August 1, 2012 – Where We Stand

Where We Stand

I thought it might be instructive to step back a bit and try to gauge where we've been and where we might be going in silver (and gold). I do attempt this in the weekly review, but I sense a wider perspective might be in order at this time. Although I am trying to look through a wider lens today, I'd like to comment first on this morning's sudden take down in the price of silver.

No one should be shocked any longer with the price smashes that appear out of the blue in silver, as they have become a regular feature of this market. While some other markets experience sudden sell-offs not tied to any market-moving news from time to time, none approach the number and severity witnessed in silver. On each and every significant sell-off in silver (and gold) one thing always occurs, namely, the collusive COMEX commercials buy and speculators and technical funds sell. Always. It is not possible for this pattern of sell-offs to always benefit the commercials and be unintentional.

So regular is this pattern that it is easy for me to identify the root cause of the sudden silver sell-offs Â? the exchange itself. The functioning of the COMEX, owned by the CME Group, is what enables the continuing and uneconomic silver sell-offs. Therefore, it is easy for me to conclude and openly state that the CME is engaged in ongoing criminal activity, as is JPMorgan, the big COMEX silver short. Since I am not a prosecutor and am only an analyst and private citizen, all I can do is openly make the allegations to the appropriate regulators, which I have done and will continue to do until the criminal activity comes to an end.

Of course, trying to determine where we stand in silver is a function of the time frame selected. While the price is significantly higher than at any time in the past ten, five and two years, the price of silver is down substantially over the past year and a half and shorter time lines. I think it is more instructive to focus on the more recent and lower price periods, but there is also much to learn from observing the conditions in place when silver prices were strong as well. Since this essay is about what I think has driven and will drive silver prices, let me explain what conditions I am evaluating in forming my opinion. The specific conditions I will look at will be on what COT structure and level of physical silver investment demand prevailed at the time. First, the COTs.

The two great sell-offs in silver in 2011 in May (a 30% drop) and September (35%), as well as the 30% price decline from Feb 29 this year, shared the continuous COT pattern of significant commercial buying during the sell-offs. Basically, that's why silver sold off on those and all other past occasions, namely, so that the commercials could buy and reduce their permanent net short position in COMEX silver (and gold). This is the essence and rhythm of the market (and the manipulation).

Certainly, the actual number of equivalent silver ounces bought by the commercials and sold by the speculators on the declines support my contention that this is what moves the market. On the May 2011 drop, the commercials bought back 25,000 net contracts, or the equivalent of 125 million oz. On the September drop, the commercials eventually bought back more than 30,000 contracts, or the equivalent of 150 million oz into the December price lows. On the $10 rally to $37 into Feb 29, the commercials sold 30,000 contracts and then bought them all back on the sell-off that persists to this day. That's 150 million oz sold short and then bought back. These are truly massive quantities of silver equivalent ounces being collusively sold and bought. I use the word Â?equivalentÂ? as these are not real ounces, but paper derivatives. The problem is that these paper derivatives are so large as to set the price and overwhelm the number of actual ounces being mined, consumed and transacted throughout the world. That's what makes the obvious collusion a price manipulation as well.

Since the beginning of May, three months ago, the big changes in the silver COT came to a halt. No longer were the commercials selling and buying back 30,000 net contracts in a fairly short time frame, as they did in 2011 and the first part of 2012. For the past three months, the total commercial net short position in COMEX silver futures has remained within 3,000 contracts on either side of the 15,000 contract average that has existed since the May 8 COT report. (Different numbers, but the same tight COT pattern has existed for gold as well). This lack of big change in the COT structure is what accounts for the trading range that has existed over this time. It's really quite simple Â? big changes in the COT structure means big price change; no big COT change, no big price movement.

Without re-reading what I had written over this time, I hope I have been conveying that the COT structure has been mostly very bullish in silver and gold, because on a historical basis the commercials, especially in silver, have rarely been less short. As such, it was unlikely (but not impossible) for silver prices to crash further, given the low commercial net short and the low speculative net long positions. The only reason I say big sell-offs (on the order of $5 or more) were unlikely but not impossible was because silver still remains a crooked market and we must not underestimate the power of crooks like JPMorgan. At the same time, despite there being a very bullish COT structure in place, the COTs are not necessarily a timing tool, but more a directional indicator. As long as the structure remains in place, it must be labeled as bullish, even if the price doesn't immediately reflect that.

To help illustrate where I think we are now, I believe we are exactly configured as we were in December 2011 and the COT numbers confirm that. Back then, as a result of a very bullish COT structure, the price of silver rose $10 in two months to $37 as the tech funds and other speculators bought and the commercials sold 30,000 contracts net, eventually capping and smothering the move up. Why hasn't that happened this time around, instead of the price remaining range bound for so long? The short answer is I don't know. The longer answer is more involved, but not any more definitive. Timing aside, we are still structured bullishly and COT history suggests the big price move will be to the upside.

One thing I do remember writing about at the December price lows was that the key to the next move up then would be the behavior of JPMorgan. Would JPMorgan add to their concentrated short position on the prospective price rally to come and cap the rally, or would they stand aside and cease manipulating the price of silver? After all, JPMorgan had succeeded back then in reducing its silver short position to the lowest level since acquiring Bear Stearns and it might be a good time for them to exit the whole scam. The answer was given clearly as JPMorgan almost doubled its silver short position on the rally, accounting for more than a third of the 30,000 contracts sold by the commercials into Feb 29. No exit for these crooks.

