

October 3, 2015 – Weekly Review

Weekly Review

With the passage of time, this week's closing prices for gold and silver will appear unremarkable, but the large rally on Friday was another matter. Despite the surge yesterday, gold still finished the week lower by \$8 (0.7%), while silver ended higher by 15 cents (1%). Shortly before the release of the US monthly employment report yesterday morning, gold was trading \$35 lower and silver was trading 80 cents lower than where they would ultimately close the day. Silver's relative outperformance compared to gold resulted in a tightening in the silver/gold price ratio of more than a point to under 75 to 1. Earlier in the week, much weaker relative silver prices saw the price ratio trade beyond 78 to 1.

Not for a moment am I implying that the monthly employment report had much to do with the sharp reversal in gold and silver yesterday, other than serve as a convenient cover story for what really was behind the price action. There can be little doubt that Friday's price surge was due, in its entirety, to an upward penetration of the important 50 day moving average in each metal, which caused mandatory managed money buying. Going into Friday morning, both gold and silver had traded below this key moving average for a few days which resulted in mandatory managed money selling and this is what set the stage for the sudden rally.

Also not for a moment am I implying that I had predicted the price reversal, because I didn't. But that's very different than explaining what happened. Short term price predictions are impossible (at least for me); explanations are required. Both long term investment success and one's sanity are enhanced with the certain knowledge of what's really driving prices. In the case of gold and silver, the prime (and often sole) price driver is COMEX futures contract positioning. Yesterday's sharp and sudden rally was exclusively a COMEX managed money/commercial production and I believe it's important to understand that simple fact. I'll get into the details and keys to what this may mean in a moment.

Like a scratched record, the needle skipped again this week when it came to what may be the most important sign of supply tightness in the wholesale physical silver market. Turnover or the physical movement of metal brought into or taken out from the six COMEX-approved silver warehouses was frantic once again, as nearly 8 million oz were moved. Total COMEX silver inventories fell a hefty 3.6 million oz to just under 164 million oz, the lowest level in nearly two years. Included in the turnover this week was the very rare instance of a slight reduction (300,000 oz) in the inventories in the JPMorgan warehouse, although even with the reduction, JPM accounts for more than 42% of total inventories in the COMEX silver warehouse system.

My focus is still on the physical turnover and not on the total level of COMEX silver inventories. But since current supply/demand data don't suggest an actual consumption deficit (as was the case from 1940 to 2006) where there was less silver in the world than the year before, I would expect COMEX total inventories to rise, not fall. I'm not looking to invent bullish explanations for everything related to silver, but it's hard to interpret the reduction in COMEX inventories as bearish in any way, as the simplest explanation is that the metal is needed more urgently elsewhere.

I remember writing at the beginning of this year that COMEX silver warehouse turnover seemed to be quieting down, but that hasn't turned out to be the case. Over the past five weeks, close to 40 million oz of metal has come into or has departed the combined COMEX warehouses. That's a weekly average of 8 million oz or more than 400 million oz annualized; 50% of total world silver mine production. Were this movement occurring in any other commodity, I'm sure it would be closely scrutinized and over-explained; in silver, it's virtually ignored. I still solicit alternative explanations apart from my premise that the silver is in motion due to unrelenting physical demand and is a sure sign of tightness.

Sales of Silver and Gold Eagles closed out September close to as was reported on Wednesday and there have been no updates from the US Mint over the first two days of the new month. Silver Eagles fell short of the 4 million oz mark (as I sensed), but the reason more weren't sold was because the Mint couldn't produce more, most likely due to insufficient blank supply. Sales of Gold Eagles were particularly impressive and over the past four months, more than 4 times as many Gold Eagles were sold (in oz) than were sold in the previous four months. The increase alone in Gold Eagles sold over the last four months comes to more than 350,000 oz, or \$400 million. Again, that's just the increase. Not detecting any surge in plain vanilla retail buying demand in gold, I'm of the mind that the big surge in demand for Gold Eagle is the work of a big buyer (most likely JPM). I also sense that force at work in the increases in recent deposits in the big gold ETF, GLD.

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

That's not to say that the emergence of a big buyer in gold (Eagles and GLD), might not trip off broader gold buying, as has seemed to be the case in silver. There's no doubt in my mind that JPMorgan's persistent and consistent buying of Silver Eagles over the past four and a half years is what set off the current retail silver shortage and not broad based retail demand. Once retail supply lines are depleted, as they are in silver, it doesn't take much additional demand to make the shortage more extreme.

