

October 4, 2014 – Weekly Review

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The price declines accelerated this week with gold falling \$29 (2.4%) and silver by 80 cents (4.5%). Gold closed at a four year low and silver continued to set new four year lows. The relative underperformance of silver also pushed the silver/gold ratio out to new four year lows of nearly 71 to 1. I'll spare you the switch to silver from gold sermon, except to note that it has never been better in more than four years to make such a switch.

From twelve weeks ago, gold is down \$150 (11%) and silver is down \$4.60 (21%). I was (sort of) prepared for the first \$2.50 decline in the price of silver from the mid-July highs, but the last \$2 took me by surprise (even though I thought I knew just how treacherous the COMEX commercials could be). The damage to gold and silver investors has been unrelenting; I wake up most mornings wondering how many thousands of dollars my silver holdings will be marked down that day.

In particular, I worry about those holding positions on margin even though I have consistently warned about the pitfalls of leverage if a price decline would jeopardize long term holdings. The problem with margin calls is that they generally occur when one is least capable of meeting them. But I'll not pile on about margin today, as silver prices are in the stupid cheap category and if you can hang on, please do so. But resolve to eliminate leverage at the first practical opportunity. (Call options are different in that there is leverage but no risk of margin calls in a sudden plunge – just total loss of premium in time).

And it wasn't just gold and silver that slid in price this week, as substantial declines were seen in all COMEX/NYMEX metals, including copper, platinum and palladium. In addition, the most important market of all, crude oil, slid to year and a half price lows. Important round number price levels were violated; gold (\$1200), silver (\$17), copper (\$3) and crude oil (\$90). In platinum, not only was a round number (\$1300) level penetrated, the metal fell to five year lows and the weekly decline outdid silver's decline on a percentage basis (thereby violating the unwritten COMEX law that silver always fall the most no matter what).

Certainly, the price swoon in these commodities, all more unlike and unique than they are alike, caught the attention of many main stream media commentators. Invariably, the consensus viewpoint was that this was beneficial overall and reflected actual market fundamentals at work. The strong US Dollar was similarly mentioned as being at the center of the collective decline. I would strenuously object to that collective characterization and would offer what I see as the sole reason for the various price declines.

There is a common denominator behind the collective price decline this week and for the past few months; only it isn't the dollar or any other reason being offered. In fact, considering how many truly smart people follow the markets in general, it is somewhat disturbing that no one has offered the one true explanation for why gold, silver, copper, platinum, palladium and crude oil (and related energies) all fell in price this week and over the past few months. The one answer is staring us in the face and easily verified in government data on futures positioning.

The common denominator behind the collective price swoon is that it was for the sole purpose of allowing the speculative traders we call commercials to buy massive amounts of futures contracts on the price declines. Since there must be sellers for every contract the commercials bought, the only way for the commercials to buy massive amounts is for someone to sell massive amounts of contracts to them. As you might guess, the sellers of those massive amounts of contracts in all these unrelated commodities were mostly the traders I call the technical funds, which always sell and sell short on price declines and without regard for actual supply and demand

Almost thirty years ago, I stumbled upon the COMEX silver manipulation because I happened to have a background in futures trading and could see that futures trading was dictating the price of silver. Over the years, the silver (and gold) manipulation became known to many. Despite that growing awareness, it is now clear that the same manipulative process now infects all the COMEX/NYMEX markets and others. There are two major points to this growing price manipulation in other markets.

One is that it is hard to imagine, in a free market economy, anything as evil and harmful as having speculators set the price of commodities through futures trading. Take crude oil, for example, the most important commodity of all. The move to below \$90 is largely the result of more than 150,000 net NYMEX contracts sold over the past few months by traders in the managed money category. That's the equivalent of 150 million barrels of oil. If, as I contend, this was the primary impetus for a \$15 drop in the price of crude oil, then think what that means.

It means that traders with no interest in crude oil other than to make a technical bet caused the price to drop. The problem is that such a move, should it persist, could come to threaten the emergence of the US as a large crude producer because fracking is much more expensive than conventional oil production. Do we really want technical funds selling unlimited quantities of crude oil futures and putting actual oil production at risk? That the CME and the CFTC are presiding over this as if nothing's wrong is beyond shameful. Forget jail, these crooked regulators should be taken out back and beat with a stick for allowing this to continue.

But the other important point is that while the technical funds are selling in all these commodities with a reckless abandon, the commercials are buying with just as much abandon. Both in my mind and according to past history, you want to bet on the commercials to prevail in the end, particularly in silver. As bad and rotten and sickening as the price declines have been, the commercials have bought the whole way down. Prices only dropped because the commercials wanted to buy and declining prices are the only way that they can buy. In other words, I'm still convinced the next major move for silver and these other commodities is up (he says with blood dripping from his eyes).

