

## January 21, 2012 – Weekly Review

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For the third straight week since the year began the price of silver and gold rose. Gold rose by \$25 (1.5%), while silver gained an impressive \$2.20 (7.4%). Most of the silver gain came on Friday, breaking a previous pattern of late week softness. As a result of silver's outperformance this week, the gold/silver ratio tightened in by three full points to just less than 52 to 1. This level is still within the ratio's trading range since the late September price smash. This suggests that silver is still underpriced compared to gold relative to where the ratio had traded for more than a year. Also suggesting silver is undervalued on a relative basis is that the ratio comparison with copper, silver's industrial metal benchmark, looks similar.

As always, relative value comparisons and ratio measurements are not to be construed as recommendations to trade on a leveraged spread basis; being long one and short the other. That's just asking for big trouble. My intent is that gold-heavy investors switch some to silver on a fully-paid basis. This is not meant as being negative to gold or that all gold investors should sell all of their gold to buy silver. Primarily, that's because there's not enough silver in the world to accommodate even a one percent shift of the value of the world's gold bullion into silver.

Conditions in the physical world of silver still point to tightness. Some are suggesting that the impact of the 10 million oz bought by the Sprott silver ETF, PSLV, is behind the Friday surge in silver. If true, that would be a sure sign of overall physical tightness. (While I hope that is the case, at this point I am still convinced the silver rally was induced by the market structure on the COMEX). Turnover in COMEX silver warehouse stocks continues frantic, while total inventories hit over 127 million oz. The holdings in the big silver ETF, SLV, remained mostly unchanged, although the price and volume increase on Friday indicates likely metal inflows to come. Alternatively, it could indicate increases in the short position of SLV shares which will be reported in a week or so.

Sales of Silver Eagles from the US Mint continue strong in January, both on an absolute basis and relative to Gold Eagle sales. The sales this month, at 5.3 million oz, already make it the second largest month in the 26 year history of the program and within spitting distance of the record of 6.4 million hit in January 2011. With more than a week to go in the month and conditions apparently favorable for continued strong retail demand, it will be interesting to see how we finish the month.

This week's Commitment of Traders Report (COT) indicated continued increases in the total net commercial short positions in both gold and silver. The increases were expected because the price of each was a bit higher during the reporting week ended Tuesday. Actually, I was somewhat relieved that the commercial total net short positions weren't higher. A big question, of course, is how much deterioration occurred since the cut-off, especially in silver on Friday.

In silver, the total commercial net short position increased by 1300 contracts, to 20,400 contracts. In accordance with how things usually work in this world, the total commercial net short silver position increased for the third straight week, as prices rose. This is both normal and potentially manipulative. We have to stay alert to both conditions. While the total increase in silver commercial selling was not disturbing, the big 4 (read JPMorgan) accounted for more than 1000 contracts of the 1300 net contract increase. The raptors sold 800 contracts of their longs, reducing their net long position to 19,100 contracts. The big 5 thru 8 traders bought back 500 contracts of their net short position.

The good news is that the raptors have sold relatively few of their net long contracts on the silver rally so far. Also good news is that the counterparties to the commercials, the technical funds and other speculators, have mostly bought back shorts and have not added to longs so far. This reduces the prospects for speculative long liquidation. This was as expected and desired. Again, this is all through the Tuesday cut-off and does not factor in what happened since then. The bad news, to any alert market observer, is that the big 4 (JPMorgan) have added to their concentrated net short position. This is about as welcome as contracting the flu. Over the past month, the concentrated net short position in COMEX silver futures of the 4 largest commercials has increased by 3500 contracts, or 12.5%, to 31,500 contracts. I'd peg JPMorgan's share at 16,000 contracts or more.

While down significantly from historical levels, if you don't get concerned when JPMorgan increases its silver short position, you are a better man than me (or are on better meds). In all seriousness, since JPMorgan is at the heart of the silver manipulation, its short position is a key factor in how everything silver plays out. That JPM has increased its short position on the bounce to date also tells me that the price bounce would have been much greater without this selling. I don't know what the regulators do all day that they can't see and act against this obvious case of overt price management. More on that in a moment.

In gold, the total commercial net short position increased by 6400 contracts, to 173,000 contracts. In a twist from recent patterns, the big 4 added a chunky 8000 contracts, increasing their still-low net short position to 132,000 contracts, with the 5 thru 8 adding another 2000 contracts. The gold raptors bought 4400 contracts, pushing them net long again by a moderate 3600 contracts. Like in silver, I detected overt price capping by the big 4 in gold during this reporting week. Still, thru Tuesday, the increase in the total commercial net short position in gold (and silver) relative to the price advance is supportive of further price gains.

