November 28, 2012 – Pretty Clear

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Today's sharp sell-off, at least, made it easier for me to decide what to discuss. I did have a choice, as reader questions and current events were intended discussion points, but let's start with today's price action. My first takeaway is in observing the general reaction of others to today's sudden price smash. A remarkable number of observers zeroed in or came real close to identifying the cause behind the drop or asked the right questions. Of course, I'm speaking of observers on the Internet and not in the mainstream media. Let me try to build upon the widespread observation that I believe was correct.

When I turned on the TV, around 6:30 AM Eastern Time, I was disappointed to see silver down about ten or fifteen cents and gold about $3 lower. In a series of sudden price drops, silver was quickly down another dollar and gold by more than $30. Then prices recovered somewhat as the day wore on, particularly in silver

It's not that this morning's price drop was so large or unprecedented that it garnered wide attention, but the opposite, namely, that it was a sudden large fall that has grown familiar and almost unique to precious metals. I want to be careful here not to make the case that a price drop is bad and a price rally is good, even though long term investors are naturally inclined to think that way. After all, markets go up and down. And we have had sharp sudden price rallies in gold and silver, although the big sell-offs seem to outnumber and be deeper than the rallies (which is most curious considering the decade-old bull market in each). After witnessing the repetitive nature of the deeper and more frequent sell-offs, it would seem understandable that more observers would tune into what was responsible.

I believe there is an important lesson to be learned here by judging the facts objectively. The first fact is that today's sell-off was solely a COMEX event. I believe that all the big silver and gold sell-offs are COMEX-generated, even if they occur outside prime COMEX trading hours; but today's drop couldn't possibly be attributable to any other market. Certainly, there wasn't any important news from the physical market, particularly in silver where another large movement was recorded in COMEX silver inventories last evening (a 2+ million oz withdrawal). Besides, there never is any big physical news to account for the sharp sell-offs; the only plausible explanation always points to the paper trading games on the COMEX, as is depicted in the COT market structure.

In Monday's update, I noted that the gold COT market structure was bearish, although I am not implying that I was predicting a sudden sharp sell-off. Instead, as I've tried to do all along, I was trying to anticipate an increase in price volatility that could go either or both ways because the COT set up was so extreme. That's the same message today. This morning's sharp sell-off was strictly related to the COT set up and the gamesmanship behind the set up. Try to think of this in purely mechanical terms and save judgment about its legitimacy or legality for afterwards. Since this is a constantly changing set up that comes from a continuous cycle of buying and selling over varying time frames between the technical traders and the counter party commercials, you can start anywhere in the cycle.

For the purpose of today's high volume sell-off, I'm just going to look at the past two weeks. Over this time, the tech funds bought and the commercials sold about 40,000 net contracts in COMEX gold futures and about 8,000 to 9,000 silver futures contracts (if you include last Friday's likely tech fund buying) as prices moved above key moving averages. Today, many of those contracts were liquidated as prices plunged below most of those same moving averages. Trying to divine short term price direction, the key question is are we done with the liquidation or is there more to go? I lean towards there not being much more to go (especially if the physical silver market is as tight as I suspect), but let's stick to the mechanical facts and leave opinion out of it. The tech funds bought on the way up and are selling on the way down in price; same as ever. The commercials sold on the way up and are buying on the way down; of this there is no doubt. Try to remember that it is the technical funds selling and the commercials buying when you read reports of thousands of contracts being sold suddenly. This is the rhythm of the gold and silver market and why prices move in the short to intermediate terms in such repetitive patterns. Trying to pinpoint tops and bottoms in advance is always difficult; but that doesn't extend to understanding the mechanical facts.

Some might argue that the technical fund buying and commercial selling and vice versa is the epitome of the free market, a financial battle between large financial organizations; but I would argue otherwise. For one thing, knowing that the tech funds only respond and trade according to price movements and that the commercials have the capability to set prices on a short term basis answers the obvious question of why do the tech funds always sell on sharp sell-offs with the commercials always buying on those same sharp sell-offs? The important point is the repetitive nature of the buying and selling; when I say the tech funds always sell sharp take downs, I mean always. Along with that is the observation that the price movements always occur before the technical funds start to buy or sell. First comes the price movement down (set by the commercials) and only after that do the tech funds begin to sell. I know it appears that the tech funds are responsible for the price declines, as they are the ones doing the selling; but appearances can deceive. I can assure you that the technical funds didn't conspire and collude last night to drive prices sharply lower this morning so that they could all sell in the hole. If you are looking for collusion, you must look to those who might benefit by doing so. Hey Â? that only leaves the rotten thieving commercials, led by the king rat, JPMorgan.