A case in point is the sudden surge in demand for retail silver coins from the Perth Mint. The Mint reported this week that it sold more than 3.3 million oz of silver coins in September, up nearly five-fold from the average monthly demand (there was a much smaller percentage increase in sales of gold coins). Up until now, surging silver coin sales were a phenomenon for the US and Royal Canadian Mints. But with both Mint's production/supply capacity maxed out, silver demand seems to be spreading beyond North America.

I attribute the five-fold surge in sales of silver coins from the Perth Mint in September to JPMorgan; either directly or as a result of JPM having depleted retail silver supply lines over the past 4.5 years. That's the thing with shortages; unless you address the prime cause of the shortage (in silver's case an artificially depressed wholesale price), there is no reason to expect the shortage to disappear without sharply higher prices. No one can foretell the day to day developments, but considering how dry the retail silver supply lines are in North America (thanks to JPM), it shouldn't be surprising it appears to have spread elsewhere.

The changes in this week's Commitments of Traders (COT) Report, while informative, are also already outdated as a result of yesterday's high volume price surge up through the 50 day moving averages in both gold and silver. I'll get into what might have transpired yesterday after reviewing what happened through the Tuesday cutoff in the report released yesterday.

Price action during the reporting week was choppy; first higher, then lower in both gold and silver with the big difference being that gold remained above its 50 day moving average during the reporting week, while silver ended below its 50 day moving average. As such, it's not particularly surprising that the headline number of the total commercial net short position increased in gold and not in silver (although I offered no predictions, mainly due to large recent changes and questions about reporting timeliness).

In COMEX gold futures, the commercials increased their total net short position by 15,900 contracts to 73,100 contracts. This is the largest (least bullish) total commercial net short position since the end of June, but on a longer term basis is not a particularly large commercial net short position. Of more concern is how much commercial selling occurred yesterday. Undoubtedly, while sizable commercial selling occurred yesterday, there was decent commercial buying on Wednesday and Thursday when gold fell below its 50 day moving average, which may have somewhat tempered the commercial selling yesterday (same in silver).

I fully admit that it is nuts to speak so much about the moving averages in gold and silver and quite honestly, I detest having to do so. But, on the other hand, not to do so would be to ignore the prime price driver. Not to focus on the main price force would be analytical malpractice.

By commercial categories in gold, it was good that the smaller commercials (which I call the raptors) did most of the selling, in liquidating 14,200 long contracts. The 4 largest shorts did add nearly 2000 new short contracts which wasn't particularly excessive and remains an important key to future prices (even more so in silver). If the big shorts didn't add many more short contracts on yesterday's rally that would be very encouraging for higher gold prices, but there's no way of handicapping that at this point.

Under the hood, the managed money traders bought more contracts than the commercials sold; close to 20,000 contracts in total, including 14,633 contracts worth of short covering and 5102 contracts of new longs. On the cutoff date, neither the long position nor the short positions of the managed money traders looked particularly negative to price, but more important is what happened yesterday and the days since the Tuesday cutoff.

In COMEX silver futures, the total commercial net short position decreased by 1200 contracts, to 30,100 contracts. By commercial categories, the raptors added 1600 new longs and the big 4 shorts also were net buyers in covering 700 short contracts. That left the big 5 thru 8 shorts as net sellers of 1100 new short contracts, but that selling did not look to be commercial selling and instead the result of a managed money trader coming back into that category.

Unlike the case last week in silver and this week in gold, there was a hefty increase in managed money shorting this week of nearly 5300 new short contracts and no managed money buying. No doubt that this was part of the rocket fuel powering yesterday's rally (the largest since Dec 1, 2014) and it is reasonable to assume that fuel has now been burned plus more. It is amazing how 5,000 or 6,000 contracts or more of managed money shorts in silver have gotten whipped in and out of the market at losses by the conniving and manipulative commercials and it's a wonder why the technical funds allow themselves to be maneuvered like puppets.

A 60 cent move in silver on 5000 contracts comes to \$15 million each time the commercials yank the managed money traders above and below the 50 day moving average. Of course, that loss (and commercial gain) gets divvied up among ten or twenty traders, so the individual losses are less, but a million dollars here and a million dollars there and pretty soon that adds up to big money.

