

December 11, 2010 – Weekly Review

Weekly Review

In a week marked by high volume and great volatility, the price of silver declined by 60 cents, with gold declining a bit over \$25. The price declines followed new price highs for each on Monday, with gold hitting all-time highs and silver a new 30-year benchmark. Despite the sell-off, silver closed at its second highest weekly close in 30 years, with gold closing at its 3rd highest weekly close in history. While the gold/silver ratio widened ever so slightly, silver closed at its 2nd best weekly showing to gold in more than two years. For silver to perform so well relative to gold during a down price week is very telling to me. It's still not too late to switch gold positions to silver.

Physical market conditions continued to point to tightness in silver wholesale dealings. As expected, roughly 5 million ounces flowed into the big silver ETF, SLV, reducing the amount I felt was "owed" to the Trust by short-sellers of shares. Accordingly, the listed short position in SLV shares was reduced by just under 6 million shares/ounces, to just over 12 million. Hat's off to the sponsor, BlackRock, for apparently pressuring the shorts to deposit metal. From the end of August, some 60 million ounces (if one includes the 6 million oz recent withdrawal) have been deposited into the Trust, or an increase of around 20% in metal holdings. Over that same period of time the holdings in the big gold ETF, GLD, have been flat to down. The much stronger investment buying in silver compared to gold accounts for much of silver's price outperformance over gold during this period.

Other public indicators support the tight physical tightness thesis in silver, including COMEX warehouse turnover and continued robust demand for silver in the form of demand for silver coins from the US Mint, particularly when compared to gold. From all visible signs, the US Mint continues to struggle to meet demand for silver coins of all types, as has been the case for more than two years.

There was interesting reading in the latest Commitment of Traders (COT) and Bank Participation Reports. In the COT Report, there was a slight decrease in the total net commercial short position in silver of 1000 contracts, while the commercials increased their gold net short position by 8,000 contracts. But let me cut to the chase and get to the real message in both reports — JPMorgan's clear move to cover its concentrated silver short position. The weekly COT indicated the big 4 shorts closed out over 2,000 contracts, while the Bank Participation Report indicated the big US bank(s) closed out over 4,000 short contracts for the month, to around 26,000 contracts (130 million oz). Please note that during the time covered in the Bank Participation Report, November 2nd to December 7th the price of silver rose by \$4.

These are the lowest concentrated short holdings by the big 4 or JPMorgan since the beginning of August (when silver was at or under \$18), and among the lowest readings on going back to the fall of 2008 (when silver closed under \$9). While low on that comparative basis, the position, at 18.5% of world annual mine production, is still obscenely concentrated and manipulative. Let me give you my interpretation and analysis. JPMorgan is clearly closing out its concentrated silver short position. (As a side note, it seems to be maintaining, although not increasing its short gold position). What makes the covering of JPMorgan's concentrated silver short position so unusual (but completely expected by me) is that, for the first time ever, it is occurring as prices rise. Since I expect this unusual pattern to continue, I ask you to think about the ramifications.

For one thing, in case more proof was needed, this is yet another clear confirmation that JPMorgan's concentrated short position was and is manipulative to the price of silver. The act of JPMorgan partially buying back their silver short position for the first time to the upside was a big reason why silver climbed to 30-year price highs. Their buying was not coincidental to silver prices rising, but causal. As soon as they took their foot slightly off the throat of the silver market, the price rose to multi-decade highs. Since my analysis indicates that this pattern will continue, we can expect the price of silver to continue to rise as JPMorgan continues to cover. It also suggests that all the stories about JPMorgan being involved in a legitimate silver hedge were baloney. If it were a true hedge, they wouldn't be buying back to the upside. Their silver position was always a massive speculative bet that grew so large and dominant as to be manipulative. They made the serious error of becoming too big of a fish for so small of a pond as silver.

For those interested in the details of JPMorgan's silver short covering, it follows along the lines of what I have theorized in the past. On the continuing intentional price smack downs, orchestrated by all the commercials in a collusive manner to force leveraged speculators to sell, the smaller commercials (the raptors) do most of the buying, establishing long positions. On the subsequent price rallies, the raptors sell out their long positions at a big profit, with JPMorgan buying, allowing JPM to close out some of their shorts. Yes, JPMorgan is covering at a loss, but that's the least of their concerns, as their goal is to close out the short position, not book profits.

The measurement going forward is how quickly JPMorgan can close out more of their concentrated short position and at what impact on price. That is something we will study as it unfolds. Complicating matters for JPM is that the silver market is like a ten-ring circus, with activities occurring at many different levels by unrelated entities, with physical market and regulatory considerations thrown in for good measure. My point is that while JPMorgan is an important piece of the silver puzzle, it's not solely about them. This is a very dynamic situation.

Many of you have written recently, asking me to publicly comment on a wide number of recent articles and videos that present different and even contradictory analysis from what I write. I will comment privately on occasion to these requests, but I am uncomfortable with publicly disputing what someone else has written about silver. I feel it's just not professional for me to do so. I think we are all lucky to have different analysis presented, so that we can decide which makes the most sense. Time and price will usually determine who came the closest to the correct analysis.

As I indicated in yesterday's posting, we have a very big week ahead of us with all the recent developments and this Thursday's all-important open CFTC hearing on position limits. By this time next week, there will be a great deal of clarity about many vital silver matters. No matter what may be revealed directly ahead, the set up in silver still looks special to the upside.

Ted Butler

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Silver – \$28.69

Gold – \$1386

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