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

The listless summer doldrums came to a sudden end as gold and silver prices surged higher for the week on a notable pickup in volume. Gold rose a sharp $53 (3.3%) for the week, while silver jumped $2.50 (8.9%); with both markets breaking out of four month tight trading ranges. As a result of silver's outperformance this week, the gold/silver ratio tightened in sharply to under 55 to 1, also the best showing by silver in months. Going back a year, however, the gold/silver ratio is still locked in the trading range created by the extraordinary silver price decline of September 2011. Based upon all the facts as I know them, silver is still massively undervalued compared to gold on a long term basis, although anything goes in the short term.

There is much to cover, so I'll stick to the usual format. Conditions in the wholesale silver physical market continue tight according to my usual indicators (in addition to the jump in price). Turnover in the COMEX-approved warehouses remained at the recent customary high levels of movement, with total inventories falling by 800,000 oz to 139.9 million oz. I still maintain that metal in motion indicates metal in demand. There was also a pickup in inflows of metal into a number of the various silver ETFs, with the biggest, SLV, adding almost 3 million oz this week. Based upon my back of the envelope calculations of volume and price movements this week, the SLV looks to be "owed" several more millions of ounces of silver. That the metal wasn't deposited immediately adds to my feelings of tight physical conditions in silver.

One (perhaps only temporary) bright spot was the decline of more than 1 million shares (and ounces) in the short position of SLV, to 13.7 million shares. Even though silver prices were mostly flat and trading volume subdued through the August 15 cut-off date for the report, I was concerned about another large increase following the increase in the previous short report. After all, silver prices were mostly flat amid low trading volume for the two weeks covered in that previous report and SLV short interest still shot up almost 3.5 million shares. That's why I was concerned for the report released yesterday. Likewise, the short sale pattern was similar in GLD, the big gold ETF, which also featured a big decline in the new short report following a very large increase in the previous report.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Of course, the new short report didn't include the action this week and explains why I am concerned that the decline in the short position in SLV may only prove to be temporary, particularly since I sense millions more ounces of silver are now “owed” to the Trust. As long time readers are aware, I find any short selling in the hard metal ETFs to be fraudulent and manipulative, as any shorted shares have no metal backing those shares, which is clearly in violation of the intent of the prospectus. If anything, this concern for the short position in ETFs is somewhat of a signature issue, much like the concentrated short selling by JPMorgan in COMEX silver futures. Since we are still down substantially from the previous peaks in the number of shares shorted in SLV since my near dust up with BlackRock (the Trust's sponsor) late last year, I feel we could live with the current levels of short positions. The big question is what to do if the SLV short position grows sharply? I'll cross that bridge when and if we get to it.

In the interim, the short position in SLV remains a vital component in the price of silver and its ongoing manipulation. That's because of the nature of the SLV itself, which to this day in my opinion, is vastly underappreciated in one specific regard. I think many don't fully grasp the impact that the SLV and all other silver metal ETFs have on the supply/demand equation of silver. I believe that all the metal claimed to be in SLV and all the other silver ETFs (other than the shorted shares) is all there. I know others on the Internet believe that the SLV is a fraud and no real metal backs it. Obviously, if I am wrong about this, I am wrong about everything that follows (yes, my wife still holds all shares previously mentioned and then some).

Physical metal must be secured and deposited into the SLV immediately on any net new buying of shares. Because many investors buy as the price of any security or asset goes higher, based upon the force of collective human nature, as the price of silver goes higher (as it did this week) investors will buy the SLV. Not all, but many of the new investors buying SLV could care a fig leaf about real metal being deposited or not. These investors are concerned about making money on their investment, not in how the SLV operates mechanically. Most likely, these investors would never have bought physical silver if they couldn't do so with the convenience that comes with buying a stock.

Because the SLV must secure and deposit real metal according to the amount of net new buying of the shares, it does not matter that some investors are not concerned with metal being deposited; the silver is going to be secured and deposited regardless. What I think many overlook is the impact of this in a market prone to physical tightness to begin with. Here we have a case of almost unintentional buying of physical silver because of the nature of the mechanics of the SLV and other silver ETFs. I can't think of an adequate example of another situation quite like this and I think that points to the unprecedented potential for this unavoidable demand for physical silver to come. It's also why closely monitoring the short position is so important.

If there was some temporary relief that the short position in SLV didn't grow, that relief was not present in this week's Commitment of Traders Report (COT), which indicated very large increases in the total commercial net short positions of both gold and silver. The reporting week for this COT report included only the first two days of what turned out to be a strong week, with the strong implication of increased commercial shorting after the Tuesday cut-off. As has been the case recently, there was also quite a bit under the hood.

