November 26, 2011 – Weekly Review/Lack of Integrity

Weekly Review

It was another down week for gold and silver, the second in a row. Gold finished the week down $44 (2.5%), while silver fell $1.40 (4.3%). As a result of the continued underperformance of silver relative to gold, the gold/silver ratio widened out to 54.2 to 1, still at the upper end of ratio since the latest deliberate takedown of the metals starting in September. By all objective measures, silver remains undervalued relative to gold.

During a two-week period dominated by news of intensifying financial crisis in Europe and elsewhere, gold has fallen by more than $100 and silver by nearly $4. I would submit that this is counterintuitive and suggestive, in and of itself, of price manipulation. After all, we are talking about the most serious financial crisis of confidence in years, when paper investments of most types, from sovereign debt to world stock markets are under severe pressure. This is an environment not conducive to weakness in those assets considered not to be dependent upon the promise of someone else to pay, like gold and silver. Yet, the price action seems to be suggesting a flight from precious metals. To what, is not obvious.

Many would hold that the price is never wrong and that gold and silver fell during this period for good reason. I would counter that if the price of an asset always reflected true value there would be no need for analysis. But I would agree that there is always a reason for why investment assets rise and fall. The trick is trying to determine that reason and not to be swayed by what sounds correct. And it is in trying to uncover the real reason for the gold and silver price swoon amid a growing crisis of financial confidence that suggestions of manipulation turn more concrete. Since there is no evidence of widespread physical gold and silver dumping on the part of world investors, what has caused the price of each to decline sharply over the past two weeks?

As is usually the case, the latest price smash in gold and silver is as a result of paper trading on the COMEX, owned by the CME Group. There is a small group of twenty to thirty silver traders on the COMEX that deliberately and collusively set the price lower at thinly traded times of the day for the express purpose of instilling fear of further loss and forcing others to sell. I know I repeat this mantra incessantly, but I only do so because such trading tactics are illegal and are the only reason for why prices drop suddenly.

In the meantime, I know it is painful and unnerving for investors to live with the apparently never-ending takedowns and silver manipulation. Unfortunately, the options for dealing with it are limited. Certainly, if I could stop it, I would do so; but that is not in my control. All I can do is publicize it and prod the regulators to live up to their responsibilities and end the manipulation; same as you can do. The most logical and historically correct approach is to own real silver outright (no margin) and steel yourself emotionally against the crooked takedowns. I can't advise trying to trade around the declines, as you risk the most devastating possibility of all, namely, selling out to avoid further potential losses only to miss the real move to the upside. Silver is much lower in price than it should be due to the manipulation and the surest bet is to buy and hold and await the manipulation's demise. The coming shortage will end the manipulation, but there is new hope that the process might be accelerated. There seems to be a groundswell developing that this silver manipulation does exist, that I will discuss in a moment. First, let me cover the normal weekly developments.

Turnover, or physical movement of inventories, into and out from the COMEX silver warehouses were more frantic this week than ever before. While the total level of combined ounces still hovers around the 108 million ounce mark, the turnover can only be called frenzied. I still maintain that the total level of COMEX silver inventories is much less important than turnover. High turnover suggests tightness and hand to mouth conditions. Physical movement has also picked up noticeably this week in the big silver ETF, SLV. In a little over a week, around 5 million ounces have come out of the Trust. As I indicated last week, I thought the first 2.2 million oz withdrawal was plain-vanilla investor liquidation, but the subsequent almost 3 million ounce withdrawal over the past few days struck me as being needed more urgently elsewhere. If my hunch is correct, that also points to tightness in the wholesale market.

Sales of Silver Eagles (as well as Gold Eagles) remain punk, with barely a million oz of Silver Eagles being sold so far in November, which will peg sales this month at the lowest monthly level in two or three years. I'm not sure why demand for Silver Eagles suddenly fell off a cliff, apart from the effects of the price manipulation temporarily blunting retail investor demand. I would note that strong sales of Silver Proof Eagles may have accounted for some of the weakness in the bullion version of the coins. In any event, the way things are evolving in the world; it does appear to me that this is an opportune time to secure Silver Eagles and all types of real silver.

