September 12, 2015 – Weekly Review

Weekly Review

Gold finished lower for the third straight week, ending down $15 (1.3%), while silver bucked the decline a bit, ending higher by 5 cents (0.3%). As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in by another full point, to 76 to 1, backing off slightly from the level of two weeks ago when silver was the most undervalued it had been to gold in seven years.

Silver has been down for so long and its price performance has been so horrid that even when it doesn't go down it feels like it did. And while it is objective to value silver on a relative basis with gold, simply dividing the price of gold by the price of silver provides only a hint at how profoundly undervalued silver truly is to gold. Although joined from antiquity, these are two very different commodities. It is only when you contemplate how much more gold exists than silver in real terms can you hope to appreciate how stupidly cheap silver is priced.

The single thought occupying me most is the glaring disconnect between the price of silver and the facts around the metal. It seems to me that one or the other Â? the price or the facts Â? has to be wrong. I know that there are those that hold that the price is never wrong and all you need to know. I accept that as being partially true; but it is also true that if assets were never under or overvalued, there would be little purpose to analysis. It is always future price behavior that determines if a price was Â?wrongÂ? in the past.

As far as I can tell, it is the price of silver that is wrong and what will prove that is a sharply higher price in the not-too-distant future. I just can't see how so many verifiable facts pointing to the price being wrong could be, well, wrong. Particularly considering that there is clear and longstanding evidence pointing to corruption of the price discovery process on the COMEX. My head would really be spinning if evidence of COMEX price distortion didn't exist, as that would deprive me of the straightforward and consistent explanation of why the price is wrong.

I accept that price is the most important aspect of every investment asset or commodity. Price is the one thing everyone can know universally and with certainty. The problem is that because the price is always right in your face, it is easy to start with the price and work backwards, namely, trying to find the facts about an asset that matches with the price. Sometimes it turns out that price is in conformity with the facts around us; other times not.

For instance, the great decline in the price of oil can be traced to Saudi Arabia's decision to maintain and increase production last November, which created an oversupply of oil that has continued through this day. The verifiable facts point to an oil glut and that has been in conformity with the price pattern (managed money discussion later). Certainly, when we pay for gasoline or heating oil, the price is reflective of the oil glut and the facts conform to the price.

But the facts in silver are not in conformity with the price. The price of silver, at a six year low, strongly implies a glut, similar to what exists in oil. Yet there exists a shortage of retail forms of silver comparable to the instances of retail shortage of gasoline in the 1970's, which coincided with rapidly rising oil prices. When you have to wait to secure a commodity and pay extra for it, one thinks shortage, not glut. The price of silver and its pattern is not in conformity with what's occurring on the retail side. What about on the wholesale side of silver?

The prime fact is the continuing verifiable turnover or physical movement of metal brought into or taken out from the COMEX-approved silver warehouses. I've read reports this week suggesting that those relying on COMEX statistics are naÃ¯ve. I don't consider myself naÃ¯ve or silly and I would rely on COMEX statistics sooner than I would rely on any data from China or India. Besides, those mocking COMEX statistics overlook that the data have proven price manipulation from the beginning 30 years ago. The main reason the COMEX is considered crooked by so many is precisely because the data prove it.

Further, when it comes to COMEX warehouse data, why would anyone believe that the statistics are wrong? The same goes for COT data, which has made the case for manipulation better than any other single set of facts. What possible plausible explanation could be given as a motive for falsifying the warehouse data, particularly considering that the statistics are largely overlooked or misunderstood in the first place? As the chief promulgator of the COMEX manipulation premise, I understand just how low and distrusted the exchange has sunk in many eyes; but it is unfortunate when opinion causes commentators to drift away from basic data and common sense.

In any event, the COMEX silver warehouse turnover this week was one for the record books. I remember a previous weekly movement of 11.1 million oz back in March, but this week had only four business days thanks to the Labor Day holiday. That made this week's daily average movement nearly 2.8 million oz, or more than the daily total world production of silver (mine plus recycling). Total COMEX silver inventories fell again, to fresh year and a half lows of 166.4 million oz, down 1.5 million oz for the week. I'm sure the drop in total inventories will attract attention, but if my hunch is correct, the real story of the physical silver turnover will continue to be overlooked.

I had been waiting to see if JPMorgan would ever move the last of the 2.5 million oz or so I believed the bank would physically transfer into its own COMEX silver warehouse and promised to report in any event. I had been expecting metal to come into the JPM COMEX warehouse as a result of the bank taking delivery of 4 million oz in the COMEX July futures delivery and this week's movement of 3 million oz into that vault seemed to resolve the matter. Best as I can determine, JPMorgan has now moved every ounce of silver (close to 20 million oz) it had taken delivery of on COMEX futures this year. Why pay another warehouse to store your own metal?

