

June 23, 2012 – Weekly Review

Weekly Review

In a particularly nasty week to the downside, the price of gold finished \$56 (3.4%) lower, while silver got walloped for \$1.80 (6.3%). Both weekly closes were the lowest of the year, with silver's weekly closing being the lowest since the fall of 2010. As a result of silver's relative underperformance, the gold/silver ratio widened out to 58.5 to 1, also the widest ratio since late summer 2010, when silver began a major move up from the \$18 level. Silver is now cheaper relative to gold than it has been in almost two years. To my mind, this makes a switch from gold to silver more attractive, given the real reasons for silver's relative weakness.

Gold is no stranger to the manipulative price rigging on the COMEX (as I have hoped I have explained through continuing analysis of the COT market structure), but compared to silver it is nowhere near as extreme as the price rigging occurring in silver. It is thought that silver is more volatile in price than gold, meaning it falls and rises more than gold due to some innate market factor, such as the relative size of each market. But a closer examination doesn't support a market being more volatile simply because of relative size. In reality, size has little to do with it.

Silver is more volatile than gold because it is more manipulated than gold. This can be seen in the facts surrounding each; including the unprecedented concentration on the short side of COMEX silver, the unending CFTC investigations into manipulation in silver (and not in gold), and the historic and unprecedented price moves to the downside in silver (gold never fell 30% to 35% in price in days, as silver did twice in 2011). And where I can clearly identify JPMorgan as being the big silver crook in silver, I am hard-pressed to do the same in gold (although I suspect JPM has dirty hands in gold as well).

Manipulation has two prime facets; it explains and predicts. Because the manipulation and market concentration by JPMorgan is much more intense in silver than it is in gold that explains why silver is beat down so much more on price declines. But since all manipulations must end suddenly and violently, the coming end to the silver manipulation predicts (as do supply/demand realities) silver outperformance ahead.

Since the start of this year, gold is roughly unchanged in price, while silver is around a dollar lower (the price of each was depressed into yearend). Both are near the extreme price lows seen after the big takedowns of late September, into yearend, and the lows of mid-May. Because of the recent price weakness, many expect continued weakness as momentum carries prices lower. That may be, but sentiment and momentum always suggest continued price weakness at major bottoms, which I think we are at. In fact, I believe the current set up in silver is as close to the exact opposite of the major top seen in April 2011 as it gets.

Back then, the overwhelming sentiment was for higher prices and not the widespread fear of lower prices as exists now. Speculative long positions, while not excessive, were much higher at the April 2011 top than they are now. Commercial short positions were much higher then than they are now. The feeling at last year's top was how much higher silver prices would go; now it's how much lower. There's an old commodity saying that seems accurate when it comes to major price tops and bottoms – "when they're yellin', you should be sellin', when they're cryin', you should be buyin'." Everyone must decide for themselves but this sure looks like a crying time in silver to me. At price bottoms everything looks and feels bad; at price tops, all looks good. By that measure, we are nowhere near a top, but that is easier to say than to feel.

In retrospect, we were in the grip of a developing physical shortage in silver at the time of the April 2011 price top, which the intentional price smash in the first week of May averted by killing continued investment demand. Now, we are not in that same pending physical shortage condition, although we could get there in a hurry. As such, the commercial manipulators on the COMEX have had greater power in setting short term prices via the paper markets now than they did back then. But there is a limit as to how much a market can be manipulated and the data suggest to me we are at that limit in silver.

In going through the normal weekly review highlights, I would point out the continuing wide disparity between the physical market in silver and the paper silver market on the COMEX. Turnover in the COMEX silver inventories repeated the pattern of continued movement and rising total inventories, as there was a net addition of 1.4 million ounces to 146.4 million ounces. The heavy turnover still suggests strong demand and not metal being dumped on the COMEX because it couldn't find a home elsewhere. My premise appears to be supported in other data.

Whereas I had expected some liquidation and withdrawal of metal in the big silver ETF, SLV, as a result of the high-volume price sell-off on Wednesday and Thursday, instead there was a deposit of nearly 1.75 million ounces reported yesterday. This lifted total silver metal holdings in SLV to another eight month high. There was also an almost 500,000 oz deposit in reported in the big Swiss silver ETF, ZKB, as well as deposits in other silver ETFs. The crooks on the COMEX, led by JPMorgan, have smashed the price in the paper markets, but there is a growing disconnect in the real world of silver. Ultimately, this is the guarantor that the silver manipulation will be terminated.