The Commitment of Traders Report (COT) was delayed until Monday, due to the Thanksgiving holiday. Given the sharp price declines during the reporting week for gold and silver, I would expect a notable improvement or reduction in the total commercial short position in each market. It also appears the price weakness after the Tuesday cut-off resulted in more speculative selling and commercial buying. I'll probably publish a short synopsis on the report sometime after its late Monday release. Undoubtedly, both gold and silver have become more bullishly structured as a result of the recent price weakness, although silver was already structured as very bullish before the recent takedown.

There is little doubt that the collusive and crooked commercials have rigged the gold and silver market lower in order to buy as much distressed selling as they can. There's no way to pinpoint what the ultimate low price print may be. But there are developments underway that suggest this latest deliberate takedown will soon end.

A Lack of Integrity

I'm still impressed with the interview I posted last week of Keith Neumeyer, the CEO of First Majestic Silver Corp. http://seekingalpha.com/article/310210-keith-neumeyer-the-silver-market-lacks-integrity?source=yahoo#comments_header This is the first time I have heard a mining executive publicly comment on actual conditions in the silver market so forcefully. Additionally, Ed Steer pointed out to me that another silver mining company, Endeavor Silver Corp, had withheld 270,000 oz of silver production in their last quarter because they felt the price was too low. http://www.edrsilver.com/s/newsreleases.asp?ReportID=488486

Although we are only speaking of two silver companies, I find it interesting that, at more than $30, both feel the price of silver is too low. I don't find it surprising, given the true facts in the silver market, just interesting. It reminded me of a time in the past when I appealed to the mining community to invest in or hold back some silver production. Silver was priced at $6 and only one miner took the advice, Silver Standard, but they did quite well
http://www.24hgold.com/english/contributor.aspx?article=483326546F8350&contributor=Theodore

Now, others are offering that same advice to silver producers, including the highly respected Eric Sprott, head of the Sprott Organization (full disclosure, Sprott is a subscriber). In addition, Sprott has filed an open shelf registration to buy as much as $1.5 billion of metal in his silver ETF, PSLV. The silver won't be bought immediately, only as and when investor demand surfaces, but it is constructive that the vehicle will be in place. My guess is that investor demand will revive when this recent deliberate takedown runs its course and prices start to advance. Still, that so many are becoming aware of the true facts in silver regarding the manipulation is very encouraging to me.

The key takeaway from Neumeyer's interview was the characterization in the title of the COMEX silver market lacking in integrity. It occurred to me that sums up everything I feel about the silver market, namely, that it lacks integrity. If you look up the definition of integrity, you'll find this Â? adherence to moral and ethical principles; soundness of moral character; honesty. These are the most important qualities we strive to achieve in ourselves and to instill in our children. These are the qualities lacking in the silver market. Let me get very specific and cover those that I feel are most guilty of lacking integrity when it comes to the silver market.

First in the lack of integrity in the silver market is the CME Group, owner of the COMEX. I've considered the CME to be a criminal enterprise for quite some time, due to their failure to run their exchange in an honest and aboveboard manner. The CME favors a few powerful insiders at the expense of the public and most of their other members at large. All the CME is interested in is additional revenue regardless of the impact on the market. Due to deregulation in the past, the CME is designated as a Self Regulatory Organization, giving it the power and responsibility to run markets with integrity. Unfortunately, you can't manufacture integrity; you either have it or not. As many are learning now, because of the bankruptcy of MF Global, integrity is a foreign concept to the CME. After continuously proclaiming that they would protect customers' positions and funds via the clearinghouse, at their very first opportunity to do so, they reneged. On the day that MF Global declared bankruptcy, the CEO of the CME indicated that customers wouldn't be protected and that the CME wasn't responsible. In addition to indicating a lack of integrity, it was also incredibly stupid. The resultant firestorm that created has forced the CME to offer some increasing promises of support, but not to the extent that is expected of them. The CME talks a good game about integrity, but that is only talk. Here's a video clip from a year or so ago in which the CME's chairman bragged about no customer ever losing money due to a clearing member failure. Decide for yourself if the CME lacks integrity.
http://www.youtube.com/watch?v=m3XpfPXxjbw

