January 14, 2012 – Weekly Review

Weekly Review

The second week of 2012 repeated the pattern of the first week with gold and silver rising (although ending the week somewhat sloppily). Gold rose $23 (1.4%) for the week, while silver climbed $1 (3.5%). As a result of silver's outperformance, the gold/silver ratio tightened in by a point to just over 55 to1. Despite the slight tightening in the ratio, silver still appears to be cheap relative to gold in many respects and also looks cheap relative to its closest base metal counterpart, copper.

Once again, this is not to suggest that gold looks expensive, particularly on a Commitment of Traders (COT) market structure basis. But the total dollar value of the world's three billion ounces of gold bullion has reached ridiculous levels relative to the dollar value of the world's one billion ounces of silver bullion. At current prices, the dollar value of gold is 165 times greater than the value of the world's silver. That's way too much for two items so closely similar. Here's another way of looking at it. Last week's $23 rise in the gold price increased the value of the world's gold bullion by almost $70 billion. That's more than twice as much as the total value of what all of the world's silver bullion is worth. I'm talking about the change for one week in gold being twice the total value of all the silver in the world. That's crazy and is due to silver being artificially manipulated in price.

As a general reminder, while I do try to examine the current issues pertaining to silver and gold on a weekly and more frequent basis, that can clash with the long-term approach most likely to reward investors. Silver and gold are intensely interesting subjects that invite close scrutiny. Please don't let these reports distort your long-term perspective.

The weekly flow of data from the physical world of silver features mostly a continuation of recent developments. There continues to be a surge of deposits (and turnover) in COMEX silver warehouse inventories, but a lull in withdrawals from the big silver ETF, SLV. Total COMEX silver inventories rose another 4 million ounces to 126 million ounces, the highest level in three years and up 15 million ounces in a month. A short while ago I indicated that it wouldn't surprise me to see COMEX silver inventories climb, although that wasn't a prediction. Nothing, quite frankly, would surprise me concerning inflows/outflows in COMEX inventories. That's because there are so many possible (but unverifiable) explanations.

Undoubtedly, the knee-jerk reaction to big increases in COMEX silver inventories is that a sudden silver surplus must be the reason behind the increases. In fact, a measured review of world production and consumption data quickly invalidates such thoughts of a sudden surplus of production. It's simply not possible that has occurred based upon all the evidence. Besides, the past two weeks' increase of more than 8 million ounces came amidst rising silver prices. Something else is behind the increases, most likely a movement of silver inventories to the COMEX from some other formerly undisclosed warehouses (aside from the SLV). Such movements, which may not even involve a true change of ownership, most often have no bearing on price.

There was a time, not that many years ago, when the COMEX silver inventories were the largest recorded and visible silver inventories in the world; comprising as much as 80% or more of total known world silver inventories. Back then, the changes in the level of COMEX inventories were closely monitored as they were the only silver inventories reported daily. Like everyone else, I studied the COMEX inventory changes closely. I still do. After many years, I concluded that any such study had little to do with price change, mainly because there were so many possible explanations for why these inventories would fall or rise. Today, COMEX inventories have shrunk to less that 18% of all the recorded silver bullion in the world (because of the rise of the holdings in the world's silver ETFs). But some things remain true, namely, that there are too many reasons for why these inventories would change to know for sure. Please remember that the vast majority of the metal in the COMEX is owned by different and unrelated investors. This makes it impossible to know how much silver is actually available for sale at current prices. In the end, that's what we all really want to know, but alas, that remains unknown.

Finally, in an admitted demonstration of prejudice, I believe that the COMEX is a rotten, corrupt cesspool of an exchange and I am automatically distrustful of its intent. Knowing that the knee-jerk reaction to increasing silver inventories is one of assuming sudden surplus, I can't help but think that the commercials who rig prices wouldn't hesitate for a moment in transferring silver into the COMEX if they thought it would dissuade investors from buying silver. Specifically, the silver flowing into the COMEX could easily be part of the 50 million ounces that I believed ended up in strong hands that were liquidated last spring from the SLV in the first big price takedown. They can put it in the store window to make it look like there's a lot of silver, but it may not be for sale.

