

October 24, 2015 – Weekly Review

Weekly Review

Gold and silver didn't add to recent gains and fell for the week; with gold ending lower by \$13 (1.1%) and silver off by 22 cents (1.4%). Gold's relative outperformance didn't register much in the silver/gold price ratio, which increased slightly to just over 73.5 to 1, just about smack dab in the middle of the past year's trading range. Sometimes, it's hard for me to choose which I think is more artificial and manipulated – the price of silver, or the price of silver relative to gold. I suppose my difficulty is based upon each having the same root cause.

I'll get into main gold and silver price driver, which is the continued deterioration of the COMEX market structure in each, after the usual format. But it is important to keep things in proper perspective and not to identify the primary price setting influence, particularly when it has become so extreme, would be highly unprofessional. Different analysts and commentators, quite naturally, place different emphasis on a variety of market factors. This is to be expected and the advantage to the reader is to be able to weigh the differences in opinions and emphasis.

But when one single factor emerges to so dominate price like no other factor, then it is important that everyone recognize that dominant factor, particularly if that factor is harmful to the market and is, in fact, illegal. Of course, I'm referring to positioning changes in COMEX futures contracts, as indicated in the Commitments of Traders (COT) Report. On the bright side, it seems COMEX paper contract positioning is becoming more obvious, with the latest example being comments made by the CEO of Agnico-Eagle, a large gold and silver mining company.

However, it is also true that, in many ways, the dominance of paper speculative positioning on the COMEX has never been stronger than it is presently, as well as having become easier to prove as manipulative to the price of gold and silver (and other commodities). Therefore, it is still not being talked about enough, despite it being so easy to prove. Why bother discussing how much gold China is buying or how many Silver Eagles the US Mint is selling, if those factors and others have no bearing on the price? I'm not saying these other things are unimportant – I'm saying they have had no influence on the price. Maybe that changes tomorrow, but the only way that happens is if something supersedes the dominance of COMEX futures positioning (like a genuine silver shortage).

Admittedly, I look at indicators away from COMEX positioning, like the weekly turnover or movement of metal brought into or taken out from the COMEX-approved silver warehouses. But even that indicator has had no price influence on silver; so why follow it? I suppose the answer, just like gold bought by China or record sales of silver coins, is to underscore just how dominant COMEX positioning has become when factors that should exert some influence on price have no such influence.

This week, the physical turnover of metal in the COMEX silver warehouses cooled off sharply, as only 1.75 million oz were moved and total inventories fell 0.7 million oz to 162.3 million oz, a fresh two year low. Not having predicted the frantic physical silver turnover would begin 4.5 years ago or that it would continue to remain frantic; I'm in no position to predict what happens next. I suppose if this specific silver movement were to suddenly cease after being so frantic for so long, the mystery of why it occurred would be even greater. It still smells like supply tightness to me.

A quick update on the October COMEX gold delivery process which I've written about recently. As of yesterday, around 500 contracts remain open and 485 gold deliveries have been issued so far this month, with JPMorgan having stopped (taken) 375 contracts in its own proprietary (house) trading account. Actually, when you net out the 107 contracts initially stopped by HSBC but subsequently redelivered and other traders who stopped and then redelivered gold this month on the COMEX, JPMorgan has been the sole gold stopper so far (with a week to go). These are not big numbers by any stretch, but JPM does stand out as the sole gold stopper. What's interesting is that I would imagine JPMorgan is net short in COMEX gold futures overall, so it has taken delivery while being net short, something this bank has done in COMEX silver on a number of occasions.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

My point is that despite all the talk about Dodd-Frank and the Volcker Rule (which I thought was aimed at getting the big banks out of speculating in commodities), one bank, JPMorgan, has become (or remained) the most dominant player of all in gold and silver and other commodities. Why the heck do we allow banks to trade in commodities in the first place, to say nothing about allowing one bank, JPMorgan, to monopolize and control gold and silver?

It does appear that there has been a sharp cooling off in demand this month for Gold Eagles from the US Mint, after four months of blistering demand. So far this month, sales of Gold Eagles are off some 75% from more recent levels. And while sales of Silver Eagles must be considered strong (since we're on a record pace this year), I even detected some cooling off in demand for Silver Eagles, as the Mint didn't report it sold its recent full allocation amount (unless it lowered its allocation this week). I admit to watching this perhaps much too closely, but I'm sensing the big buyer of both Gold and Silver Eagles (JPMorgan) may be stepping aside temporarily since it now appears positioned to drive prices lower on the COMEX. There's no question plain vanilla retail demand is moribund.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I was expecting bad numbers again for the COT report and, unfortunately, fell short of how much the total commercial net short position grew in COMEX gold and silver. You'll remember that during the first two days (Wednesday and Thursday) of the reporting week, both silver and gold put in new multi-month price highs on heavy COMEX trading volume, while penetrating the 200 day moving average (gold for the first time in months). In addition, the daily total open interest grew sharply on those two days, highly suggestive of managed money technical fund buying and commercial selling. You just knew the headline number would increase by thousands of contracts, even if you couldn't know the precise number. After all, this is why gold and silver prices move.

