

April 15, 2013 - Market Update

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Upfront, when I wrote on Saturday that there could be residual margin call liquidation Monday morning, I did not expect the historic price decline we are witnessing. I've tried to explain the mechanics of precious metals pricing, rather than predict the short term direction and it still seems clear to me that all the big sudden moves emanate from paper and electronic trading and not from real world supply demand fundamentals. I'm also mindful that it still appears to be a price neutron bomb targeting the selective NYMEX/COMEX commodities mentioned Saturday.

Clearly, the main impetus behind today's price decline is margin call liquidation by those holding long futures contracts. Although I've always warned not to hold silver on margin, at times like this I kick myself for not having warned more forcefully. The \$200 gold and \$5 silver move over the past two days has resulted in most holding long gold and silver futures contracts to be forced to immediately deposit \$20,000 to \$25,000 for each contract held or be sold out by their brokers. These demands for such large amounts of money have resulted in an avalanche of panic selling. And it matters little if you believe, like me, that there was an intent behind the extreme price declines or if the margin call selling was spontaneous and beyond intent. In the end, there can be no question that gold and silver (and copper, platinum, palladium and oil) are down

today due to extraordinary trading activity on the NYMEX/COMEX, led by margin call selling.

If you accept the premise that massive margin calls are at the center of today's price decline, the next question is when will the margin call selling end? We know from market history that such selling must burn itself out fairly quickly. This is particularly true in COMEX gold, copper and silver, since there was not a large relative speculative long position to begin with, following months of speculative net long liquidation and new short selling. I don't think that technical funds are adding aggressively to short positions today since current prices are so far below the popular moving averages so as to make the normal stop loss points above too excessive for prudent risk taking. This looks like plain-vanilla leveraged long liquidation in which the selling pressure has reached a climax and, therefore, must soon end. Prices will stop going down when the margin call liquidation, principally on the COMEX, ends.

The next question is what happens when prices stop going down and the margin call selling burns itself out. In other words, what does the next price rally look like; will we go up slowly or with a rush? No one knows for sure, but the possibility exists that prices could rocket higher. Certainly, any market that can fall 10% in a day can rise by that amount (or more) as well. But what improves the odds of a rush to the upside is the incredible degree of commercial buying that has taken place in the markets that have been smashed. We'll have to wait

until this week's COT report, but there appears little doubt that it will indicate more record net commercial buying as has been the case for weeks and months. Since I'm convinced behind question that the price of silver has been manipulated by the big commercials on the COMEX, watching them buy aggressively suggests they could let the price rip to the upside with the same intensity that they've orchestrated to the downside.

With the record-setting trading volume today and on Friday, I would not be surprised if JPMorgan had eliminated its concentrated silver short position. I think it obscene that the CFTC and the CME have stood by and allowed JPMorgan and the other crooked commercials to disrupt the orderly functioning of the markets, but this is nothing new. The reality is that JPMorgan and their collusive partners are better positioned for a price rally in silver and other markets like never before.

As painful as the severe price declines have been, at least holders of fully-paid for silver retain the option of holding without having to deposit large sums of capital or lose their position. I know that I'm holding, in addition to holding call options. This is, unfortunately, not an option for holders of leveraged metal in the form of futures contracts. While it is true that a good number of leveraged longs have been forced from the market and are unlikely to buy anytime soon, that is not a factor necessary for silver prices to climb in the future. The ultimate resolution for silver prices has always depended upon the physical

market. In terms of the physical market, the severe price declines would suggest the physical resolution should be accelerated.

Every free market economic principle holds that lower commodity prices increase demand and curtail supply. Clearly, the sudden price decline in silver is not causing miners to rush into increasing production. And as soon as prices stabilize (which I think is very soon), buying pressure will increase to take advantage of the sudden bargain prices.

My friend, Ed Steer, reminded me last night that I had long predicted a wash-out to the downside of epic proportions before we launched higher in the big silver move. I had forgotten that in the heat of this sell-off, but it occurs to me that what was different about this sell-off (even compared to the two big 30%+ sell-offs of 2011) was that the commercials were already positioned for an upside move and that the fundamental news has rarely been better for silver. The loss of Kennecott's Bingham Canyon mine last week, in addition to further postponements for Barrick Gold's big Pascua Lama Project were as bullish as can be. And this came on top of a market signaling physical tightness all along. Considering how well the commercials are positioned for a rally after these past two days, Steer's note rang a bell.

Long term financial success rarely comes without short term interruptions. This

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is a significant interruption in the ongoing silver saga, but it is amazing how consistent the central themes for silver pricing have been. The big moves always involve COMEX electronic trading, something very few of the world's silver participants ever engage in and, therefore, have little knowledge of. The good news is that the important forces on the COMEX are now better positioned for a rally than any other time I can recall. That doesn't mean it is all clear sailing from here, but that just might be the case.

Ted Butler

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Silver - \$23.30

Gold - \$1360