In gold, the headline total commercial net short position rose by a hefty 27,300 contracts to 171,200 contracts. This is the highest total commercial net short position since May 1 and it's only fitting that the four month trading range and tight range in the commercial short position were broken simultaneously. After all, big changes in the COT structure are the prime source of gold price movement and explain why monitoring the COTs is important. By category, all three commercial groups participated in the short selling (collusion anyone?), but the gold raptors (the commercials apart from the big 8) accounted for the lion's share, by shorting an additional 20,000 contracts. The big 4 added 3500 short contracts and so did the 5 thru 8.

The gold raptors net short position now stands at 36,400 contracts, one of the largest totals in history. This is not a minor concern, as the last time the gold raptors were this heavily short was on February 28, just a day before the start of the big smash in price. Therefore, the gold raptors (which possess HFT price distortion capabilities) will be looking to rig gold prices lower. But there may be complicating circumstances. Even though the big 4 increased their combined short position by 3500 contracts; at 84,136 contracts, they still hold the second lowest short position in memory. Never before have the big 4 been less short in gold with such a large raptor short position. This means, at least through the Tuesday cut-off, that the big 4 in gold are still configured for a rally, while the gold raptors are positioned for a decline.

Additionally, the gold raptors have been burnt on a previous big bet to the downside. Going into August of a year ago, the gold raptors built up an even larger net short position that blew up in their faces as gold climbed almost $300 to the all-time highs, mainly on raptor short covering providing the fuel to higher prices. Will that happen this time? I don't know, but the changes in the COT structure portend greater price volatility ahead. While I still contend that COMEX position shuffling is the prime impetus to gold price change, I would be remiss if I didn't note the recent evidence of gold physical buying in GLD, where more than a 1.2 million oz were added over the past month.

Even with further deterioration after the cut-off, the gold COT structure is no worse than neutral. That's not as good as the very bullish structure in place over the past four months, but you should remember this is a cause and effect situation. We exploded in the gold price this week largely as a result of the very bullish COT structure and as COT-fuel was consumed on the rally, it reduced the amount of bullish fuel remaining. Can we go back down? Yes. Can we go much higher? Yes. Does anyone know for sure? No.

In silver, the headline total commercial net short position surged by 9100 contracts, to 32,500 contracts. This is the largest total commercial net short position since mid-March. As was the case in gold, the silver raptors accounted for most of the selling by commercial category, liquidating 6600 contracts of a net long position that now stands at 11,700 contracts. The big 4 (read JPMorgan) sold 2500 additional short contracts, increasing the big 4's net short position to 36,800 contracts, also not coincidently, the highest level of shorts since mid-March. I would calculate JPMorgan's concentrated net short position to be 21,500 contracts at the Tuesday cut-off. More on that in a moment.

These details can get confusing, so let me try to point out a few things. First, while the total commercial net short position increased by 9100 contracts this week, that does not mean that an additional 9100 COMEX silver contracts were sold short by the commercials. In gold, the 27,300 contract increase in the total commercial net short position did mean that the gold commercials sold an additional 27,300 contracts short. That's because all three categories of gold commercials were net short to begin with. But in silver, because the raptor category was net long to begin with, the 6600 contracts that the raptors sold were not short sales, but longs being liquidated. This selling does have the mathematical effect of increasing the total commercial net short position; but it would be wrong to say that the commercials sold 9100 additional contracts short. This may sound like semantics, but please bear with me as I'm trying to make a point.

On a very basic level, it's hard to find fault with the raptors or anyone else selling something that they previously purchased. I can (and will shortly) rant about JPMorgan selling short additional contracts, but it would seem to be unreasonable to fault anyone from selling something that they previously purchased, particularly if profits were being taken (as is the case now with the silver raptors). I try to avoid sounding like a schoolmarm, tsk-tsking each and everything I see wrong. To that end, I'm trying to overlook the fact that the silver raptors are collusive up the ying yang in their own way and assembled their net long position only by manipulating prices (in conjunction with JPM and the horrid CME Group) through the use of HFT to trick speculators into selling. This is how the silver COT got to its former extremely bullish state.

So, while the raptors can't technically be faulted for selling, when one steps back and considers how the long position was created, there is plenty of room for fault. But leave that aside and focus on the fact that 9100 additional silver contracts were not sold short this week; only 2500 additional contracts were sold short and all of them were sold by the silver crook of crooks, JPMorgan. Now at 21,500 contracts (107.5 million oz), the concentrated short position of JPM has increased by 7500 contracts over the past six weeks. That is so wrong; it should make you want to spit (after exhausting your limit of cuss words). There can be no legitimate explanation or excuse for JPMorgan's manipulative behavior.

