest in gold has climbed by more than 22,000 contracts since the cutoff, suggesting that through yesterday, there might have been another increase in the total net short position of close to that amount (the same as this week). In silver, the total open interest through yesterday is down around 1500 contracts from the cutoff, raising the possibility that JPM may not have added shorts since the Tuesday cutoff and could have bought back shorts again. Yes, since this is Saturday and the final open interest data won't be out until Monday, I have to rely on yesterday's preliminary open interest data for some of the above calculations – which can change. Hey, it's not a perfect data world.

There were significant price changes in some other commodities that I have featured previously, including crude oil and sugar, which both fell 7% or more in price during the reporting week; and copper, which rose sharply in price. In all three commodities, the 50 day moving averages were penetrated \hat{A} ? to the downside in oil and sugar and to the upside in copper. As might be expected, the managed money traders were the largest sellers of any category in crude oil and sugar and were the biggest buyers in copper, proving to anyone with an open mind that prices fall when managed money traders sell aggressively and rise when these traders buy. I'm not trying to confuse or trick anyone.

In copper, just over 40,000 net COMEX contracts were bought by the managed money technical funds during the reporting week. Since one COMEX copper contract is equal to 12.5 tons, the managed money traders bought the equivalent of 500,000 tons of copper during the reporting week (and maybe another 250,000 tons since the cutoff). 500,000 tons of copper is more than the combined LME and COMEX total copper inventories and the equivalent of ten full days of world copper production and consumption. It is not possible that managed money buying of this magnitude in one reporting week is the not the sole reason for the copper price rally. Since these managed money traders are strictly speculators, the unmistakable conclusion is that speculators ran up the price of copper. That's a price rig job pure and simple and why am I the only one raising the issue?

Now to my speculation about the presidential election which is the most divisive in many decades. Don't worry, I'm not about to lecture you on who you should vote for, as that is well outside the scope of what I attempt here. Besides, I'd only tick off those who disagreed with my suggestion, which judging from the polls would be about half of you. Instead, I'll confine my remarks to analysis of what the impact on markets might be depending on which candidate wins. (Let's hope there's not a tie or recount).

If Hillary Clinton wins, the immediate impact would largely be muted in terms of the stock market and the dollar and, by extension, gold and silver as well. Perhaps a retracement of very recent gains and losses. A Clinton victory may result in longer term changes, but shouldn't suddenly jolt the markets, at least as far as I can tell and, up until very recently, this was the most popular scenario. No guarantees, of course, but a Clinton victory might suggest no big change in the usual COT market structure pressures.

I don't think the same can be said if Donald Trump wins the election. There can be little question that the chance of a Trump victory was greatly enhanced as a result of the FBI director's recent letter to congress about additional Clinton email concerns. Since the letter's public release, the race has tightened dramatically and the concern can be seen in the record string of consecutive stock market losses going back 35 years. True, the overall decline this time has not been particularly severe, as the total declines are in the 3% range, a third of the declines back in 1980. Still, it's hard to deny that the recent string of stock market declines as being connected to concern about a Trump victory.

When I think about, it's hard for me to make a strong case for a direct connection between the election and precious metals. But there does appear to be a strong connection between a possible Trump victory and a stock market decline and that, in turn, has appeared to influence gold and silver prices since the polls started tightening. This is not a complicated connection — should investors flee the stock market suddenly, there is likely to be some type of rush to gold and silver. None of this is particularly unique on my part, but there is an aspect to this election that does concern me that I haven't read elsewhere.

Because this election has been so divisive and polarized and over-analyzed, there have been very detailed and consistent breakdowns of voter profiles. There's a big media industry involved in this very compelling election drama and the voting population has been sliced and diced in every imaginable way. Men and women, black, white and Latino, old and young, rural versus city, etc. And because the statistics can be computerized, we know instantly not only how the particular segments are doing today, but how they were doing in past elections. Talk about over-analyzing.

However, there's one voter segment that is much harder to discern or at least it has escaped me despite looking for it. The segment I'm referring to is voter preference by stock market holdings. I'd love to see, by the sliding scale of stock market holdings, how voters are likely to choose either major candidate. My sense is that quite a few stock market investors are voting for or expecting Clinton to win. I base this on the data showing those with higher education levels tending to favor Clinton rather than Trump, such as college educated women. Higher education levels are thought to be reflected in income and the accumulation of financial assets. Please don't take any of this as being pejorative or judgmental, I'm trying to make a different point.

In fact, it doesn't really matter if Clinton has more voters backing her who hold stock investments in some form than does Trump; at the very least we can say she has a good number of such voters even if Trump has more (which I don't think is the case). My point is that if Trump wins, it is going to upset great numbers of Clinton supporters and particularly because he seemed to be behind until very recently, the disappointment will be unexpected and may result in the wholesale selling of stocks especially if the stock market falls sharply on a Trump victory. I don't sense a large pool of untapped money waiting for a Trump victory in order to buy stocks aggressively; but can easily imagine how some or many may sell.

Because I can see big potential stock market selling from some quarters on a Trump victory, should that occur, what other markets are likely to be affected? I think there are a good number of foreign investors who would be negatively impacted by a Trump win and they might also rush to sell stocks and the US dollar. When talking about stocks or the dollar or any other market, sentiment plays a key role, particularly if something causes sentiment to change suddenly such as an unexpected outcome for a US presidential election.

Further, concerning the US dollar, there is objective data, in the form of the COT report that suggest that the commercials are perfectly positioned for a dollar smash. If anything, if the dollar did start to decline against other currencies, the commercials are positioned to grease the skids to the downside and make a bundle. If the stock market and dollar start to swoon, it is not unreasonable to expect investor buying in gold and silver, to put it mildly. I can't assign odds to any of this and all is dependent on a Trump victory which is beyond my ability to predict. While gold and silver can rise on a Clinton win, there is unlikely to be widespread stock market selling by disappointed supporters.

Given the possibility of potential stock market upheaval in a matter of days, I am particularly sensitive to the unusual behavior by JPMorgan in the current COT report on silver. Silver was always destined to explode when JPMorgan deemed the right time to have arrived. The fact that JPM is better positioned than ever in silver and did buy instead of selling on the price rally during the reporting week is not something to be overlooked. Also not to be overlooked is that should the stock market get gutted to the downside on a Trump win and silver (and gold) prices go bonkers to the upside, the fortune that JPMorgan will make on its massive silver holdings will likely be attributed to said election and not the half billion ounces of silver JPMorgan accumulated clandestinely over the past five and half years. In other words, JPM would be handed a great cover story.

Of course, should Clinton prevail on Tuesday, kindly disregard all the above. In that

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