We've rallied around \$120 in gold from late December on an increase of only 10,000 contracts or so in the commercial net short position. In silver, we've rallied a few dollars on about a 6000 contract increase in that commercial position. Considering that we were at historical lows in the commercial short position in each by many measures and still are, that's not too shabby. This doesn't mean we won't experience sell-offs and continued price volatility, but we are not close to bearish COT readings in gold or silver. In COT terms, there is plenty of room to run higher in price in both gold and silver. In percentage terms, of course, the biggest potential to run is in silver, in my opinion.

Considering the technical clean out we've just experienced in both gold and silver over the past few months and the proximity of some key moving averages above current prices in each that threaten to be penetrated, it is not hard to envision strong price rallies. Of course, we are still discussing markets that are manipulated in price, so we must be prepared for anything. The best preparation is not to borrow or deploy margin.

What next? Was the silver surge on Friday the breakout signaling much higher prices to come or a fake out designed to lead to lower prices and further disappointment? We can't predict the future with unquestioned accuracy; but we can prepare ourselves for it based upon the probabilities. Silver looks cheap based upon almost any measure except where it was priced 5 or 10 or 20 years ago. The COT set up looks better than I would have guessed several months ago. I never would have imagined in August and September that the commercials could reduce their net short position to the 20,000 contract level or lower. It took the most egregious manipulative sell-off for them to have accomplished that feat amid much damage and consternation to innocent silver investors. But perhaps it's true that what doesn't kill you makes you stronger.

It is a concern that JPMorgan appears to be increasing its short position and I am braced for increases in the short position in shares of SLV as prices rise. It comes down to what you can do about it. I intend to keep the pressure on the regulators to do their job and would suggest that you do so as well. On future days when the crooked commercials rig prices lower, instead of snapping at those around you and letting it ruin your day, turn your frustration into a measured complaint to the regulators as that will be more constructive. It's all about preparation for whatever is to come. That means no margin and fighting emotions on the down days. Also, if you find yourself in a room with silver traders from JPMorgan, keep hold of your wallet at all times.

I think it should be clear by now that there is a cause and effect connection between silver (and gold) and the changes in the market structure on the COMEX. The commercials sell as prices rise and buy as prices decline. Some would say that's smart and natural. I would agree except that the commercials are rigging prices to accomplish their buying. Admittedly, not much price rigging needs to occur as prices are rising, as investors and speculators are naturally inclined to buy in any investment as prices climb. All the commercials need to do is sell on a scale up basis. This sets the stage for the price rigging on the downside when the commercials intentionally drive prices lower for the express purpose of scaring investors and speculators into selling.

This pattern is so repetitive and so patently illegal and manipulative that it is infuriating that the prime regulators at the CFTC have allowed it to persist. I realize that JPMorgan and the CME Group and the assorted crooked commercials are formidable legal opponents due to their vast armies of lawyers and lobbyists. Even an agency of the US Government may be no match for them in a court of law. Assuming for a moment that this explains the CFTC's reluctance to confront the manipulators (I know many would disagree with that premise), let me offer a constructive suggestion to the agency passed along from a friend. He told me that the agency doesn't even have to sue them to end the silver manipulation. Instead, all they need to do is to publicly voice concerns that the silver market is manipulated without bringing formal charges. I think my friend has a good point.

When Commissioner Bart Chilton voiced concerns about silver being manipulated in the fall of 2010, it seemed like it was only days before a barrage of class action lawsuits were filed against JPMorgan for manipulating the silver market. What about the two epic and much more crooked silver takedowns of 2011? Should the Commission start publicly grumbling about these manipulative takedowns, it wouldn't be long before the legal community responded as they did in 2010. Think about it - no taxpayer expense and bureaucratic process, no political and lobbyist wrangling, the best legal talent that contingency fees can buy and an end to the silver manipulation. And all it may take is some well-chosen public comments from the regulators. Sounds good to me.

The set ups in silver and gold still look attractive. Gold is a few dollars away from penetrating its 50 day moving average for the first time in more than a month. Silver just penetrated its 50 day moving average on Friday for the first time in four months. I'm not a chartist or a technician, but many are influenced by such patterns. Absent a forceful new commercial price rig lower, the greater weight of the technical evidence points to higher prices. The silver supply demand fundamentals have been pointing that way all along.

Ted Butler

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Silver – \$32

Gold – \$1665

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