In addition to the obvious collusion and trickery practiced by the commercials on the technical funds, this paper trading manipulative cycle undermines the economic justification for regulated futures markets. Our futures markets exist to allow and promote legitimate hedging activities by real world producers and consumers and not the legalized gambling den represented by the COMEX. Those real producers and consumers play little, if any, role in COMEX gold and silver trading. It's all about technical funds and collusive commercials playing all sorts of High Frequency Trading games. That's the real tragedy Â? gold and silver (and other markets) have been hijacked by purely paper traders on steroids. No one could possibly argue that the technical funds are real producers or consumers hedging bona fide price risks; we all know they are speculators, pure and simple. The exact same thing must be said about the commercials, namely, that they are also just speculating and bookmaking when they take the other side of the technical funds' bets. Nowhere does this apply more than by considering the biggest bettor and bookie of all, JPMorgan.

The suggestion is attempted that JPMorgan is merely hedging for clients or against physical silver holdings. That's complete nonsense and easily debunked by looking at the facts. Since July, JPMorgan has shorted more than 21,000 net additional silver contracts on the COMEX. The only reason was to satisfy demand from technical funds which bought that many contracts and more. Worse, JPMorgan was the sole commercial short seller in silver over this time. All this can be seen in the CFTC's COT and Bank Participation reports. JPMorgan sold short these 21,000 additional short contracts, the equivalent of 105 million oz, to cap the price and satisfy the documented tech fund buying. This couldn't possibly be considered as legitimate hedging for clients or against physical silver positions. I'm not saying that JPMorgan doesn't have legitimate clients for which it may hedge from time to time or that it may sell against physical silver it may hold.

What I am saying is that the 21,000 additional silver contracts that JPMorgan shorted were sold to satisfy tech fund buying demand since July and nothing else. I am also saying that without JPMorgan shorting COMEX silver so aggressively and exclusively, the price would have climbed much higher. There is no way that this specific set of circumstances is not price manipulation. This is what gives me the nerve to call the bank crooked.

As I complete this report, the sharp sell-off earlier has moderated, particularly in silver. You want to be real careful about reading too much into any one day's price action, but I can't help but think that my sense that the liquidation would be confined to the technical funds' new long positions established over the past two weeks may turn out to be correct. Although today's trading volume was inflated by spread trading on the December contract roll-over, it still looks high enough to accommodate a big liquidation. I also can't help but be impressed with how silver has held up relative to gold on such a sharp sell-off; as you know, silver usually accelerates passed gold both up and down. There are not many instances that come to mind where silver did much better than gold on a big down day.

I still sense there may be a physical shortage brewing in silver, although I hope you know that can only be known for sure afterwards. The problem is that afterwards can be too late price-wise. Such a shortage would overpower paper trading games quickly; but the inverse is that absent a shortage, the paper games are more effective. As always, I am talking out of both sides of my mouth, but at least I think I am describing the set up correctly. When I get a crystal ball, I'll start telling you what will happen tomorrow.

Silver is an incredibly small market that still looms large in my mind. In fact, silver's small size is one of its primary potential price drivers, especially compared to gold. But it occurred to me that in one new way, silver may loom even larger. Silver may be tiny in many ways, but it seems to touch important men at high levels disproportionately. Yesterday, a news service reported that the famous investor, Warren Buffett, remarked how he thought Jamie Dimon (JPMorgan's CEO) would make a good candidate to replace Timothy Geithner as US Treasury Secretary. A couple of months ago, the NY Times suggested Gary Gensler of the CFTC as a good candidate as well. You'll forgive me, but I can't help commenting on these names and silver.

This may sound boastful, but I think I provided the spark that persuaded Warren Buffett to buy 130 million oz of silver starting back in 1997. That's shortly after I started writing about precious metals leasing and the impact it had on depressing the prices of gold and silver by causing metal to be dumped on the market. Later, I learned that Buffett had considered buying silver for many years before he did, but hesitated because he couldn't figure out how sufficient silver was being supplied to the market at such low prices during a deficit. The answer was leasing and as soon as it clicked on him, he bought a boatful. Ironically, Buffett lost his fabulous silver hoard at near $7, just before it started moving sharply higher, by playing the same short paper COMEX games that continue to this day. I'm sure Buffett prefers to forget the whole thing as it only threatens to sully his investment image. http://www.gold-eagle.com/gold_digest_98/butler051698.html

That Buffett speaks favorably about Jamie Dimon as Treasury Secretary adds another high level person with silver connections to the mix. For more than 4 years, I have sent to Mr. Dimon every article in which I mention JPMorgan, which, effectively, means every article I write. On that same email, I've sent Chairman Gensler (and all commissioners) the same for the 3.5 years that he has been chairman. For a long time I have opined that how he handles silver will determine Gensler's legacy. I hope he finishes better than he has performed recently. While Secretary Geithner wasn't the Treasury Sec at the time of JPMorgan's takeover of Bear Stearns, he was head of the NY Fed and deeply immersed in the merger. As you know, there was a vital silver component in that takeover. It seems everywhere I look, I see a silver connection. I can't help but think there is much more to be discovered as time unfolds.

Ted Butler

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Silver – $33.70

Gold – $1719

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