# Gimme Silver<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

A number of recent events have converged that hold the potential to launch the price of silver upward in the near future. The timing of the silver price jump is always secondary to its actual realization, except that it is important that positions be established before, and not after, a big price rise. Therefore, even if you are not trying to trade the market short term (not advisable), the new developments should be monitored closely.

The most obvious recent event has been the public hearing held by the CFTC on March 25. I will be following up on this hearing in a separate article, but let me say that the hearing created widespread  attention to silver and position limits and the short side concentration. As a result, more are aware of the allegations of the long term silver manipulation. Scams of this type are harder to maintain under widespread scrutiny. Certainly, the manipulators and regulators have clearly been put on notice. This creates a decidedly inhospitable environment for additional short selling. Without aggressive new paper short selling by the big existing concentrated short silver entity on a price rally, the price should fly.

Recent data from the Commitment of Traders Report (COT) still suggest that the very largest COMEX silver and gold short, JPMorgan, is not increasing its short positions on the impressive price rally from the beginning of February. I have outlined this as a key factor to consider, and so far it is playing out as expected. This coming Friday's COT and Bank Participation Reports will shed much light on this development. I am not overly concerned if the commercials, apart from JPMorgan, sell; just whether JPMorgan sells. Let me explain why.

The COMEX silver manipulation has always been about concentration on the short side, for the last two years by JPMorgan. Before that, the short side concentration was held by Bear, Stearns (and before that by AIG). Without the big concentration on the short side, the price of silver would have been much higher. This is always the litmus test for manipulation; what would the price be if a big concentrated position didn't exist? In silver, we may be about to learn the answer to that question if JPMorgan does not sell additional contracts on the price rally. The reason it does not matter much if the other commercials sell, if JPMorgan refrains from selling, is because JPMorgan is the controlling entity in silver. There is no law against selling or selling short, nor should there be. This is quite different, however, from short selling in a manipulative manner, i.e., in an overtly concentrated and dominating manner. There are laws against manipulation and hopefully, the CFTC will soon restore legitimate position limits and bona fide hedge exemptions in COMEX silver.

Many of the commercials in COMEX silver are actually long, not short, silver futures contracts. These traders are those I call the raptors; the smaller commercials apart from the 8 largest traders who are short silver. Since the raptors are long, they have every right to sell if they choose. In fact, they have sold almost 5000 contracts from the price bottom of Feb 5, leaving them with 16,000 contracts net long. Aside from JPMorgan, there appears to be roughly 7 others commercial traders net short COMEX silver, the 2 thru 8 largest short traders. These traders have sold additional silver contracts short on the price rally from Feb 5, to the tune of 7,000 additional contracts or so. During this time, JPMorgan appears to have bought back almost 3000 contracts. This is a distinct change of pattern for JPMorgan.

Back in September 2009, on a several dollar price rally to $17.50, I reported that JPMorgan was essentially the sole short seller of silver, to the tune of 10,000 to 12,000 contracts. This was clearly manipulative behavior that ultimately led to the price lows of early February. This time, JPMorgan's behavior is very different. Not only have they not sold on this rally, they have bought back short contracts. This time, the 2 thru 8 commercial traders have been the big new short sellers. As of the most recent COT, these commercial sellers now hold their largest short position since July 2008. My guess is that these commercial short sellers do not realize that JPMorgan may be exiting its concentrated and controlling silver short position, and are putting themselves in grave danger by selling more. Whereas, in hindsight, there was perhaps no real chance JPMorgan could be over run if it were increasing its silver short position, these secondary commercial short sellers may not have JPM's market muscle and could more easily be over run. Time will tell.

