

November 24, 2012 – Weekly Review

Weekly Review

Although the holiday trading week was short, it was also sweet for gold and silver investors. Gold tacked on \$37 (2.2%), while silver ended the week an impressive \$1.70 (5.3%) higher. While it may not be entirely objective, the price action felt "natural" to me given that it was up, volatile and silver led the way. This conforms to the predominance of all the underlying data as I see them. As a result of silver's outperformance relative to gold, the silver/gold ratio tightened in by a chunky 1.5 points to under 51.5 to 1, near the bottom of tight trading range extending back almost a full year. All seems right with the world.

In many ways, the move up this week was somewhat of a "stealth" move, with both gold and silver sort of sneaking up to 5 and 6 week price highs on low trading volume while the US was concerned with the Thanksgiving holiday. It was only a couple of weeks ago that the key moving averages in each were threatening a downside washout; yet Friday's close put us firmly above all the key moving averages. While I am not a technician (as a valued subscriber "accused" me of being this week), I do recognize that these price patterns influence many. I favor silver for many other reasons, but the price action thru Friday would encourage the technically-inclined to buy, rather than to sell.

Since I am not primarily technically-motivated, I look for other reasons for why prices may have advanced this week in the manner I describe as sneaky. I'm convinced beyond any doubt that silver has been manipulated by JPMorgan since they acquired Bear Stearns' concentrated short position in March 2008 and that the one sure remedy for ending the manipulation is a physical silver shortage. Therefore, I am attuned to anything that might suggest that the physical silver shortage is at hand, such as the frantic turnover in the COMEX silver warehouse inventories which began around the time of the silver price spike in April 1011 and which has continued thru the present. There was continued rapid turnover this week in the COMEX silver warehouses, adjusting for the holiday, with total COMEX inventories falling 700,000 oz to 141.3 million oz; but the main turnover appeared elsewhere.

Over the last nine business days, around 8 million oz of metal were removed from the big silver ETF, SLV, at a time when little silver should have been removed, given price and trading volume. The most plausible explanation for the withdrawal is that the metal was more urgently needed elsewhere, such as to the recent purchase by Sprott and/or the Royal Canadian Mint. It's not particularly important to trace the exact path of the metal flow as it is to comprehend why visible and recorded silver inventories are in observable and unprecedented movement in the first place.

Make no mistake – this current physical silver inventory turnover is not normal and customary in the world of silver prior to April 2011. The turnover is not noticeable in the only possible relative comparison; namely, any similar movement in gold ETF's or exchange recorded gold inventories. Certainly, no one is moving great quantities of physical silver around as a make-work project; the metal is in motion due to some greater compelling force. The only force I can imagine is that the physical silver supply lines are stretched thin and the movement hither and yon is required to plug demand on an as needed basis. The nutty thing is that just like every other piece of the giant silver manipulation jig-saw puzzle, the inventory movement fits in perfectly. Let's face it – if silver were manipulated lower in price, sooner or later, that would have to cause a physical shortage according to the law of supply and demand. So far it has taken 30 years, according to my tally, but that's 30 less years from this point on.

What makes this so exciting is that when the silver shortage hits in earnest, it is going to shock the pants off of everyone to some extent, me (and even Izzy) included. No, I take that back; Izzy has experience with prices amid the genuine shortage of war. Short of that, I don't know how one would calculate the price of silver in a profound physical shortage. As I wrote recently, it's hard to imagine something never experienced before. Certainly, a silver shortage can't be on the mind of JPMorgan, as there is no way anyone would heavily sell short any item about to enter such a shortage. But whether it is on their mind or not, that will be beside the point if a silver shortage is at hand, as the inventory movement would seem to suggest. I also have had the thought recently of the irony of the CFTC not cracking down on JPMorgan for manipulating silver actually causing the greatest harm to JPM by helping to keep them in their big silver short. Life does work in funny and mysterious ways.

Since there's no Commitment of Traders Report (COT) to discuss today, I thought I might continue the –what if– discussion of JPMorgan getting blindsided by a physical silver shortage. I do plan on putting out something late Monday when the new COT report is published.

