

October 29, 2011 – Weekly Review

Weekly Review

In one of the best weekly performances in memory, the price of gold and silver vaulted higher. Gold rose by \$102 (6.2%) for the week, with silver adding around \$4 (12.7%), as both markets raced to five-week highs not seen since the deliberate takedown of September. As a result of silver's outperformance this week, the gold/silver ratio tightened in to 49.5 to 1, also a five-week extreme favoring silver. For the year to date, gold is ahead by 22.6%, with silver ending Friday up 14.2% from what was a flat YTD only the previous week. What a difference a week makes.

As a consistent advocate that investors switch from gold to silver, my main fear for those thinking about making the switch is that time may be running out for taking advantage of the recent under-performance of silver to gold. Perhaps my fear is unfounded, but please allow me to point out one observation about this past week's price movement in highlighting why I favor silver over gold. On the hundred dollar move up this week, the value of the 3 billion oz of gold bullion in the world (out of the 5 billion oz of gold in all forms) increased by \$300 billion to \$5.2 trillion. Even though silver doubled gold's percentage gain this week, the \$4 gain increased the value of the world's silver bullion inventory of one billion oz by \$4 billion to just over \$35 billion. Play with those numbers any way you wish, but the increase in the dollar value in gold bullion this week was 75 times greater than the increase in the value of the world's silver bullion. Incredibly, the increase alone in the value of gold bullion this week was almost nine times greater than the total value of the all the silver bullion in the world.

My point is simple — because there is less silver bullion inventory in the world than there is gold in physical ounce terms and because gold is so much more expensive than silver, the dollar value of this silver is miniscule compared to the dollar value of gold. In dollar terms, there is 150 times more gold in the world than silver. Stated differently, the value of the world's silver inventory is less than one percent of the dollar value of gold bullion inventory. Even if silver suddenly rose to \$50 an ounce and gold remained unchanged in price (not a prediction), silver bullion inventory would still be less than one percent of what gold bullion inventory was worth. Because silver inventory is so tiny compared to gold inventory in dollar terms, there is an opportunity for silver outperformance that few comprehend. Given how little silver inventory exists, even the smallest increase in silver demand causes out-sized relative performance compared to gold; it's just a matter of money and metal logistics.

The intentional and manipulative price smash of September (actually condensed into three trading days) hit many commodities hard, especially the metals, including both the precious and base industrial metals. For silver, it was the second 30% deliberate whacking of the year. At the time, many varied excuses were offered to explain the downdraft in commodity prices; the European bank crises, slowing in China and a looming double dip recession in the US, among others. As I have written previously, changes in overall world production and consumption of commodities are glacial in nature and can't change abruptly any more than a super tanker can turn on a dime. Granted, collective market sentiment can change abruptly and no doubt did change in September. But what was the real cause of the change?

I submit it wasn't because of the popular reasons given, but for a more obvious reason. We sold off dramatically because the commercial crooks, operating primarily on the exchanges owned by the CME Group, artificially rigged prices lower (in the middle of the night and at other thinly-traded times) to set off stops below key technical moving averages in order to force leveraged longs and other speculators to sell so that the commercials could buy. This wasn't confined to silver, although price rigs are invariably more extreme in silver, as many markets were affected. Within barely more than a week, copper just rallied more than 70 cents (20%) after having fallen almost a dollar in the September smash. I can assure you that no negative or positive fundamental supply/demand development was responsible for the copper price volatility. As was the case in other commodities, the cause of volatility was paper dealings on the NYMEX/COMEX. This is all verified by changes in positions as detailed in CFTC data in the Commitment of Traders Report (COT). It is shameful that federal regulators stand by while a few large commercial traders, led by JPMorgan, have hijacked the commodity markets with their paper trading control. Just don't fall for any stories suggesting legitimate changes in real supply and demand are behind the unusual price movements as those stories are a crock.

Conditions in the physical wholesale market still appear tight in silver, although the mix changed slightly this week. Turnover in COMEX-approved silver warehouse inventories cooled a bit, but movements in the big silver ETFs, like SLV and the Swiss-based ZKB, heated up. On balance, silver still appears to be spinning in and out of the world's largest repositories, very much in contrast to other commodities. If conditions weren't tight and of the hand to mouth variety, I doubt we would see such movements. The US Mint reported modest increases in Silver Eagles this week, but I prefer to reserve judgment pending a final report for the month on Monday, Oct 31. Certainly, Silver Eagle sales this year are already in record territory, especially when compared to sales of Gold Eagles.