Less obvious, but even more important have been developments in the physical silver market. A full-blown silver shortage will make a mockery of rational price projections and additional paper short maneuvers. No entity can contain prices during a commodity shortage. A true commodity shortage is always a material problem, not a money problem. It is not a matter of throwing a large amount of money (private or public) at a physical shortage, as only more of the specific material, not cash, can ease the lack of sufficient supply. And there are no visible government silver inventories at the ready to douse the fire of a physical shortage. Since money won't fix a shortage problem and there are no government silver holdings, there is little any public entity can do to ease a silver shortage, except watch and wait for the price to remedy the shortage. In a shortage, the price becomes secondary to timely delivery of a physical material. Yes, there are private holdings of silver bullion and some percentage of those holdings will be available at some high price. But only the silver owners will decide at what price their holdings are sold.

An eventual silver shortage has always been the lynch pin of my silver analysis. An actual physical shortage is the necessary result of a downward price manipulation. The only question is the timing of such an inevitable outcome. For silver, the timing has been longer and more difficult to pinpoint due to the large amount of world inventories accumulated over hundreds of years. Since most of this accumulated silver inventory was previously in the unreported category, it was nearly impossible to determine the total amount or at which prices this inventory was available to the market. As long as material from the unreported category of silver inventory flowed easily to market, any shortage was held at bay. But now there are signs suggesting the silver shortage wolf may be at the door.

Recent withdrawals from the big silver ETF, SLV, continue to suggest there is little available silver bullion remaining in the unreported category of silver inventories. The 8.3 million ounce total withdrawal from the SLV over the past five or six weeks has come on a strong price rally in silver, something out of kilter with usual behavior. Normally investors sell on weakening prices and buy on increasing prices. This is just normal collective investment behavior. Thus, the withdrawal of metal from the SLV during a period of price gains suggests the withdrawals are not related to investor liquidation. Instead, the most plausible explanation is that the silver was needed someplace else. Indeed, the SLV metal withdrawals coincided with inflows into the COMEX-approved warehouses and other ETFs. Since it would be less noticeable to deliver silver from unreported inventories if those inventories were available, the switching from reported to other reported inventories could mean there is no great quantity of silver remaining in the unreported category. If true, this could set off shockwaves in silver, as a fight could develop over reported inventories.

Other signs point to this possibility as well. For one, there has been somewhat frantic movement, in and out, from the COMEX warehouses. This always suggests tightness of supply to me. Since it would be a lot cheaper and easier to deliver metal already stored in these warehouses, rather than bring new material in, this strongly suggests the silver already held in COMEX warehouses is very tightly-held and not available for sale. Why go to the bother and expense of bringing in new stuff, if you can just deliver the old stuff already there? Also, for the past month, JPMorgan has been the predominant deliverer, in its proprietary trading account, of COMEX silver. Along with COT data, this may indicate they are very interested in closing out as many short positions as possible, hopefully with no intent to sell short big again. Certainly, JPMorgan can't be comfortable with all the recent attention they have been receiving as the big silver short/manipulator. Their silence to this notoriety (as well as their absence from the CFTC hearing) is telling.

Finally, demand for silver has been super-strong on an absolute basis and relative to gold. Recent US Mint data indicate a blistering pace of US Silver Eagle sales. For the first three months of this year, the Mint has sold over 9 million ounces of Silver Eagles, more than the full year total in 15 years of the 25 year history of the program. Current production and sales of Silver Eagles is equal to total US mine production, with the US listed as the world's eighth producer. (Source  Silver Institute). Even after last year's record sale of almost 29 million US Eagles, the pace of monthly sales this year is 25% greater than last year's monthly average. Contrast that to the sale of US gold Eagles, where the monthly average this year is 24% behind last year's monthly average. Clearly, demand for silver is very strong.

This combination of strong investment demand and clues that available metal in the unreported category of inventories may be extremely limited points to a potential clash between real supply and demand. These are the essential ingredients of a physical shortage. While silver is a manipulated market and you must always be prepared for artificial sell-offs, the price force exerted in a real shortage is something few of us have ever experienced. As such, you cannot allow any remaining manipulated sell-offs to cause you to sell long term silver investments.

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