Turnover, or the physical movement of metal into and out from the COMEX-approved silver warehouses continued frantic this week as nearly 5.5 million oz were moved, about a million oz more than the weekly average this year. Total inventories declined 1.5 million oz, to 181.9 million oz, but the movement is the big story. I've noticed some movement in gold turnover in the COMEX gold warehouses, but that movement still does not compare to the unprecedented silver turnover. The turnover in the COMEX silver warehouses is still unnoticed and is not being reported on. A big mistake in my opinion.

Inventories in the big silver ETF, SLV, stabilized the past couple of days at nearly 350 million oz. It is still shocking that considering the extent of silver's relative and absolute price decline over the past 12 weeks that we are not down substantially in holdings, but instead sit almost 30 million oz higher. Back in May 2011, on the first \$15 engineered price decline on the COMEX, there was nearly a 60 million oz decline in SLV holdings from the record holdings of 365 million oz. But since then, there have been no such withdrawals in SLV, despite there having been a 40% reduction in the holdings of the big gold ETF, GLD, last year. I can't help but think that the price beat downs have made silver investors more determined to hold silver than ever before. I know that's how I feel.

On Wednesday, I talked about Silver Eagle sales from the US Mint having had a one day sale of over 750,000 coins and how I thought that meant that Mr. Big (aka JPMorgan) was fiddling with the Mint and US taxpayers (in addition to cheating silver investors and producers everywhere). I don't think I did a good job of properly explaining myself, so please allow me to try again, as this looks important.

As it turned out, the Mint reported an astounding 1.65 million additional Silver Eagles sold in the first two days of October (none yesterday), or a three day total of 2.4 million coins – a daily rate of 800,000 coins. At its peak, the Mint had a daily production capacity of around 130,000 coins per day (on a 7 day production week) or near 4 million a month. Since the Mint is required by law to sell as many Eagles as the public demanded, it had been forced to increase its production capacity to the 130,000 coin daily rate as a result of growing demand over the past few years.

The only fly in the ointment was that the high demand for Silver Eagles did not appear to be generated by general retail demand as reports from the field indicated subpar retail demand. As a result, I postulated that there had to be a big buyer of some type driving the Mint to the point of the rationing (allocation) of Silver Eagles at various times over the past few years. I speculated that Mr. Big was likely JPMorgan since the bank stood at the center of the silver world. I remember remarking at various times that we should be alert to the possibility that Mr. Big could back off at any time, resulting in a big decline in sales of Silver Eagles.

Mr. Big did finally back off, starting in June, resulting in Silver Eagle sales falling by 1 million oz in June and by 2 million oz in both July and August from previous recent monthly totals. I also remember pegging Mr. Big's monthly purchases of Silver Eagles as having been in the 2 million oz range for much of the past few years and these numbers would seem to confirm that. http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

So let me complete my speculation. Mr. Big (JPMorgan) having been almost overrun in April 2011 on the short side, but having succeeded in crashing silver prices starting in May 2011, used the price decline to buy silver in any form available for the next 3.5 years, up to and including yesterday. This buying by JPMorgan in Silver Eagles was so great that the US Mint remained in a state of rationing due to Mr. Big's strong demand and continued to increase daily production capacity to around 130,000 coins a day (4 million a month). Then came a small rally (\$3) in silver in June and the COMEX commercials including JPMorgan sold aggressively into that rally as I noted on these pages, setting up the probabilities of a potential price decline which was, in fact, realized. If I could sense a sell-off coming, please be sure that JPMorgan knew such a sell-off would occur.

So what do you do when you know a sell-off is coming, particularly when you control prices, as JPMorgan does in silver? You hold off buying until the prices that you control move lower; and then you buy. This is exactly what JPMorgan did, in my opinion. First, they bought so many Silver Eagles each month for years so as to keep the Mint continuously expanding production capacity. Then, because it knew it would cause silver prices to decline sharply, it stopped buying for a couple of months until it caused prices to decline on the COMEX. Then it swooped in and began buying all the unsold coins it could at the lower prices it, in fact, brought about.

My guess is that JPMorgan bought half the unsold coins in the Mint's inventory over three days this week, but the amounts are secondary to what just occurred. At this point, I'd peg JPMorgan as saving \$10 million so far in their Silver Eagle scam. This is what I don't think I fully explained on Wednesday when I said JPMorgan was fiddling with the US Mint and US taxpayers. If accurate, it provides a further motivation and proof of manipulation of the price of silver by JPMorgan. That this bank is the largest bank in the US (by assets) is very troubling; even if it happens to be bullish for silver, as no one, not even a crook, buys anything he doesn't think will go higher.

The changes in this week's Commitments of Traders report followed the regular pattern of prices moving lower as a result of technical fund or speculator selling and commercial buying. The changes weren't especially large but confirming of the manipulative pattern and resultant bullish setup.

In COMEX gold futures, the total commercial net short position was reduced by 3600 contracts, to 60,700 contracts. This is the lowest (most bullish) total commercial short position since January. Since the COT of August 12 (gold priced around \$1310), the commercials have reduced their net short position exactly by 100,000 contracts (10 million oz). In eight weeks, gold has fallen by \$120 and the commercials have bought 100,000 contracts. I would contend this was the prime reason why gold declined in price, so that the commercials could buy even though many still confuse the commercials as selling.