In COMEX gold futures, the total commercial net short position exploded by 44,800 contracts to 163,300 contracts. (I thought I may have over did it in guessing an increase of 30,000 contracts). This is the largest (most bearish) commercial position since late January/early February of this year when the headline number slightly exceeded 200,000 contracts (and which led to a \$150 decline in the price of gold into mid-March).

By commercial category it was, just like days of yore, straight out of the Three Musketeers as the commercials were collusive sellers ^ all for one, one for all. The big 4 added 8000 new shorts and the big 5 thru 8 added a very hefty 15,500 new shorts and the raptors (the smaller commercials) sold out 21,300 long contracts. As was the case last week, the big 4 and 8 short positions are the largest since Feb 3 and the gold raptor long position is the lowest since then. This is not the historical setup for a major price rally.

The buyers during the reporting week were mainly the technical funds in the managed money category, which bought a total net 39,131 gold contracts, including 27,849 new longs and 11,282 contracts of short buybacks. This isn't the highest (most bearish) managed money net or gross long position in history, but it is quite significant. Further, the increase in managed money buying and commercial selling in gold over the past five weeks (since September 15) is nothing short of stunning.

The increase in net commercial selling on the COMEX since Sep 15 is 130,000 contracts, the equivalent of 13 million oz of gold, worth more than \$15 billion. Managed money traders accounted for most of the buying. Most amazing of all is that gold only rose by some \$90 per ounce as a result of what may have been the largest amount of technical fund buying in the shortest time period ever. It's not as if the managed money traders changed the manner in how they bought the massive amount of gold contracts; they bought these contracts the same way they always have — with, effectively, "at the market" buy orders.

In the past, such large managed money buying caused gold prices to climb hundreds of dollars, but not this time (so far). Why not? The answer would seem obvious. If the managed money traders bought as many or more contracts as they have in the past, did it in a shorter time frame and in the same manner as before, then one must look elsewhere for an explanation as to why gold prices rose less than they had previously.

One has to look at the sellers to the managed money buyers. The answer as to why gold and silver prices have staged progressively anemic rallies on more intense buying than ever is because the selling has grown even more intense than the buying. In this sense, gold has caught a dose of the silver disease in that price rallies are being capped at lower levels and that is clear as day in the COT report.

In COMEX silver futures, the total commercial net short position increased by a very hefty 8200 contracts to 66,800 contracts. (I had guessed an increase 5,000 contracts, chickening out from an earlier guess of 10,000 contracts). Unless my eyes have deceived me, this is the largest (most bearish) headline number since mid-2008. I can understand anyone being in deep wonder about how we could have the largest total net commercial short position on a sickeningly weak rally to only \$16. I challenge anyone (not subscribers) to describe how this could occur in a market free of manipulation.

As was the case in gold, it was collusive commercial selling by category. The big 4 added nearly 2300 new shorts, the big 5 thru 8 added 1700 new shorts and the raptors sold off 4200 long contracts. The concentrated short position of the 8 largest traders in COMEX silver is now at new multi-year highs of 84,792 contracts, the equivalent of nearly 424 million oz. Despite reading various articles recently about supposed "smoking guns" in the silver and gold manipulation, the smoking gun of the concentrated short position in COMEX silver is akin to a heavy artillery weapon compared to a pellet gun. Nothing could be more manipulative.

The managed money technical fund traders bought 5929 net silver contracts (a bit closer to my 5000 contract guess), including new longs of 4493 contracts and the buyback of 1436 short contracts. At nearly 61,000 contracts long in the managed money category, there are now 21,000 contracts of potential long liquidation if we move to the core long position of around 40,000 contracts I've written about previously. And with only 13,003 contracts remaining on the short side of managed money, we remain close to "E" on the rocket fuel buying tank.

Since Sept 15, the commercial net short position has grown by more than 45,000 contracts and the managed money technical fund traders have bought that same amount. That's the equivalent of 225 million oz of silver, or three and a half months of world mine production. Silver closed just under \$14.50 on September 15, so the "at the market" buying of the equivalent of 3.5 months of world silver mine production, or two-thirds of all the silver in SLV, or more than 135% of all the silver in the COMEX warehouse inventories was able to lift silver prices by a whole \$1.50. This is the weakest of the progressively weaker silver rallies over the past few years.

Also as was the case in gold, the answer to why so much silver (225 million oz equivalent) could be bought in the most aggressive manner possible (market orders), in only 5 weeks and only cause prices to rise by a stinking \$1.50, can't be derived from looking at the buyers. One must look to the sellers to explain the weak silver rally, which also will explain in advance any eventual selloff.

