

## October 10, 2015 – Weekly Review

### Weekly Review

Gold finished \$18 (1.6%) higher for the week and silver ended up 55 cents (3.6%); although gold came on stronger at the end of the week. Of more significance is that this week's close was the highest for gold in nearly two months and was silver's highest weekly close in nearly four months. And there was a notable rally in mineral resource commodities and related stocks accompanied by a general stock market advance this week. Standout performers included crude oil, up 9% for the week and zinc, which jumped 10% on Friday on news of production cuts.

As a result of silver's relative outperformance for the week, the silver/gold price ratio tightened in by another nearly 2 points to finish just over 73 to 1. While silver has outperformed gold over the past month or so, the price ratio is still close to the daily average for the past year.

As a reminder, changes in the silver/gold price ratio have just about nothing to do with anyone actually buying or selling much of each metal for the other, or each metals' supply/demand fundamentals and everything to do with gold and silver having the exact same price discovery process  $\hat{A}$ ? futures contract positioning on the COMEX. When I think about it – that the prices of two similar, but very different commodities would dance in lockstep for such extended periods of time – may advertise the ongoing price manipulation like nothing else. I still believe silver to be vastly undervalued relative to gold, but I also still believe that may or may not be reflected in the short term.

It was a week that featured an intensification of what I consider to be the central price theme, namely, the continuing clash between the artificial price force on the COMEX and the flow of documented data from the physical world. In a nutshell, each force, leveraged paper trading and actual metal data seem to have reached extremes that at one time I would have considered impossible. While the artificial force of COMEX trading continues to dominate prices, more reportable evidence from the physical metals world, both in gold and silver, suggest that the artificial dominance may be in the process of being overthrown.

First, there is the continued unprecedented physical turnover or movement of metal into and out from the COMEX-approved silver warehouses. More than 7.2 million oz were physically shuffled (onto and off from trucks) this week, as total silver inventories fell by 1.1 million oz to another nearly two year low of 162.8 million oz. On Friday alone, nearly 2.5 million oz were moved which is more silver than the entire world mines in a day. Why would this much silver be moved in and out from a few warehouses in the NY area? Why isn't this turnover occurring in any other commodity? I say because of supply tightness and I can't construct an alternative explanation. I'm actually thinking of running a contest to come up with reasonably-sounding alternatives.

There hasn't been a similar rapid physical movement in the COMEX gold warehouses (in NY), but I still think the signs of physical tightness appear in gold as well. The current COMEX October delivery process still looks "sticky" in that few actual deliveries have been made after a week and a half and roughly 1300 contracts remain open. Only 190 contracts have been issued so far and JPMorgan has emerged as the second largest stopper, with 84 contracts, after HSBC, with both banks taking delivery in their house or proprietary trading accounts. I mention JPMorgan first, because this bank seems to be the leader in everything connected to gold and silver and other commodities.

The small number of gold deliveries (so far) in the COMEX October gold delivery process helps support my feeling that anyone pressing for deliveries of 2000 or 3000 contracts (200,000 to 300,000 oz) would impact prices. And I continue to believe that is why there has been a big pickup in sales of Gold Eagles from the US Mint over the past 4 months. Someone big (not retail buyers) has picked up the 350,000 oz of "extra" Gold Eagles from the Mint, instead of taking delivery on the COMEX. That's because that big buyer knew that buying from the Mint would exert no immediate upward pressure on gold prices where a demand for a large number of COMEX deliveries would. And when I think of a big buyer, I naturally think of JPMorgan.

While JPMorgan has been mostly focused on accumulating physical silver over the past 4.5 years, the bank has most often been the kingpin in gold. At the start of the dramatic plunge in gold prices in early 2013 from \$1650 to \$1100, JPMorgan went from holding a short market corner of 25% of the entire COMEX gold futures market at the top in prices to a 25% market corner on the long side at the bottom in price.

I admit to believing at the time that JPMorgan would then manipulate gold prices sharply higher, but the bank instead cashed out with a hundred or two hundred dollar profit. But, at the very least, JPMorgan's large COMEX gold buying put a floor under gold prices and prevented what would have been much lower gold prices had it not bought. In essence, shorting at the top and buying at the bottom in 2013 by JPMorgan fully explains the price history of that year.

If I may speculate a bit, I've now come to believe that JPMorgan engineered the decline and subsequent bottom in gold prices in 2013 to stabilize prices at a low level to enhance their accumulation of silver at low prices. My guess is that this crooked bank succeeded spectacularly, acquiring more than 200 million oz of silver over the past two and a half years at prices much lower than the first 200 million oz acquired by the bank.

