

## September 6, 2014 – Weekly Review

### Weekly Review

The two month price decline in gold and silver continued this week, as prices hit new recent lows. Gold ended down \$19 (1.5%) and silver finished lower by 30 cents (also 1.5%). For the third week in a row, the silver/gold price ratio hung around the 66 to 1 mark, still at the top end of a trading range lasting for more than a year. It's hard not to conclude that in addition to gold and silver prices being orchestrated on an absolute basis, they are also orchestrated relative to one another. Since silver's price manipulation is the most obvious and easy to prove, once the manipulation breaks it should be reflected in silver's price the most.

The proof of the manipulation is found in the CFTC's reports on traders' positions, which document that all significant price movements are caused by just two groups of large traders on the COMEX – technical funds and collusive commercials. Considering the recent historic world developments and their failure to account for hardly any of the gold and silver price movements this year, if ever there were doubts that the COMEX sets the price, surely those doubts shouldn't exist any longer. The sole explanation for price moves in gold and silver (and copper) this year is COMEX positioning, as I'll detail in a moment.

But along with proving manipulation, the Commitments of Traders Report (COT) has offered reliable guidelines for future price movement. After many weeks of having been resigned to expect and prepare for price declines, the COT report strongly suggests the end of the price decline is in sight. While the recent series of new price lows (slicing the salami) could continue for a while longer, I can no longer say that, based upon market structure, the probabilities point to lower prices. Instead, further technical fund selling potential, while not eliminated completely, looks limited, particularly in silver.

There is a lot to comment on regarding the COTs, but let me first touch on a matter I admit to being mesmerized about – the physical movement or turnover of metal into and out from the COMEX-approved silver warehouses. This week was shortened by the Labor Day holiday, yet the total amount of metal moved into and taken out from the COMEX silver warehouses totaled 4.4 million oz, as total inventories increased by 900,000 oz to 180.2 million oz. Adjusted for a five-day week, turnover would have been 5.5 million oz, well above the 4.5 million oz weekly average turnover this year.

Let me take another shot at trying to highlight why this COMEX physical turnover, unique to silver among all commodities, has captured my attention. There are six COMEX-approved silver warehouses, four in the vicinity of New York City and two not that far away, in Delaware and Massachusetts. There is not a lot of silver mining or smelting occurring in this narrow area of the Northeastern US, although this is clearly a hub for distribution and transportation. This year, some 900,000 oz of silver on average have moved into or out from these six warehouses on a daily basis.

Converting world annual silver mine production to the same five day work week as COMEX inventories are reported (800 million oz divided by 250 days), the daily world mine production of silver comes to 3.2 million oz each business day. The daily average movement of silver into and out from the COMEX silver warehouses at 900,000 oz is equal to 28% of total world daily mine production, even though the world mines and refines silver in areas far from the narrow area where the COMEX silver warehouses are located.

This unusual warehouse turnover doesn't exist in any other commodity (and never has) and didn't exist in the COMEX silver warehouses until April 2011 and hasn't stopped since then. Therefore, I find it entirely reasonable to ask why this unusual turnover in the COMEX silver warehouses commenced and why it has continued to this day. The most reasonable explanation I can come up with is that the unusual physical movement is reflective of a tight physical market in silver, which just happens to coincide with my long term conviction that silver will develop into a physical shortage at some point. Since I'm sensitive to being guilty of seeing what I want to see, I have solicited alternative explanations that don't involve physical tightness as the cause and do so again today. To date, I have received no such alternative explanation.

I realize that I am virtually alone in writing about the COMEX silver warehouse turnover, but that is not particularly troublesome or unusual to me. After all, I began complaining to the regulators about a COMEX silver manipulation in the mid-1980's and it would be nearly 15 years before others started to see it. Today, more see it than ever before, so much so that we are likely approaching critical mass awareness; the point at which the silver manipulation can no longer be maintained. What's beautiful about the COMEX silver warehouse physical turnover is that recognition that it exists is not as important as it is with manipulation in general. If the turnover is due to physical tightness as I postulate, it doesn't matter if many see it or not as and when a shortage develops, all will see the price effect of the shortage.

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Sales of Silver Eagles are off to a weak start in September, continuing the slow sales trend of the past few months (since Mr. Big stepped aside). However, I continue to maintain that sales of Silver Eagles are not the be-all of silver price movement and Silver Eagle demand can turn on a dime anyway. What moves silver prices are futures contract position changes on the COMEX.

Let me demonstrate that by pointing out that, despite a slowing of sales, the amount of Silver Eagle sales this year is among the largest on record, as over 28 million oz have been minted and sold year to date. Yet over the latest reporting week, almost 37 million oz of COMEX contracts were sold short by the technical funds. I realize that paper is different than physical, but please consider that 37 million equivalent oz sold in a week must have more price influence than 28 million oz bought and sold over eight months.