On Wednesday, I wrote about Oprah Winfrey and the short covering rally in the stock of Weight Watchers International, but there was another short related story in the stock market last week. The shares of the drug company Valeant Pharmaceuticals International plunged in reaction to a report by a noted short seller, Andrew Left of Citron Research, which basically accused the drug company of accounting fraud. Not for a moment should you assume that I have any opinion or interest in whether the allegations are true or not, as I have a completely different reason for raising this issue. From what I have observed from a great distance is that whether the company had engaged in any type of impropriety is open to question.

Instead, it was a comment by Mr. Left in a previous interview that caught my eye. Mr. Left was quoted (by the Wall Street Journal) as having had compelling research stories in the past, but the problem was disseminating the stories. "Sometimes you have a great story and the biggest challenge is, 'How do I get people to read it?'" In terms of how that applies to silver and what I have written about its price manipulation, all I can say is "Amen Brother."

More to my point is that while there appears to be genuine debate about whether Valeant engaged in any impropriety, there can be no debate about what I allege in silver (and gold). Valeant is denying it did anything wrong and most of the Wall Street analysts who follow the company (almost all with buy ratings) are talking out of both sides of their mouths in reaction to Mr. Left's allegations (as is customary). That's because it will take some time and transparency to resolve the matter, as more is unknown than known at this time.

Now compare that to silver, where the facts that I allege that prove silver is manipulated come from hard data published by the CFTC every single week. Data that I can reasonably estimate and predict in advance accurately more often than not. I'm not alleging some deep and dark conspiracy (although I admit there may be one) "I'm reciting facts and data from the US Government that can be confirmed for free with the click of a computer mouse. All the facts that I have offered today can be found here (although the link will change with next week's report). Silver is the third commodity down, gold is the fourth.

http://www.cftc.gov/dea/futures/other_1f.htm

The big difference between what Mr. Left alleges and what I allege is that no additional information is necessary to prove that silver (and gold) is manipulated in price. No additional data are required. Further, everyone, including the CFTC and the CME Group, knows or should know that excessive concentration is at the core of every manipulation; that's why such data is included in the COT report in the first place. In terms of any possible objective measurement (such as the relative world production or consumption of every commodity or as a share of all other futures markets), the concentration of the largest traders on the short side of COMEX silver is off the charts.

And the sad truth is that the level of concentration on the short side of COMEX silver would never be tolerated should it occur on the long side. The chance of the CFTC and CME tolerating a concentrated long position by 8 traders of more than 50% of world mine production or more than 60% of the total net COMEX open interest is so low as to be non-existent. The statue of Lady Justice may be blindfolded to signify no bias, but that can hardly be said of the CFTC when it comes to adjudicating what determines manipulation. All long concentrations are dealt with swiftly; short manipulations? Not so much.

In fact, it's gotten so obvious that the CFTC can't be concerned with a short concentration or downside price manipulation that the agency has gone on lockdown in not even responding to questions about its own data. I personally send all my articles to the agency's commissioners and the top bureaucrats, including the head of enforcement, his second in charge, as well as the head of market oversight; in addition to the heads of JPMorgan, the CME and the CME's top regulatory official. Last week, I even added a personal note to the bureaucrats asking what the heck they do all day, instead of addressing the clear concentration and manipulation on the short side of COMEX silver. As you might suppose, I get no response. I guess they all might delete my emails as soon as they are received, but no one can deny that the issues I raise are substantive.

It seems obvious to me that the reason I get no response is because no legitimate response can be made. What can anyone, at the agency, exchange or elsewhere say? That my numbers and conclusions are wrong? That there's a legitimate explanation that could justify the short concentration? If any mistake on my part existed or any legitimate explanation could be made, they would have been offered. That's the problem Â? the short concentration can't be explained away and the agency has been reduced to pretending nothing is wrong.

But something is wrong and that something just happens to be the CFTC's main regulatory mission Â? preventing and ending manipulation, any market's most serious crime. If Mr. Left's greatest challenge was in getting anyone to read his research, my greatest challenge (as well as all silver investors) is in getting the CFTC to address data it has published that prove beyond a doubt that silver is manipulated in price. You know if they could answer and end these allegations they would have done so. That's why I intend to press them for answers or, better yet, decisive regulatory action. And yes, it's also grating that these spineless regulators are paid by taxpayers, including silver investors and have also sworn an oath to uphold the law. I suppose swearing an oath is different than it used to be in terms of meaning.

As far as what to expect pricewise in silver, when the commercials have sold as heavily in the past as they have now, prices usually turn lower so that the commercials can then buy at lower prices. That's the essence of the manipulation. I suppose something could upset the traditional apple cart, but the probabilities would suggest lower prices ahead at some point. As always, the prospects for much higher prices in the end are still as solid as ever.

Ted Butler

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Silver – \$15.81 (50 day moving average – \$15.12)

Gold – \$1164 (50 day moving average – \$1138)

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