

June 11, 2011 – Weekly Review

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By virtue of a Friday computer-generated HFT smack down, silver gave up earlier price gains and finished the week unchanged. Gold slipped about \$10 for the week, but still finished close to all time highs. Let's call the gold/silver ratio unchanged in the 42 to 1 range. Volume has trailed off, meaning that the high frequency traders seem to have even more of a controlling impact on the silver market. More on this in a moment.

In a change of pace, the tempo of physical movements of silver in COMEX warehouses and in the big silver ETF, SLV, seemed to have moderated very recently. My sense is that the turnover will resume, but I will monitor and not presuppose that will occur. Considering the psychological chilling impact on buying normally associated with a sharp price decline, US Mint sales of Silver Eagles remain strong, as do coin premiums.

Many have asked me about daily reports which describe in great detail the changes in COMEX silver warehouse stocks, particularly changes between the two categories labeled registered and eligible. Recently, the registered category has slipped to lows not seen in the past decade. Conversely, the eligible category is near high levels of the past ten years. I prefer to look at total COMEX warehouse stocks (registered and eligible combined). Over the past decade, total silver stocks at the COMEX have ranged from 95 million ounces to 140 million ounces, with the last high water mark seen in mid-2008. It is noticeable that we have declined almost 40 million ounces since then.

Since so many have given up on anything but a pronounced silver shortage breaking the back of the manipulation and freeing the price, more attention than ever is being placed on anything that might offer an advanced clue to the shortage. I think this explains the microscopic attention given lately to daily changes in the COMEX silver stocks. I have been closely studying these changes in COMEX silver inventories on a daily basis for more than 25 years. For much of that time (before the Internet), I got them by calling the COMEX daily and by subscribing to the exchange's printed statistical sheets for a spell. I don't think I ever missed a day's statistics. An honest assessment of what I learned in all that time is not very much. Even though I still closely monitor the daily changes, I have grown skeptical that the daily COMEX silver inventory changes will ever give that special advanced clue that the silver shortage has arrived. Of course, that won't stop me from continuing to look.

I can't even offer you a complete description of the difference between registered and eligible silver, other than registered used to have a paper bearer warrant attached for delivery purposes. But those paper warrants are being phased out as the warehouse process goes electronic. I don't think anyone can know who actually owns the silver, for instance, or that registered is owned by investors and eligible by dealers. And even if you could discover who owned the COMEX silver, you would still be missing what you are really looking for. What we all want to know is how much of the COMEX silver inventory, no matter who owns it, is available for sale at then-current prices. That, of course, is only known to the owners themselves. I think the intense study of the daily changes in COMEX silver stocks and categories is really an attempt to uncover how available this silver is to the market.

In fact, trying to determine the true availability of the COMEX silver stocks is what I am trying to uncover by focusing on the turnover or the movement in and out of these inventories. I first noticed a big pick up in the turnover about a year or so ago. Before then, the COMEX silver stocks moved in and out very infrequently. Considering that it would be much cheaper and more efficient to deliver silver already in the COMEX warehouses to those who wanted delivery, rather than to bring in new silver to deliver instead, it occurred to me that one would only do so if the silver already in the warehouse wasn't available. I'm still of that opinion. That's why I write of this turnover weekly. My sense is that very little of the 101 million ounces in the COMEX is available for sale at current prices and, if true, this suggests a tightness in supply. At some point, of course, additional clues may be revealed in monitoring the daily changes in great detail. As I indicated, after 25 years, I'm not about to stop looking now.

Before turning to the COTs, the new short interest figures for stocks were just released. As of May 31, the number of short sales in the big silver ETF, SLV, grew by more than 4 million shares to over 33 million shares held short. That's more than 10% of the total SLV shares outstanding. Another way of looking at this is that in the two weeks prior to May 31; 4 million ounces of silver should and would have been bought and deposited into the SLV if there was no new short selling. I think the additional 4 million shares/ounces and the 33 million shares held short are fraudulent and manipulative. Owners of 33 million shares of the SLV have no silver backing as proscribed by the prospectus. A curse on BlackRock and the SEC for allowing this scam to continue. <http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Not to belabor the point, but the 33 million shares held short in SLV is very much a hidden silver delivery default, as I first wrote three years ago

<http://news.silverseek.com/TedButler/1213640342.php> Back then, I had to guess at what I thought the short position in SLV was, because there was a big issue with reporting short sales and fails to deliver. My guess in 2008 was between 25 and 50 million ounces (back then, it was one SLV share equaled ten silver ounces). Since I couldn't prove it, many were skeptical that the SLV short position could be that large. Now there is no reason to be skeptical, as the figures are verifiable. Since the first of the year, short sales in SLV have risen by 20 million shares (ounces). As fraudulent and manipulative as these short sales may be, as an analyst, I must also point out they are also very bullish to the future price of silver, as all short sales are open transactions. At some point, these short sales will add bullish fuel to a silver price fire.

This week's release of the Commitment of Traders (COT) and the monthly Bank Participation Reports largely confirmed recent trends. In the Bank Participation Report, there was a slight (1500 contracts) increase in the big US bank (JPMorgan) net short category for the month. My guess is that JPMorgan is net short 18,000 to 19,000 contracts on the COMEX, still near their lowest level since they acquired the Bear Stearns' short position in 2008.

In the silver COT, the total net short position of the commercials declined by 1000 contracts to a new multi-year low of 33,300 contracts. This is down from 56,400 contracts held short by the commercials as recently as April 5, and represents a 40% reduction in two months. This was for a reporting week that witnessed the price declining by \$1.50 Tuesday to Tuesday and as much as \$2.25 intra-week. I want to say this small improvement on a price decline underscores the washed-out nature of the silver market structure, although we will only be able to say that for certain with the passage of time.

