

## August 24, 2010 – Today's Price Action

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I don't want to get into the habit of writing commentary about daily prices or statistics. That's why I don't write about the daily changes in open interest, warehouse stocks or deliveries. Because there are so many possibilities to account for these changes, you can never be sure of the real reason for daily changes. Therefore, you usually end up chasing your tail in circles with such a short term focus, seeing endless possibilities. Having said that, please allow me to attempt an explanation for today's price action. Hopefully, I won't be spinning myself dizzy.

The price action I'm talking about is in silver, although gold acted pretty dramatically today as well. Silver is in a real critical state compared to gold. I believe silver, given all the facts about supply and manipulation, is at the center of the universe for the COMEX commercials. What was special about silver was that it first plunged below the last remaining big moving average, the 200 day, before reversing dramatically higher to trade above all the moving averages. I'm not a technical trader, but the specific term for this abrupt move from below all the moving averages to above is, I believe, a "golden cross." I'm not sure of the significance of this price reversal, but to my knowledge I don't think it has occurred in silver in such a short time frame, namely, within a couple of hours.

What I do think is significant is the reason for the price reversal and what it may portend for future price changes. Please keep in mind that what I'm about to describe is my own analysis or speculation. I could be reading it wrong, but I must say, I was expecting this action, i.e., sudden sharp price movements to the upside, especially after price drops. I think we went lower over the past few days into today for all the usual reasons – the commercials rigging the tech funds into selling. Very repetitive and collusive. The twist is in who was buying to cause the near vertical 60 cent price spike after the initial plunge. Normally, it's the tech funds buying as moving averages are violated to the upside. But I don't think it was the tech funds buying on today's price spike – I think it was JPMorgan. If I'm correct, it should have a big impact on prices going forward. As you know, I have introduced and advanced the premise that JPMorgan is the big concentrated silver short on the COMEX and what JPM does with that position holds the key to the price of silver.

I think things were set up by all the COMEX commercials, in a purely collusive manner, tricking the technical funds out of long positions into today. Since all the commercials participate in this effort, they all get a piece of the action. The big 8 commercial shorts (including JPM) get to reduce short positions, while the smaller commercial traders (the raptors) get to add to long positions. Most likely, JPMorgan got to reduce its giant concentrated short position somewhat on the price decline into today, but only by a thousand or so contracts, leaving them with near 25,000 contracts still held short. The other commercials got the lion's share of the 3000 or 4000 contracts of tech fund selling over the past few days.

Since there is a limit as to how many tech fund contracts the commercials can force to be sold, JPMorgan is limited in its short covering to the downside, especially considering the buying competition from the other collusive commercials. Flushing out the tech funds alone will not allow JPMorgan to cover much more of their short position, in my opinion. When you get below the 200 day moving average, as silver did earlier today, you know you are near to the end of the technical fund liquidation. (That's the 100% bullish percentage I refer to in my King World News interviews). In order for JPM to significantly further reduce their short position, they must do something different. That different something is for them to buy on the upside. But they need to do that without buying competition from the tech funds, who always buy to the upside. So how does JPM buy to the upside before the tech funds react and buy as well? The answer is they have to be lightning fast and buy before the tech funds even realize what happened. I think that is what we saw on the rally today, JPMorgan buying aggressively (from the raptors) and bidding up prices lickety-split before the tech funds could react. In the process today, I think JPM covered 3000 to 4000 of their short position leaving them in the low 20,000 contract range still short. In simple terms, the raptors (and other commercials) took the long contracts from the tech funds on lower prices then JPM took them away from the raptors on a sharp price rally. This is not the first time JPMorgan has resorted to buying on the upside. They did so back in May and I remember writing about it then.

So, let's assume I'm pretty close on my take. Now what? Well, if I'm correct about it being JPMorgan on the buy side aggressively today and not the tech funds, then we shouldn't have any more of tech fund liquidation to the downside. In other words, there's no reason for the commercials to take the market down, collusion or not, if there are no tech fund longs to be harvested. If we do go lower at this point, it will be a surprise to me (not that I can't be surprised). If the tech funds have come into the market already on the long side, or if they do come in shortly, that will increase the possibility of a sell-off. But not yet, I think. This should be reflected in Friday's COT report, but sometimes big changes on Tuesdays, the cut-off date, don't make it into the next report. It should show up on The Bank Participation Report for September. That's good news.

More good news is the possibility that JPMorgan will continue to buy on the upside, if they are serious about covering more of their giant short position (which they should be serious about). As I have written previously, JPM covered the low-hanging fruit and any further covering to the upside will have a more dramatic impact on price than what we've seen so far. But only JPMorgan controls the timing of such further aggressive buying to the upside. I believe they have to do it, but I can't give you the precise timetable, as that is known only to JPM. I can't say for sure we're about to explode forthwith, but we could if JPMorgan decides the time to cover is at hand.

JPMorgan is in the position of being damned if they do cover and damned if they don't. What I mean by that is that they need to cover this silver short position. It can't be adequately explained away and a real position limit deadline appears in sight. Time will tell but I don't think Chairman Gensler of the CFTC is about to look the other way and allow them to remain with this concentrated short position. If JPM's buying does run up the price of silver that will look like proof they were the manipulators. If JPM doesn't continue to move aggressively to buy back shorts, they are a sitting duck for further accusations of manipulation, which sooner or later they will have to respond to. As I said, they may be damned if they do, damned if they don't. But that's a circumstance of their own creation. We've got enough problems of our own and should be glad this isn't one of them.

Ted Butler

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Silver – \$18.38

Gold – \$1233

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