Now it seems that JPMorgan may be back to acquiring gold if my read on who is buying all the extra Gold Eagles from the Mint is close to being accurate. Perhaps in a measure of how tight the physical gold market may be, JPM does not appear to be pressing for gold via the COMEX, the easiest place to acquire large quantities of metal in a hurry. I think that goes a long way to highlighting the difference in the physical market for gold between 2013 and now. Back then, gold investors were significant sellers of gold in the big gold ETF, GLD, and on the COMEX, as seen in COT and ETF data and a big decline in COMEX gold warehouse inventories (3 to 4 million oz). I don't deny that the gold flowed to China and elsewhere, but I still maintain Western investors first sold the gold because of sharply falling prices (first pushed down the hill by JPM).

Since gold prices have stayed in a fairly tight trading range since the great decline into the summer of 2013, those selling due to falling prices have largely already sold and that selling appears to be exhausted. There doesn't appear to be great quantities of distressed gold for sale any longer and with the same baseline physical demand still existing, gold looks physically tight. Some see that tightness in the low level of registered metal in the COMEX warehouses and while I don't disagree, I think it's much more than that.

Here's a couple of new thoughts on COMEX silver and gold warehouse inventories concerning JPMorgan. Highlighting JPMorgan's accumulation of physical silver over the past 4.5 years and its relatively recent accumulation of physical gold over the past four months, JPM holds nearly 43% of total COMEX silver inventories while holding less than 9% of all the gold in COMEX warehouses. That's a funny mix for the kingfish of each market.

Here's further thought — removing JPMorgan's COMEX inventory holdings would put total COMEX silver inventories below 100 million oz, levels not seen in more than 15 years. Doing the same thing in gold would only bring us to levels witnessed a few years ago in COMEX total gold inventories. My point is that JPMorgan's silver holdings are disproportionately more significant in silver than in gold, owing to how steadfast the bank has been in acquiring silver.

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The new report on short sales, as of the close of business September 30, may be a good indicator of physical tightness in silver and gold. Short sales in both SLV and GLD, after declining to fairly low levels recently, exploded in the new report. Short sales in SLV jumped by nearly 8 million shares to 19.7 million shares (oz) and short sales in GLD rose by 5 million shares to 17.3 million shares (1.7 million oz).

<http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%99>

Price action in the two week reporting period featured a temporary upside penetrating of the 50 day moving averages in both SLV and GLD and a rally of close to 80 cents in silver and \$40 in gold and undoubtedly that motivated momentum type traders to buy, although trading volumes were not particularly impressive. Therefore, the increases in the short positions were somewhat shocking to me. The most plausible explanation for the large increases in the short positions in SLV and GLD is that the shares were shorted because there was not sufficient available physical silver and gold to deposit without driving both metals' prices much higher.

This is pretty much standard in SLV, since silver has been tighter more often than gold in the past and along with COMEX artificial pricing is another dirty trick of the manipulation. Not enough metal to deposit because of net new share buying as is required by the prospectus? No worries, Mate, just short sell the shares. This way, no one's the wiser and the buying of physical metal is avoided, along with the higher prices that buying would cause. Regular readers know this has long been a signature issue of mine. What's different this time is that gold appears to be in the same boat as silver when it comes to physical tightness.

The quantities in both SLV and GLD are significant. In a moment, I'll be discussing even bigger quantities of equivalent metal when I discuss the COT report, but the big difference is that the short sales in SLV and GLD are more "real" and physical than COMEX contracts. The 8 million oz of actual silver and 500,000 oz of actual gold that should have been deposited during the two weeks ending on Sep 30, would have had a much bigger impact on price had the actual metal been purchased and deposited than by some slick operator shorting what he didn't own instead.

I won't go off on a rant today about the fraud of short selling in these two metal ETFs today, but the most plausible conclusion is that the large short sales occurred precisely because no available metal could be purchased and deposited without driving prices much higher. As such, it is a telltale sign of physical tightness, not just in silver, but now also in gold. Please note that the 500,000 oz of gold not deposited is much larger than amounts in recent full delivery months in COMEX gold futures and larger than the 350,000 oz of "extra" Gold Eagles bought over the past four months.

There's not much new to say about sales of Silver and Gold Eagles from the US Mint. The Mint sold its full announced allotment of Silver Eagles, but I detected a slight and perhaps temporary pause in the breakneck pace of Gold Eagles sold over the past four months. It's too early to adopt firm conclusions.

[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)

The changes in this week's Commitments of Traders (COT) Report were significant and I went 1 for 2, although I wish it was 0 for 2. I was spot on for silver, but missed widely on gold after wishing I would miss on both. You'll remember that the current reporting week featured a three day rally in silver of \$1.50 and in gold of near \$50, the sharpest rallies in months on heavy trading volume. Therefore, it was a foregone conclusion that there would be a significant increase in managed money buying and commercial selling. That was the case in silver, but fortunately, not the case in gold.

In COMEX gold futures, there was an increase in the headline number of the total commercial net short position of 15,300 contracts to 88,500 contracts. (I had guessed an increase 30,000+). This is the largest (least bullish) total commercial net short position since late June, but still not excessively large on a longer historical basis. By commercial category, it was largely a long raptor (smaller commercials) liquidation, as these traders sold off 10,400 long contracts and took decent profits. The four big gold shorts added just under 2000 short contracts and the big 5 thru 8 added the balance of 3000 contracts sold short.

