January 8, 2011 – Weekly Review

Weekly Review

The New Year started with a price smash which took silver down by a bit over $2 and gold by over $50. Volume was heavy, both in COMEX and ETF trading, as prices declined for five days straight, something not witnessed for many months. The percentage declines were noteworthy (almost 7% in silver and 4% in gold), but they weren't particularly out of line with the unusual gains of the prior year of 83% in silver and 30% in gold. While a variety of other commodities exhibited weakness for the week, there was an intensity to the selling of gold and silver highly reminiscent of past manipulative campaigns by the big COMEX commercial entities.

Gold's price was driven below the key 50-day moving average ($1381), always a signal to many technical fund traders to sell, while silver came the closest to its 50- day moving average ($28) in over four months, but not yet breaching that level. Whether that level is penetrated in silver and by how much is a function of how much potential technical fund and other leveraged long liquidation remains. Technical fund long positions are not large and if we do penetrate the 50-day moving average in silver, it should not last long. I'm still of the opinion we are nearing the end of what looks to me like a very intentional and desperate takedown of prices by the COMEX commercial crooks. Even if prices do continue lower in the short term, putting egg on face, the process actually improves the market structure, as long time readers should be aware. This is not a case of silver goes lower, cut bait and sell. It's a case of if silver goes lower, hold tight or buy more.

Despite the relative weakness in silver prices versus gold this week, the gold/silver ratio widened only moderately to 47.75. Given the spectacular outperformance of silver compared to gold for the past one and two years, any further weakness in silver relative to gold should be taken as an opportunity by gold-heavy investors to switch to silver. I know I beat this drum repetitively, but it is very intentional on my part. All the background factors that I study point to a continued pronounced outperformance by silver in the future. Certainly, no investor who made such a gold to silver switch at virtually any point over the past ten years has any regrets for having done so. I don't see that changing.

There were no obvious physical market factors to account for this week's price decline, particularly in silver. All signs pointed to an old-fashioned COMEX orchestrated affair, complete with late-night spoofing (phony offers) and actual selling at thin times to get prices rolling downhill to scare and induce others to sell. I guess the regulators at the CFTC and the criminal enterprise also known as the CME Group need a good night's sleep and can't be bothered with late night COMEX shenanigans. There was about a 2 million ounce liquidation in the big ETF, SLV, this week that looked genuine to me, but this must be compared to the 60 million+ oz inflow into that fund over the past four months. Clearly, some momentum-type traders came into the SLV on the rising price action recently and their departure should be considered a constructive development; a cleansing of weak silver hands, as it were. Still, the big silver trust has added 20% to its metal holdings since August, in sharp contrast to the lack of any metal increase in its big gold counterpart, GLD, where metal holdings are the lowest since June.

Another silver investment vehicle, the Sprott ETF, reported that it took more than ten weeks to get all the silver it bought in its original offering (a net purchase of 15 million ounces, I have been told), confirming my past references to delay. Please let me repeat that in the commodity world, delay is synonymous with shortage. Given the premium to net asset value that has developed in shares of the Sprott silver fund and the Central Fund of Canada, it should be expected that new offerings may take place in the future, thereby increasing the demand for wholesale quantities of silver. This should add to tightness and delays in silver shipments. At some point, the industrial silver users may face delays and commence panic inventory accumulation, setting off the most powerful of my three critical factors in silver.

I am still amazed by the large physical movements of silver at the COMEX-approved warehouses. While the total level of COMEX silver warehouse inventories is steady to declining slightly, the physical movement in and out is highly unusual and not at all in keeping with what I have observed over the past 25 years. I started reporting on these movements six months or so ago, and the almost frantic physical turnover has continued unabated. My conclusion is that it is a further confirmation of physical tightness. My reasoning is that silver is being brought into and taken out of the COMEX warehouses because the 105 million ounces held there is mostly owned by those not interested in selling at current prices and, therefore, is not available to the market. This necessitates new silver be brought in to satisfy demands for withdrawal. Certainly, it is not likely that the silver being deposited into the COMEX is due to there being no other place to put it. It is coming in for a reason, and the most plausible is to meet known withdrawal demands. The quantities being moved represent a large percent of daily world production and create the image of a robbing from Peter to pay Paul arrangement, not dissimilar to the same silver swapping recently observed between the big silver ETFs and the COMEX warehouses. I should point out that one can't make the same conclusions when observing the movements in COMEX gold or copper warehouse turnover.