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The changes in this week's COT report were expected and significant. I didn't put numbers on my expectations this week because there were so many variables (the big price action on the Tuesday cut-off and the prior gold rally after the previous Tuesday cut-off). But I did state on Wednesday that I expected significant reductions in the managed money (technical fund) net long position and total commercial net short position in COMEX gold, silver and copper and that was fully reflected in the current report.

In COMEX gold futures, there was a hefty reduction in the total commercial net short position of 19,800 contracts to 103,700 contracts, the lowest (most bullish) reading since June 17. Once again, it was a cohesive and coordinated commercial effort to rig prices lower to generate technical fund selling so that the collusive commercials could buy what the technical funds sold. The 4 big shorts bought back nearly 6000 short contracts, the big 5 thru 8 gold shorts bought back more than 3000 short contracts and the raptors bought 11,000 contracts. Included in the raptor tally, JPMorgan added 3000 contracts to a long position now amounting to 23,000 contracts.

As has always been the case when the commercials buy big, the main sellers were the technical funds in the managed money category of the disaggregated COT report. These managed money traders provided the commercials with more than 18,200 gold contracts sold (or 92% of what the commercials bought), including more than 16,300 contracts of new short sales. At more than 53,000 contracts gross short, the technical funds are only 20,000 contracts away from their previous peak in short contracts of early June. And this is as of the cut-off date and wouldn't include further short selling by the technical funds on the price weakness after the Tuesday cut-off. (And also assumes the current report is timely).

In COMEX silver, the total commercial net short position declined by a hefty 5000 contracts to 32,300 contracts, also (as in gold) the lowest and most bullish reading since June 17. Unlike the case in gold, the raptors accounted for all the commercial buying on balance by adding 5300 contracts to a net long position now amounting to 30,800 contracts. The 4 big shorts bought back a few hundred contracts, but the 5 thru 8 sold even more, managing to increase the concentrated net short position of the big 8 to more than 63,000 contracts, still a scandalous and manipulative position on its face. I'd peg the big silver manipulator, JPMorgan, at 17,000 contracts net short.

Even more than was evident in COMEX gold, the technical funds in the managed money category were net sellers of more than 6500 silver contracts or more than 100% of what the commercials bought on balance, including almost 7400 contracts of new short sales. It is the total level of gross managed money silver short positions, now at more than 35,600 contracts, that leads to my conclusion of limited downside ahead; definitely in potential new tech fund short sales by contract and likely in price declines.

Only in a few other COT reports, clustered around the June 3 record technical fund short position of 42,800 contracts were the technical funds more short in COMEX silver than they are in the current report. You'll remember that leading up to the record technical fund short position of June 3, both I and many others wrote in detail about the unusually large technical fund short position and how it must lead to a price rally at some point.

As I have described on previous occasions, technical fund short selling is both the cause for price declines (like we have just experienced) and provides the sure-fire rocket fuel type of buying that causes prices to rise. From the June 3 low in price, the technical funds bought back more than 33,000 short contracts and added 20,000 new long contracts; a total of 53,000 silver contracts (265 million oz). In fact, the technical funds quickly reversed a record gross and net short position in COMEX silver on June 3 to a record gross and net long position by early July; something never seen before. And yet silver barely managed to climb \$2.75 on 265 million oz of rapid-fire technical fund buying, even less of a gain than previous silver rallies.

The only explanation for the anemic rally was that the commercials sold with such reckless abandon that they succeeded in capping silver prices despite the enormous technical fund buying. Therefore, it is not unreasonable to assume that might occur again; as it has been happening with increased regularity over the past year or so.

Certainly, I can't rule out that the commercials might once again collude to sell so aggressively so as to cap silver prices. But I can rule out that the silver manipulation can continue indefinitely, meaning it must end at some point. There is nothing precluding that the silver manipulation will not end soon. No matter when it ends, it must be known that prices will be markedly different as and when the manipulation is terminated.

Aside from the continued signals from the COMEX silver warehouse movements (which admittedly were in place for the last few commercial price caps), there are other hints in the COT report which bear mention. Earlier this year, I noticed unusual activity on the long side of the managed money category. It seemed there was notable buying on price weakness in silver. From late fall 2013 through the June 3 price low, it appeared that some 10,000 net contracts were held by new traders in the managed money category which were definitely not technical funds.

While the technical funds (mostly registered Commodity Trading Advisors) make up most of the traders in the managed money category, that category is not limited to technical funds only. The key reporting classification metric for managed money is that those traders manage the money of others. It's not mandatory that those classified as managed money trade the market on a technical basis; the methodology of the money manager is not a factor in classification. Managing others' capital is. I use the term technical funds almost interchangeably with managed money in general, so I might be guilty in implying that the managed money category was exclusive technical funds.