Just because the total commercial net short position grew by 15,300 contracts does not mean that there was an increase in commercial short selling of that amount. Commercials (raptor) selling out of long positions has the mathematical effect of increasing the overall commercial net short position even though less than 5000 new commercial shorts were added.

The real highlight of the gold report was in how little managed money buying took place. Only 5274 contracts were bought by the managed money technical fund traders, including 2781 new longs and 2493 contracts of short covering. Fortunately, this means that I didn't miss by 15,000 compared to my 30,000 contract guess, I missed by a much greater magnitude. What makes it fortunate is that the gold market structure is in much better shape than the headline number would indicate and could easily support higher prices, particularly if my sense of growing physical tightness is true.

In COMEX silver futures, the headline number of the total commercial net short position increased by a very significant 19,400 contracts to 49,500 contracts. (I had guessed an increase of 20,000 contracts and regret being that close). This is the largest (least bullish) headline number since early June. By commercial category, the raptors sold out 13,100 longs, but the four big commercial shorts added nearly 5000 new shorts and the big 5 thru 8 traders (now back to being exclusively commercials) added more than 1000 shorts.

Reconciling the current COT report with the concurrent release of the monthly Bank Participation Report, I would guess JPMorgan came back to the short side aggressively in adding the lion's share of big 4 shorts with 4000 new shorts and increasing its net short position to around 21,000 contracts. Thus, my hopes on two market structure fronts, the headline number and JPM's role, were dashed.

Unlike the case in gold, the managed money traders accounted for virtually all the buying against the commercials' selling, accounting for more than 18,500 silver contracts bought, including adding 6369 new long contracts and buying back 12,141 short contracts. The managed money long position is just under 50,000 contracts, about 10,000 over the 40,000 contract core long position and the managed money short position at 21,469 has only another 10,000 or so contracts of short covering remaining. I would guess, however, that some of the new longs in the managed money category might have been flushed out in the sharp rigged selloff late Wednesday evening into Thursday.

So why has silver deteriorated (as expected), while gold has not? I would attribute it to silver's relative outperformance in the reporting week when it traded above its 200 day moving average and all shorter moving averages, while gold is still \$20 below its 200 day moving average. One thing for sure is that what caused silver prices to rise was managed money buying on the COMEX. In fact, there was a dearth of any news or plausible explanations to account for the (meager) rally, albeit to the highest levels in months.

The numbers are simple and convincing; managed money traders bought nearly 100 million oz of equivalent silver in three days in paper COMEX dealings. That's more than 10% of annual world mine production and resulted in a \$1.50 rally. The only reason the rally was so muted was because commercial selling was so aggressive, as advertised continuously over the years. The only way to appreciate how preposterous it is for more than 10% of the world production of any commodity to be purchased within three days is to compare what that would mean in other commodities.

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In the case of gold, 10% of world gold production is 10 million oz and the equivalent of 100,000 COMEX contracts. This week, managed money traders bought just over 5000 contracts resulting in a \$50 gold rally. What would 100,000 gold contracts purchased amount to pricewise? In copper, 10% of world production would amount to 2 million tons or 160,000 COMEX copper contracts. That happens to equal total COMEX copper open interest; so what would be the price impact if 160,000 COMEX contracts were purchased within three days?

How about the biggest commodity of all, crude oil? Total world annual crude oil production is roughly 34 billion barrels, so 10% of that would be 3.4 billion barrels or the equivalent of 34 million NYMEX crude oil contracts. Total open interest in the NYMEX crude oil contract is about 1.6 million contracts and there's no way to even contemplate 34 million crude oil contracts being purchased in three days or three years.

I make these relevant comparisons, not to glaze your eyes over, but to point out how absurd it is for any commodity to experience a three day purchase of the equivalent of 10% of its annual world production regardless of its impact on price. The mere fact that the CFTC has reported that the equivalent of 10% of the world annual output of silver was purchased by speculators on the COMEX is preposterous in and of itself. That it only resulted in a \$1.50 rally in the world's most undervalued commodity is more absurd icing on a preposterous cake.

The fact is that everything about silver and the COMEX is preposterous – the price, the price action, the players, the exchange, the regulators, the whole setup. It's especially absurd that the chief manipulator, JPMorgan, the US's most important (and crooked) bank is the unquestioned ringleader behind depressed silver prices and has amassed the largest privately-owned silver stockpile in history. And by its actions this week, this pig of a financial institution appears set to continue to depress prices for the purpose of accumulating even more physical silver.

On Wednesday, I indicated that despite the expected deterioration in the market structure I was inclined to stay and not go with silver positions, considering the still ultra-low price and the developing evidence of physical tightness. While disappointed at seeing the expected actually realized, I'm still of the mind to ride it out for fear of missing a major move higher. Afraid to stay, but more afraid to go.

Ted Butler

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Silver – \$15.80 (50 day moving average – \$14.92)

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