

## May 4, 2013 – Weekly Review

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There was some intra-week volatility, but gold and silver finished marginally higher for the week; with gold up \$10 (0.7%) and silver up a dime (0.4%). There wasn't much change in the silver/gold ratio which finished at 61 to 1 (or any change in my sense that this is a great time to switch from gold to silver).

There still seems to be present a sentiment of aftershock as a result of the two-day price plunge three weeks ago, but the extreme price lows of Monday, April 15 have held so far. While there is still some debate about the cause of the price plunge, it sure seems clear to me. You'll remember that I described the two-day takedown as a deliberate neutron price bomb on certain NYMEX/COMEX markets (gold, silver, copper, platinum, palladium and crude oil). Two markets (copper and crude oil) have recovered all the losses on those two days, while platinum and palladium have recovered most of the losses. Gold has recovered more than half its two-day loss, while silver has dragged up the rear, still haven't recovered half its losses. (This just reinforces my take that silver is the most manipulated commodity of all and a great bargain for being so).

My point is that the broad price recovery in the selected markets bombed tends to prove this was a coordinated futures market attack and it did not occur due to fundamental supply/demand changes. Two of the largest markets, copper and oil, recovered the most and it is absurd to claim that copper and crude oil fundamental suddenly turned rotten and then just as suddenly turned bullish again. (More on copper in a moment). The takedown was a crooked CME Group scam to benefit insiders, as has been the case for years for all big sell-offs.

Conditions in the wholesale silver market continue tight. Turnover this week in the COMEX-approved silver warehouse cooled off a bit to the 2.5 million oz range, as total inventories fell 500,000 oz to 165.6 million oz. There was also a resumption of turnover in the big silver ETF, SLV, following a week of inactivity. There is a delay to these figures as more than 1 million net oz have since come in. <http://about.ag/SLV/> Of course, the standout feature of precious metal ETF holdings continues to be the additional redemptions in GLD, the big gold ETF, while SLV holdings have inched higher. Based on the continued improvement in the COTs, I'm still inclined to believe that the 20% (10.2 million oz) reduction in GLD since year-end is still most likely investor liquidation in the face of lower prices. We experienced a similar drawdown in SLV in the big silver price smash of May 2011. More importantly, it still appears to me that the gold redeemed from GLD is now residing in much stronger hands — basically in the hands of the crooked commercials on the COMEX.

Sales of Silver Eagles cracked the 4 million oz mark for April, but there has been no update from the US Mint for the first three days of May. Overall conditions in retail silver continue strong in terms of premiums and delivery delays, but volume has been curtailed due to a lack of product. No one can know with certainty how this will be resolved, but the key is what happens in the wholesale market for 1000 oz bars. If we swing into a pronounced silver wholesale shortage, sooner or later, that must translate into some type of rush for 1000 oz bars through COMEX futures deliveries.

The mechanism of buying nearby futures contracts for immediate physical delivery purposes is widely known throughout the metal world, so that the first real signs of wholesale delivery delay must set off a rush on the COMEX for physical delivery. Too many market participants know that the biggest quantities of physical silver can be had in COMEX dealings. Just because that hasn't happened yet does not mean it won't occur. But such an event will probably only occur after a rapid silver price escalation has taken place.

The changes in this week's Commitment of Traders Report (COT) were surprisingly constructive, given that gold prices climbed by \$75 in the reporting week and silver rose by more than one dollar. Perhaps it was a case of the data catching up to the price earthquake of a few weeks ago. And has been the case recently, new record bullish extremes were set in several categories.

In COMEX gold, the headline total net commercial short position declined by 8,800 contracts to 95,600 contracts, another new low not seen since late 2008. Also at important lows were the non-commercial net long position (the lowest since early 2009) and the non-reportable traders who are now slightly net short for the first time since 2001. Just to put that in perspective, the price of gold was under \$300 back then.

By commercial category, it was mostly a gold raptor affair. The smaller commercials apart from the big 8 added 6600 contracts to a net long position that now totals 37,900 contracts. Unless my records (or my eyes) are deceiving me, this is the largest gold raptor net long position in history. More importantly, the rise of the raptors in gold and silver is a fairly recent phenomenon; something that has transpired over the last several years. This causes me to place greater emphasis when the raptors get very extreme long or short. The record long raptor net long position in gold (and silver) is icing on the cake for a bullish COT structure. Rounding off, the big 4 and big 5 thru 8 in gold also bought back some of their already low short positions.

