

## October 18, 2014 – Weekly Review

### Weekly Review

Against a backdrop of the most intense overall market volatility in years, the price of gold finished higher by \$15 (1.2%), while silver ended the week lower by 13 cents (0.7%). As a result of gold's outperformance, the silver/gold price ratio widened out, at times, above 72 to 1, before closing slightly below that level. This is the highest the ratio has been in more than four years and continues to represent an outstanding opportunity, in my opinion, to switch gold positions to silver. Not only is silver lower than it has been in four years on an absolute basis, it is cheaper and more undervalued relative to gold in that long as well.

Even though it is in the fabric of the human condition, I would try not to read too much into the deeper meaning of short term price moves. To do so, for instance, might cause an observer to conclude that silver's recent absolute and relative price weakness might be rooted in genuine supply/demand considerations. Or that silver is overvalued in any way. That's the problem with looking at price movement first and letting your mind then construct the reasoning behind the price movement. Admittedly, it's a very hard thing to do because it's so ingrained in human nature, but resisting jumping to popular conclusions is at the core of objective analysis. Particularly when there are alternative explanations.

Later on, I'll get into why silver has continued to act crummy pricewise against gold and why it would be a mistake to allow the short term rotten price action to lead to a conclusion that the long term prospects for silver were in any way compromised. For now, I continue to be amazed at how much commentary and rhetoric has emerged as to the reasons behind the dramatic price plunge in crude oil, as I discussed Wednesday. I never knew there were so many oil experts who were aware of the apparent (and sudden) overproduction and under consumption of the world's most important commodity.

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As I indicated on Wednesday, I believe the main reason for the price plunge was derivatives trading, principally on the NYMEX (owned by the CME Group). While certainly not agreeing with me that the price mechanism on the NYMEX amounted to price manipulation, I found the comments by the head of commodity research for Goldman Sachs, Jeff Currie, to largely confirm my take that there was no change in actual oil production or consumption to account for the price plunge, only "expectations" of such a change. He also mentioned speculative long liquidation in the derivatives market. Of course, considering the revenue stream that NYMEX oil trading represents to the firm, there's no way the CME would ever be referred to as crooked by any Goldman employee. Last I looked, the CME is not an income stream for me (aside from being a continuing source of material). Perhaps that might explain the different bottom line conclusion. <http://ftalphaville.ft.com/2014/10/17/2011352/oil-sell-off-the-goldman-view/>

On the physical silver front, the turnover or movement of silver bars into and out from the COMEX-approved warehouses jumped back above the year's weekly average by 500,000 oz as 5 million ounces both came in, but mostly were moved out. Total inventories fell by nearly 3 million oz to 179.7 million oz. The silver turnover for the week started out slowly, including a rare day of no movement at all, but I think that might be related to the Columbus Day bank holiday.

I'm not moving the stuff, but, clearly, someone is and the amounts continue to astound. 5 million oz of weekly physical silver turnover is equal to 250 million oz annually, or more than either the US, China or India consumes in a year and much more than any one country mines in a year. Let's see, there is no doubt (except by those who doubt everything) that this documented turnover involves physical silver being moved hither and yon in massive and unprecedented quantities, yet I remain in an echo chamber in writing about it. Go figure.

There were additional withdrawals from the big silver ETF, SLV, this week and again the withdrawals seem counterintuitive when held up against price action (mostly flat) and trading volume (mostly subdued). From the recent top of 350 million oz, some 6.5 million oz of silver have been delisted from the SLV as shares outstanding has dropped accordingly. I can't prove it, but my strong sense is that a big buyer might be converting shares of SLV to direct physical metal ownership so as to avoid reporting more than a 5% stake to the SEC. My strong sense results from me wanting to do exactly the same thing were I so fortunate to be able to do so financially. Try to imagine having the money to buy as much silver as you could. Next, imagine how you would actually go about it and didn't want to openly disclose the purchase while it was being made. If you can imagine a better way than by what I am speculating might be occurring in SLV presently, please drop me a line.