Sales of Silver Eagles from the US Mint continued steady at a monthly run-rate of 2.5 million ounces, down from the record pace of 3 million oz or so over the past few years, but still respectable. Silver Eagle sales continue to outpace God Eagle sales on every comparative basis.

As a result of the high-volume price decline that commenced about the same time as the cut-off for the reporting week ended on Tuesday, the latest Commitment of Traders Report (COT) has to be looked at as old news. What occurred after the cut-off was certainly more dramatic than what occurred during the actual reporting week. Still, there is much to be learned from this week's relatively minor changes when one looks under the hood.

In gold, there was an increase in the total net commercial short position of 4900 contracts to 163,700 contracts. This is the highest the gold commercial short position has been in five weeks and is up more than 33,000 contracts over the past three weeks. Even though price gains were somewhat muted, because gold spent the entire reporting week above the important 50 day moving average, I had expected more of an increase in the commercial net short position. While the commercial gold short position is still bullish in a recent historical perspective (and much more so after the cut-off), there is little doubt that the 33,000 contract increase was behind the sell-off this week. Quite simply, there was no other real explanation for the gold price tank this week.

By category, the standout in COMEX gold was the fairly aggressive selling by the big 4, which was the only net seller among the commercials, adding almost 9000 additional short contracts. The gold raptors (the smaller commercials apart from the big 8) bought back almost 3000 contracts, reducing their net short position to just over 10,000 contracts. The 5 thru 8 bought back around 1300 of the short contracts. The relatively aggressive short selling by the big 4 was a *teal* to me about the sharp price decline immediately following the cut-off. As you may recall, the big 4 in gold has been holding a relatively smaller concentrated short position than historically, so the big increase in their selling was notable.

While I say with clarity that JPMorgan is the big COMEX silver short, I always avoid labeling them as being the big gold short, although I strongly suspect that they may be. That's because the data is "fuzzier" in gold than it is in silver and I am reluctant to speak with certainty when I am not certain. That aside, I'd bet dollars to donuts that JPMorgan was the big short seller in gold (as they were in silver) in the reporting week. I'm sure they planned to smack the gold price shortly and to use that gold decline to feed on the silver decline; two birds with one stone, as it were. It's all just too coincidental, convenient and consistently profitable to JPMorgan to be otherwise.

In silver, prices were flat during the reporting week and the total commercial net short position declined by almost a thousand contracts to 17,000 contracts. Like in gold, the only commercial category that sold was the big 4 in silver (read JPMorgan), which added 600 contracts to a short position now larger than any time in two months. The raptors bought an additional thousand contracts, increasing their net long position to 23,800 contracts, the largest since October 2008. The 5 thru 8 big commercial silver shorts bought a few hundred contracts.

Only the big 4, and JPMorgan specifically, did any commercial selling in silver, same as the pattern for the past month. I would peg JPMorgan's COMEX silver short position to be somewhere between 17,000 and 18,000 contracts, as of the cut-off. It is not possible for the circumstance of only one commercial entity selling short for a full month in any market month not to be manipulation. This is what makes JPMorgan crooked when it comes to silver. JPM still accounts for the entire commercial net short position in COMEX silver and, therefore, it had the most to gain in any sharp price decline. To think that JPMorgan was not responsible for the sharp sell-off in silver (and gold) is naïve.

In the three days since the cut-off, I would estimate that the entire 33,000 contract increase in the commercial total net short position in gold over the past three weeks may have been wiped out. This puts the market structure in gold back to extremely bullish readings. Likewise, it is easy for me to imagine that the silver market structure has improved by 3000 contracts or more as a result of the sharp sell-off after the cut-off. The only thing I don't know how to calculate is how much of the commercial buying in silver for the past three days has been by JPMorgan versus the raptors. With the raptors' silver long position already at historical extremes, perhaps they were close to full capacity prior to the price smash this week. In that case, JPMorgan may have been able to buy back many of the additional 6000 short positions they established around the \$28.50 price mark. We'll have to wait until next Friday's COT report to learn the specifics.

