November 12, 2011 – Weekly Review

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With almost all of the gains coming on Friday, both gold and silver finished higher for the week. Gold closed the week $34 higher (1.9%), while silver rose 45 cents (1.3%). The slight relative outperformance of gold resulted in minor widening in the gold/silver ratio to 51.6 to 1.

Since the manipulative bushwhacking of September, gold has fared better than silver. In fact, silver has felt Â?heavyÂ? recently when compared to gold. Based upon the normal human reaction of extrapolation in price moves, many are starting to feel that silver will continue to underperform gold on a longer term basis. Throw in some recent soft data on silver retail demand and a cooling off in silver physical turnover and the silver underperformance feelings grow more pronounced. So is it time to expect continued silver price lethargy? I don't think so.

Leaving aside the fact that silver is more manipulated than gold for a moment, there are some ready explanations for why silver has been somewhat of a relative drag recently. For one thing, since the September price smash, silver has not been able to penetrate to the upside its important moving averages (50 and 200 day), while gold has been able to climb or remain over all its important moving averages. I'm not a technician or chartist, but many market participants are heavily influenced by such indicators. That makes it important to be aware of what these technical traders are up to. The fact that silver is below the moving averages while gold is above keeps these technical traders from buying silver and encourages them to buy gold. I think this explains, more than anything, the recent relative punk price performance in silver compared to gold. But the nature of this technical moving average approach portends changes ahead.

If being unable to penetrate moving averages discourages technical buying, then when the moving averages are finally penetrated, the buying usually occurs. Conversely, when prices penetrate the moving averages to the downside, technical selling occurs. I'm not suggesting anyone trade on this basis, just that many market participants do and for that reason it might be monitored. In fact, this is the basis for how I analyze the COT structure. On Friday, silver closed within spitting distance of its 50 day moving average ($34.75). When silver decisively trades above this level, all the moving average technicians will be inclined to buy for the first time since September. I can't tell you when that might occur (I think very soon), but I can tell you that such a penetration is inevitable, as prices of everything regularly fluctuate above and below the moving averages.

Here's my point Â? the main reason silver has been acting crummy price-wise is because it has been kept below its moving averages. Once it moves above the moving averages, as it must at some point, it won't be acting crummy. In fact, usually the best time to buy anything on a moving average basis is after the item has been below the moving averages for a while and just before that item penetrates to the upside. I think that's the case in silver currently. I'm not suggesting anyone adopt this approach in investing or trading, but rather I am offering an explanation for the relative price weakness in silver and how that might soon change.

There's nothing exciting to report on the silver physical front, other than we are going through a soft patch. The funny thing is that gold has been even softer on the physical front than silver and that hasn't prevented gold from outperforming the past couple of months, due to COMEX trading and moving average considerations. There was no Commitment of Traders Report on Friday, due to the Veterans Day holiday. (A tip of the hat to all you Vets). The report will come out Monday afternoon. My guess is that gold has deteriorated further and the total commercial net short position has increased by 20,000 to 30,000 contracts thru Tuesday, Nov 8, on what was some pretty strong gold price action. That would put us in neutral COT territory for gold. I don't think silver deteriorated much and still remains in spectacular bullish territory (mainly due to the crummy price action). If the report comes in much different than my expectations, I may issue a brief interim report.

The big news is that on Friday the CME Group pledged $300 million towards restoring customers of MF Global who have been frozen by the firm's bankruptcy. http://finance.yahoo.com/news/CME-Group-CME-Trust-Provide-prnews-1668003351.html?x=0&l=1 This is very good news on the surface. As I indicated in my last article, Â?An Unmitigated Disaster,Â? the CME needed to be forced to do the right thing and not abandon the customers of MF Global and to preserve market integrity. I'm tempted to claim some small influence in pressuring the CME to step up to the plate, but I don't wish to appear immodest. After all, the CME denied it had any responsibility for weeks and then did an abrupt about face within 24 hours of my article. I'll leave it up to you to speculate on what caused the CME to see the light, but I would like to offer my speculation on the matter.

