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

A late-week sell-off pushed gold and silver prices back from the earlier new price highs for the recent rally. Gold managed to finish unchanged, but silver finished down 50 cents (2.1%) for the week. As a result, the silver/gold ratio widened out almost a full point and a half, to 59.5 to 1. I know the ratio was much higher for much of last three months, indicating that silver was even more undervalued relative to gold than it is currently; but at close to 60 to 1, perhaps the screwiest thing in the world of precious metals is how many ounces of silver one ounce of gold will buy. I still plead ignorance of what prices will do short term, but it seems impossible to me for silver not to rise dramatically relative to gold in the long term.

The late-week sell-off should serve as a reminder that gold and silver prices can and will do anything that the COMEX price controllers (JPM and other commercials) decide them to do. There will come a time when a strong physical silver shortage will deny the price controllers the ability to set short term prices at will, but until that time arrives, it is important not to get sucked into a short term perspective. Admittedly, this is easier said than done, but the best way is to hold silver positions and perspective with a view to the giant mountain price peak in the distance and not to risk too much on any short term betting. (Yes, that was a reading from the good book of do as I say, not as I do).

Turnover in the COMEX silver warehouse inventories came close to 2 million oz again this week, as total inventories fell 600,000 oz to 163.8 million oz. I continue to view the unusual and unique to silver frantic movement in silver inventories in the COMEX warehouses as indicative of tight physical conditions. That this turnover has persisted for two and a half years means, to me, that the wholesale market for silver has been tight for this time. Nothing I see indicates substantial silver production increases or demand decreases in the future, so the physical tightness looks destined to intensify. Again, when this silver tightness morphs into actual shortage, price rigging on the COMEX will cease to exist.

Unless there are late revisions from the US Mint, sales of Silver and Gold Eagles for August ended with, I believe, the most Silver Eagle sales relative to Gold Eagle sales for any month in the 27 year history of the bullion coin program. There were two standouts to this month's report. One was that if unrevised, sales of Gold Eagles were at the lowest monthly total since 2007, as only 11,500 oz of gold coins were sold. You never want to rely too much on any one month's data, but the Mint's figures conform to anecdotal reports from retail dealers of weak domestic demand for gold.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The second observation is that retail domestic demand for Silver Eagles, while stronger than demand for Gold Eagles, is nothing to write home about either. Since the Mint is still pumping out Silver Eagles at full production capacity or as blank supply allows, the question is who the heck is buying all the new Silver Eagles. I have advanced that it may be the prime price manipulator, JPMorgan, but it could just as easily be strong demand from India, China or elsewhere. Whoever it is buying all these Silver Eagles, I would think they appreciate just how undervalued silver is on an absolute basis and relative to gold. If I had my wish or if I were appointed king, I would decree that the biggest demand for Silver Eagles come from ordinary investors because that would be to their long term financial benefit.

The changes in this week's Commitments of Traders Report (COT) covered a reporting week where the price of gold advanced more than $50 and silver climbed more than $1.50, with both hitting multi-month price highs. Accordingly, it would be reasonable to expect increases in the headline number of the total commercial net short positions. The only question was how much of an increase.

In gold, the total commercial net short position increased by a substantial 20,000 contracts to 87,600 contracts. This is the highest level of total commercial net short contracts since early May. It should come as no surprise that the total commercial net short position has increased as gold prices have increased due to speculative buying on the COMEX, met with commercial selling. After all, this is the primary price driver behind gold and silver price movements and is the rationale for analyzing the COTs.

Even though there was a substantial increase in the total commercial net short position in COMEX gold futures, there wasn't much actual new commercial shorting. Huh? The headline number is a net number, derived at by subtracting gross commercial long positions from gross commercial short positions. Thus, it is possible for the commercial net short position to increase, not from an increase in gross shorts, but from a decrease in gross commercial longs. In fact, that was largely the case this week and for the past two months. Please allow me to explain, as I view it as important in deciphering COT data. This is the "under the hood" analysis.