By itself, my prediction wasn't particularly critical and it merely reflected a continuation of a pattern JPMorgan had established in its quest to acquire silver. But seeing the pattern unfold as expected not only adds to the proof of JPM acquiring silver, it adds to the credibility of the data itself. In trying to explain why I think the frantic physical movement of silver in and out of the COMEX warehouses is so important, let me reference an unusual silver event last week in the hopes of explaining why Â? the heist of $10 million of silver from the port of Montreal. Late reports indicate some of the stolen silver has been recovered and five suspects nabbed.

http://www.ctvnews.ca/canada/five-suspects-arrested-in-10m-montreal-silver-heist-1.2556222

At first, it may seem somewhat odd that 600,000 oz of silver would be transported in a common shipping container (instead of an armored vehicle), but the reality is that this is the standard shipping unit for silver – approximately 600 bars weighing 1000 troy oz each, or 120 COMEX contracts. Total weight Â? 42,000 pounds or 21 tons. I was scratching my head thinking this theft had to be a sophisticated inside job for the simple reason that each 1000 oz bar has its own unique serial number, hallmark and weight (rarely 1000 oz exactly); meaning it would have to be re-melted by an unscrupulous refiner, probably overseas (China). But now that the silver thieves have been busted, maybe they weren't so sophisticated after all (someone should have told them that bank fraud is a better line of criminal work).

Last week, the equivalent of more than 18 full truckloads of 600,000 oz of silver were either brought into or taken out from the six COMEX silver warehouses over four business days. The tempo of this physical movement, both this week and for just about every week for the past four and a half years is nothing short of stunning. It is undeniable that the physical movement took place, as not only is there no motive for misrepresentation; considering the actual mechanics of the movement, there are so many Â?suitsÂ? involved, (warehousemen and trucking officials, lawyers and auditors) it would be criminal to lie about it even if there was some motive for doing so.

We know all this, yet we can't be sure as to why so much silver is, quite literally, spinning in and out of the COMEX warehouses. Silver is said to be the restless metal, but this constant COMEX silver inventory turnover is way beyond that. Most importantly, the movement is highly unique to silver of all domestic COMEX and NYMEX metal warehouses – gold, copper, platinum and palladium. (The COMEX-affiliated gold warehouses in China are not related to any of this).
So it's not overall COMEX commodity inventory turnover, it's specific to silver. Why the big turnover and why just silver? It can't be frivolous or a make work project or teenagers taking truckloads of silver out on joy rides Â? it has to be because the movement is required.

Considering how little silver exists in the form of 1000 oz bars, the constant movement of unusually large amounts of the 1000 oz bars in the COMEX warehouses is particularly striking. It's as if the COMEX silver inventory is spinning in and out so intensely that it seems, to me, to be on the edge of spinning out of control in attempting to keep up with demand. If I am reading this unprecedented silver turnover all wrong, then I apologize in advance and continue to solicit alternative explanations for why the movement exists.

At the very least, the extraordinary physical movement in COMEX silver inventories is not remotely compatible with the silver price level or pattern. And since I can't see how the movement is being misrepresented in any way, then I must conclude that the price is what's wrong.

Not much new to report on concerning regularly discussed matters. The short positions in SLV and GLD only changed a bit as of the August 31 cutoff. The short position in SLV was down by half a million shares to 13 million shares (ounces), while the short position in GLD was up by 1.5 million shares to 13.5 million shares (1.3 million ounces). These are fairly low historical levels and no cause for concern presently.

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

There's also not much to report on in the ongoing COMEX September delivery period. JPMorgan has moved up to be the second largest stopper of silver contracts (behind ScotiaMocatta) with 250 contracts of the 1040 issued so far and there only 450 contracts still open for delivery. The September/December spread differential widened out by a penny (to 1.5 cents) this week, indicating a lessening of delivery tightness, and if no new buying comes into the September for delivery, no fireworks are indicated.

I'm still of the belief that there will be a rush to take physical delivery on COMEX silver futures contracts someday soon, but continue to also believe that the COMEX rush will come after an overall physical rush to 1000 oz bars is already underway, rather than the rush on the COMEX setting off the worldwide rush. But since this may be a difference without a real distinction time wise, it really doesn't matter. Certainly, any rush to take delivery in COMEX silver will exacerbate any rush outside the COMEX and vice versa. The basic set up in silver is that there are not that many available 1000 oz bars to go around and well-established vehicles (such as COMEX delivery and SLV) exist to make silver acquisition incredibly easy and efficient.