I think we are at a remarkably similar point for silver and JPMorgan as we were back in December. The COT structure is about the same and so is JPM's position. On any big rally in silver, we should see significant speculative buying (particularly large speculative short covering), as well as selling from the smaller commercial (the raptors) who are heavily long. The key will be what JPMorgan does. Will JPM add aggressively to their short position and maintain their cheatin' no good manipulative ways, or will they finally quit this silver scam and let the price fly? While the COT structure lines up almost exactly to where we were then, other things have changed, including all the black eyes that JPM and the other big banksters have received over the past eight months in areas away from silver. More than any time I can remember, JPMorgan's activities are being scrutinized closely.

The other big condition I am concerned with in silver is the status of physical investment demand, the largest component of which is demand for the silver ETFs. The first big price take down in May 2011, succeeded in killing what had been a strong trend of silver investment demand over the previous five years. Each year until then, the world's investors had purchased around 100 million ounces of silver in the various silver ETFs. If you want a simple answer to why silver rose so much over this period, the answer is ETF buying. More than 600 million ounces now reside in the world's silver ETFs, the largest of which, SLV, holds over 300 million oz. But thanks to the deliberate price smash of May 2011 there has been no net new buying in the silver ETFs since then. Nor have there been big liquidations over the past year and silver investors appear to me to be holding pat. There are a number of things I like to comment on concerning the cessation of silver ETF investment demand.

First and least important is the claim that demand from investors is flowing into the silver ETFs and depriving funds from flowing into silver mining equities. That has not been the case for more than a year, as no net new money has flowed into the silver ETFs. More importantly, however, is that the price smash in May 2011 averted what was a developing physical silver shortage.
That gave JPMorgan and the other collusive COMEX commercial crooks a free hand at manipulating the price through paper games. When the physical silver shortage reemerges, as I am convinced will happen, the paper games will go up in smoke. Until then, the assorted COMEX commercial vermin will rule the day.

So the question becomes when will silver investment demand, particularly of the ETF variety, return in force? Since investment demand is largely excited by rising prices, given normal collective human behavior, a safe answer would be when silver prices are rising strongly and the silver story attracts attention. The more difficult answer is when will prices rise and kick off the collective investment demand? Given the very bullish COT structure, a price rally could start at any time, but I don't have a more precise time frame than that.

Aside from rising prices, I do see some signs of pending silver investment demand. For one thing, silver is starting to appear Â?cheapÂ? again in many eyes, including among existing silver investors. Additionally, the rapid turnover in the COMEX-approved warehouses may include a silver investment demand component, particularly when the turnover includes the silver ETFs which has and is occurring. This big metal movement, which has been unique to silver, suggests some big investors might be acquiring silver. Bigger investors are oftentimes that way because they have been successful investors in the past and presage general investment demand to come. Along these lines, I am still of the opinion (as I may have mentioned previously) that the most recent Sprott silver ETF offering was initiated by larger investors, rather than as a result of broad retail demand. This suggests to me that broader silver investment demand may be close at hand.

One thing, much to my surprise, that didn't develop on the epic silver price advance into May 2011, was the emergence of any big silver investors of the hedge fund variety. As a reader recently remarked, Â?how smart are all these big guys if not one of them participated in a world commodity that climbed 12-fold?Â? I have yet to detect the presence of a really big investor in silver through the COT report or in the holdings of reportable positions in the silver ETFs. Given the real silver story and the desire of the world's biggest investors to beat everyone else, it seems only a matter of time before someone big is motivated to invest in silver. Knowing how little actual silver is available for investment, any attempt to buy by someone big will influence the price. There is no way a big buyer wouldn't impact the price.

In summary, the two main conditions that I think matter most at this time, the COT structure and the status of silver investment demand, suggest to me that the next big move in silver is up and that move may be at hand. Quite frankly, I'm not interested in many other things, like Fed maneuvering or other broad factors although JPMorgan and the other commercial silver crooks do use Fed pronouncements as an excuse to hit silver (like today). The silver price will be determined by the COTs, physical investment demand and whatever JPMorgan decides to do with their manipulative short position. Yes, we still have to contend with the crooked CME and the phony price discovery scam they have created in COMEX silver, but perhaps not for much longer.

It wouldn't be correct to say that a regulatory solution to the silver manipulation is impossible, just that it is not something I am counting on. I know that Commissioner Bart Chilton has stated that the four year old silver investigation should be resolved soon, but I have my doubts. For one thing, this investigation is by the Enforcement Division and not the Division of Market Oversight which handled the prior investigations in 2004 and 2008. My understanding is that the Enforcement people are the Â?tough guysÂ? who bring charges and try to prove them in court or they don't bring charges at all. I don't know that they write reports about markets or investigations. Then again, I don't know what kind of legitimate investigation could occur without the chief instigator (me) ever being questioned.

Perhaps Commissioner Chilton is referring to something that I had speculated on previously, namely, that the Enforcement Division may conclude that there was enough wrongdoing in silver to bring formal charges, but that a majority of the Commission would fail to approve the charges being filed. I wonder how much money JPMorgan or the CME would pay under the table to prevent formal manipulation charges being brought against them? I would imagine quite a lot. (Please see Â?Extreme SpeculationÂ? April 27, 2011 in the archives).

My sense is that we are at a critical time in the silver market that may prove to be an important inflection point. The manipulation appears more blatant and obvious every day and there does not appear to be much left in the way of speculative selling on lower prices. It remains to be seen if JPMorgan will add silver short positions aggressively on higher prices or will attempt to close what has been a most shameful chapter in its history. If silver investment demand starts to revive, that should be the deciding factor for higher prices. That’s where I think we stand.

Ted Butler

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Silver – $27.30

Gold – $1603

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