It's important not to allow yourself to become overly influenced by price action in the short term. To do so invariably causes you to be too optimistic as prices rise and too pessimistic as prices fall. In the long run, short term price fluctuations matter little. The worst thing possible is to lose a long term position because of a short term price fear. That said the price action in silver this week was instructive when measured against the factual backdrop of physical movement and the particular circumstance of JPMorgan's unusually large short position. This was the message in the concluding paragraph in last week's review and how I couldn't recall a similar set up.

More light will be shed when Monday's COT is published, but JPMorgan's behavior over the past several months has been unusual when compared to past history. During the price doldrums of the summer, as silver traded down near the \$27 level, JPMorgan had reduced its concentrated net short position to 14,000 contracts or less, close to the lowest level since acquiring Bear Stearns four and a half years ago. It was a logical place to buy silver, given the low level of both JPMorgan's and the total commercial net short position. I framed the only question at that time as to whether JPM would increase its short silver position on the next price rally or use the opportunity to finally rid itself of the manipulative silver short completely. It could have gone either way and that would have been apparent in the nature of the price move up; subdued and orderly if JPM did add to shorts, explosive and disorderly if JPM didn't add to shorts. JPMorgan did add aggressively to shorts, by adding 20,000 contracts and increasing its short position to 34,000 contracts on the subdued and orderly \$8 price rally to over \$35. My feeling afterwards was that JPMorgan added aggressively to its shorts to prevent the price from exploding and attention being focused on their role in the silver manipulation. It still is.

At that point, past experience suggested that a manipulative sell-off would eventually occur that would enable JPMorgan to buy back and cover the added silver shorts at lower and more profitable price levels. That sell-off could certainly still occur, but what has transpired to date, so far, is not in keeping with past experience. Even after a sharp \$4 price smash to below \$31 during October into November and below almost all the key technical moving averages, the best JPMorgan could arrange was to cover 3,000 of the 20,000 silver contracts they had added. Thru last week's COT, JPM was forced to add back 2,000 shorts to contain a developing silver price rally, so at that point all they could show was a measly 1000 contract reduction on the previous \$4 price smash. I had anticipated JPM would encounter buying competition from the raptors looking to get more net long on price declines, but I also thought JPM would be able to buy back more than a stinking 1000 contracts.

The trouble with a market manipulated by a dominant concentrated position is that the holder of the concentrated position will determine price behavior. This is the opposite of a free market which is characterized by many different participants on both the buy and sell sides of the market. The time has long passed when the silver market has been free; now it is only a question of how long it will stay manipulated by JPMorgan before it returns to being free. I think it comes down to how much time exists and how many more short silver contracts can JPMorgan add before the physical silver shortage hits with full force. Of course, when the physical shortage hits, any amount held short will be too much for anyone short.

This week's price rise may prove ominous for JPMorgan if it is signaling the onset of a physical silver shortage, as is evident in the unusual inventory turnover. Certainly, no one prepares for a shortage by agreeing to provide massive quantities of the material about to be in short supply. But since JPMorgan was selling short silver in order to contain the price, it was mainly concerned with managing the price, not in the unintended consequence of also having to supply material in a shortage. Something caused prices to rise sharply this week and I'm not sure what that something was. It didn't appear to be the usual technically-induced paper buying based upon typical price and volume patterns. This opens it up to the possibility that the price rise was due to indications of additional tightness from the physical silver market.

While we can only know for sure with the passage of time, if renewed physical silver tightness is behind this week's price rally, JPMorgan could be in a real pickle. I want to be careful about how I say this. I can't know if we are at the point where a physical silver shortage is unfolding. I think I do know that such a shortage is inevitable and long overdue in a market as manipulated as silver. If it does turn out that we are at that point now, then JPMorgan is dead meat. Their fortress-like balance sheet and US Government protection will do them no good with a massive silver short position in a physical shortage. In fact, all their *strengths* will automatically become weaknesses and will light a rocket under the price of silver in the event of a real shortage at this time. The set up and circumstances are too unusual to predict the short term price path with certainty. But the nature of the set up is so extreme that we must always be aware of the extreme price potential to the upside that has been created by the silver manipulation.

Ted Butler

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Silver – \$34

Gold – \$1750

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