

July 28, 2012 – Weekly Review

Weekly Review

It was an up week for gold and silver, although both metals remained within the trading range of the past few months. Gold ended the week \$35 (2.2%) higher, while silver added 45 cents (1.6%). It certainly feels like gold has been acting much stronger price-wise than silver, and the gold/silver ratio remains about 58.5 to 1. This is at the most extreme undervaluation of silver relative to gold in the past two years, although the ratio has flat-lined over the past four or five weeks.

While I feel both gold and silver are manipulated in price, the manipulation is much more intense in silver. This can be seen in a variety of ways, from the levels of concentration on the short side, to the identity of the chief manipulator being known only in silver (JPMorgan), to the fact that of all commodities only silver remains under permanent (and unresolved) government investigation. The greater intensity of the silver manipulation is the sole explanation for why silver has underperformed gold over the past two years. Knowing that all manipulations must end provides a great incentive for favoring silver over gold, although this is hardly the sole incentive. Can silver continue to underperform gold in the short run? Sure, but I see no way that silver will underperform long term given all the facts as I know them.

The facts emanating from the silver physical wholesale market continue to point to tightness. The turnover, or movement into and out from the COMEX-approved warehouses, maintained the now-familiar 2 million+ oz weekly pace, as the total number of ounces fell another 1.6 million oz to just under 141.1 million oz. Over the past month, total COMEX silver inventories have fallen almost 5.5 million oz, but remain around 40 million oz higher than a year ago. I am less concerned about whether these inventories rise or fall as I am about the unusually high level of turnover on an almost daily basis. To me, the turnover is the key.

COMEX silver inventories have always been closely monitored as for decades these were one of the few world inventories for silver reported on a daily basis. The introduction of the silver ETFs, starting in 2006, gave us more inventories to monitor, but COMEX silver inventories are still studied closely. I have previously admitted to learning little from observing the daily changes in COMEX silver stocks for the past quarter century, as not enough specific detail is available to form valid conclusions. But this turnover phenomenon, which first appeared about a year and a half ago, stands out to me.

Here's an open admission – I'm always on the lookout for a change in pattern in anything silver related because I know that silver is manipulated and that any change might tip off the coming end to the scam. So when rapid and unprecedented metal movement into and out from these warehouses appeared, I sat up and took notice. I'm still sitting up and noticing because the movement has not abated. As I have written previously, the most plausible explanation for the turnover is that supply/demand conditions for the industry-standard 1000 oz bars is very tight and necessitates the movement, almost suggesting hand to mouth supply line conditions.

That this rapid metal turnover began around the time of the April 2011 price peak when (as I have come to believe) we were on the cusp of a full blown silver shortage is not lost on me. That was a curious time for the COMEX silver warehouse turnover phenomenon to begin and not be related to a pending shortage. That the turnover has continued seamlessly since then is not lost on me either. I'm starting to think that the turnover almost can't stop, although that's just speculation on my part. From thinking about this continuing warehouse turnover, it feels to me like the silver shortage is simmering and only a slight uptick in heat will send it into a full boil. That's why I am sensitive to other indications of turnover in ETF-related holdings, such as the recent 2 million oz withdrawal of metal from SLV which I mentioned on Wednesday.

Sales of Silver Eagles have limped along this month compared to last year's record pace, but remain among the highest on record for the program's 26 year history. If anything, sales of Silver Eagles have stood out compared to sales of Gold Eagles, with the silver version out-selling the gold by the highest margins ever. It would be better, however, if both were selling more strongly. But if you had to choose between greater strength in retail (sales of Eagles from the US Mint) or wholesale (COMEX inventory turnover), there's no question that wholesale is where it's at.

The changes in this week's Commitment of Traders Report (COT) were constructive in both silver and gold, but hands down, the surprise was in the gold report. In gold, the headline total commercial net short position fell by an unexpectedly large 22,600 contracts to a total of 136,200 contracts. This is the lowest total commercial net short position in COMEX gold futures since May 29 which, in turn, was the lowest (most bullish) reading in years.

All three commercial categories participated in the purchase of gold contracts, with the lion's share going to the big 4 (almost 12,500 contracts) and the raptors (6700 contracts). In actuality, the gold COT was even better than the headline number suggested. That's because the net selling by the tech funds (managed money) and the smaller non-reporting traders was over 28,100 contracts or 5500 contracts more than the commercials net purchases. This occurred as result of net purchases of gold contracts by large non-commercial traders not in the managed money category. These traders are generally well-adapted to proper positioning for coming changes in the gold price. In simple terms, it's as if the gold COT improved by 28,100 contracts and not the already spectacular 22,600 contracts reported.

