

March 10, 2012 – Weekly Review

Weekly Review

In a week characterized by continued daily volatility following the big price break of Feb 29, gold managed to erase losses earlier in the week to finish unchanged. Silver also came back from the price lows, but still finished down 50 cents (1.4%). As a result of gold's relative outperformance, the gold/silver ratio widened out a point to a nice, round 50 to 1. For the year to date, silver is still outperforming gold. There is quite a bit to cover, so let me get to it.

Conditions in the wholesale physical silver market still appear tight. Turnover or movement into and out from the COMEX-approved silver warehouses is still on fire, with the total level of silver inventories moving back to the 131 million oz mark. If an important key to tight physical conditions is this COMEX turnover, as I have contended for the past year, then that key is still in place. I did receive a couple of emails this week from subscribers asking me, in essence, when was the physical shortage I talk about constantly, going to kick in? This is a fair question that I would respond to with two points.

One, shortage is a relative term, rather than being a black or white issue. In other words, there are varying degrees of tightness or shortage; it's not all or nothing. Since it's not black or white, sometimes a shortage is not completely evident, even when it exists. The most visible manifestation of a shortage in a physical commodity is a delay in deliveries. Over the past year or more, we've seen instances of delays in wholesale deliveries of silver; most notably the delays surrounding the first offering of the Sprott silver ETF, PSLV, in late 2010.

Second, the whole issue of excessive shorting in the big silver ETF, SLV, (which I'll update you on in a moment) involves an inability to secure wholesale supplies of silver in a timely manner. That, by definition, is proof that a shortage of silver exists at the times when the shares are heavily shorted. I think what people are really asking is when does that humdinger of a silver shortage hit that is visible to everyone? While I can't possibly pinpoint that exact time, I can assure you that we are certainly moving closer to that time as the conditions for a severe silver shortage appear to me to be firmly in place.

The new short interest data for stock shares were released late yesterday and offer unabashed good news for silver investors. For the third report in a row, the short interest decisively declined for SLV and GLD. In the SLV, the short position declined by another 2 million shares (ounces) to 10.5 million, as of the close of business on Feb 29. You have to go back to 2010 to find such a low short position in SLV. The new 10.5 million share level is down from 26.6 million (or a 60% decline) six weeks earlier and down from 37 million shares held short at the peak last year (or a drop of more than 71% from that level). From a percentage of the short position compared to total shares outstanding, the percent of shares shorted in SLV fell from over 12% at the peak to 3.25% currently. That's some impressive drop.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Simply put, this is nothing less than a stupendous drop and holds much promise for the price of silver going forward. As you know, I have specified the resolution of the excessive short position in SLV (along with the resolution of the COMEX short position of JPMorgan) as one of two important keys in silver. I'll explain why I consider this so important in a second, but I'd like to fill you in on something I've never disclosed before.

You know I have made this SLV short selling as big a deal as possible and that I am eternally grateful to those of you who took the time to write to SLV's sponsor, BlackRock, to pressure them to help reduce the short position. I've also discussed previously the threatening letter that I received from BlackRock's attorneys back in December and how a subscriber (a European money manager) told me at the time how he felt that was good and how it would work towards reducing the short position. What I didn't tell you about was a brilliant suggestion he made at that time. His suggestion was so brilliant that I felt embarrassed that I wasn't smart enough to think of it on my own. At least, I was smart enough to instantly recognize it as being brilliant. I used his idea in my response to BlackRock's lawyers and I firmly believe it may have been the deciding factor behind the dramatic subsequent decline in the short position of SLV (and GLD).

Regular readers should know that I am very sensitive about my work being plagiarized by others and I am also sensitive that I not do that to anyone else. My friend wishes to be anonymous, so I won't release his name, but I can reveal his observation. He pointed out that the short selling in shares of SLV; in addition to creating shares being issued on an unauthorized basis and resulting in shares not backed by actual metal as required by the prospectus, resulted in something else as well. Any shorted shares would also result in shares being issued in which BlackRock wouldn't collect a management fee (0.5% annually).

So not only were the shorted shares fraudulent to SLV holders (like my wife) and manipulative to the price of silver; these same shorted shares were depriving BlackRock and its shareholders of income, which I calculated at \$5 million for 2011. By cracking down on the shorted shares, BlackRock would be hitting three birds with one stone and, to boot, be doing the right thing as well. That BlackRock and its attorneys saw the wisdom of this and reacted accordingly (by moving to get the short position reduced) is what I think came about. Certainly, the timeline more than supports my conviction. As I said, this was a brilliant suggestion for which silver investors everywhere owe this anonymous money manager a nod of appreciation.

It is important to put this whole shorting of SLV business into proper perspective. My objective was always to get it exposed and terminated. At this point, thanks to you and a brilliant suggestion as a big assist, that objective appears to be close to having been met. But the real promise to silver investors lies in the future. If my take is correct that BlackRock (possibly working with the SEC) got involved and that the shorting of SLV is a former problem, then that strongly suggests that shares of SLV will never again be shorted to excess. This, I would submit, could make all the difference between what happened last year when silver approached the \$50 level and the next time silver hits that level. Last time, as I'm sure you remember, the commercial crooks shorted the heck out of SLV instead of buying real silver to back SLV shares. That was a big factor why silver collapsed in price back then. If they can't do that the next time and must buy real silver instead, then we will probably have to hold on for a price rocket ride.