There is no question in my mind that Gary Gensler, chairman of the CFTC, was instrumental in persuading the CME to see the light. Gensler is too smart and too concerned for innocent market participants not to have gotten involved. I fully confess that many times he is the intended recipient of much of what I write. Certainly, he was the intended audience in my last article and it was him that I was prodding on the CME and MF Global matter. Maybe it was all just a coincidence of timing, but not in my mind. We still may have to butt heads with the Commission about the ongoing silver manipulation, but with the recent turn of events with the CME on MF Global, Gensler deserves all of our thanks.

The CME's offer should not be considered a done deal until every MF Global customer is made whole, but it appears headed in the right direction. Even if my speculation about Gensler is off the mark, there are some other observations I would like to make. I am still surprised how so few market observers picked up on the looming disaster. Perhaps there were others in different markets (grains, energies, softs, equities and debt) making a big deal about the CME's intent to turn its back on MF Global customers, but few in the metals markets spoke up (Jesse from the Americain CafÃ© was a notable exception http://jessescrossroadscafe.blogspot.com/). I don't understand how so many were oblivious to the matter given its importance.

The main observation I would like to make is that the CME's turnabout gives me and should give you more confidence in the allegations of manipulation in silver. Just because a contention is held by a minority, doesn't make it invalid. Just because powerful entities (CME and JPMorgan) look down their noses at allegations made by those not powerful, doesn't mean that radical changes can't be achieved. The lesson in the CME's about face is that despite a lack of power and great numbers pressing for change, sometimes the merits win out. Right makes might. The reason the CME caved in so quickly in denying it had a responsibility to MF Global customers is because its premise of no responsibility was absurd on its face. Just because the CME said upfront it had no responsibility didn't make it so. Of course, they have responsibility. And the offer to chip in $300 million proves it.

As far as the silver manipulation, the reason it has taken so long to terminate is that it is more complex than the matter of MF Global and involves fewer participants. That is an explanation for the delay, not a suggestion it will continue indefinitely. The CME's responsibility in the MF Global matter was uncovered quickly; the silver manipulation is taking longer due to the nature of the crime. But what you should take away is that the CME was dead wrong initially in MF Global and they will be dead wrong eventually in the silver manipulation.

Not all the news is good. Recently, I have been suggesting the two things to watch is if JPMorgan increases its crooked concentrated short position in COMEX silver and if the short position in shares of the big silver ETF, SLV, grows. JPMorgan did increase its COMEX silver short position a couple of weeks ago and that circumstance must be closely monitored. The new short position in SLV has been released and it shows a sharp increase as well. As of Oct 31, the short position in SLV grew by 4 million shares/oz to just over 24 million shares. The short position in SLV now stands at 7.5% of all shares outstanding, an outrageously large amount. http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

This means that 7.5% of all the shares in SLV have no silver backing, in violation of the prospectus, because the shorts don't deposit silver. Such a large percentage of shares shorted represents fraud and manipulation in a fund that promises that metal backs each share. Worse, there is no data available, to my knowledge, as to the identity of the short sellers of shares. That means it could be that JPMorgan is the big short in SLV in addition to being the big short on the COMEX. That is crooked beyond description. I still own shares in SLV, but I am fed up with the sponsor of this trust, BlackRock, for allowing this fraud and manipulation to continue. BlackRock, the world's largest money manager, pretends to be above all this, just like the CME and JPMorgan. Nothing is ever these big firms' responsibility. I am starting to think that BlackRock may be as crooked in matters related to silver, as are the CME and JPMorgan. In any event, I'll be sending this article and a short note to the CEO of BlackRock, Laurence Fink (as well as the CEO's of the CME and JPMorgan.) If you would like their email addresses, drop me a line.

I got an interesting question from a subscriber about what general mile markers should he be looking at for when to think about selling. Fred knew the time wasn't ripe for selling now, but wanted to be alert as to what to look for. The first thing I would look for would be signs that the manipulation was terminated. This would mean no more concentrated short position and no noticeable short position in SLV. Next, I would be looking for when a bubble might be in place, where investors were throwing caution to the wind. Last, I would look for a user buying panic. If those signs were present, it would probably time to say farewell to silver. We are a long way from that.

Ted Butler

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Silver -$34.70

Gold – $1789

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