Of greater importance, of course, is that the rest of silver world is held captive to the crooked game transpiring on the COMEX by a handful of purely speculative traders. I would doubt, as is always the case, that there was any legitimate hedging on the COMEX in gold or silver (or any other market) this week or any other week. As such, it's hard to fathom just how corrupt/incompetent are the CFTC and the CME Group in not seeking to defend the integrity of the market.

As I have intoned seemingly forever, but especially over the last several weeks, the key is what the 4 big COMEX silver shorts do on the next rally. There is no question that yesterday's rally featured heavy managed money buying, particularly short covering, and just as heavy commercial selling and, accordingly, the headline number of the total commercial net short position has increased in both gold and silver. It can hardly be any other way, since this was what powered yesterday's rally.

But the real key is how many additional short contracts were added by the biggest shorts in COMEX silver and gold yesterday. Particularly in silver, any hefty increase in short positions by the concentrated shorts has served as the sole cause for why every previous silver rally failed. This can be proven by the fact that any newly added short positions by the biggest shorts have never been closed out at a loss, only profits (on eventual lower prices). And it's pretty easy to zero in on JPMorgan as being the swing big COMEX shorter and along with other provable facts this has kept me protected from any blowback from these certified market criminals.

Through this week's COT report, there has been no clear signs of a big increase in the short position of the concentrated silver shorts. Should next week's and future reports continue to indicate no big additional short selling by the big 4, it is hard for me to see how the silver rally won't carry much further. In other words and in my opinion, if the 4 big COMEX shorts, especially JPMorgan, don't add aggressively to COMEX silver short positions, silver must rally. I can't be any more specific or definitive.

But what happens if the forthcoming data indicate that the crooks at JPMorgan and other big 4 and 8 COMEX short traders do as they have always done and do add enough new manipulative shorts to cap prices? Does that mean that all is lost and we are doomed to go down once again? While I can't rule out such an outcome (going down in price one more time), it is still possible for the big shorts to have guessed wrong if they do add new shorts.

If the signs of physical tightness that I monitor are close to what I believe describes a very tight market that could easily slip into genuine shortage (as has occurred on the retail side), then any new shorts added by anyone, including King Kong or Vladimir Putin, will likely end in disaster for those shorts. In a wholesale physical shortage, additional derivatives (paper) shorts will have, at best, the briefest of a price capping influence.

Long time readers will recall that this is, essentially, the Full Pants Down theory of Izzy Friedman, when the big silver shorts get caught with a full short position just as a wholesale physical shortage hits. While it was always contested by me (because it made the debate more interesting), that was mainly due to me not believing it could get so far that the big shorts would not see the developing shortage before anyone. Given the extremely depressed price of silver, there is not much to do if the big crooked shorts add significant numbers of new silver shorts anyway, except to wait it out. After all, as yesterday's sudden price surge indicates, silver can move faster and further than just about any investment asset.

I also confess to recently recalling another "way out" prediction by Izzy that I had deep reservations about, namely, his claim that the premium on Silver Eagles, his most favored form of holding the metal would soar to a premium that was greater than the silver content when the US Mint stopped producing the coins (due to a silver shortage). True, the premium hasn't reached those levels (yet) and may never, but then again, the Mint is at full production (not ending production). And the premium is much larger than when Izzy wrote about it in 2007.

http://www.investmentsrarities.com/ted_butler_comentary/12-03-07.html

Let a wholesale physical silver shortage develop along the lines of what appears to be an intensifying retail silver shortage and I can't see how silver prices won't explode. I know I'm repeating myself, but I believe it is necessary. The real difference between a retail and wholesale silver shortage is that retail investors have no choice but to wait as long for delivery as the market dictates. A delivery delay is just not that critical to most, if not all investors. But no industrial user or fabricator can afford to shut down operations because of a delivery delay of any key component, including silver. If the silver users begin to face the delivery delays now common and acceptable to retail investors, they will not grin and bear it. They will panic and build physical silver inventories like there's no tomorrow. That's something Izzy and I never disagreed on.

Ted Butler

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Silver – \$15.25 (50 day moving average – \$14.81)

Gold – \$1138 (50 day moving average – \$1119)

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