The changes in this week's Commitment of Traders Report (COT) were both dramatic and expected, given the stunning price changes and heavy trading volume during the reporting week. Not only did we witness net changes in the market structure of tens of thousands of gold contracts and many thousands of silver contracts, we fully cleansed out more than 50% of all the net commercial short position growth in gold over the past two months (30% in silver). I had anticipated a significant clean-out, but that was no great accomplishment. What I will hope to show, in a moment, was that this was one of the greatest financial fleecings in commodity trading history.

In gold, the commercials were successful in buying back a full 45,100 contracts (4.5 million oz), reducing their net short position to 200,200 contracts. This was among the largest weekly reductions ever, in keeping with a reporting week in which gold fell by as much as \$120 an ounce on exceptionally high volume. All three categories of commercials partook in the deliberate flush-out of leveraged speculative long positions, with the big 4 accounting for the lion's share of the spoils with 22,500 contracts of the total. The 5 thru 8 largest traders bought back 6,000 shorts and the raptors (the smaller commercials apart from the big 8) bought back a chunky 16,700 short contracts, reducing their net short position to 18,900 contracts. To say that the commercials fully gorged themselves on speculative long liquidation would not be an understatement. Nor would saying this was a manipulative episode most blatant.

The action was similar in silver; where the commercials reduced the total net short position by a hefty 8800 contracts to 35,800 contracts during a reporting week that witnessed almost a \$5 price drop from the highs to the lows. The big 4 (read JPMorgan) bought back 2500 short contracts, but it was the raptors who grabbed the biggest share of speculative selling, by buying 6000 new long contracts, increasing their net long position to 11,600 contracts. My impression from the hard data is that JPMorgan would have preferred to have bought a lot more, but the raptors stepped ahead of them.

Based upon the monthly Bank Participation Report, released the same day and covering the same March 6 cut-off date as the COT, I would calculate that JPMorgan's concentrated silver short position is now 22,000 contracts, up from 19,000 contracts in the February Bank Participation Report and down from the 24,000 contracts that JPM held as of the previous COT. At 22,000 contracts net short in COMEX silver, JPMorgan's concentrated share of the total net COMEX open interest (less spread transactions) still approximates 26%. Such a concentrated holding in any market is, in and of itself, manipulative to the price of that market. Such an excessively concentrated position also sets the stage for a potentially disorderly market, at some point. That the regulators seem to be oblivious to this risk does not, in any way, diminish that potential for disorder.

One thing that I hope everyone is aware of is that the true reason we declined so much in price in gold and silver during this time and why so many contracts were liquidated. It has to do with the true sequence of events. The price of gold didn't drop because 45,100 net contracts of speculative longs and commercial shorts were liquidated; the liquidation was effected because the price dropped. Understanding the proper sequence of events is the key towards understanding the manipulation and the rhythm of the market itself. I'd be willing to bet that seeing the right sequence of events has been the CFTC's chief stumbling block in not grasping the manipulation in silver for more than 25 years.

Most observers would normally assume, in any market, that prices go up and down due to normal buying and selling forces. While that is normally true, that is not the case in COMEX gold and silver. On the COMEX, the normal market rules have been superseded by a variety of factors that have subverted the free market process. Thanks to High Frequency Trading (HFT) and other dirty tricks, the commercials have achieved the ability to quickly put prices sharply higher, but mostly lower, at will. High-speed computers can spit out and simultaneously cancel buy and sell orders so fast and so disconnected from legitimate hedging requirements that prices jump and (mostly) fall at the will of the HFT operators.

This ability to fix prices suddenly and without warning has particular meaning in COMEX gold and silver paper trading, where the principle motivation for the buying and selling of speculative positions is on a technical or price activation basis. In other words, the technical funds buy and sell when prices move higher or lower. Since the commercials have gained full control of short term price movements (through HFT), they have gained full control over the actions of the technical funds. This results in the normal functioning of and sequence of events of any market being turned on its head. In COMEX gold and silver, the commercials set the price first and then the technical funds react. I would agree that the technical funds are fools for falling for this scam, but I would hope you would agree that this is blatant manipulation. Comprehending this manipulative activity goes a long way to grasping what is actually occurring to gold and silver prices.

Taking this to its natural conclusion, let me try to demonstrate why the COT data and price pattern in the reporting week prove that this was one of the most egregious fleecings in the history of gold and silver trading. I have read countless stories about what really happened to cause the historic takedown in gold and silver for the week beginning on Feb 29. Stories about big physical gold sales by central banks and others, or of Asians buying great quantities of gold and silver from the West, etc. None of these stories is borne out by any hard data or documentation. Yet all the hard data anyone would need is present in the COT report.