COT analysis is a contrary indicator, that is, when the commercials are less net short and the non-commercials and non-reportable traders are less net long (or even net short) that provides bullish readings. That's where we have been and are more so with this report. That's not to say the readings can't become even more bullish but the current readings are as bullish as they have been in a long time. Yes, COMEX gold and silver are manipulated markets and the manipulators cannot be underestimated; but the current bullish readings already reflect severe price manipulation in the price.

In COMEX silver, the total commercial net short position declined by 2900 contracts, to 14,200 contracts. This is, effectively, back to the extremely low (and bullish) readings of the past couple of years. By commercial category, the big 4 (read JPMorgan) bought back 2200 contracts; although my sense is that the reduction came mechanically from JPMorgan's first day delivery of 1500 contracts from their proprietary trading account. The raptors bought 1700 new long silver contracts and, like in gold, now hold a record net long position of 33,300 contracts. The big 5 thru 8 traders sold about 800 additional short contracts.

I would estimate JPMorgan's net short position to now be 18,000 contracts, down from 35,000 contracts on Feb 5 and not far above their low water marks of 12,000 to 14,000 contracts of Dec 2011 and last summer. I don't doubt for a minute JPMorgan would like that short position to be even lower, but I am hard-pressed to imagine, at this point, who the selling victims might be, given the extent of speculative selling that has already occurred on the price carnage to date. Certainly, the non-reportable traders hold their lowest net long position in the history of the COMEX and the tech funds sure appear to be washed out. I suppose I should remain open to further manipulative games to the downside, but sticking with my long-held feeling that COT analysis is akin to horseshoes and hand grenades, it sure seems close enough to a major bottom in gold and silver.

Over the past month, I have mentioned the COT structure in copper a number of times, as there was a big swing from the commercials being net short to being net long on the copper price decline this year. The latest COT report shows that the commercials now hold their largest net long position in COMEX copper in history. On Friday, the price of copper suddenly exploded by 20 cents (7%), one of the largest price jumps in history. I don't think it had anything to do with copper fundamentals or the employment report (as the price was 13 cents higher before the report was released). The price jump was strictly due to the previous commercial positioning. This commercial positioning has become the end all and be all for price movement. I find it unusual that gold, silver and copper, markets with distinct supply/demand fundamentals all have extremely bullish and record COT set ups simultaneously. It can't be accidental.

On Wednesday I wrote how there was little true liquidity in the markets. What I may not have conveyed adequately is that the lack of liquidity can really enhance price volatility and movement. In other words, what occurred in copper price-wise on Friday is what I'm expecting to happen in silver and gold at some point soon, just as I was expecting it to happen in copper. The commercials position themselves by manipulating prices lower so that they can buy as many contracts as possible and then, when they decide, they let her rip to the upside. It is the ultimate scam and that's the sad state of our markets at this point. The only good thing is that it does suggest a jump in silver and gold prices.

In keeping with that theme and since the big banks, like JPMorgan, seem to be immersed in these ongoing price rigs, I thought the words of Charlie Munger (Warren Buffett's partner) were appropriate. Mr. Munger said that the big banks can't be trusted to regulate themselves and that High Frequency Trading was "basically evil." <http://www.cnbc.com/id/100705820> Amen to that, brother.

In a most extraordinary article, the New York Times carried a front page story yesterday that caused me to sit up straight. It highlighted the growing regulatory troubles and possible misdeeds for JPMorgan, which has been a constant theme of mine in silver for the past 4.5 years. The story explained how various regulators, including the Federal Reserve, the Comptroller of the Currency and others were attempting to crackdown on JPMorgan for a variety of infractions (no, not for silver — yet). If you haven't read the story in full, please do so. <http://dealbook.nytimes.com/2013/05/02/jpmorgan-caught-in-swirl-of-regulatory-woes/?emc=na>

The most remarkable aspect to the story was the indication that the Enforcement Division of the Federal Energy Regulatory Commission (FERC) was planning on bringing charges, should the Commission agree, against JPMorgan for manipulating the electricity market. I discussed this case in the Weekly Review of November 17, 2012 (in the archives) and it appears FERC's Enforcement Division means business. Like the example of incoming mortar fire drawing closer, this story set off some strong thoughts and emotions in me that I'd like to share with you.