I'd like to stop here to make a point or two. The first is that there was nothing happenstance or incidental about this week's gold COT report. Yes, the changes were much larger than expected but that doesn't mean they were accidental. In fact, the extent of the change proves intent. The reporting week was down price-wise, which invariably means commercial purchases and tech fund and speculative sales. The commercials only got the opportunity to purchase and the tech funds only sold because gold prices were lower during the reporting week; same as it ever was. Just like Barclays admitted to manipulating LIBOR for their own self interest by means of collusion with other large banks, the COMEX commercials benefitted themselves through collusion by manipulating the gold price and tricking the tech funds and others into selling.

Tech funds and chart traders follow and react to price signals and the commercials control the price through HFT and other dirty means. It is as simple as that. How anyone can report on changes in the COT without acknowledging this is beyond me. I don't care so much what happens to the tech funds and chart traders or that the commercials are enriching themselves at the others' expense. What I do care about is that the commercials are manipulating the price of gold and silver in their selfish attempt at enrichment. That kicks it up quite a few notches as it involves a clear violation of US commodity law.

The dramatic improvement in the gold COT structure as of the close of business July 24 is the only reason gold prices staged the impressive \$40 rally since the cut-off. Sure, some will attribute the gain to ECB announcements or other non-factors, but the record shows that gold and silver prices move to benefit the commercials on the COMEX. If you go back and review every significant gold rally over the past few months, you will see these rallies only occurred after big reductions of the commercial net short position in the previous week's COT, just like occurred this week.

Please ask yourself Â? is it possible that the commercials are just so lucky (and clean living) or skillful to have dramatically improved their positioning to be well-prepared for all the big rallies? Or is it more likely to be something other than luck or skill; perhaps something akin to the LIBOR manipulation? It would seem that only the regulators have trouble answering this question.

In silver, the total net commercial short position increased by an insignificant 300 contracts to 15,500 contracts. This is still a super-bullish historical reading and, like in gold, when you look under the hood, the details were even better. Using the same metrics I just used in gold (the combined net sales by tech funds and non-reporting traders), the silver COT actually improved by more than 1600 contracts and did not deteriorate by 300 contracts. Even better, the tech fund net long position is lower and the tech fund gross short position is higher than any time in years. There is much fuel in place for a bullish price bonfire of historical proportions, as has been the case for months.

The only relevant COT question is how much deterioration or increase in commercial selling occurred since the cut-off? The related question is how high a gold or silver price will the collusive commercials allow at this time? Will the commercials permit the price of gold and silver to really rip to the upside (as could easily occur) or will they seek to contain the price (as they have done over the past five months)? Of course, we will only learn the answer in the fullness of time, but that is what matters in the short term.

More important is how you handle whatever comes in the short term. If your focus is on the long term (which it should be), then it becomes more a matter of perspective, particularly in regards to silver. The commercials have done a very effective job of depressing the price of silver both outright and in relation to gold. That could continue in the very near term. On the other hand, the COT structure in silver is about as bullish as it gets, so that could provide the fuel for an upside surprise. Away from the COT, the drumbeat of a silver physical shortage is sounding louder based upon the turnover in inventories and other factors related to pending silver investment demand. Try as I may, I do not see same the signs of underlying physical tightness in gold. I'm not saying gold can't get tight physically; I'm just saying the immediate signs are not present as they are in silver. If gold does rally hard (as it could), it will most likely be due to COMEX COT developments, as has been the case so far. Any hard rally in silver on COT considerations could easily spiral into a physical shortage price conflagration. To be sure, both silver and gold were configured super bullish in the latest COT report; but the signs of physical tightness are currently present only in silver.

Aside from the ECB announcement which set off a broad rally in equities markets, the big news this week was the hand grenade detonated by Sanford Weill, the former CEO of Citicorp and leading original architect of the current mega-bank structure. In a CNBC appearance, Weill opined that the big banks should be broken up and traditional banking activities (taking deposits and making loans) be separated from investment banking activities (proprietary trading). This was like me telling you to sell silver and buy gold instead or like Romney telling you to vote for Obama or vice-versa.

The uproar that Mr. Weill set off was a sight to behold, mainly because he was speaking an obvious truth; otherwise his remarks would have gone unnoticed. As I have remarked on numerous occasions, banks should take deposits and make loans, especially if they operate under government insurance deposit protection. Such banks should not be trading on a speculative basis for their own account. Most specifically, JPMorgan should not be trading in silver in the first place, to say nothing of them dominating the short side and manipulating the price. I have often remarked that we've taken leave of our collective senses in allowing JPMorgan and the other collusive COMEX commercial crooks (along with the CME Group) to continue to control the silver market. I would submit that Sandy Weill has just demonstrated that he still has control of his common sense.

I hate to keep using the analogy, but the continuing mortar fire keeps drawing a finer bead on the silver ammunition dump. The LIBOR manipulation scandal and now Mr. Weill's painfully obvious observation were two shells that came remarkably close to setting off the silver explosion. Short term dirty price tricks aside, the ongoing silver manipulation does not have the aura of a long life ahead of it. And what's bad for the silver manipulation is good for silver investors.

Ted Butler

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Silver – \$27.70

Gold – \$1620

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