Likewise, the demand for retail silver remains white hot. The US Mint, the world's largest provider of newly minted bullion coins, is clearly straining to keep up with demand for Silver Eagles. The Mint sold more silver coins last year than ever, by a wide margin, and the amount would have been greater had they been able to produce enough to meet demand, as was their congressional mandate. It appears to me that the Mint has the capacity to produce around 100,000 silver coins per day (3 to 3.5 million ounces per month) and they sell all they can produce. This represents phenomenal investment demand that shows no sign of cooling off. I would be negligent if I did not, once again, acknowledge that it was my silver friend and mentor Izzy Friedman who kicked off the Silver Eagle frenzy a few years back. I should note, just for comparison purposes, that the Mint sold less gold coins last year than in the previous year and that the pace of silver coin sales relative to gold has been increasing. In summary, there was nothing in the physical world to account for this week's price decline; it was all a COMEX manipulation.

This week's Commitment of Traders Report (COT) did indicate an expected reduction in the commercial net short positions in COMEX silver and gold futures, although not as much as I was privately anticipating. I thought we would have had more than the 1100 contract reduction in silver and 5200 contract reduction in gold, and I was slightly disappointed at these headline numbers at first. After looking under the hood, I was encouraged by a bigger reduction in the important managed money net long component in the disaggregated report. Also, we've had nothing but high volume and lower prices since the report's Tuesday cut-off, which implies further improvement in the market structure for gold and silver.

But it was the Bank Participation Report which contained the big message of the market. As I wrote in my December 28, COT Update, I had expected the Bank Participation Report to show that the big US banks (JPMorgan) short position was reduced to between 22,000 to 23,000 contracts, close to the lowest short position since JPMorgan took over the Bear Stearns' short position in March 2008. The January Bank Participation Report indicated a gross silver short position of 22,658 contracts in the US bank category, a few contracts less than the previous low-water mark in November 2008. Additionally, as a percentage of the COMEX futures market (unadjusted for spreads), JPM's share, at 16.5%, was by far the lowest since JPMorgan became involved in COMEX dealings in a big way. I believe this report has profound implications for the silver market going forward. I'll explain why in a moment.

After a week in which the price of silver was smashed, you should be left with a variety of feelings. As citizens and taxpayers, you should be disgusted and infuriated at the apparent lack of action taken by the federal regulator, the CFTC, to what is a silver manipulation in plain view. Despite a cumulative notification of many thousands of comments, both public and private, to the agency of serious wrongdoing in COMEX silver, the manipulation still goes on. Despite a formal silver investigation by the Enforcement Division, now in its third year, the manipulation goes on. Despite the clearest of proof from data provided by the CFTC itself, the manipulation goes on. Despite the unusual filing of civil lawsuits (before federal action) alleging manipulation in the silver market, it goes on. Worst of all, there has never been an attempt by the CTFC to reach out to privately or openly discuss the allegations of manipulation in a constructive manner, despite numerous investigations, including the current one. It appears to be a failure of monumental proportions on the agency's part to fulfill their most important mission – to prevent fraud, abuse and manipulation.

I admit to playing as influential a role as I possibly could, as a citizen and taxpayer, to alert both you and the CFTC of the silver manipulation. I have been blowing the whistle louder and longer about the silver manipulation than the next hundred people combined. It has become, quite unintended, an integral part of my existence. But the apparent dereliction of the CFTC to deal with this serious matter of the silver manipulation is on one side of the ledger. That's the side of what has yet to be accomplished. There is another side to the ledger, however, and that side deals with what has been accomplished. This is the side that balances and gives us proper perspective. This is the side of the ledger I imagine you to be most interested in as a subscriber to this service.

So what's on the accomplished side of the ledger? For one thing, the price of silver has reflected that the silver manipulation is dying, if not yet dead. That's not to say that the COMEX commercial crooks and the corrupt CME won't try further dirty tricks in the days ahead, so we must stay prepared. But let's face it, silver has been among the very best investments over the past one, two, five and ten years, precisely because of the manipulation and its slow death. Those who firmly grasped the significance of the manipulation and positioned themselves accordingly have done exceptionally well. More importantly, those who continue to understand the manipulation are poised to do exceptionally well in the future as well.

