May 13, 2010 – The Vital Signs

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After a spirited rally of $2.50 over the past five trading days, which recorded new two year price highs, it is natural to wonder if silver has gone too far, too fast. While gold has raced to new all-time highs in that same time frame, silver has actually performed better. So what are the chances for a serious sell-off? I think the truth is that no one has a precise answer to that question. Or, at least I don't.

So rather than throw out unsubstantiated guesses as the future course of short term price movements, let's take a look at what's under the hood, and not obsess with the latest price changes. There are certain vital signs in the silver market that we can observe, much like a doctor monitors blood pressure, pulse rate and sugar levels.

One vital sign is physical investment demand. Since investment demand is different from industrial demand, in that it can be turned on and off rapidly, it is important to frequently monitor the pulse of investment demand. Those readings are sound, particularly for recent inputs. Demand in the big silver ETF, SLV, has grown sharply in recent days. After 18.5 million ounces were removed over a six week period (due to physical silver needs elsewhere), silver deposits into the trust have started growing again, by 8 million ounces over the past week or so. More importantly, tremendous trading volume over the past few days on rising prices indicate more than 10 million ounces (by my reckoning) are now Â?owedÂ? to the trust by SLV share short sellers.

In addition, this week's $375 million share issuance by the Central Fund of Canada means that almost 8 million ounces of silver have been bought by that fund and needs to be physically delivered. That's a big slug of silver to come up with under current tight physical conditions. Other silver ETFs, like the Swiss ZKB, also continue to add metal.

Silver Eagle sales from the US Mint continue their blistering pace, with more coins having been sold in just the first four months of 2010, than in the full year of 22 of the 24-year history of the program. It would surprise me if the US Mint is now the largest user of silver in the world. For sure, many of these coins are finding their way to Europe, given financial system and currency concerns there.

Finally, I am still highly encouraged by the unusual movement, both in and out, of metal in the COMEX-approved warehouses. While total stocks have held fairly constant (around 116 million ounces), there has been almost frantic withdrawals and deposits. This is very much different than the movements in COMEX gold and copper warehouses, where there have been little movement. What this suggests to me is that the vast bulk of silver on deposit in COMEX warehouses is not available for sale at current prices and new material must be brought in to satisfy the requests of those wishing to remove metal. As I have written previously, it's much cheaper and efficient to deliver what's on hand, rather than bring new stuff in (unless the stuff on hand is held by those not interested in letting it go).

Another vital sign is the market structure on the COMEX, as evidenced by readings from the Commitment of Traders Report (COT). In the past, the buildup of technical fund long/commercial dealer short positions has signaled high risk levels in the market. Are we at dangerous levels currently? I don't think so. Since this is perhaps the one vital sign many of you are looking to me for a reading on, let me do so.

On Monday, May 10, I wrote how the concentrated short position of JPMorgan, as well as the 4 and 8 largest traders had grown noticeably in the most recent COT and Bank Participation Reports. I had expressed outrage at this development, as it went to the very heart of the silver manipulation. What I didn't tell you was that I continue to send my analysis and allegations directly to the government regulators, as well as to Jamie Dimon of JPMorgan and the exchange regulators. I have every intention of continuing that practice.

Since the last COT and Bank Participation Reports, however, I have detected a potential change in the piling-on pattern of the big concentrated shorts. On the strong price rally of the past few days, I have observed no notable increase in total open interest in the daily reports. In fact, the most recent data indicate that there has been no increase in total COMEX silver open interest since the last COT cut off. This suggests to me that the big concentrated shorts did not add aggressively to their existing short positions on this week's big rally. If this is confirmed in the new COT, I would submit that the lack of new short selling by the big concentrated shorts was precisely what allowed the price of silver to rally.

Let me be clear here Â? I'm saying that new short selling by the big concentrated shorts caps the silver price and no new shorting by them allows the price to rise. If that isn't classic price manipulation, I don't know what is. To the regulators, I would submit this is like a paint-by-the-numbers primer on manipulation. To silver investors, I am saying that the noose is starting to tighten around the commercial crooks' necks and my sense is that the current COTs in silver are no giant cause for concern by themselves.

At the same time, there has been a notable build-up in total COMEX gold open interest of over 37,000 contracts over the past week. I'm guessing that the new COT report will show a sizeable deterioration and an increase in gold commercial shorting to near record levels. I think the developments in the physical gold markets will overcome the negative gold COTs, but I want to be objective and recognize the deterioration in gold COTs. As always, if we do sell-off, it will because of the crooks on the COMEX. I just don't know if they can rig a sell-off in gold to smack the silver. My sense is not. Even if I'm wrong, any sell-off should not be long-lasting.

The last vital sign I would direct your attention to is the likelihood of regulatory intercession against an increasingly obvious silver manipulation. I don't know the exact odds of that happening, but whatever those odds may be, they are higher now than ever before. Who would have ever thought we'd be reading about an alleged silver manipulation in the popular press? And there's one brand new development I direct your attention to.

As promised by a trusted source in the CFTC, the Commission has published the public comments submitted by all of you regarding the March 25 public hearing on precious metals and position limits. I was told that since no specific rule making was proposed, the publishing of the public comments was not required. It is my feeling that the agency made an exception and agreed to publish all the comments due to their professional content and volume. For this, the Commission deserves a tip of the hat.

In my opinion, it is you that deserve the highest compliment. Prior to April 7, there were 136 comments submitted to the Commission, a fairly respectable number. (Just as a point of interest, my own comments were recorded first, back on March 22). On and after April 7 (the date my article asking you to comment, Â?A Time to ActÂ? was written), over 2100 additional comments were received and published by the CFTC. By my count, 99% of the public comments had to do with the concentrated silver short position and the need for legitimate speculative position limits. Upfront, I was hoping for a few hundred, and would have been real happy with 500 comments. To my knowledge, there was no other similar request by anyone else asking you to write in on this issue. Not only am I overwhelmed by your outpouring of support and am extremely thankful, I sincerely believe it will make a difference.

Please remember, this is a very narrow issue. It is so specific that it is hard to conceive how the Commission cannot be influenced by your response. Certainly, if there is any good reason why silver position limits should not be 1500 contracts and phony hedge exemptions be disallowed, I have heard no such reason. I believe that the Commission is interested in upholding the law and abiding by the will of the people if that will is correct and just. Enacting legitimate position limits in silver and breaking up the manipulative short concentration is the most righteous act the Commission could undertake. Surely, even they can see what the people demand.

I haven't been able to read all the comments yet, but you can find them here – http://www.cftc.gov/LawRegulation/PublicComments/10-005.html

At the risk of repeating myself, thank you very much for an impressive showing.

Ted Butler

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