What this COT data prove is that pure greed and profit on the COMEX was the motivation for the great price decline. And it's really quite easy to quantify the dollar amounts involved. The bottom line is that gold and silver prices declined during the reporting week to deliver a \$500 million payoff to the commercials. This was no central bank conspiracy or a great movement of physical metal from West to East or a plot to save the dollar; it was simply about 30 or 40 separate trading entities stealing half a billion dollars from other market participants. I would stipulate that \$500 million in quick trading profits in a week is enough motivation to cause a temporary \$100 drop in the price of gold or a few dollars in silver. People kill for a lot less than that. Let's go through the numbers.

What I will attempt to show is that the actual change in market structure by the net changes documented in the latest COT report compared to the actual price change recorded easily equals \$500 million. It's not quite as simple as multiplying the net contract change in gold and silver by the price change recorded; but it's remarkably close to that. For instance, 45,100 net contracts were actually liquidated in gold and gold declined \$110 in the reporting week. Multiplying 45,000 contracts by \$110 gives you a total of \$495 million and that's excluding silver completely. I know that of the 45,000 COMEX gold contracts that were liquidated, all weren't liquidated exactly \$110 lower, but a significant chunk were liquidated near that level. When that gold total is added to the silver liquidation dollar amount (8800 contracts X the \$4 drop in price during the reporting week) or \$176 million, the total gold and silver liquidated dollar amount comes close to \$700 million. My own calculations indicate that in COMEX gold and silver futures contracts alone (excluding COMEX options, and OTC transactions), it looks like the commercials skinned the tech funds for a cool \$400 to \$500 million. That's a pretty hefty payday for 30 to 40 collusive and crooked trading entities to divvy up for a week's worth of fleecing. And please remember, I'm just talking about mostly closed out futures trades. If we include all trades (options and OTC transactions, the actual net numbers could easily double.

I would submit that up to \$500 million in quick trading profits is all the motivation necessary for the commercial crooks to suddenly take the gold and silver markets down sharply. It's not necessary to embellish the story with deep conspiracies lacking in any documentation or verification. Experience shows that given the choice between an explanation featuring simple greed or involved conspiracy; greed usually wins out. There's no doubt in my mind as to what occurred in gold and silver during the past reporting week. My only question is what the regulators who publish the data are looking at, because they are surely not looking at the data they are publishing and which I am analyzing.

Finally, a good number of you wrote to me regarding the interviews and appearances on CNBC and the Fox TV network over the past day by Commissioner Bart Chilton regarding the surge in gasoline and crude oil prices. For the record, I still consider Chilton to be one of the good guys in the quest to expose and end the silver manipulation. Much to his credit, Commissioner Chilton took the opportunity to specifically include silver when talking about the run up oil prices, when he was speaking about the need for position limits against excessive speculation and market concentration.

No doubt that speculators have contributed to the recent run up in oil and gasoline prices, as indicated in the COTs. Unfortunately, I can't see how the early enactment of position limits would have any effect on the speculative buying of oil contracts. That because no signs of concentration are present in crude oil contracts. In fact, crude oil is one of the most non-concentrated markets around, given its huge size. It's important to remember that position limits are good for one thing and one thing only — preventing concentration. Since there is no concentration present in crude oil futures contracts, imposing position limits immediately won't much impact.

If anything, what may be needed is a different level of position limits in crude and other markets. The current proposal by the CFTC is for crude oil position limits based upon the 2.5% of total open interest formula. Based upon the current near 1.6 million contract total open interest in NYMEX crude oil futures, that comes to a 40,000 contract all-months-combined position limit. That is way too high, as the 4 largest traders in crude oil currently average 45,000 contracts each. More than 99% of all oil traders would never come close to hitting a 40,000 contract position limit. A 40,000 contract position limit in crude oil would not discourage speculation and would not impact any concentration (which doesn't exist anyway). On a practical matter, what the Commission should do is adopt the 1% formula, as I originally proposed and that thousands of you seconded.

More to the point and respectfully submitted, Commissioner Chilton should not be mixing oil and silver. While there is no concentration in oil, there is an oppressive concentration present in silver in the form of JPMorgan's short position. In fact, even under the too-high proposed level of position limits in silver (based upon the 2.5% formula); JPMorgan still holds a position almost 5 times the proposed position limit level. That's inexcusable and flat-out wrong.

Lastly, I am concerned that Commissioner Chilton is sending the wrong message when he compares oil to silver in matters of concentration and excessive speculation. Most people listening to his interviews would likely come away with the impression that both oil and silver suffer from excessive speculation on the long side of each market, causing prices to be higher than they would be otherwise. That's patently false, as the concentrated position and excessive speculation in silver is clearly on the short side and, therefore, is causing silver prices to be lower than they should be, not higher. I would hope that Chilton would make that clear at the earliest opportunity.

In summary, these are highly unusual and exciting times for silver. The developments in the short selling in shares of SLV are like a dream come true to me and of great potential benefit to silver investors. The improvement in the COTs is both encouraging to future price performance and infuriating in that the COMEX commercial crooks just stole another half a billion dollars from other market participants while under the full view of the regulators. I do sense that the learning curve to the real silver story is accelerating and that seems like the most encouraging factor of all.

Ted Butler

March 10, 2012

Silver – \$34.30

Gold – \$1712

Date Created

2012/03/10