Dec. 8, 2009 – Crunch Time?

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It feels to me like things in the silver market are coming to a head. Many different pieces are starting to fall into place which suggests that the price landscape will be radically altered in the near future. Of course, perhaps I am reading too much into the tea leaves, so I will present my reasoning and leave it up to you to decide. Just to be clear, I have started to deploy the dry powder I was reserving in the event of a silver sell-off, and plan to finish that deployment in the near future.

The readings from the most recent Commitment or Traders and Bank Participation Reports are as negative as they have been in history for COMEX gold futures, and as bad in silver, from a concentration perspective. Bad means the big commercials are maximum short, particularly in the concentrated categories. If the COT readings are so negative, then why the heck would I be deploying dry powder? Well, for one thing, we did get a pretty strong sell-off over the past few days, and on record heavy volume. It was no coincidence that the sell-off in gold and silver was as a direct result of the negative readings in the COT. Let me be clear Â? the sharp decline in price was due to commercial rigging on the COMEX. The sell-off raises the likelihood that the commercial short position was reduced, although we'll need to review future COTs to confirm just how much. As bad as the latest COTs were, they are better now because of the sell-off. That's one reason for scale down buying.

Of course, it is possible, or even probable, that the sell-off is not complete and more commercial short covering will occur, given how large the commercial short/technical fund long positions grew to. There's not much we can do about this, except to buy on a scale down basis with remaining dry powder. Just don't buy so much on margin, where you will have to sell to meet margin calls. As I indicated in this week's interview on King World News, silver has behaved much better relative to gold on this sell-off (so far) than it has in the past. I get the feeling that the big short, JPMorgan, is doing everything it can to rig the price of gold and silver lower, but is meeting stiff resistance. It may be that more people have wised up to the manipulative scam on the COMEX and are buying into the price decline. Even if JPMorgan does succeed in rigging a sharper sell-off, it will just result in a deeper and more thorough clean out and quicker price bottom.

Conditions in the physical silver market have rarely been tighter, in both the retail and wholesale segments of the market, thanks to record investment demand. The US Mint is still struggling to keep up with demand for silver (and gold) Eagles. Just a few weeks ago, premiums on Silver Eagles were the lowest of the year amid an appearance of plentiful supply. Almost overnight, premiums have soared and supply is insufficient to meet demand. Deposit flows into SLV and other silver investment vehicles are stronger this year than ever before, and delays seem obvious.

I'd like to point out something here that occurred to me recently. I have noticed growing and widespread commentary about the SLV. It seems, and rightly so, that it is recommended by many commentators for those new to a silver investment. It certainly is an easy way to buy silver. My sense is that these new investors are not particularly concerned about whether real silver is deposited in the SLV; they are more interested that the SLV tracks the price of silver (which it does). This is in contrast to old-time silver investors who actively debate whether the real metal is deposited into the SLV. I am convinced that the metal is deposited (except for open short sales). My point is that the new investors in the SLV, even though they may not be particularly concerned about whether the metal is deposited, are greatly adding to supply tightness unwittingly, because the prospectus requires metal deposits regardless of the buyers' concerns. It is a factor to be considered as time evolves.

Lower temporary prices may actually feed the investment demand, as there are a good number of sold-out bulls looking to reenter on lower prices, as well as investors looking to add to existing positions. Such new buying will add to physical tightness. While any physical crunch that breaks the backs of the crooked shorts will only be known in hindsight, such a physical shortage will result in sharply higher prices when it is visible to all. The trick is to anticipate the shortage and position yourself before it is obvious to everyone.

A major factor in my sense that the silver landscape is about to experience a seismic shift is the coming potential regulatory proposals on position limits. It is now more than five months since the July 7 public statement from CFTC Chairman Gary Gensler, and about as long since the public hearings in July and August. The Commission has set a December deadline for itself in previous statements. While there can be a delay, such a delay works against Chairman Gensler and the Commission if it turns out there has been a problem in silver. If there is one thing you can be certain of, it is that there is a big manipulative problem in silver. Therefore, any delay by the Commission will come to haunt the regulators when this is all exposed to the light of day.

In fact, it really doesn't matter what proposal the Commission comes up with for position limits in COMEX silver. Even a whitewash proposal which attempts to circumvent the issue will invite a firestorm of public reaction. My sense is still that Chairman Gensler is an honorable public servant looking to advance the rule of law and the interests of the citizens of this country. He has received many hundreds of legitimate public comments and is obligated to respond to those comments. The issues raised in those comments are specific to silver and raise reasonable questions that must be fully addressed at some point. I think that point has arrived. I further believe that the sharp drop in price sets the stage for the Commission's proposals. I've been expecting a sell-off before any announcement from the Commission, as it never made much sense for an announcement before there was some attempt by the big shorts to rig a sell-off. Also, it should not be forgotten that there is an ongoing silver investigation in force for 16 months, although it's hard to fathom what has taken so long.

Finally, the crunch time could be here because of the growing recognition that the short position of JPMorgan is rotten through and through. As time goes by, their silver (and gold) short position has grown more extreme in size. That's the surest proof of manipulation Â? a market being increasingly dominated by one entity. The awareness of JPMorgan's domination is becoming widespread. The more it is highlighted, the more implausible are the justifications for its existence. There is no legitimate economic justification behind a single entity holding more than 30% of the world production of any commodity. If there were such a justification, we would have heard it by now.

I have been wary of the type of sell-off we are witnessing for months, although the timing is always uncertain. Also uncertain is the timing for when the sell-off ends and how deep it will be. My sense is soon, even if the sell-off is sharper than the $2 to $3 I have mentioned in the recent past. The important issue is that once this sell-off does end, I am convinced that the price of silver will truly explode, precisely because the only reason for the sell-off is to allow the big shorts an opportunity to buy back as many of their shorts as possible. Once that is accomplished, I believe they will refrain from selling short on the next rally, allowing for the price to explode.

Yes, it stinks that the CFTC sits by and enables the short manipulation to continue, but it is also crunch time for them, as well. If they don't step up to the plate and do the right thing soon, they will regret it forever. We can't control what the CFTC or JPMorgan or the exchange may do, but we can control our own actions. This is a sell-off that should be bought in anticipation of much higher prices to come. All forms of silver and mining shares should be considered, although I am becoming more interested in SLV, rather than COMEX call options (for very speculative accounts) due to my recent concerns about COMEX silver trading being suspended. If you have saved some dry powder for the possibility of a sharp sell-off, I believe this is what you were saving for.

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