The first conclusion reached when the total commercial net short position increases by 20,000 contracts, as it did this week in gold, is that the commercials sold 20,000 new contracts short. But the commercials, in the form of the largest 8 traders, only sold and added 2600 new short contracts. Other commercials (the raptors and JPMorgan) sold and liquidated 17,400 contracts from their net long positions. Thus, it was predominantly commercial long liquidation which accounted for the large increase in the total net short position, not new commercial shorting. This is a distinction worth making, as there can be a big difference between selling out and liquidating a long position and selling short and creating a new short position. One is a closing transaction requiring no additional action and the other is an opening transaction that must be resolved one day.

Because the increase in the commercial net short position this week in gold was mostly due to commercial long liquidation, that's not as "bad" as having the commercials sell new contracts short, in my opinion. That's because there should be less urgency in capping and rigging prices lower until the commercial short position grows by a marked increase in new shorting. I started this review by stating how the commercials can rig prices at will and this COT analysis doesn't mean they won't rig prices lower now, but I'm just dealing in historical probabilities.

In fact, on the increase of almost $200 in gold from July 9 and the increase in the total commercial short position of 68,000 contracts since the 19,000 contract total on that date, there was no additional commercial shorting whatsoever. The increase in the headline number was all due to gross long liquidation (the commercials even bought back 5000 gross short contracts). I'm not trying to mess with your head, I'm just pointing out that a 68,000 contract increase in the total commercial net short position since July 9, involved absolutely no new commercial short selling.

Likewise, for this week and since the rally began in July, the counterpart of big speculative buying has involved only speculative short covering and not new buying. The 20,000 contract change this week was due exclusively to a similarly sized reduction in the managed money category of the disaggregated COT report in the gross short position of the technical funds. On the $200 gold price rally from July 9, the technical funds have bought back 47,000 short contracts and have added no new long positions. A similar situation exists in silver where the technical funds have bought and covered short positions and have yet to add new long positions on the silver rally.

The reason I'm encouraged by the make-up of the commercial selling (long liquidation) and technical fund buying (short covering) to date is that usually large risk to the downside is not created until there is a large addition of commercial short positions and a large addition of technical fund long positions. That doesn't mean the crooks at JPMorgan can't rig prices sharply lower at will; it just means that a large technical fund long position can't be viciously liquidated to the downside if that position doesn't exist. Historically, the biggest price smashes have come precisely in order to get tech fund long liquidation.

The big move down this year in gold and silver mainly involved the commercials luring the tech funds onto the short side in record amounts, in addition to liquidating tech fund long positions. This was highly unusual and it is doubtful to me that the commercials can replicate the feat of luring the tech funds back onto the short side in large amounts. The only reason the tech funds entered onto the short side was because prices dropped so much through the first half. From my observation of past tech fund activity, it would take a move to new price lows to begin to lure sizable new tech fund shorting. Considering the havoc created in the mining world on the move below the cost of production, especially in silver, it's hard for me to visualize a repeat of the record build in tech fund short positions that we saw in the first half of this year.

For those keeping score, JPMorgan accounted for 5000 of the long gold contracts sold by the commercials this week, reducing their long corner on the COMEX gold futures market to 60,000 contracts, down 25,000 from their record corner of 85,000 long contracts a few weeks back. In addition to booking a $300 million profit on the 25,000 gold contracts sold over the past few weeks, JPMorgan accounted for 75% of the 33,000 total commercial net contracts sold in this time period. While JPMorgan's corner on the COMEX gold futures market has been reduced from 25% of total net open interest (minus spreads); the 18.7% market share that this crooked bank holds as of the cut-off date would qualify as a more extreme market corner than any in history (as always, except for the bank's short market corner in silver).