Without the 2500 additional contracts that JPM sold during this reporting week or without the 7500 additional contracts that the bank sold since July 10, the price of silver would have gone substantially higher. How high is less important than is the fact that higher prices would have been required to replace any absence of additional shorting by JPMorgan. When one considers that JPMorgan already held a manipulative and concentrated short position to start with, the additional shorts are outrageous. It is not possible for a price manipulation to be any clearer. I often hear on price rallies from critics of the manipulation allegations that the claims of manipulation disappear when prices are rising. To that I say, balderdash. Here is clear proof from government-published data that JPMorgan is actively manipulating the price of silver. The question is what, if anything can be done about it at this point.

Starting almost four years ago, when I became convinced that JPMorgan was the big silver manipulator, I began to send any article in which I alleged that JPMorgan was manipulating the price of silver to their CEO, Jamie Dimon, at two email addresses provided to me by the bank. I find it particularly distasteful to talk negatively behind anyone's back; it's such a cowardly thing to do. For that reason and also because I was not looking to be accused of libel, I have always sent the articles in which I mention JPM to Mr. Dimon. I don't know if he reads them, but as I've indicated previously, I never have had any returned as being undeliverable. I also make it a habit of sending articles to officials at the CME and I round everything off by putting the articles on the same email message that I send to all the commissioners at the CFTC. This way everyone knows the same article was sent to everyone simultaneously. It occurred to me the other day that I must have sent more than 300 such articles over the past few years, with not one returned or commented on.

Although I know what I did and there is a record that I sent all these articles, even I can hardly believe there has been no direct response or reaction from JPMorgan, the CME or the CFTC. This is especially true considering the immediate reaction I got from BlackRock on the matter of SLV shorting. While it is somewhat puzzling to get no reaction from the other three entities, I know there has been a wider reaction as more come to learn of the particulars of the silver manipulation. Since my main intent was always to help end the silver manipulation, I can easily live with silence from JPM, the CME and the CFTC. In fact, I believe their continued and combined silence to the many specific allegations I have made over the past four years has gone a long way towards convincing others that silver is manipulated. Certainly, all the accumulated evidence to date only reinforces my conviction that silver is and has been manipulated in price. Therefore, no drastic change in tactics need be made; I think it's important to keep doing what we have been doing all along, namely, confronting JPM and the regulators as before.

The 21,500 contract concentrated net short position by JPMorgan (probably much larger since the cut-off) is now more than 4 times the level proposed for position limits by the CFTC's formula. JPM's current position is almost 15 times the 1500 contract limit many thousands of you had suggested in official comments to the CFTC that the Commission saw fit to completely ignore. I'm sure that the only defense by JPMorgan is that it is hedging, not speculating. Just like was the case with JPM's recent credit default derivatives blow up, their silver short position is as far removed from legitimate hedging as is possible. Besides, commodity law is clear nothing is more important than manipulation; not hedging, not anything.

The real tragedy here is the CFTC's failure to protect the markets and the American people. The Commission, including Chairman Gensler and Commissioner Chilton, should be ashamed for its negligence. The agency is providing the clear evidence of manipulation by JPMorgan and the CME Group on an almost weekly basis, yet pretends it doesn't exist. It's hard to image a more inept performance by any federal agency or a greater resulting loss of confidence by the public in the agency's mission. I'll provide their email addresses once again and would urge you to let them know how you feel. Please measure feelings that it may do no good against all that has been accomplished to date, including the almost daily growing knowledge that something is wrong in silver.

Where to from here in silver? The move to neutral in the COT structure does greatly increase the risk of a sell-off, as too many commercials will be aided by such a sell-off. Additionally, it's hard to imagine price volatility not growing. Does that make a sell-off a certainty? Not necessarily, but don't be surprised if we do sell-off. On the other hand, silver has many miles to go on the upside based upon all the facts. The main determinant for silver will be what develops in the physical market. As I indicated earlier in the discussion about SLV, there is much potential for physical silver demand catching fire. The interesting thing about the physical realm in silver is that it is more critical than paper short. It doesn't matter, in the long run, whether JPMorgan and all the commercials, or the US Government or any other government is short all the paper contracts that can be imagined; a physical silver shortage will beat any paper short position. In this regard, I can see why someone like my dear friend and silver mentor Izzy Friedman always welcomes additional short selling. When the physical silver shortage hits in earnest, any short position will be too large; to say nothing of a 100 million oz short position.

The parameters for silver price movement have been widened by the actions of the past week. I still don't know how prices will react short term and that has become a near permanent condition. What I do know is that there is many times the potential upside on a long term basis than exists on the downside. Therefore, I have no choice but to stay long. Any sell-off will be painful, but not near as painful as missing the big move to the upside.

Ted Butler

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Silver – $30.55

Gold – $1670

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