

Weekly Review<?xml:namespace prefix = o ns =
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First, I won't be doing my weekly King World News audio interviews any longer. Several reasons account for this, with the main one for me being the nagging conflict of me giving for free too much specific analysis that you were being charged for. But I am extremely grateful for the opportunity to have been heard by a wide audience and to advance my sentiments on the silver manipulation.

One of the good things about the weekly audio interviews was that it forced upon me the discipline of having to quickly summarize the past week's events in some sort of logical presentation. It would be a loss if that were abandoned, so I'll try to continue the tradition for subscribers. I may even do it in audio form at some point for subscribers only.

It was a good week for silver and gold price-wise. Silver was up \$1.10, or 6% for the week, with gold up around \$10, or almost 1%. Gold has been hitting a series of all-time price highs over the past couple of years; now silver looks poised to join the price party. (Which is one of the reasons I pound the table for a switch from gold to silver). This week's silver close of just over \$19 is only the fifth or sixth weekly close over that mark in almost 30 years. Of course, every previous time we closed at these levels, it was only a matter of time before the

inevitable sell-off. Is that our fate this time as well? I suspect it will turn out different this time, for a variety of reasons.

For the first time in quite a while, we've started to witness increase in the amount of metal held in the big silver ETF, SLV, where some 1.5 million ounces were deposited in the past week. Based upon volume and price action this week, I imagine 2 or 3 million ounces is further owed to the trust, maybe more. Needless to say, this physical demand does put pressure on the commercial traders on the COMEX who I believe are manipulating the price of silver. Additionally, there has been continued growth in metal deposits in the other ETF-like silver investment vehicles. For example, the Swiss silver ETF, ZKB, has increased its silver metal holdings to just over 76 million ounces, pushing it into second place (behind SLV) among all silver holding vehicles. ZKB is now slightly ahead of Central Fund of Canada for the first time (and this assumes CEF has actually received all the silver it bought in its last offering). This is a noteworthy achievement for ZKB, as it only came into existence a little over 3 years ago, compared to the almost 50-year existence of CEF (whose holdings are split between gold and silver). Bottom line is that silver investment demand remains intact. I still feel the cooling off in the growth rate of silver metal deposits into these funds this year may reflect a physical tightness at the wholesale level.

There were no big surprises in this week's Commitment of Traders Report (COT). Given the relative price out-performance of gold to silver in the current

reporting week (Tuesday to Tuesday), the market structure in gold deteriorated, while silver's structure improved. The total commercial net short position in gold increased by 14,700 contracts to just over 264,000 contracts, while silver's commercial net short position on the COMEX decreased by almost 3,000 contracts to just under 51,000. Using the bullish percentage figures that Eric King always asked about, I'd peg gold at 50 to 60%, with silver still near 90%+, since silver did trade below the 200 day moving average early Tuesday morning. These are my subjective figures, I hope everyone realizes. The takeaway should be that gold still has plenty of price room in either direction, while silver has a lot more potential room to the upside, based strictly on COT considerations.

A few more COT observations. At the price peaks of late June-early July (\$19ish in silver, \$1250ish in gold), we hit a peak in the total commercial net short position of 58,500 contracts in silver and 290,000 contracts in gold. The latest report shows we are 7500 contracts lower than the peak then in silver and 26,000 contracts lower in gold. But what I can't help but focus on is that all the reduction can be attributed to the four big shorts in silver and gold. In silver, the big four (read JPMorgan) reduced its short position by 8500 since June 29, while the big four in gold have reduced their short position by 36,000 contracts since July 6. My conclusion is that JPMorgan wants off the short side (for some very good reasons).

I did not get to see the big four reduce their short position in silver in this week's COT, as I had hoped for. But neither did they increase it much. I still think JPMorgan was behind the big price reversal last Tuesday, taking contracts from the raptors, and that data wasn't included in this week's report. Next week's COT report and the following week's Bank Participation Report will settle the matter. My sense is that we have not seen significant deterioration in silver on this sharp rally. Some, but not a lot.

Make no mistake, what JPMorgan does with their silver short position will determine future silver prices. It may be enough that they don't sell additional contracts that helps free the price. Certainly, any aggressive short covering from them sets the price flying. It is this resolution that I have written about so incessantly that remains ahead of us. Only it is much closer than ever before.

It has now been one year since I started this subscription service. On August 4, 2009, silver closed at \$14.63 and gold closed at \$965. I find it interesting and somewhat of a statistical oddity that both are up around 30% through today. What I do find fascinating is what has evolved over the past year. We all get wrapped up and occupied with the daily happenings; me as much or more than anyone. But it is important to step back and attempt to put things in perspective. On that basis, what has occurred in silver over the past year is mind-boggling from my perspective.

A year ago, we were just concluding the public hearings by the CFTC on energy position limits. I was singing Chairman Gary Gensler's praises for holding the hearings and for everything he said about the issue (I know this maddened many and still does). But metal position limits were brought up in a public hearing in January, followed by a public meeting on metals in March. Up until July, the issue was whether we should have position limits on metals. Virtually all in industry and a majority of the Commission itself were opposed to position limits on metals. Certainly, the exchange and the big shorts were directly opposed to any legitimate limits. Yet, on July 21, the President signed into law a mandate that there would be position limits on metals. Now, it appears to be only a case of what those limits should be, not whether we should have them. As someone who has advocated for legitimate position limits in silver for more than 20 years, I can't begin to tell you what a sea change this is.

In a week or so, I will lay out my suggestions (once again) for what the legitimate position limits should be in silver and other commodities of finite supply. I will ask you to convey your feelings to the Commission and in the coming public comment period. If it were not for you (and Gary Gensler) this issue would not be on the table. Please remember that the next time someone tells you that petitioning the regulators is futile.

Over the past year, I have tried to keep the proper perspective about how someone should approach the silver market. I try to analyze the COTs and the fundamentals as objectively as possible, but I have always been mindful of the regulatory sea change that is bearing down on us in the form of legitimate position limits in silver. I've tried to use the COTs as an explanation for short term moves, but I have consciously tried to downplay them in relative importance to investment decisions. In other words, as closely as I study the COTs and other short term factors, the coming big moves in silver will be determined by shortage and regulatory developments. I'm still of a mind that any silver sell-offs (not that I'm expecting them presently) will be brief. After all, the COTs in silver are quite good, in my opinion. The best approach is to be fully invested and look further ahead.

After a year in which silver appreciated 30% and after 5 or 6 years in which it quadrupled, I still feel the most dramatic gains lie ahead. Quite frankly, I'll be extremely disappointed if we only have a 30% gain over the next year. Not that 30% is insignificant, of course; it's just that the facts, as I see them, warrant something much more. To that end, I plan to publish the third critical factor in silver next week.

Ted Butler

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Silver - \$19.04

Gold - \$1236