I confess to maybe hearing and seeing things that might not exist, particularly when so many unusual things appear to be present in silver, but the sales reporting pattern for Silver Eagles from the US Mint still suggests a big buyer is present. Sales for the month are impressive, but more notable is the uneven pattern of daily sales; some days 50,000 coins are reported sold or none at all, other days, more than 500,000. If broad public retail demand was behind the recent surge in Silver Eagles that would manifest itself with steady day to day reported sales. Since that is not the pattern at all, the most plausible explanation would be a single big buyer picking the time and price for purchase. Regardless, it should still be close to a record year for sales of Silver Eagles. [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 Report (COT) for gold and silver were largely expected. I had concluded Wednesday's article by expressing concern that gold's recent relative price strength compared to silver was likely the result of technical fund buying/commercial selling in gold and a lack thereof in silver. And that is exactly what was reported.

In COMEX gold futures, the total commercial net short position increased by 15,400 contracts to 78,800 contracts. Please remember that gold prices rose as much as \$30, closing above the 20 day moving average for everyday of the reporting week. I can't recall a previous rally of this magnitude not accompanied by technical fund buying and commercial selling. By commercial category, the big 8 increased their short position by around 2500 contracts as the raptors did the heavy selling with roughly 13,000 contracts sold. JPMorgan contributed to the gold selling by peeling off 3000 of their net long position, now down to 18,000 contracts. This is the lowest net long position held by JPMorgan in about a year and a half.

On the buy side of gold, there was no surprise that the technical funds (in the managed money category of the disaggregated report) added 13,500 new longs. More surprising was the shorts in the managed money category not only didn't cover any shorts on the gold price rally through Tuesday, but actually added almost 1200 new short contracts to a short position still within spitting distance of the previous record. There probably was additional new buying by the technical funds and likely some short covering since the cut-off on Tuesday, which sets up some crosscurrents in gold short term price probabilities.

On the one hand, the overall COT structure in gold remains decidedly bullish (even including expected deterioration since the cut-off), particularly considering the large number of managed money short contracts still open. After all, the technical funds sold and the commercial bought 100,000 net contracts (10 million oz) on the \$150 price decline in gold which ended two weeks ago. On the other hand, the 20,000+ contracts bought by the technical funds and sold by the commercials this week (including extrapolation since the cut-off) increases the possibility of a short term sell-off in gold.

Would the (relatively slight) addition of technical fund longs in gold warrant a sell-off of say \$20 or \$30 or more? One wouldn't think so except the collusive COMEX commercials are so crooked so as to make a sell-off possible. This week, I watched these same commercials whipsaw the technical funds in COMEX copper for eight cents a pound on 8000 net copper contracts, a two-day payoff of \$16 million. If the commercials whipsawed 15,000 contracts of COMEX gold from the technical funds for \$20, that would come to a \$30 million short term pay day. It's absolutely disgusting that the COMEX commercials are allowed to wield such price control on what should be free markets and the blame lies squarely on the non-regulators at the CFTC and the CME. What's new?

Here's an interesting point. Thanks to the \$40+ rally in gold over the past two weeks, most of the combined open profit that the technical fund shorts held at sub-\$1200 gold (\$350 million) was evaporated on the rally. While open profits will return temporarily to the technical funds should the commercials decide to kick gold prices lower again, I still contend that in the end there will be no realized overall profits to gold (and silver) technical fund shorts. Otherwise, I have an Easter Bunny costume and some Space Shuttle flying ahead of me.

In COMEX silver futures, three consecutive weeks of slight changes ended with virtually no change in the current reporting week as the commercial net short position remained at 16,300 contracts. Considering the increase in the COMEX gold commercial short position, I was relieved with the results shown for silver. Despite the unchanged headline number, there was some slight movement by commercial category, mostly raptor (smaller commercial) selling of 700 contracts offset by a like amount of buying by the big 4 (JPMorgan).

Although the week's changes weren't large, we did set some low and high water marks. The concentrated net short position of the 8 largest traders fell to the lowest level since December 2013 and that of the 4 largest silver shorts fell to its lowest level since August 2012, the lowest in more than two years (quickly followed by an \$8 silver rally at that time). Perhaps most importantly, the short position held by JPMorgan is down by 500 contracts, to 10,000 contracts or less.