There's not much new to report on sales of Silver and Gold Eagles from the US Mint, other than to say that the Mint appears to be struggling to keep up with demand for both. While I don't doubt that the retail silver market is tight as a drum, I also am of the opinion that retail demand isn't really at a fever pitch and it's more a case of too little supply being available (thanks to JPMorgan emptying the cupboards).

The changes in this week's Commitments of Traders (COT) Report were in conformity with price action during the reporting week, but not to the point of being so obvious that I made any predictions. Silver was slightly negative, while gold was positive in terms of the headline numbers.

In COMEX gold futures, the commercials reduced their total net short position by 13,100 contracts to 56,000 contracts. The 4 largest commercials bought back 6300 shorts, the big 5 thru 8 added 3000 shorts (probably a managed money trader) and the raptors added 9800 new longs. This was in keeping with price action, as gold fell decisively below its 50 day moving average during the reporting week and after the cutoff, suggesting further commercial buying since Tuesday.

Managed money traders in gold accounted for 13,800 contracts sold and all of it was in the form of new shorts, the very best type of selling if you are bullishly inclined, because these short contracts will be bought back at some point and most likely at higher prices. Considering the weakness in gold prices since the Tuesday cutoff, it looks highly likely that managed money traders added more short contracts, putting the market structure back into bullish mode.

Will gold prices move lower from here? From a COT market structure basis, there is some room for more managed money shorting to get to their previous record short position of mid-July. If gold prices do move lower temporarily, they will move lower because the managed money traders were conned into adding shorts. But that's not guaranteed and we could just as easily go up from here considering the overall bullish set up.

In COMEX silver futures, the total commercial net short position increased by 3000 contracts to 25,600 contracts. By commercial category, the big 4 added 1100 shorts and the raptors sold 1900 long contracts. This was not a particularly large increase in the commercial net short position, but was somewhat surprising given how flat prices were during the reporting week.

The managed money traders accounted for all the net speculative buying in silver, including new longs of nearly 2500 contracts and short covering of another near 1100 contracts. At 41,533 contracts, the managed money longs don't look troublesome in the least to me, as that's still close to the 40,000 core long position mentioned many times previously. I'm more concerned with not having more upside price action to show for the 20,000 short contracts bought back by the technical funds so far.

The nearly 34,000 contracts still held short by managed money traders suggests close to 25,000 short contracts would be bought on rising silver prices from here (plus new longs being added), so it's not like the fuel tank is empty. But I'd be lying if I said I wasn't underwhelmed with the price performance in light of the 20,000 short contracts bought back by managed money traders since mid-July.

My sense is that the managed money traders have been more inclined to add to short positions in gold on price weakness than they have been to add to silver short positions. That makes a lot of sense to me in general, but I can't know what exactly motivates the technical funds. I don't think they've made much money on shorting silver in the hole (below $15), so maybe they are adjusting to that reality. I'm still inclined to believe that the managed money traders will not short silver aggressively on lower prices from here, but that will only be known in the fullness of time. If I'm correct about these traders' intentions, then considering what is transpiring in the actual world of physical silver, it's a wonder how silver prices can remain depressed for much longer.

A quick update on copper and crude oil in connection with managed money activity. Having fallen 70 cents a pound since May 19 to $2.21 on the sale of 70,000 net contracts by managed money traders in COMEX copper futures, prices have rallied 25 cents on more than 25,000 contracts of managed money buying the past few weeks, as the 50 day moving average was penetrated to the upside. Will copper prices keep moving upward on continued managed money buying or will the commercials lure these technical fund traders to the short side on lower prices? I can't know what will occur next in copper, except to know it will be explained by managed money buying or selling. I also know that it is absolutely crazy that this is what will determine copper prices.

In crude oil, managed money traders sold 150,000 net contracts of NYMEX futures on the plunge in oil prices from $60 at the end of June to the recent lows of $38 and have now bought back 50,000 contracts on the rally to $49. As is the case in copper, silver, gold and other commodities, I can't know what the managed money traders will do next, except to know they have grown so large a market force that they will dictate the price of all these commodities more than any other force. With so many becoming aware of the inordinate force of managed money trading on prices, I can't wait to see how much longer the CFTC or the CME can avoid commenting on the most important regulatory matter of the day. My guess is quite long.

But silver still looks different to me than other commodities. Based upon the facts that can be verified, silver's price looks more wrong than in any other commodity. The distance between what the price and the facts indicate has grown so large that it seems impossible that when the price does align with the facts in silver, how it will not be sudden and shocking.

Ted Butler

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Silver – $14.60 (50 day moving average – $14.90)

Gold – $1108 (50 day moving average – $1122)

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