To me, the biggest accomplishment was contained in the latest Bank Participation Report. I believe that actions speak louder than words. JPMorgan has remained silent in the face of continuous allegations and even to the filing of civil suits accusing them of manipulating the price of silver. This is beyond unusual for such a financial master of the universe. But don't let their silence fool you; look at what they are doing instead. What they are doing is covering their big silver short position in a very determined manner. JPM has covered roughly 4,000 contracts in the past month and 8,000 contracts in the past two months, the equivalent of 40 million ounces. I think they have covered more since the Tuesday cut-off and are in position to continue to cover more in the future on increasing prices. I think this holds profoundly bullish implications for the future direction of silver prices.

In order to fully appreciate these bullish implications, it's necessary to review JPMorgan's history in COMEX silver, as well as the history of the big concentrated silver short sellers before JPM, namely Bear Stearns, AIG and Drexel Burnham. The important take away from the pronounced short covering by JPMorgan is that it occurred, for the very first time, on rising silver prices. Of course, JPM and the other commercial crooks on the COMEX did illegally engineer sell-offs within the general rising price of silver, but the facts are clear Â? JPM is buying back at substantially higher prices than what they originally sold short at. I can't emphasize strongly enough what a change in pattern that is. Not just for while JPMorgan has been the dominant COMEX short since their takeover of Bear Stearns, but in the history of the silver manipulation going back to 1983. Never has the big concentrated silver short, JPM or its predecessors, ever covered short positions on rising silver prices. They have always added shorts on higher prices. Until now.

When JPMorgan took over Bear Stearns in March 2008, silver was close to $21 an ounce. I estimate that their concentrated short position was close to 40,000 contracts then, or 200 million ounces. On the 2008 price smash to below $9 in the fall of 2008, JPM was able to reduce the position by forcing leveraged longs to liquidate, at a very big profit to JPM, to where it sits now, or below 23,000 contracts. If JPMorgan was smart enough to end its manipulative role in silver by then buying back the remaining of its short position on the upside, the price of silver would have soared to true free market levels and Morgan would have been able to wash its hands of the silver manipulation. Instead, motivated by greed, JPMorgan reverted to the decades' long pattern of the big concentrated short by selling additional contracts short on rising prices. JPM's silver short position eventually reached over 40,000 contracts again, in December of 2009. It was then able to reduce its short position into the 30,000+ range on the next induced sell-off into early 2010, where it generally remained until November. Then, JPMorgan started buying back its silver short position to the upside.

What prompted JPMorgan to begin buying back its short position in November? Take your pick Â? the unrelenting public accusations of wrongdoing by them, Commissioner Bart Chilton's public comments, the filing of the civil lawsuits, behind the scenes pressuring by the CFTC, the effect of Dodd-Frank, or JPM's realization of just how tight the physical silver market had become because of the manipulation they were engaged in. It really doesn't matter what the specific reason was, as they are all very much related. The important thing is that despite their silence, JPMorgan's actions indicate they are buying back their giant concentrated short position on rising prices. Put that fact on the accomplished side of the ledger.

Since we have never witnessed the biggest COMEX silver short seller buying back shorts on rising prices for the past quarter century, the potential impact is profound. It is highly unlikely that JPMorgan will ever significantly increase its silver short position again. I know they increased their short position in the previous COT report and that led to the smash down in price this week, but I'm talking about a big increase to over 30,000 or 40,000 contracts like they did regularly in the past. I just don't see that happening again. Nor do I see someone coming in to replace JPM as the big silver manipulator. Drexel Burnham Trading morphed into AIG Trading, which was passed to Bear Stearns and then onto JPM, but the morphing and passing onto days of the big concentrated silver short position have ended with JPM.

Here is now what you have to consider. If my analysis is correct, and the era of silver pricing being dominated by a big COMEX silver short is ending, what will the silver pricing landscape look like in the future? The answer is that the landscape will be radically different, in order to reflect such a radical structural change. Removing the dominant pricing force on the COMEX is as radical a change as putting LeBron James on a high school basketball team. It changes everything. That's what I see as the significance of JPMorgan stepping out of its role as the prime silver manipulator. Without an ultimate price capper, the price of silver should be free to soar. It should truly be a new era in silver. Volatility will remain high and the crooks will revert to their usual dirty tricks for a while, but the game will have changed.

Of course, I can't give you a guarantee that this will occur or a precise timetable of when it will unfold. I can just observe the facts and try to interpret them, same as I always have done. I ask you to review my presentation and analysis of the facts and decide for yourself if they have merit. Believe it or not, I had planned to review in this piece next Thursday's Jan 13 CFTC public hearing on position limits, or Show Time, Part Two. But that would be too much for one day, so I'll do so next week.

Ted Butler

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Silver – $28.70

Gold – $1370

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