If the increase in COMEX silver inventories can be considered by some to be bearish, the recent surge in sales of Silver Eagles by the US Mint must be considered bullish. After a marked cooling off of demand in November (as a result of the intentional price smash of late September), sales of Silver Eagles have rebounded in January with a vengeance. Through yesterday, Silver Eagle sales are already close to 4.6 million for January, the second highest monthly level in history, with two full weeks of sales left. Both on an absolute basis and relative to Gold Eagle sales, the Silver Eagle sales are remarkable. It's important not to over-emphasize any one indicator, so we'll continue to monitor COMEX inventory movements and Eagle sales. For those wishing to check the Eagle data themselves, here's the link
http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2012

One bit of concern is that the level of short sales in the shares of the big silver ETF, SLV, increased by nearly 3 million shares (ounces), back to almost the 25 million share mark. As you know, I consider the disposition of the short position in SLV to be one of the two critical factors (along with whether JPMorgan increases its concentrated COMEX short position) in the ongoing silver manipulation. What is most troubling about the increase in the short position of SLV, now at close to 8% of total shares outstanding, is that it Â?shouldÂ? have decreased in the current reporting period ending Dec 31 because prices were quite weak in that period. If the silver crooks need to sell short on price weakness (due to real silver unavailability), what the heck are they going to do as prices strengthen?
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

The data in this week's COT indicated an increase in the total commercial net short positions in both silver and gold. I can't call it unexpected, as prices in each generally rose through some significant moving averages during the reporting week; the 20 day in silver and the 20 and 200 day in gold. The tech funds and other technical speculators are motivated by penetrations in various moving averages.

In silver, the total commercial net short position increased by 3200 contracts to almost 19,100 contracts. The raptors (the smaller commercials apart from the big 8) accounted for around 1500 contracts of the commercial selling, reducing their net long position to 19,900 contracts (still a hefty long position). The big 4 (read JPMorgan) increased their net short position by 900 contracts, while the big 5 thru 8 traders increased their net short position by the remaining 800 contracts. I was encouraged that the reciprocal buying by speculators was mostly of the short-covering variety, rather than new long positions being established. This was expected, as I previously indicated that the late speculative short sellers would be the first ones out the door and buying on price increases.

I was not encouraged that the big 4 (read JPMorgan) increased their net short position for the third week in a row to the highest level since November 29. Admittedly, the increase in the big 4 short position was not super-large, either for the week or since November 29, but it Â?shouldn'tÂ? be increasing at all. Along with the increase in the short position in shares of SLV, I am very sensitive to these two categories of short selling. Along with the obvious collusive behavior of the raptors, these two short categories are the key to the silver manipulation. I just wish the sleeping watchdogs at the CFTC would wake up and smell the coffee.

After studying the latest COT report, I did come away with the impression that silver prices would have risen much more sharply than they have these past two weeks had not JPMorgan and the other big commercials leaned on the short side. In other words, if it were just the raptors doing the selling with no helping hand from the big commercials, prices would have climbed more. Certainly, there can be no doubt that the 15 or so active commercial crooks on the COMEX are aligned against most other participants. These crooked commercials are primarily interested in fleecing the technical funds, but in the process have turned into enemy number one as far as the public is concerned. This has nothing to do with bona fide hedging or any legitimate commercial activity; this is strictly about market control.

In gold, the total commercial net short position increased by 4700 contracts to 166,600 contracts. Unlike in silver, the gold raptors accounted for all the selling and then some, selling more than 9000 contracts and eliminating completely their net long position. The big 4 bought back 2500 contracts and the 5 thru 8 bought back the 1800 contract balance. As a result, the level of the concentrated net short position of the big 4 in gold in now the lowest since late December 2008, when gold was just beginning its move from under $800. For a COT analyst, it is remarkable (and bullish) that the price of gold is now double in price with a concentrated short position equal to levels last seen when prices were less than 50% of the current price. Admittedly, the gold raptors will be looking to rig prices lower (so that they can get long), but at least the big 4 and big 8 are positioned for higher prices.