In COMEX silver, the total commercial net short position only increased 1100 contracts to 24,400 contracts. That total is still up from the single thousand digit contract number of the past few months, but it wasn't that long ago (February to be precise) when 24,400 contracts look almost impossibly too low of a level to achieve. Readings in the mid-twenty thousand contract level also used to represent the absolute low (bullish) readings over the years in the total commercial net short position.

By commercial category, the big 4 (JPM) added 1400 contracts of new shorts and the big 5 thru 8 shorts added 800 more, with the raptors adding 1100 new longs (to 31,500). It wasn't the amount of contracts that the raptors bought that was notable as much as it was that they bought on the higher prices of the reporting week. I'd peg JPMorgan's net short position in COMEX silver futures to be 17,500 contracts, up 1500 for the week and up more than 4500 contracts from their 13,000 contract level at the lows.

The increase also raised JPMorgan's short corner on the COMEX silver market to 18.4% (after all spreads are removed), almost equal in market share terms to the bank's long gold market corner. Gold is a much bigger market than silver in dollar terms and JPMorgan's gold corner is unique to the market and for the bank. The bank has maintained a short corner on silver since the time it took over Bear Stearns; where the gold market corner on the long side has existed only since the spring of this year. Plus, a long corner is easier to grasp than a short corner, given the understandable confusion that shorting creates for the average observer.

JPMorgan has profited for $300 million to the upside so far on the gold price rally (after booking $2 billion in profit to the downside this year) and those profits are directly attributed to the bank's market corners. That is perhaps the easiest explanation of all JPMorgan has a short gold market corner and the price drops $500, a record amount. JPMorgan establishes a long gold corner and the price rallies $250. Seeing the connection (and causality) between market corners by JPM and price movement seems pretty basic. While it's not my main motivation, messing up the bank pulling off the perfect market crime(s) undetected is not distasteful to me either.

I'd like to reemphasize that, as in gold, the technical funds have not entered onto the long side in any meaningful way in COMEX silver. The gross long position (in the managed money category of the disaggregated COT report) of the tech funds hasn't changed (increased) much in many months. This argues against big tech fund long liquidation to the downside and also suggests buying potential on higher prices. All the increase in the tech fund net long position has come from short covering, which, given the choice, is the type I'd prefer.

Bottom line on all this the increase in the gold and silver total commercial net short positions in gold and silver is not anywhere near as bad as the raw numbers might indicate. The crooks will do what the crooks will do in the short term, but that's always the case.

The start of the new delivery period for the September COMEX silver contract indicated that, in contrast to what occurred in the July delivery contract, JPMorgan was the biggest issuer of silver delivery notices on the first day of delivery. You'll remember that JPMorgan stopped, or stood for delivery of most of the silver contracts in July. Now, they've turned around to be the largest deliverer in silver. What to make of all this? I think it can be misleading to delve too deeply into all the various exchange statistics, except as a broad overview.

The broad overview here is that JPMorgan is usually the biggest everything in COMEX gold and silver; the biggest long and the biggest short, the biggest acceptor of delivery and the biggest maker of delivery. Our regulated futures markets are supposed to guard against any entity becoming too big a factor in any market. Further, there is broad agreement by everyone (except the big banks) that the big banks, in particular, should not get too big so as to jeopardize the markets or the financial system. So how in God's name can we have a situation where the most important US bank has a death grip on the most important gold and silver market in the world?

From readily available public data, including exchange delivery reports and government publications, it is clear that JPMorgan is the dominant player in the

COMEX gold and silver markets. This bank was always the dominant participant in the OTC derivates market for gold and silver, but JPMorgan became the controlling force in COMEX dealings when it acquired Bear Stearns in 2008. Obviously, Bear Stearns was the big COMEX dog in gold and silver prior to being taken over by JPMorgan. I'd ask you to think about this.