After long observation of the technical funds and the collusive commercials, even before there was a disaggregated report to pinpoint their movements, I generally can tell when the technical funds are buying and selling and by how much in contract terms. Maybe not pinpoint, but horseshoe or hand-grenade close. If you observe something that you are interested in on hundreds of occasions and don't develop a sense of rational expectation, you're doing something wrong. Therefore I'm sensitive to patterns out of the familiar when it comes to silver, since I am beyond convinced it is manipulated in price like nothing else. I'm always on the lookout for something out of place, as any change in the status quo might indicate that the manipulation may be ending.

Technical funds always sell to the downside, particularly on successive new price lows and always buy to the upside, particularly on new price highs. The salami, after all, can be sliced in both price directions. This is the essence of silver price movement. So when something comes along that suggests that the technical funds are behaving differently than previously, it is something I would sit up and take notice of. And that's exactly what led me to notice, starting late last year that some technical funds were buying to the downside or so it appeared. Since technical funds never buy to the downside, I quickly concluded that it wasn't technical funds buying but other non-technical fund traders also included in the managed money category.

Somewhere around the June lows, I quantified the number of contracts bought by the non-technical fund traders as around 10,000 contracts of net new buying that hadn't existed previously or even more. Based upon the latest COT report, it looks to me that at least 8,000 new long contracts have been bought on the price decline over the past two months. For those who follow the report closely, the additional contracts represent the difference between the gross long position in managed money on June 3 and the current gross long position. With silver prices near important lows and having gotten there on a stair step price orchestration that a technical fund could only sell into, there shouldn't be a technical fund long contract remaining in COMEX silver. The 8,000 contract increase on the long side of managed money from the price lows can't possibly be technical funds and must, therefore, be other non-technical fund traders.

The reason I believe this is important is if 20,000 net silver contracts have been bought by traders different from technical funds, it follows that the purchased contracts will be sold in a manner different than how technical funds sell. The opposite of technical trading is value trading or investment. Where technical funds buy on rising prices and sell on falling prices (in the hopes that the trends continue), value traders look to buy low and sell high. What this suggests is that the 100 million oz of long contracts purchased on declining silver prices will not likely be sold on yet lower prices, but only on higher prices. In fact, they are likely to be sold on substantially higher prices because I sense none were sold on the tepid rally after June 3.

So even though the 43,000 gross long contracts in the current managed money category look large and potentially at risk of liquidation on lower prices, that would only be the case if those contracts were held by technical funds, which I just tried to prove isn't the case. In simple words, if I'm correct that 20,000 of the 43,000 contracts are held by new value traders, very little should be sold on lower prices.

If we can't get notable selling from the gross long managed money position, then where is the selling going to come from to allow the commercials to buy more silver contracts? To me, at this point only new technical fund short selling could possibly provide the contracts desired by the commercials to buy. If the commercials succeed in further slicing the silver salami to the downside how many new technical funds shorts could they create? Since the record for technical fund short selling was 42,800 contracts on June 3 and the current level of technical fund shorts is 35,600 contracts, simple math suggests another 7,000 contracts or so, if the commercials are successful in creating record technical fund short selling again. Then again, there have been additional technical fund contracts sold short since the report's cut-off, so that reduces the potential number to be sold. Of course, I suppose a new technical fund short position record could be established dead ahead, but that's not an odds on probability.

Let me summarize what I've written today. While there stills appears to be more than 20,000 contracts of silver and 40,000 contracts of gold in the commercial category needed to be purchased to be in line with what the commercials held around June 3; the other headline number that I have been talking about for months indicates the bottom is much closer in terms of contracts in the managed money category. Adjusting for trading after the cut-off, I can make a reasonable case for only 5000 additional contracts for silver and perhaps less than 20,000 contracts of gold to be sold short by technical funds before lower prices are useless to the commercials.

Therefore the price bottom for this cycle is much closer as a result of this and recent COT reports. In fact, a decent case could be made for the bottom being at hand. I sense there may be new lows made on a momentum basis and because we are still so close to recent lows (and therefore easier for the commercials to take lower still), but please don't rely on me for pinpoint accuracy in the short term. The reason I've spent so much time in discussing the details is to give you the background and choice to make your own investment decisions.

For me, that means pushing forward topping off plans and that will include call option purchases. This is the first time I've felt this way in months and hopefully my plans will be accommodated with lower prices ahead in the very short term.

Ted Butler

September 6, 2014

Silver – \$19.20

Gold – \$1268

**Date Created**

2014/09/06