

August 30, 2014 – Weekly Review

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After two months of a price grind downward, gold and silver managed to close with slight gains for the week; gold gaining \$6 (0.5%) and silver up by 10 cents (also 0.5%). Accordingly, the silver/gold ratio finished unchanged at 66 to 1. Silver still appears to be the relative star performer over time, but if anyone knows in the short term, I am unaware of who that may be.

I continue to be amazed at the performance of gold and silver against the backdrop of increasing world tensions and unprecedented central bank monetary accommodation; which has resulted in high valuations for just about every asset class (stocks, bonds, real estate, art, collectibles, rare cars, etc.) except gold and silver. I can't include all the precious metals in the non-performance category, as palladium has hit 13 year highs. My amazement is triggered by the understanding that money creation and world unrest were generally always accepted as reasons for gold and silver to rise in price.

My amazement is not all pervasive, of course, because I understand fully that there exists an overriding influence for why gold and, particularly, silver have been out of synch with all other assets. In fact, not only is the ongoing COMEX manipulation a greater price force than any other single influence on gold or silver (or copper), it is the only logical explanation for price behavior. So clear is the COMEX's manipulation of price that the only question that matters is how long it can continue? Admittedly, that's a tough question to answer, primarily because questions of timing always take on an aura of prophecy.

Compounding the question of when the manipulation will end, it's hard to answer in completely objective terms, as the most recent price action exerts an important emotional influence on collective opinion. Let's face it – gold and silver price action has been rotten for more than three years. That's a long time for assets that previously performed at the top of the investment heap for more than a decade to then stink up the joint; so long that it invites the suggestion that the manipulation can therefore last for years more, if not forever. I understand this sentiment, but can't help to consider it as a normal linear extension of the collective feeling that what is will always be. Let me be clear – I'm not pretending to know when the manipulation will end – I'm suggesting that the best way of analyzing that is not by looking backward at price.

Instead, one should focus on the factors that could end the manipulation and in remembering that all commodity manipulations must end; simply because too low of a price (as I allege to be the case in silver) must result in a physical shortage at some point. This is the essence of the law of supply and demand and supercedes what recent price performance has been. Further, as I have been noting recently, the awareness of this COMEX manipulation is becoming more widespread with every day.

To this point, those most aware of the manipulation have been silver investors, which came to learn of the manipulation on the Internet. Up until now, awareness of the manipulation has not spread to any entity capable of breaking it — aka Mr. Big. But considering how many important entities (including mining companies and countries) are being punished due to artificially depressed silver prices, it's hard to see how those damaged entities won't come to learn of the scam in time. Any one of them is capable of bringing the COMEX silver manipulation to the world's attention suddenly. The same three year price pattern that has damaged collective sentiment has also damaged every silver producing company and country and given them greater incentive to speak out or take action — once they learn of the manipulation.

Turnover or the physical movement of metal into and out from the COMEX-approved silver warehouses hit the average weekly turnover of 4.6 million oz this week. Total COMEX silver inventories rose 1.1 million oz to 179.3 million oz. This happens to be the highest total over the past six months, but is still within the 172 to 182 million oz range of this year. To put it into perspective, over the past month total inventories have increased by 3.5 million oz, or less than the average weekly movement.

There was also a nearly 2 million oz adjustment in one of the COMEX silver warehouses, from eligible to registered, but this involves a category change (paperwork) and not physical movement into or out from the warehouse. Most likely, the adjustment was in preparation for delivery against the current September futures delivery month, which appears normal (whatever that may be) at this point. I know many read much into the registered vs eligible categories in COMEX warehouse stocks, but I have weaned myself off efforts to do that after a few decades of trying. It seems to me that the physical movement of 4.5 million oz weekly into and out from the silver warehouses (by trucks) is more significant than adjusting the paperwork on metal that doesn't physically move.

Sales of Silver Eagles remained weak for the third consecutive month compared to the torrid pace earlier this year. If anything, sales of Gold Eagles were even weaker and more dollars are being expended on Silver Eagles than their gold counterparts by a pretty wide margin. It seems clear that the big buyer has stepped away or cut back from big Silver Eagle purchases over the past few years, but demand for Silver Eagles can always suddenly erupt due to buying from a variety of sources (including the former big buyer).