While it goes without saying that being accused of wrongdoing by the government doesn't automatically translate into guilt, clearly FERC's Enforcement Division feels JPMorgan is guilty. To that I say hooray, even though guilt may not be proved in the end. I'm glad because someone needs to stand up to these too big to fail banks. If government regulators won't butt heads with the mega banks, who will? Certainly, no member of the public has the resources to tangle with the likes of JPMorgan on a legal basis. I'm not sure that FERC has the legal resources to stand up to JPM, but they should make a go of it if they feel wrongdoing took place.

Contrast the Enforcement Division from FERC to their counterparts at the CFTC. FERC is full-speed ahead when it senses manipulation (the most serious market crime); while the CFTC won't even allow a full discussion to take place despite thousands of complaints about the silver manipulation. What does it take to get real enforcers in place at the CFTC? I'm not privy to the details of the alleged manipulation in electricity, but the evidence in the silver manipulation comes directly from COT and Bank Participation concentration data published by the CFTC. In other words, the silver manipulation case is much easier to make than in electricity.

Perhaps the most remarkable revelation in the NY Times article was FERC's contention that the head of commodities for JPMorgan, Blythe Masters, had lied under oath in the electricity manipulation investigation. That's an extraordinary accusation. You may recall that Ms. Masters was recently placed in charge of regulatory affairs for JPMorgan, in addition to remaining head of commodities. A federal regulator is suggesting the head of regulatory affairs for JPM can't be trusted. Of course, I wouldn't trust anyone at JPMorgan to do the right thing, like Charlie Munger, but neither of us are government regulators. But for a government regulator to feel the head of commodities and regulatory affairs for JPMorgan lied under oath is out of this world. JPMorgan has 250,000 employees – can't they find someone as head of regulatory matters that FERC doesn't think is lying? At the very least, her choice to be regulatory head says wonders about top decision making at the bank.

And even ahead of the issue of lying under oath, what kind of sick world do we live in where the most systemically important US bank is even trading and possibly manipulating markets like electricity and silver. Why don't these crooked bankers stick to cheating people on credit cards, pay day loans and mortgages and leave commodity markets alone? I don't doubt for a minute that should JPMorgan be charged with manipulating the electricity markets, the unlimited resources of their legal army will overcome any government regulator. Still, FERC's Enforcement Division is tops in my book for taking them on.

In fact, the biggest blame perhaps shouldn't be placed on JPMorgan. Yes, I know I call them crooks every chance I get, as along with the CME Group they are every bit the criminal enterprises I paint them as being. But the root cause of JPM's and the CME's evil ways is that they have been allowed to manipulate the markets by the regulators, at least in silver and gold. Therefore, the biggest blame in JPMorgan's ongoing manipulation in silver is the CFTC.

Everyone has a breaking point and I reached mine with the CFTC long ago. Recently, I have taken to asserting that the commissioners and lead officials of the agency have been compromised when it comes to silver. I don't mean they've been bribed with bags of cash, but something has prevented the commodities regulator from upholding the law and cracking down on the silver manipulation. My best guess is that the CFTC has been persuaded by other high officials (like in the Federal Reserve or Treasury Dept.) to refrain from cracking down on JPMorgan due to past guarantees of immunity as a result of the Bear Stearns takeover or because a sudden free market price for silver might disrupt other markets. But that's not a good enough reason to allow violations of law to continue.

I now hold the opinion that the commissioners and other high officials of the CFTC are traitors. That's a real ugly word, but Merriam-Webster defines traitor as one who betrays another's trust or is false to an obligation or duty. It may be ugly, but the CFTC has betrayed the public trust and has been false to a sworn obligation and duty to uphold commodity law. How else to describe a phony 4.5 year investigation and never a comment on the series of unprecedented price declines in silver while the supposed investigation was in place? I don't know how these people live with themselves by betraying the public on a daily basis.

Perhaps other regulators may indirectly accomplish what the CFTC has refused to do, namely, crack down on the crooks at JPMorgan. I have just about given up on a regulatory end to the silver manipulation, but the good news is that the inevitable termination of the silver manipulation via a wholesale physical shortage seems more probable than ever before. As the COT report indicates, even the commercial crooks are better positioned for the manipulation's end like never before. I would have preferred Izzy's full pants down outcome instead, but maybe the crooks at JPMorgan will get their comeuppance and just rewards in other ways.

Ted Butler

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Silver – \$24.10

Gold – \$1470

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