There was potential big news revealed in this week's COT Report. In a reporting week (Tuesday thru Tuesday) that featured price gains of more than a dollar in silver and \$50 in gold, the total commercial net short position increased in both markets. It wasn't so much that the total commercial net short positions increased, as that should have been expected on the price rallies. What stood out was the nature of the increase in silver.

In gold, the commercials increased their net short position by a modest 9000 contracts to a still-low (and bullish) 168,000 contracts (16.8 million oz). The gold raptors accounted for most of selling, liquidating about 7500 contracts, reducing their net long position to 17,400 contracts. The big 4 actually bought back 2500 contracts of their net short position, reducing it to another new multi-year low. The 5 thru 8 largest shorts added almost 4000 contracts to their net short position. On the buy side, the smaller non-reporting traders accounted for over 6200 contracts, much preferable to me than tech fund buying. Undoubtedly there has been a further deterioration in gold on the price rally since the cut-off, but it doesn't appear significant enough to derail the gold rally at this time. The "spectacularly bullish" COT set up that I have reported on the past few weeks was solely responsible for the impressive gold rally that has unfolded, in my opinion, as there are few data points suggesting any other possible explanations. The good news is that the gold COT set up still looks very bullish, albeit a bit less spectacular. Future COT readings must be monitored closely.

In silver, the total commercial net short position expanded by 4700 contracts to 23,500 contracts (117.5 million oz). While the weekly increase was fairly large, the total number is still small and very bullish on a long-term basis. As was the case in gold, there was similarity in silver raptor selling and non-reporting trader buying (as opposed to heavy tech fund buying), as well as probable deterioration since the cut-off. But the standout feature in this week's silver report was a big increase of 3000 contracts in the concentrated short position of the largest 4 traders (read JPMorgan). The raptors did sell 1700 contracts, reducing their net long position to 17,500 contracts, but the 3000 contract increase in the short position of the big 4, to 31,692 contracts was a bit of a shock to me. I had certainly expected the raptors to sell on higher prices, but not JPMorgan. If anything, I had speculated that an unusual set up existed that might enable JPMorgan to buy back a good chunk of their remaining short position from the raptors on higher prices. Clearly, this has not developed.

I had previously concluded that JPMorgan had whittled its concentrated COMEX silver short position down to 14,000 to 15,000 contracts, from a high-water mark of over 40,000 contracts in December 2009. The new COT data suggest that JPMorgan now holds a short position of 17,000 to 18,000 contracts as of the new report. Next Friday's COT and Bank Participation Report will shed further light on JPM's silver position, but that seems an eternity from here, so let me work with what data are available now. That there was such a notable increase in the concentrated short position of the big 4 is indisputable; whether I am correct to attribute all of it to JPMorgan remains to be seen, but I try to be careful about these things. Let's cut to the chase Â? what does this mean?

Many will be quick to conclude that this means that JPMorgan, with or without other big 4 participation, intends to smash the price of silver once again. Since that is at the heart of the silver manipulation that I have advanced for so many years, such a scenario can hardly be thrown out by me. After all, who sells something that is believed to go higher in price? If we do suddenly plunge in price, JPM's big increase in its dominant short position will be the first and perhaps only place to look for an explanation. Granted, such a sell-off could occur, but I have a different scenario in mind.

This increase by JPMorgan in its short position is not unprecedented, nor is it assured it will result in lower prices. Back in March (please see the Weekly Review of March 5, in the archives), JPMorgan increased its silver short position by 6000 contracts in the low 30-dollar price area after having substantially reduced it prior to that. As it turned out, JPM got crushed on that trade, largely buying it back in a panic into the highs of April and losing \$10 to \$15 an ounce, before re-gaining control of the silver market shortly thereafter. So it is not assured, based upon history, that JPMorgan will be successful in their latest attempt to manipulate the silver market.

More important to me is the motivation behind JPMorgan's sharp increase in their manipulative silver short position at this particular time. Simply put, I think they had no choice. With the recent vote by the CFTC to establish position limits, I had felt that it was important for JPMorgan, along with other CME commercials, to make sure silver prices didn't surge in the days immediately surrounding the vote so as not to allow any observable connection between the vote and the silver manipulation. If we had exploded in price immediately following the vote, even the densest manipulation denier would have drawn the connection. That's why I was an agnostic about the short term price implications of the vote, while being convinced it would be profoundly bullish in the long term. I still feel that way, even more so as I contemplate JPM's increase in its silver short position.