Bottom line, the COT set ups in silver and gold are still bullish, although these are highly manipulated markets subject to sudden uneconomic sell-offs engineered by a small group of commercials whose collusive activities are becoming obvious to growing numbers of market observers. Hopefully, someday the regulators will join the ranks of those observers. We've bounced more than $100 in gold and almost $4 in silver from the late December lows, with no significant deterioration in the COT structure. That structure still indicates much higher prices to come, but considering how crooked are the big commercials we must always anticipate price smashes at any time. I can tell you in advance that any price smashes will likely have little to do with legitimate supply/demand developments.

In the Â?Don't These Crooks Ever Give Up?Â? department, the two industry groups suing the CFTC to delay the implementation of position limits are still at it. In what I consider an opinionated piece from Thomson Reuters, the two groups are still engaged in a rear guard action to derail position limits, despite the recent vote by the Commission to reaffirm its intent to institute the limits. http://newsandinsight.thomsonreuters.com/Securities/News/2012/01_-_January/Judges_set_for_CFTC_position_limits_challenge/

Recently, I attempted to portray these industry actions as bogus and I still feel that way. The only plausible reason to oppose position limits is because of a desire and intent to manipulate. Of course, the industry will never admit to that and I suppose that's how these things work in the real world. But after reading the article, I have some new thoughts. While I am furious at the Commission for not yet acting against the silver manipulation, I have come to appreciate more of what they may be up against. But I am also left with an impression that the agency itself may not fully appreciate the evil intent of the industry that opposes true financial regulatory reform and a level playing field.

I have come to the conclusion that this organized industry opposition to position limits is intended to undermine and make ineffective the agency on a much broader basis. The opposition's main goal is to drain Commission resources so that the CFTC is reduced to being unable to effectively regulate. I see this in many actions against the agency, including the attempts to greatly reduce the Commission's budget (after greatly expanding their responsibilities under Dodd-Frank). There seems to be a relentless attempt to defang the agency and prevent it from genuinely regulating what needs to be regulated. No doubt this is felt by many in the agency, but I am unsure if they are capable to deal with it.

I am not losing any sleep over the CFTC's budget, but a crooked industry's attempt to destabilize the work of any government agency is of concern to me as a citizen. Throw in the fact that the destabilization may be what's standing in the way of the agency ending the silver manipulation and I can't help but offer a constructive suggestion for the Commission. In fact, I've already offered the suggestion and I am doing so again. This is intended for all the Commissioners and the professional staff at the agency:

The industry (particularly JPMorgan and the CME Group) is opposed to everything you intend to accomplish and will undercut you at every turn. They intend to continue to dominate our markets for their own personal profit and at the expense of the public. You pass resolutions favoring the Volcker Rule, yet the largest bank in the US, JPMorgan, still manipulates the silver market through propriety trading. You enact new regulations against manipulation, yet the CME creates even more manipulative practices through HFT. Unfortunately, they have the resources to tie you up in knots indefinitely. You must stop fighting them with tactics patterned from the Civil War, namely, based upon manpower and resources and doing what was done in the past. You can never win on this basis.

You have sworn an oath to protect our markets and the public, yet the daily manipulation of silver continues. There is only one course of action you can take to break the stranglehold of industry and fulfill your responsibilities to the American public. Stop pandering to them and sue the bastards for the manipulation of silver. While you have recently reaffirmed that you are continuing your formal investigation of silver, the crooks at JPMorgan and the CME helped rig the two most manipulative silver takedowns in history in 2011. The crooks are laughing at you and doing as they please, all while the public suffers. They will continue to laugh at you and the public will continue to suffer until you fight back. Sue them for manipulating silver and the game will change.

Ted Butler

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Silver – $29.80

Gold -$1640

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