As I mentioned previously, JPMorgan's concentrated short position in COMEX silver is now lower than it has been since acquiring Bear Stearns in early 2008. If anything, JPM's COMEX silver short may even be lower than I have calculated, simply because it is no longer that large relative to the holdings of the three other big shorts. With just over 34,000 contracts held short by the big 4, once you subtract JPM's 10,000 short contracts, the remaining three shorts average 8,000 contracts each. This is a far cry from years earlier when JPMorgan singlehandedly held as many as 40,000 contracts of COMEX silver net short and represented close to 70% of the big 4's total silver shorts. Both the longer term and recent trends seem to indicate JPMorgan may not wish to remain the prime silver manipulator as it clearly had been in the past.

Throw in my previous speculation that JPMorgan has been buying physical silver over the past three and a half years with a reckless abandon and may, in fact, be Mr. Big when it comes to buying in SLV and in Silver Eagles; it is easy to conclude that JPM may hold an extreme net long position in silver despite holding 10,000 COMEX contracts (50 million oz) short. As such, it would appear JPMorgan could be positioned much better for an upside move in silver than at any time in the bank's history, both before and after Bear Stearns. And as a bonus to the bank, none of its suspected holdings on the long side of silver would appear to be reportable; thus keeping the holdings and any eventual gains undisclosed.

As an aside, if JPMorgan is as long physical silver as I suspect, the legitimate concern is raised that they will sell that silver to alleviate any developing physical shortage should silver market conditions become tighter. In other words, could or would JPMorgan sacrifice its suspected silver holdings by selling along the way to snuff out developing tightness? I can't answer that other than to say if that did occur, then what I have been alleging for nearly three decades is more extreme than even I suspected.

The good news is that the same great set up exists in COMEX silver futures, thanks to the extreme technical fund short position which rose by over 1200 contracts to a new record of almost 45,000 contracts during the reporting week. Yes, the technical funds, unlike the case currently in COMEX gold, still hold a \$400 million open profit on the 37,000 short contracts added on this decline and in the short term on lower prices that profit might expand. But increasing open profits are still very different than realized profits. The rotten silver price performance is directly related to and caused by the technical fund selling but it is virtually guaranteed that all these technical fund short positions will be bought back. The only questions are when and at what price. Even here, JPMorgan, by positioning itself so well for an upside move in silver, will likely play a leading role in the next silver rally.

It still comes down to how aggressively the commercials sell on the next rally that will determine the nature and extent of that silver rally, including how JPMorgan behaves. With 50,000 to 60,000 contracts of technical fund new buying and short covering to come on higher prices already baked into the cake, it comes down to how aggressively the raptors will sell their nearly 40,000 long silver contracts and how aggressively JPMorgan and the seven other concentrated commercial silver shorts will add to shorts.

This actually matters more than if JPMorgan holds or sells the large amount of physical silver I suspect they have acquired. That's because any additional short selling in COMEX silver futures by JPMorgan and the other big shorts should be clearly documented in future COT data. If such aggressive commercial short selling does emerge, it will likely occur under and around the \$20 mark; otherwise we would quickly rise above that level. Such additional short selling at or under \$20 would be manipulative on its face, as there will be no legitimate hedging explanation possible. A leading silver miner, First Majestic, just announced it was withholding silver production this week due to the low current price. Massive new commercial silver shorting a dollar or two higher would prove the case for a silver manipulation like never before.

At the start of this review, I commented, as I usually do, on the relative value between gold and silver and how not to rely on short term price patterns to determine long term value. The current COT structure in each further highlights that point. Gold rose more than silver over the past two weeks as a direct result of technical fund buying/commercial selling and silver didn't rise as much because of a lack of such activity. Take all the other reasons given daily for explaining gold and silver price movements and throw them out the window because they mattered not. As a result, on a relative COT basis, silver is structured better than gold. It's impossible to pinpoint if that means the commercial crooks will rig gold lower in order to harvest the new technical fund longs in gold and whether such gold price rigging will have a corresponding negative influence on silver prices as well, at least temporarily.

However, on its own, the silver COT structure is as good as it gets in many important ways; including the lowest concentrated short position in years, as well as the lowest COMEX short position by JPMorgan ever and the record high level of technical fund shorts (which must buy back). Even if the COMEX commercial crooks succeed in rigging gold temporarily lower (no sure thing) any such spillover effect in silver should prove even more temporary, if it occurs at all. If the commercials refrain, even in the slightest, from aggressive selling on a rally, silver should fly.

Ted Butler

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Silver – \$17.27

Gold – \$1238

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