We're not that far past the historic CFTC vote that an extreme silver price increase could still alert others to the ongoing scam occurring in silver. I think this thought is shared by the silver traders at JPMorgan. I further think that these JPM traders had counted on the raptors (as I did) selling aggressively and taking profits on the rise in silver prices witnessed recently. It was thought by JPM that this raptor selling would be sufficient to cap prices and divert attention from the silver manipulation. But the COT data clearly indicate that the raptors weren't as aggressive in selling through the last report. Therefore, raptor selling was not enough to contain prices; more selling was needed. As in any true manipulation, it is often necessary for the prime manipulator to take matters into its own hands and to be the buyer or seller of last resort when no one else appears.

I believe that JPMorgan increased its short position because it had to in order to prevent prices from exploding. Sure, on sharply higher prices the raptors would have sold more, but at those sharply higher prices more questions would have been asked about the obviously deliberate takedown that just occurred. That was a risk that JPMorgan couldn't take, so they sold an inordinate amount of additional and uneconomic silver contracts to prevent prices from climbing and raising suspicions of manipulation. In fact, I don't think there is a reasonable alternative explanation for why JPM just increased its concentrated silver short position. Hopefully, no one will advance a moronic hedging justification, as this is as far removed from legitimate hedging as it gets.

If I am close to the mark in dissecting what JPMorgan is up to, it could (and should) blow up in their face, in turn causing the price of silver to explode. The spotlight is growing brighter and more focused on JPMorgan and silver like never before. I intend to ramp up the attention. Maybe they can rig a temporary sell-off, but the solution to a large concentrated short position, in the end, is not more shorting. Where the CFTC is while all this is transpiring is a great mystery. I'm using Commission data, what the heck is the Commission using when it monitors the silver market?

Speaking of the Commission, I have some disturbing news to share with you. As elated as I was and am about the vote on position limits and as complimentary as I have been regarding Chairman Gensler and Commissioner Chilton, they are not above criticism, particularly when it comes to defying or ignoring the will of the public. The source of my concern is in the just-released official comments on the final rule for position limits as recorded in the Federal Register that I had previously referenced. At 300 pages, it is not easy reading and highly technical – <http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/federalregister101811c.pdf>

What disturbs me and should disturb you as well is an easy to understand dismissal (on page 4) of the 4000 to 5000 public comments that you took the time to submit, requesting 1500 contracts as the proper speculative position limit for silver. Even though the public comments on silver comprised upwards of 30% of all the comments submitted, the Commission chose to disregard or misinterpret the message sent by the public in overwhelming numbers. In fact, the Commission didn't have the basic decency to even acknowledge that the public suggested specific limits in silver, while no specific limits were suggested for any other commodity.

I believe this is a monumental insult to you and me. In addition, I believe this is a clear violation of the spirit and intent of the Administrative Procedure Act (APA), which exists to protect the public's interest in new rulemakings. What the APA attempts to insure is that the public is given a clear input in rulemakings, so that new regulations are not decided solely by government officials working (too) closely with industry lobbyists and insiders. The APA seeks to prevent backroom deal making and cronyism by including the public's opinion. In more basic terms, every CFTC commissioner publicly proclaimed the desire to hear from the public and to be guided by the public comments received. Clearly, that did not occur.

While I admit to instigating that you submit public comments on silver position limits, I didn't mount a "get out the vote" campaign. I outlined the case and asked that if you agreed with my analysis for 1500 contracts, you should convey that to the Commission in your own words or in the summary of what I submitted. That you did so is to your credit and that it was ignored by the Commission is to their shame. No, I can't sue them for violating the spirit of the APA and their own public words, but neither should they be given a pass. Chairman Gensler and Commissioner Chilton are the recipients of much deserved praise from me and it is only right that they should bear the brunt of criticism for failing to acknowledge and consider the public's collective opinion. Being a dedicated public servant demands service to the public. That wasn't the case here and the buck necessarily stops with Gensler and Chilton, as they have been held to a higher standard.

I also get the feeling that no mention was made of all the public comments on silver because the Commission knows that the public is correct in its opinion of the silver manipulation and is afraid to stand up to the CME and JPMorgan. For that reason, I intend to continue to press the regulators, as well as JPMorgan and the CME Group, to terminate the very obvious silver manipulation, especially now that JPMorgan has chosen to sharply increase its concentrated short position. There is a new commissioner, Mark Wetjen, in place and that provides a new opportunity to convince the agency to step up and do the right thing. As always, if there is no manipulation amid all the evidence around us, then it behooves the agency (or JPM and the CME) to speak up and explain why.

Don't let this ongoing manipulation and the regulatory failure to end it dissuade you from appreciating what a great investment opportunity exists in silver. As always, it is the manipulation itself that creates the opportunity to buy a highly valued asset at a severe discount in price. Throw in a great COT market structure, a developing physical shortage and a growing public awareness of all these factors and you are left with the best investment opportunity of them all.

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Silver – \$35.40

Gold – \$1744

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