Towards an Upsurge in the Gold Market?

By Bill Holter

Theme: Global Economy

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Gold and silver probed their November 2014 lows early last week and finished strong. From a chart standpoint, they both put in outside reversal weeks to the upside. I'd like to visit the current "setup" in gold and silver from several angles and then take a step back and look at them from a very broad view.

The latest commitment of traders report, out this past Friday (and with data through Tuesday) shows a picture which has changed dramatically over the last few weeks.

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GOLD
-The large specs reduced long positions by 9,553 contracts and increased shorts by 19,246 contracts.
-The commercials increased longs by 25,886 contracts and reduced shorts by 6,966 contracts.
-The small specs reduced longs by 816 contracts and increased shorts by 3,237.

You will notice the giant movement in sales and even larger shorts put on by the large and small speculators. The specs dumped over 1 million ounces and went short another 2.25 million ounces. Totalling these, speculators altered their position by over 3.25 million ounces in just one week. On the commercials side we saw the opposite. They bought almost a net 2.6 million ounces and covered almost 700,000 short ounces for a net decrease of short exposure by about 3.3 million ounces.

I point this out to you for several reasons with a couple of caveats. The caveats being, COMEX is a playground where the charts are painted with paper brushes, very little metal actually changes hands and the total amount of gold claimed in inventory is less than China and India import in a month …EVERY month. Another aspect is we don't really know if these reported numbers are real. How do we know this? Because CME group told us so, over a year ago they basically said they cannot verify the numbers and rely on the individual reporting firms for data. "Imperfect" to say the least.

These are HUGE moves and their "size" tells me something is happening or going to if the numbers are real. The sentiment shift has been huge with the specs confirming the negativity in the air. I know of no other previous time where sentiment for gold and silver have ever been worse, including the major bottoms in 2001 and 2008. Another reason to point this out is because even though we are not at all time record levels, the specs have not been less "long" nor the commercials less "short" since November of 2013, prior to this I believe was late 2008.

While on the subject of COMEX, we have also noticed something else very strange. February which is traditionally a very active delivery month, saw very little delivered even though open contracts just before first notice day were huge and outsized. March on the other hand is a very small delivery month, yet HUGE amounts of gold have left their vaults in just the first three weeks. I don't know how to explain this other than to say, "someone wants or needs the gold".

We have also mentioned several times in the past that movements within the COMEX have been showing as "kilo" movements. Much of what is being reported are "000" weights and divisible by 32.150. COMEX threw us another curveball on Thursday when they began reporting a new "kilo gold" contract. I had no idea this was even being contemplated and had not seen any news prior. What's quite interesting is in just two days they reported the inflow of close to 700,000 ounces of gold. ALL of the gold came in as "eligible" and none as "registered". The other oddity is the fact the reporting DID show ".xxx" (numbers) as opposed to (".000") triple zeroes. It appears kilo bars are moving within the 100 ounce category on COMEX while ounces are being moved in the kilo category. COMEX now creating a kilo contract cannot easily be explained, this for me is a head scratcher and would love to hear theories on "why"?

Switching gears, the biggest topics currently are Greece, Ukraine and the new AIIB bank in Asia. I plan to write further about the AIIB tomorrow because the U.S. has been outflanked and has folded as even the IMF will now join. Greece and Ukraine are two hotspots for very different reasons.

Greece's continued participation in the Eurozone is now being called a 50-50 proposition by none other than George Soros. I look at it a little differently and put the odds far higher that Greece will exit unless someone can show me where exactly the money will come from? Will Germany fold and give in to Greece's WWII reparations demands? I don't know the answer to this but I do know it is THE only source of cash for Greece which comes with no "strings attached". By "strings" I mean money that will need to be paid back in the future. I just do not see any viable way for Greece to remain solvent and stay in the Eurozone. It is my opinion Greece will fall into Russian (and the East's) arms.

Speaking of Russian "arms", though you may not be hearing much via mainstream media, the West/East saber rattling is frenzied like never before. The Iranian nuclear talks have broken down and Russia has vowed to protect both Iran and Syria. This at a time NATO has been sending troops and machinery within spitting distance to Russia's borders. There was also some muscle flexing with a test fire of an ICBM over the weekend and the "big ship" are now moving toward the Persian Gulf http://www.zerohedge.com/news/2015-03-24/us-moves-big-stick-negotiations-tactic-sends-big-ships-gulf .

Whether you see it or not, the U.S. has not "isolated" Russia as was the plan. The U.S. has now succeeded in isolating ourselves, I will talk about this tomorrow. China has attracted a long list of "charter members" for their international infrastructure banks which includes Britain, Germany, France, Italy and the IMF with Japan and Australia waiting in the wings. Could our self imposed isolation be any more obvious!?

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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.