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were largely expected, particularly when viewed through the prism of the "new" headline number of the net change in the managed money category of the disaggregated COT report. Recently, I've included this category in conjunction with the "old" headline number of the net change in the total commercial short position (which one gets from the legacy COT report). I've done this to highlight how the manipulation has come to include only two narrow groups of traders "the technical funds and the collusive commercials aligned against the technical funds.

On Wednesday, I had predicted a decrease in the total commercial net short position and an increase of technical fund selling in COMEX gold futures of 20,000 contracts and of 4000 contracts in silver and the opposite in COMEX copper by 10,000 contracts. These estimates were based upon weak price action in the reporting week for gold and silver and strong price action in copper. I turned out to be off a bit in silver and copper in terms of the total commercial position, but much closer to the mark in terms of the managed money category.

In COMEX gold futures, the total commercial net short position was reduced by 24,100 contracts to 123,500 contracts, the lowest level since mid-June. This makes sense in terms of the manipulation in that gold hit its lowest price since mid-June during the reporting week and according to my manipulation premise the technical funds sold down to their lowest net long position since then. Technical funds always sell (or are tricked into selling) on lower prices and always tricked into buying on higher prices.

By commercial category, the big 8 commercial shorts bought back nearly 12,000 short contracts, with the raptors buying slightly more. JPMorgan joined in on the collusive commercial effort and added around 2500 new longs to increase their net long gold position to 20,000 contracts.

As has been the case recently, most of the selling came from the technical funds in the managed money category, which accounted for 22,000 of the net contracts sold, including more than 11,600 of new short gold contracts sold. If you want to know why gold prices declined during the reporting week, don't look to the Ukraine or Syria or Iraq or to the central banks because the decline was due to the technical funds and they don't read the newspapers - all they look at is the latest price the commercials create on the COMEX.

In COMEX silver futures, the commercials reduced their total net short position by less than 100 contracts to 37,300 contracts, a far cry from the 4000 contract reduction I predicted on Wednesday. By commercial category, the big 8 bought back 800 contracts, the raptors peeled off 700 long contracts and JPMorgan stood pat at 17,500 contracts net short.

Still smarting from missing by a wide mark my commercial buying guess, the selling in the managed money category provided some redemption, as there was net selling of 2000 contracts, including the addition of 3400 contracts on the short side. If you take away the buying of 1400 contracts on the long side of managed money, my guess of 4000 contracts of technical fund selling came close enough for government work.

Considering how the price of silver was sliced to the downside (to new lows) during the reporting week and how this is the prime motivator for technical fund selling, I can't help but conclude that the buyers of the 1400 silver contracts in the managed money category were not technical funds, but other money managers buying silver contracts on a non-technical or value basis. You may remember some 10,000 contracts were purchased by these non-technical money managers late last year and early this year. If I'm correct, these non-technical fund money managers are unlikely to sell on lower silver prices and that is a new bullish factor I hadn't been counting on.

A quick word on COMEX copper. Because copper prices rose sharply during the reporting week, I estimated that the commercials sold and the technical funds bought as many as 10,000 copper contracts. As was the case in silver, I was off in terms of the commercials but much closer in terms of the -new- headline number of the managed money category. The commercials sold 6200 net copper contracts, while the technical funds in the managed money category bought over 8700 contracts.

I hope no one is interpreting this as me trying to pat myself on the back for coming close on COT predictions, because I would be wasting of your time and that would represent a degree of egotistical vanity of which I am incapable. I have a very different motivation for doing this, namely, to demonstrate what moves the price and how that movement is manipulative to its core. It comes down to what explains price movement best. The quantities of the commodities bought and sold between the technical funds and commercials on the COMEX tower over the quantities traded anywhere else. The biggest market sets the price.

It is the combination of massive amounts of COMEX contracts changing hands, backed by the delivery conversion mechanism that creates the perverse result of the price of real world commodities actually follows the futures pricing, instead of the other way around. I admit this is nearly beat to death, but futures markets dictating prices to the real world of commodities is the tail wagging the dog and so opposed to the spirit of commodity law so as to render the CFTC as corrupt, because no regulator could merely be that incompetent not to see and act against it.