Which such a small weekly change, I'll skip the commercial category breakdown, although JPMorgan did sell 2000 contracts, reducing their net long position to 23,000 contracts. Nor was there any significant positioning from the technical funds, although there was no reduction in the technical funds gross short position which still sits less than 3000 contracts from the record short position of last December at more than 80,000 contracts. This is buying power of the rocket fuel type that must be activated at some point on higher prices and considering the price action since the Tuesday cut-off that rocket fuel has undoubtedly increased.

Of special note and as occurred in silver last week, the smaller non-reporting traders in COMEX gold increased net and gross shorts to just about the highest levels in more than a decade in a further sign of capitulation. Just like technical fund shorting, non-reporting trader shorting is buying fuel that will erupt on higher prices. With gold cracking \$1200 after the cut-off, more rocket fuel to the upside has most likely come into the market.

In COMEX silver futures, there was a modest 1300 contract reduction in the total commercial net short position to 15,500 contracts, not far from the lows of early June. With such small overall change, there wasn't much to read into the changes in the commercial categories, although JPMorgan may be down to 11,000 contracts net short, another low point since the bank became the big COMEX silver short six years ago. After the price action from the cut-off, the commercials and JPMorgan should be even less short (and the structure more bullish).

Unlike in gold, there was noteworthy activity by the technical funds in the managed money category in silver. There was "only" around 1500 net contracts sold in this category, but it included nearly 4000 new shorts, pushing the gross short position to more than 44,500 contracts, a new record level. Since July and thru the cut-off, the technical funds have added 36,000 new short contracts, the equivalent of 180 million oz, making them the largest single silver seller on the COMEX. I would remind you that there is no question that these are purely speculative traders, not hedgers in any way. That is wrong and the crooks at the CFTC and CME know it is wrong.

There were also nearly 2500 contracts of new longs bought in the managed money category and, as I have explained previously, these managed money buyers do not appear to be technically motivated in any way. That means they are unlikely to sell on lower prices (remember, they are buying on lower prices) and would appear to be only sellers on higher prices.

With 42,000 silver contracts gross long, it would appear these managed money traders who are long have added 7000 contracts over the past few months and 20,000 contracts since last October "all on lower prices. This is unprecedented and actually adds to the bullish COT structure because it means that in the managed money category the longs are unlikely to sell and the shorts must buy at some point. It's certainly a twist I've never seen before and that which may be underappreciated. In fact, it helps explain the reason to be bullish at this point.

I know the price action has been enough to make one sick because of the fear of yet lower prices and the financial damage done to date. But knowing why we've gone lower and what is most likely to occur next is more important to consider. One must learn from the past but look towards the future.

Currently, we have record technical fund shorts in COMEX silver and close to that in COMEX gold and copper (and even more since the cut-off), along with additional signs of capitulation and disgust and fear. The technical funds are holding short positions with open profits of roughly \$400 million in COMEX silver and close to that in gold. Throw in open copper profits and the technical funds are sitting with over \$1 billion in open profits in all three markets on the short side. Much of the open loss on the other side is held by the commercials. But the setup of record technical fund shorts must be resolved in any one of three manners or some variation therein.

The most usual resolution and the one that has occurred on multiple occasions in the recent past is that prices of silver, gold and copper, will rebound above the moving averages and the technical funds will buy and the commercials will sell to them as all the technical fund open profits will evaporate and the technical funds will end up losers by a moderate amount (a couple of hundred million dollars collectively). The crooked commercials will recoup all their open losses and end up well-paid for an illegal days work.

One other possible, but highly unlikely outcome is that the technical funds thoroughly beat the commercials this time and buy back all their short positions at current or low enough prices to book and convert open profits to realized profits. The only way the technical funds could buy back at low enough prices to book their large open profits is if the commercials agree to sell at those low prices and convert big open losses into big realized losses. While I suppose this is possible, it is as unlikely as me dressing up as the Easter Bunny and flying the Space Shuttle.

The last possible outcome is the one I can't get out of my mind. Like the second possibility, I can't say it's ever truly occurred before to the extent I envision, but the logic of it occurring is compelling nonetheless. In this outcome, the commercials rip the technical funds' guts out and press them to the wall in a silver price explosion and maybe over a wide range of markets. The technical funds must buy back all the short positions they have established in silver and other markets for the simple reason they can't possibly deliver the actual commodities to close out their contracts; that leaves a buy back as the only option open to the technical funds. In reality, the only thing that matters is at price at which the technical funds will buy back.

This whole sickening price takedown of silver and so many other commodities has been deliberately planned and executed by the collusive commercials; on this there should be no doubt. And even if you have doubts, it can be proven in the COT reports. It just wasn't happenstance or actual fundamentals that have accounted for the painting of Picasso's in so many markets. Therefore, if the commercials went to such lengths to put the technical funds in such an extreme circumstance, it seems highly logical to me to imagine the commercials exploiting the situation to an extreme. In a nutshell, that's why I bought options.

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