Whatever JPMorgan did in silver since the cut-off will only further prove that they are the big silver manipulator; just as everything they've done before the cut-off proves they are manipulating the silver market. If they sold 6000 or more additional short silver contracts at \$28.50 or so, only to buy many of those shorts back a dollar or so lower, that would have nothing to do with legitimate hedging or market-making. JPMorgan's position in silver is so concentrated and controlling to prices that it has become such an integral component of the mispricing of silver that this powerful bank can't even address it openly.

The main point here is that silver is mispriced due to JPMorgan's massive COMEX short position. Can silver get more mispriced in the very near term? Perhaps, as you can never be sure of what dirty tricks the crooks at JPMorgan and the CME Group have up their sleeves. But even a manipulated market, at some point, reaches the limits of artificial pricing. I sense we must be at or near those limits. I would define those limits in the paper COMEX market as the maximum number of contracts that speculative long holders and speculative short sellers can be forced or induced into selling by low prices. In the real metal silver investment market, I would define the limits as the price below which existing holders will not sell and will be inclined instead to buy. Historical readings of the COT and what is transpiring in the big silver ETFs and reports from the retail field suggest both limits are at hand. There is little to no net selling of physical silver, just paper contracts.

Certainly nothing from the real world of economics and finance suggest to me that silver should drop decisively and not rise instead. Even if the modern world economy and financial system is headed to hell in a hand basket (as it very well may be), silver (along with gold) is one of the few assets that will attract buying in that circumstance. In fact, most, if not all, of those who have bought silver have done so with some thoughts of economic hard times, currency problems or bank runs in mind. It's truly absurd to think those feelings would disappear, just because JPMorgan is pushing the price lower.

As you know, I had recently given up on the CFTC ever fulfilling their prime mission of guarding against manipulation when it comes to silver because the agency was taking instructions from the Working Group. Therefore, I was not particularly upset in reading about the latest failure at the agency. It seems that the banking lobby (of which JPMorgan is the main player) has once again succeeded in disrupting, delaying or watering down proposed attempts to control the big bank's dominance of and speculation in derivatives markets.

<http://dealbook.nytimes.com/2012/06/22/a-debate-goes-behind-closed-doors/>

This is related to all the important issues; transparency, concentration, position limits and hiding speculative trading positions overseas. It reminds me of the sudden cancellation of a CFTC meeting on position limits a year or two ago due to pressure by bank lobbyists. It's hard to conclude that JPMorgan will ever accept any restrictions on its bogus derivatives trading, particularly in silver. After watching JPM's CEO completely dominate the senators and congressmen attempting to quiz him on JPM's recent derivatives loss, it will not be Washington that reins in JPMorgan.

Further, I think CFTC Chairman Gary Gensler is on a fool's errand in trying to reason with JPM in an attempt to reach a compromise. Criminals are not interested in any compromise that limits their ill-gotten gains or schemes, especially when they hold the upper hand in power and influence. Not that it matters much for silver, as I believe that Gensler and the agency have obviously been instructed to ignore the blatant manipulation there. I think the real problem in the regulatory reform process dissipating before our eyes is that we need a pit bull to stand up to the banking lobbyist cartel, not a compromiser.

The greater loss here, on which I am truly depressed, is that the failures of our important institutions to fulfill their basic missions is undermining overall confidence and trust just when we need it most. I have written of this recently, but I was speaking from a personal sense and I wasn't looking to demonstrate that loss of trust graphically. I found it anyway.

<http://economix.blogs.nytimes.com/2012/06/21/losing-faith-in-american-institutions/>

As I said, I have given up on the CFTC doing the right thing in silver, but that's on them not me, as they have had plenty of opportunity to do so. Besides, petitioning the CFTC was something to do while we awaited the inevitable physical shortage in silver brought about by the reaction to artificially depressed prices on the law of supply and demand. That reaction was interrupted and delayed by the sharp and deliberate smack down in prices a bit over a year ago, as investment demand in anything generally gets cooled when prices drop sharply. But delay is not the same as permanent and at some point the intentional lower prices work in reverse and stimulate investment demand.

It is emotionally and financially draining to witness this week's criminal takedown in silver prices, particularly when there is no way of knowing when it will be over, except in hindsight. But the lower prices have created a new undervaluation for an asset that still looks to me to be the best investment choice of any other I can think of.

Ted Butler

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Silver – \$26.85

Gold – \$1572

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