This is the year 2013, five years past from the start of the financial crisis, the worst such crisis in most of our lifetimes. If there have been any lessons learned or legitimate reforms attempted, the lessons and reforms center around making sure the big banks are not putting the financial system in jeopardy. Yet this is precisely the same time that JPMorgan has come to dominate and control the COMEX gold and silver markets. It is impossible to legitimately reconcile how JPMorgan could come to control the gold and silver markets and prices in the direct aftermath of the crisis.

When it comes to commodity regulation, Dodd-Frank was not much more than setting legitimate position limits to prevent concentration and to make sure the big banks weren't trading speculatively for their own accounts (the Volker Rule). Instead, position limits have been thrown out and JPMorgan is more dominant than ever in gold and silver. The regulators at the CFTC appear to conduct business as usual, but considering their monumental failure to terminate the ongoing crimes in progress in gold and silver by JPMorgan, they are damaging the very markets they swore to protect. Worse, the CFTC cannot or will not respond to specific allegations of manipulation by JPMorgan, even though those allegations are based upon the agency's own data.

The simple glaring fact being overlooked is that banks shouldn't be involved in trading any commodities, including gold and silver, either for clients or for their own account. Banks have more important things to do for society as a whole and for their shareholders and employees than trade commodities. Under no circumstance should anyone be allowed to corner or control a market, bank or otherwise. That JPMorgan has come to corner both gold and silver trading on the COMEX is doubly unacceptable; it is the unspoken scandal that can't be openly discussed.

Pressure is being exerted on JPMorgan to exit the commodities business, but so far there has been no open pressure on the bank to exit gold and silver. But neither has there been a strong defense on why the bank should be involved in gold or silver. The real irony here is that the best reason for JPMorgan to get the heck out of gold and silver is because that would be in the best interest of the bank. Yes, JPMorgan makes tremendous profits from manipulating and controlling gold and silver markets; but those profits come with a cost — growing reputational damage. I complain about plagiarism, but thousands have come to learn that JPMorgan is the big crook in gold and silver. Being called crooked openly is not good for any bank.

Five years ago, when I started singling out JPMorgan as the big silver and gold price manipulator, the bank had a squeaky clean image, apparently immune from the criticism leveled at so many financial institutions for the financial crisis. If anything, the bank was looked at as a stalwart and savior in the dark days of the crisis. The transformation of the bank's image today is shocking. A new scandal seems to engulf JPMorgan daily. To be honest, when I first started weighing in on JPMorgan, I also thought they were aboveboard in most of what they did, except for gold and silver. As a result, I was tentative in my early allegations and careful to give the bank notice and a chance to respond.

A lot has changed in five years. Certainly, JPMorgan is no longer the government's favorite bank and the bank has been proven to be less than squeaky clean in many lines of its businesses. So, it is somewhat remarkable how little has changed when it comes to JPMorgan and gold and silver. JPM is manipulating gold and silver even more than it did five years ago, yet that has not surfaced as a government allegation. But given the realities of all the circumstances, I just can't see how the bank will be manipulating gold and silver prices five years from now. It's more a question of what makes JPMorgan quit the crooked game of rigging gold and silver prices; will it be because they are forced to from outside or inside the bank.

As for the notion that JPMorgan can continue to manipulate gold and silver prices indefinitely; that's not something I accept. There has been tremendous change and upheaval in the financial world over the past five years and looking back from five years hence, I sure the same will be said. The one constant over the past five years was JPMorgan's stranglehold on gold and silver. But seeing how the bank's circumstances have changed so markedly recently and how many new observers are grasping the bank's market corners in gold and silver; it's hard to envision the status quo lasting indefinitely.

Certainly, if I thought JPMorgan could continue to manipulate prices forever, I wouldn't hold silver. And I would remind you that even though the bank never stopped manipulating prices over these past five years, we did have a run from under $9 to almost $50, as the physical market nearly did JPM in at the peak. From where I sit, that was a trial run.

Ted Butler

August 31, 2013

Silver $23.50

Gold – $1397