Weekly Review<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

In another listless and low-volume summer trading week, gold and silver prices finished largely unchanged with gold down a scant $3, while silver was dead even for the week. Likewise, the gold/silver ratio remained just below the 58 to 1 level. The now four month-old trading range remained intact, both for flat prices and the ratio.

While prices have been flat and real trading volume (other than HFT garbage) remains low, it is important not to reach the knee-jerk conclusion that things are quiet beneath the price surface as well, particularly in silver. It's only natural to assume when prices remain in a tight trading range that we may be at a free market equilibrium level where real supply balances evenly with real demand. Since silver is not a free market, it cannot be considered to have attained such an equilibrium level until the manipulation is terminated.

Because JPMorgan is still clearly manipulating the price (as I'll show in a moment), it is important not to draw inferences from price action of real supply and demand balance. That's the basic problem with a price manipulation — because the price is artificially controlled, everyone draws false conclusions about the market. That's also why manipulation is the most serious market crime possible. There will come a day, after the silver manipulation is terminated, when the price will reflect the true state of supply and demand. That day is not this day and don't be fooled into thinking you can divine anything free market related from the manipulated price action. Silver prices have been in a narrow trading range because JPMorgan has determined that to be the case.

As you know by now, I consider the heavy turnover over the past year and a half in the COMEX-approved silver warehouses to be a prime indicator of a tight wholesale physical silver market. That heavy silver warehouse turnover continued this week, albeit with a slightly different twist. COMEX inventories did cool off a bit earlier in the week, only to witness a big increase later as total COMEX silver inventories jumped more than 3 million oz to 140.7 million oz. As I have maintained (I think correctly), the total levels of inventories are less important than the turnover itself. The slight twist this week was just as COMEX turnover cooled earlier in the week, big turnover appeared in the large silver ETF, SLV. First, more than 1.6 million oz came out of the SLV, immediately followed by more than 1.3 million oz being deposited. Because price changes and SLV trading volume were low, the movements appeared to have little to do with investor selling and buying. The turnover in SLV holdings had all the appearance of metal being needed more urgently elsewhere. I greatly appreciate all the comments submitted by you that I solicited to explain the unprecedented warehouse turnover. The biggest brain-teaser to come may be how to explain any cessation in these movements in the future.

Sales of Silver Eagles remained strong, although just slightly below the 100,000 oz per day run rate of the first week of August. The standout feature so far in August is the continued lopsided amount of Silver Eagles being sold compared to Gold Eagle sales, although one must be careful about dissecting the data over such a short time frame of half a month. I still have a nagging feeling that Silver Eagle sales are strong due to large quantities being purchased by a small number of buyers, as opposed to flat-out strong and broad retail demand. But, in the end, buying is buying.

The changes in this week's Commitment of Traders Report (COT) were expected to be minor, given the lackluster trading volume and price action during the reporting week. In terms of the headline number (the total commercial net short position), the changes did prove to be relatively insignificant in both gold and silver. But under the hood, a different story emerged.

In gold, the total commercial net short position decreased by 2500 contracts to 144,000 contracts. This was the smallest weekly change in the gold headline number since the very beginning of the year and the total number of net commercial shorts is still very much in the recent low historical level. This means the gold COT is still configured bullishly, as it has been for months. The surprise under the hood in the gold report is that the big 4 reduced its short position by another 5000 contracts, to 81,519 contracts. This is lowest concentrated net short position by the largest COMEX gold futures traders since at least 2007 (I only brought my notes thru then with me to Maine). Back then, gold was under $700. The big four shorts in gold have now reduced their net short position by almost 18,000 contracts in the past two weeks. The gold raptors and the 5 thru 8 largest traders sold a combined 2500 contracts, with the raptors now at 16,300 contracts net short.

In case you haven't noticed, I never automatically include JPMorgan in this category (like I do in silver), as the data isn't clear enough to me. Certainly I suspect JPM is one of the big 4 gold shorts, as they were when they took over Bear Stearns in 2008. What to make of the dramatic reduction in gold shorts by the big 4? The simplest conclusion is that they expect gold prices to rally and are positioning themselves accordingly. I can't imagine that these influential traders are preparing for a big decline in gold prices by sharply reducing short positions. In COT terms, it's hard to come up with a more bullish set up than in having the four largest shorts holding a historically low position. Of course, the COTs aren't the only influence for prices; but they are a big one.

In silver, the total commercial net short position rose by 1500 contracts to 23,400 contracts. This is the largest total commercial net short position since May 1, but it is still very low on a longer term historic basis. The standout feature was that, unlike in gold, the big 4 (read JPMorgan) accounted for all of the increase, as this concentrated net short position grew by 1750 contracts. I would now peg JPMorgan's concentrated silver short position to be 19,000 contracts (95 million oz), up at least 4000 contracts over the past three weeks.