Next on the lacking of integrity list comes JPMorgan Chase, which has been the big COMEX silver short since they acquired Bear Stearns' concentrated short position in 2008. It still baffles me how such a large and important bank has been allowed to maintain a manipulative presence in a commodity market so different from their base banking role. It's as if the Volcker Rule was a figment of my imagination http://en.wikipedia.org/wiki/Volcker_Rule Most baffling of all is the silence on the part of JPMorgan to the growing chorus of allegations that they are manipulating the silver market. After all, this is a very powerful and vocal institution, not given to ignoring specific allegations of wrongdoing. And instead of abandoning commodity propriety trading as they previously announced, JPMorgan seems to be taking steps to increase their presence in commodity trading, as evidenced by their purchase of key MF Global assets. I can't speak for all of JPMorgan's many varied business lines, but in terms of silver trading I have never detected a modicum of integrity.

Joining the list this year of those lacking integrity in the silver market is BlackRock, the world's largest money manager, by virtue of their refusal to deal with the fraud and manipulation in the short selling of shares of their big silver ETF, SLV. Make no mistake it has been the obscenely large short position in shares of SLV that has enabled the silver manipulation to persist this year. Were it not for the ability of SLV short sellers to sell paper shares instead of acquiring real silver as proscribed in the prospectus, the silver manipulation would have been terminated already. When directly confronted with accusations that they were enabling the silver manipulation to persist due to fraudulent short selling of shares of SLV, the best BlackRock could come up with was silence (just like the CME and JPMorgan) or some feeble attempts to explain why it wasn't their responsibility (it never is). Yes, I'll be sending this to the CEO's of the CME, JPMorgan and BlackRock (and of course, the CFTC). The good news is that all three organizations have deep pockets and I would anticipate big legal problems ahead for them all.

Last, but certainly not least, in the lacking of integrity list of shame is the CFTC, the federal regulator of the silver market. Like the other three integrity pretenders, the CFTC goes so far as to include this basic description of itself Â? Â?Ensuring the Integrity of the Futures and Options Markets.Â? (www.cftc.gov) Unlike the other three, the CFTC is not profit motivated and there is no visible explanation as to why it stands by and tolerates the continuing manipulation in the silver market. Even at this late date, I have some (rapidly fading) hopes that they are in the process of finalizing prosecution papers against the CME and JPMorgan and others for misdeeds in silver. Not only is there still an active investigation, now over three years old, but there are multiple examples this year alone that silver has been manipulated. But an analyst must be a realist and I am unable to explain why the Commission has not acted yet on silver. There does seem to be a growing awareness that silver is manipulated and it's not good for anyone (save the silver crooks) that the Commission is so behind the curve on grasping the manipulation and acting against it.

Just speculation on my part, but I think the MF Global debacle could be the final wake-up call for the agency. It's no secret that I have been a strong supporter of Chairman Gensler and Commissioner Chilton. But regulators can't take years to terminate a crime in progress and claim the high moral road. Where I (or you) haven't been able to persuade the Commission to act to preserve the integrity of the silver market, perhaps the failure of MF Global might. This failure and the CME Group's deplorable role in it might be enough to open the eyes of the Commission. Let's face it Â? no amount of criticism from me about the rotten CME could measure up to the self-inflicted damage to market integrity brought about by the CME itself. These CME crooks openly tried to walk away from customer responsibilities and doing the right thing. Surely, the Commission can see that. The Commission has grown quiet as of very recently, but at least at the time of the MF Global bankruptcy, they demonstrated open concern for the fate of customers, unlike the CME. Gensler appeared to take it to the very last minute to try to get MF Global sold and customers protected. Only the discovery of missing segregated funds (which should have been uncovered by the CME) scuttled any chance of a sale. Hopefully, the CFTC will recognize the similarities between my long-standing allegations about the CME and silver and what transpired to date of how the CME has tried to distance themselves from clear responsibilities. I may not be giving much hope for a return to integrity any time soon for the silver market, but that integrity won't return without the CFTC playing an important role.

Here's an audio interview I did with a colorful character that runs a very popular blog. Don't let his name persuade you otherwise, Turd Ferguson knows his stuff.

http://www.tfmetalsreport.com/podcast/3014/tfmr-podcast-7-ted-butler?page=1

Ted Butler

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Silver – $31

Gold -$1681

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