The raptors (the smaller commercials away from the big 8) accounted for just about all of the commercial buying and now hold their largest net long position in six months (at 10,000 contracts). Based upon data from the Bank Participation Report, it is safe to conclude a number of raptors are foreign banks. Like the larger commercials, the raptors tend to buy on the way down in price and sell on the way up. On further price weakness, the raptors can be expected to buy. The only question is who would be selling to them. Since the usual sellers on price weakness are speculators, including technical funds, the low historic level of speculative longs remaining in the market after the big sell-off suggests that we are close to the end of speculator selling and commercial buying.

What's interesting about the silver raptors' long position being the largest since the end of last November is that the price is much higher now than it was back then (\$27 to \$28). Obviously, these raptors are betting that silver is a better buy now than it has been at any time in the past 6 months, even though the price is higher. That doesn't guarantee that they will be correct, of course, but these raptors have been, hands down, the most successful silver traders as a group. History suggests they will buy more if we go lower in price and won't sell until they have a decent profit. My guess is that the raptors' average price is right around current levels and they won't be aggressive sellers until we are priced in the 40's.

In the gold COT, the total commercial net short position increased by 7200 contracts, to 247.7 thousand contracts. In contrast to silver, the commercial gold sellers were the big 4 and big 8 who added to short positions, with the gold raptors covering some shorts. On a strict COT basis alone, the gold market structure is neutral, whereas the silver COT structure is extremely bullish. The 50 day moving average in gold sits less than \$30 below current prices (at \$1503) and may prove to be a magnet at some point for the commercials to rig prices lower.

In silver, it's different as we've already spent a month trading below the 50 day moving average, so that particular sell signal has been witnessed. Is it possible for the commercials to rig big selling in gold to try to force more selling in silver? I wouldn't put anything past these crooks, especially with their new evil device of HFT. Sooner or later, however, the intentionally induced selling in silver will be finished. As always, the COTs are not a timing tool, but a directional mechanism.

Although it is probably wise to rule out any regulatory relief in the silver manipulation and await the resolution dictated by a physical shortage, it is possible for us to be pleasantly surprised. For one thing, the recognition of the abomination of HFT (High Frequency Trading) appears to be growing. More are coming to recognize that this high-speed mechanical trading is unproductive and uneconomic for all but the few HFT practitioners and harmful to everyone else. Just this week, we experienced a "flash crash" in natural gas. As to be expected, the crooked CME Group suggested this was normal, while Chairman Gensler of the CFTC suggested otherwise. <http://www.cnbc.com/id/43341878>

While I am still flabbergasted and disappointed that neither the CFTC nor Gensler has mentioned anything about the record 30% one week crash in silver prices, another item caught my eye. I know many of you have given up on the CFTC and consider Gensler to be a tool of Goldman Sachs and the banking cartel. While I respect those opinions, I am struck by the same feelings of distrust and wariness towards him by those in the banking community. After all, he was labeled as banking's enemy number one (see Oct 1, 2010 in the archives) for his attempts to rein in the bank's derivatives activities through implementation of Dodd-Frank. That was no small achievement. There's an old Arab proverb that the enemy of my enemy is my friend. I won't swear that Gensler is our friend, but I do know that the bankers are the silver investors' biggest enemy.

Here's a speech by Gensler made in the Devil's den itself; the Sandler O'Neill Exchange and Brokerage Conference on Thursday, June 9. Gensler said all the right things in the speech (now he must start doing), including concentration and position limits. But what caught my attention was something I don't recall him mentioning before, that I have been discussing lately as well - the undesired impact that the massive computer day trading by a concentrated few are having on the markets. To quote Gensler:

Third, based upon CFTC data, the vast majority of trading volume in key futures markets is up to 80 percent in many markets is day trading or trading in calendar spreads. Thus, only a modest proportion of average daily trading volume results in reportable traders changing their net long or net short futures positions for the day. This means that only about 20 percent or less of the trading is done by traders who bring a longer-term perspective to the market on the price of the commodity.

<http://www.cftc.gov/PressRoom/SpeechesTestimony/opagensler-84.html>

Even though the price of silver is more than double the price of a year ago and four times the lows of two and a half years ago, the market mood is uneasy. The HFT traders have shown how easily they can suddenly drop the price and how unconcerned they are about the regulatory consequences. There appears little that we can do about it. This, quite frankly, is demoralizing. That said, this trading is uneconomic and manipulative in nature and will not be around forever. I recall many such instances of the Wall Street rocket scientists gone mad, from the program trading and portfolio insurance scam that caused the stock market crash of October 1987, to the forward selling/leasing debacle in the precious metals, to the credit default swaps and subprime mortgage derivatives that brought about the recent financial crisis. In the end, these financial concoctions were discredited. I can't see how HFT won't meet the same fate.

In the meantime, make your silver as immune from HFT and all other forms of manipulation as possible. That means no margin. I believe silver is going a lot higher in price for a wide variety of reasons centered on physical tightness and a bullish market structure. But there are also forces bringing intentional volatility to the price designed to separate you from silver. If it were easy to sidestep the volatility and just ride the upside we all would do that. But the nature of silver is that it moves when it is ready, not necessarily when you want it to move. Then, it invariably moves faster and higher than anyone expects. Those on the sidelines tend to stay on the sidelines.

Ted Butler

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Silver – \$36.20

Gold – \$1532

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