My first reaction to this report was, despite not living a particularly sheltered life, that I really don't know enough dirty words. Although I wouldn't use any of them in writing for you, between JPMorgan and the CME Group, I find myself quickly exhausting my vocabulary of curse words on recent occasions. My second reaction was that it is not possible for the silver manipulation to be clearer. Here we have government data that proves JPMorgan is manipulating the price of silver. Over the past few weeks, the largest and most concentrated short seller of any major market has also been the only net short seller of additional contracts. Please think about that for a moment.

The most critical question about any alleged manipulation is what would the price be if the concentrated position behind the manipulation did not exist? With the recent COT reports, we can also ask in silver what the price would be if the sole short seller had not added to its concentrated position. This is two-fold; an existing manipulative position compounded by continual new manipulative sales. Put aside any fantasy that JPMorgan is engaged in legitimate hedging or market-making; this is solely about them containing the price of silver. While the CFTC frets that it hasn't uncovered the smoking gun of incriminating emails or confessions by silver insiders, they continue to publish data that conclusively proves that silver is being manipulated in real time.

What does this blatant manipulative selling by JPMorgan mean for the price? I don't know for sure, except to say everything. That goes to the heart of every manipulation – the price is dependent upon the manipulator's actions above all else. It may mean JPMorgan will smash the price of silver once again; but it may also mean JPM loses control since it has exposed itself so openly. Please remember that, in the end, this will not be determined by money alone, either JPMorgan's or the US Government's. If it was just about money, I would concede ending the manipulation would be hopeless. But because real silver will determine the outcome, it will come down to the physical metal. Unless the US Government is lying and they still hold vast inventories of silver (it doesn't), JPMorgan may have painted itself into a corner. One of these days, someone in the mega investor community will recognize the precarious position that JPMorgan is in and will move to take advantage of JPM's vulnerability.

There were a few other developments this week that tested the limits of my command of dirty words. The first was the report that criminal charges were unlikely to be filed in the MF Global bankruptcy case and still missing $1.6 billion in customer funds. Many expressed outrage that the former CEO of MF Global, Jon Corzine, had apparently escaped criminal liability for his role in the debacle. This was made worse by published reports that Mr. Corzine was still trading and looking to start up a new hedge fund.

I was also outraged by the MF Global news, but for a different reason. I'm not defending Corzine in any way, but I can't help but think he has become the poster boy of bad financial behavior largely because of our collective human need to personify such disasters by zeroing in on an individual. As I stated from the beginning ten months ago, the real cause for the loss of $1.6 billion of customer money was the CME Group. The money went missing because it was never there to begin with. All the attention spent on the last days of MF Global, particularly the $175 million wired to JPMorgan, failed to uncover wrongdoing and even if it did, would not account for the balance of more than $1.4 billion missing. The only plausible explanation was the one I reached immediately, namely, the money wasn't there to begin with and that's why it couldn't be found. It took the sudden demise of MFG to reveal that it never existed. Up until then, everyone, including Corzine, thought the money was there. It wasn't.

The reason for my outrage at the CME is because they were responsible, as the front line regulator for the proper audit of MF Global's books and making sure the funds were there. Obviously, the CME didn't do the proper auditing; otherwise the funds would have been intact. Recognizing this, the CME being the true weasels that they are, quickly pointed the finger at Corzine to shift blame away from them. Sadly, it worked and few to this day recognize the CME's duplicity. Worse, the CME then turned around and ignored decades of promising that it would protect all customers in the event of a clearing member failure and instead let those customers suffer and twist slowly in the wind. A sicker performance would be hard to imagine. I used the occasion to show, yet again, why the CME should be stripped of any regulatory responsibility. These creeps are only interested in their own bottom line and everyone else can drop dead. That's OK, I suppose, if the criminal enterprise in question is the Mafia; but it's far from OK when the criminal enterprise has been created by an act of Congress.

Also in the news this week was the indictment of the fraudster in the Peregrine Financial commodity brokerage failure (where the CME, true to form, pretended protecting customers was just not their job). The grand jury brought charges against Russell Wasendorf Sr., for lying to federal regulators. No doubt that Wasendorf will be found guilty in the end (he pleaded not guilty), but my outrage here is directed to the NFA and CFTC which claims that they were lied to about Peregrine's finances. How about an indictment of the CFTC for lying to the American people about the silver manipulation? It should work both ways. In the eyes of the law, as well as in every religious and moral code known to man, lying is always wrong. And not saying something when you know you should is lying by omission, something that the CFTC has become skilled at.

Those who may be dismayed by the news that JPMorgan is manipulating the price of silver more openly than ever before and that the CME is up to its standard dirty tricks, don't be. I would remind you that two years ago, the concentrated and total commercial net short position in silver was much larger than it is today and that did not prevent silver from climbing from $18 to almost $50 over the following eight months. Of course, I can't tell you that will occur now; but it could. And if the physical silver market does kick in, those numbers may prove to be mild. Hard as it may be to conceive, none of us has ever experienced a silver market that has not been manipulated in price. Here's to hoping and expecting that all of us will witness a free market in silver for the first time and soon.

Ted Butler

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Silver – $28.05

Gold – $1617