Let me use COMEX copper as an example, since I've used silver and gold as examples in the past. The 8700 COMEX copper contracts bought by the technical funds during the reporting week are the equivalent of more than 108,000 tons of copper or more than two full days of world production and worth around \$700 million. Technical funds, by definition and structure, only buy and sell on price signals and for no other reason. Further, they are rarely involved in actual delivery. As such they come closer to being pure speculators than anyone. Yet the CFTC has reported that these pure speculators bought the equivalent of two days world copper production, worth \$700 million is a sudden burst of buying over a few days on the COMEX, sending copper prices higher by more than 13 cents a pound during the reporting week.

More importantly, the commercials have been yanking the technical funds into buying and selling more than five times the 100,000 tons on several occasions over the past couple of years, always with the effect of moving copper prices substantially higher or lower depending on whether the technical funds are being tricked into buying or selling. Since copper is as close to being a pure industrial commodity as there is, one would think its price would be determined by changes in real copper supply and demand. Yet we know that real copper fundamentals can't and haven't changed as rapidly as COMEX copper prices have changed, leaving the enormous technical fund buying and selling as the only plausible explanation for price change. This stinks and makes the COMEX and the CME guilty of aiding and abetting in a widespread manipulation for the benefit of exchange insiders.

Being able to accurately predict changes in the COT has nothing to do with any particular talent other than in recognizing what moves prices after observing what has regularly occurred in the past. The largest amount of buying and selling always has the greatest impact on price and, at least in gold, copper and silver, the largest buyers and sellers are speculators (not legitimate hedgers) on the COMEX which set prices with no regard to real supply and demand.

As much as I try to hammer this point home and while it is clear to me (otherwise I'd never call the CME, the CFTC and JPMorgan crooks), it is not an easy concept to grasp. This week I received an email from a long term observer of the silver market which I'll reproduce here unedited, along with my unedited reply Â?

Dear Mr. Butler:

I've been a silver investor ever since in 1971, I came across by accident while killing time browsing in a Brentano's bookstore in a mall in Paramus, NJ before attending a play there, and read Harry Browne's trail-blazing tome, "How You Can Profit From The Coming Devaluation", and shortly thereafter, Jerome Smith's "Silver Profits In The 70's", and over the years, I've read your commentaries on silver with great interest.

I believe that I fully understand your major "war cry" on silver: Namely, there's a limited excess of annual silver output for investment purposes over industrial demand, and thus with the great "story" behind this metal, as "narrated" by the likes of people like you, Smith, and Browne over recent decades, that limitation on surplus should have sufficed way before now to have rocketed silver prices to the stratosphere. But as you further exclaim, that "ain't" happened for a long time now on any sustained basis by virtue of futures manipulation by the likes of Comex and, in recent years, JP Morgan Chase. Furthermore, said manipulation's been on the short side.

Historically, however, and this is the part of the "calculus" on silver that escapes me, manipulation in markets, not just silver or precious metals, has occurred on **both** sides of markets, that is, on the **long** as well as on the **short** sides, as witness in the late 1800's, for example, the "corner", or long-side "choke" on the NYSE for railroad stocks by the infamous Jay Gould! So my question to you is, what necessarily "tickles the fancy", so to speak, of the current silver manipulators to play a "short-side game" with silver futures, rather than a "long-side" one. Obviously these scoundrels are very smart, and haven't capriciously elected the short side without a definite "calculus" in mind, and I'm almost dead sure that a scholar of your bent knows the answer to what most laymen like myself must consider a deep mystery! For after all, we do have the example not too many decades ago of the infamous Hunt brothers trying to emulate on silver, unwittingly perhaps, Gould's "cornering maneuvers" almost a full century earlier!

I believe that most of your paid subscribers are probably as ignorant as myself in this matter, albeit I'm an MIT-graduated chemical engineer who employers in years gone by have expected to use his "noodle" to solve tough technical problems, and so I'm quite embarrassed to admit failure on this "tough nut" – perhaps the only time in

my 55-year-odd, long career that something's stumped me! At any rate, my point is that I believe you'd be doing your readers a favor and great service, not to mention myself, if you could "educate" us and elaborate on this matter.

Jim

Jim,

Thanks for your note. You have a good grasp of the situation, so I'll address your question as specifically as I can. If I have it right, you're asking why the commercial crooks on the COMEX seem to concentrate on the short side of silver. Why don't they load the boat on the long side and let 'er rip?

The answer (or at least my answer) is that they are playing the cards dealt to them. Because, as you pointed out, the facts about silver have been known to many for quite some time. As a result, there are a helluva lot more silver bulls than bears and that

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