

Strange Tendencies in the Gold and Silver Markets

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Theme: [Global Economy](#)

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Very strange happenings in all things financial, perhaps the most strange is located within the COMEX.

First, for the last year and a half or more, we watched as gold and silver open interest steadily rises for several months and then suddenly falls in collapse fashion. The rise and collapse in open interest have not been parallel in gold and silver, often times they have been directly inverse as they now are currently. Open interest in gold is currently close to multi year lows while silver's open interest is near multi year highs. Why is this? Why would these two metals have opposite moves in open interest? Some might say because of "spreading" or ratio trades being long one while short two the other or what have you, I don't think so.

Going back for the last 18 months or so, we have seen an anomaly which previously did not exist. It seems as if the open interest in both gold and silver build and build and build leading up to about two weeks prior to first notice day. I have written about this several times and pointed out the huge open interest just prior to FND. Currently for example, the open interest in March silver with only 9 trading days left is about 380 million ounces. For perspective, this amount is in relation to 67 million ounces COMEX has registered and available to deliver and about 175 million ounces held in both the registered and eligible categories. Another astonishing comparison of these 380 million ounces would be to total global silver production of 800 million ounces. With only nine days left, COMEX contracts open for March are almost 50% of ALL annual silver production! For a little more perspective and in comparison in paper terms, this is less than \$8 billion ...or in reality, absolutely nothing in the grand scheme of things.

Each and every COMEX expiration for the last year and a half has witnessed an implosion of open interest going into a major delivery month and then during the month. It used to be traders would "roll" out and into the next big delivery month, this has changed and is the reason we are seeing such large drops in OI, very few are "rolling". This really does not make any sense because there is almost zero premium paid to roll out. There used to be a \$3-\$5 premium in gold (and can be explained by higher interest rates in the past), now however, the premium is less than \$1. What I am trying to say is that there is almost no disincentive or deterrent to rolling, yet very little gets rolled? It is this anomaly which has caused the dichotomy in OI for gold and silver, the only common large delivery month they share is December. The "build" of open interest and following collapses are happening because their big delivery months are staggered and don't coincide with each other.

But why? Why does open interest collapse each time? Conspiracy theorists believe many of these contracts are "bought out" with a premium paid to make potential delivery demands simply go away. In the past, I was not sure and didn't know what to think. I now believe this is probably occurring, here is why: A few years ago when gold or silver went

into first notice day, there would be however many contracts standing for delivery and they all would be delivered on within the next two days. You see, there is absolutely ZERO incentive for a short not to deliver as soon as possible because of the carrying costs involved. Why would a short wait until the last few days of the delivery month when they must pay storage fees for the extra three weeks or more? The simple answer is “they wouldn’t”. One last point on this, the “delivery” is consummated when the short delivers the metal. The long can stand for delivery but does not know when, or what day the delivery will take place. It is ultimately the short who knows what day they will deliver.

Another very strange anomaly and one which never ever happened until this last year is the odd fact of “longs” who are standing for delivery at the beginning of the month, slowly just bleed away during the delivery period. For instance, February gold saw its open interest decline by nearly 90% over the last two weeks of trading to finish with 26.85 tons left standing. Since then, amazingly the amount standing and demanding delivery has contracted from 27 tons to just about three tons! 90% of those initially standing for delivery have vanished? Who would do this? First, remember this, all longs MUST have 100% of the contract value in cash, in their account from first notice day on. Who would put the full money up to purchase and be delivered on ...only to walk away? I challenge anyone to give me a credible reason for this, especially since it is a new phenomenon. Please don’t tell me something like “no one really wants delivery” because I will answer you with three words, “the Chinese do”. In fact, China imported over 250 tons of gold in January, nearly 100 times the size of the February COMEX delivery, 10 times the size of what COMEX claims as available for delivery and well more than COMEX holds in total ...in just ONE MONTH! To me, this stinks to high heaven. For open interest to decline 90% DURING the delivery process is highly suspect and reeks of the shorts being unable to deliver because of the question, “why would a fully funded long turn away from taking possession?”. This has never ever happened to this extent as far as I know.

A few of the other very strange happenings within COMEX are as follows: the vast majority of inventory movements for the last year or so has been divisible by “32.15”.ounces. This is important because 32.15 ounces are equal to 1 kilo. COMEX deals in, and is contracted in 100 ounce bars. Three kilos for example are equal to 96.45 ounces, just shy of 100 ounces. Last year, JP Morgan reported the movement of 321,500 ounces for three consecutive weeks, (10,000 kilos), is this not an oddity in itself? Also, kilo bars are 99.99% pure gold, 100 ounce bars are 99.5% pure. Although these are only apart by 1/2% purity, who would want to be on the losing end of the 1/2% purity? This amounts to one half of an ounce of gold ...or about \$600 for every 100 ounces.

Another very odd and statistical impossibility is the reporting of 100 ounce bar movements. These bars are cast and then weighed out to 3 decimal points (99.723 or 100.295 for example), they can only land at 100.000 one time out of 1,000 statistically. Yet, day after day we are seeing reports of these “.000” (triple zero) movements within inventory. This cannot possibly be correct! Another crazy oddity has been happening in the silver inventory, repeatedly 2,900.000 ounces are being reported as moving. How can this be? The number is not divisible by 32.15, it is a “triple zero” entry and COMEX is predominantly a 5,000 ounce contract (except for the minis). I have no explanation for this and cannot even dream up a scenario.

One must wonder where the CFTC has been during all of this? Or any other regulatory agency for that matter? All of these anomalies are not just “coincidence” and are blatantly

obvious to anyone willing to take even a small peak at what's going on. I have maintained all along we would end up with a two tier market, the physical markets and an increasingly irrelevant paper market. The above evidence argues that the "tricks" employed by paper are now larger, more frequent and far easier to detect.

I plan to write tomorrow regarding the new "fix" process and how China will soon be a part of it. Couple this with a Chinese new year, a fracturing Europe and very likely war over Ukraine amongst other financial happenings. I believe the process of discernible difference between paper metal and physical metal pricing may very well be here and now, we will soon see?

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.

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