

August 6, 2011 – Weekly Review

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In a week marked by near-unprecedented volatility in world financial markets, the price of gold and silver parted company. Gold managed to hold its impressive \$40 gain on Tuesday and finished the week \$35 (2.2%) higher and at yet another all time high. Silver couldn't hold onto its Tuesday gain and finished the week \$1.60 (4%) lower. As a result of gold's outperformance, the gold/silver ratio widened out nearly 2.5 points to almost 43.5 to 1. From year-end, gold is up 17%, while silver is still up 24% (although it doesn't feel that way, which I'll discuss shortly).

Since I haven't stood atop the switch from gold to silver soapbox in a spell, please allow me to do so now. Of course, I must make it clear that I am not suggesting for a moment that anyone engage in leveraged and speculative trading of the ratio that involves buying silver and shorting gold. My suggestion always and only involves the sale of gold owned by gold-heavy investors in order to use the proceeds to purchase silver. Short-term fluctuations can be violent in the gold/silver ratio and knock leveraged players out at inopportune times. My suggestion is based upon silver performing better than gold over the long term, principally because there is much less silver available for investment than there is gold and that the vast majority of potential investors do not know this.

As a proponent of buying and switching to silver, I welcome a price rise in gold. The higher gold goes, the better for silver and the greater the opportunity for switching from gold to silver. Since July 1, the price of gold has risen by more than \$175 an ounce. That means that the value of the 3 billion ounces of gold bullion in the world (there are another 2 billion ounces in non-bullion gold) has increased by \$525 billion. That's just the amount of the increase in the past 5 weeks. Please compare that to total value of the one billion ounces of silver bullion in the world of less than \$40 billion. The increase alone in gold's value is more than 13 times greater than the total value of silver in the world. The total value of the world's gold bullion of near \$5 trillion (3 billion oz x \$1663) is 125 times greater than the \$40 billion value of all the world's silver bullion. Why do I make these comparisons? I do so in the attempt to put things into proper perspective.

Invariably, at times when the price of silver sells off, commentary is issued that suggests that silver investors are selling to raise money to buy gold, or in order to put money into other assets. Aside from the fact that silver investors rarely sell collectively at all (except in the paper market), even if they did sell, the amount of money that could possibly be raised is so small as to have little meaning to other markets, like gold. Even if every investor holding the one billion ounces of silver bullion did sell at once, the potential \$40 billion proceeds would amount to less than 1% of the gold bullion in existence. I'm also waiting for the stories that suggest that silver bullion investors are selling in order to buy recently-downgraded Treasury securities or stocks where the total value of silver is a small fraction of 1% of those markets. Even if silver investors did sell en masse, the proceeds would have little impact on other markets like gold, stocks or bonds.

But what about the reverse; what if a very small number of gold or stock or bond investors decided to buy silver for reasons of relative value or safety? One percent of gold's \$5 trillion bullion value is equal to \$50 billion, more than all the silver bullion in the world. World stocks and bonds are measured in the many tens of trillions of dollars and the smallest fraction of one percent would swamp the silver market. My point is simple — there is such a small amount of silver in the world that this is a one-way street. Selling all the silver in the world wouldn't amount to anything in terms of it going into other markets; but the selling of the smallest percentage of any other market to put into silver would have a dramatic impact on the price of silver almost beyond comprehension. It is this basic dynamic that lies behind the greater relative returns favoring silver in the long run relative to gold and other asset choices.

Not that silver investors are showing signs of collective selling; the evidence suggests the opposite. Yesterday, the COMEX reported a rare lack of turnover in their daily warehouse inventory report, but through Thursday turnover continued frantic, as COMEX total silver stocks rose to over 105 million ounces. There was also a very large 5 million oz deposit into the big silver ETF, SLV, raising the amount of net deposits over the past month to more than 16 million oz. I suspect there may be some liquidation shortly, as a result of the high-volume price decline on Thursday and Friday. US mint sales of Silver Eagles versus Gold Eagles still widely favored silver in the first few days of the month. All in all, there still appears to be tightness and net investor buying of silver, not widespread selling as is reported on down days.

The latest Commitment of Traders Report indicated a slight further deterioration in gold and silver, as the total commercial net short position grew in each market. I am assuming the data are up to date and fully reflect the big up move in gold and silver on Tuesday, the cut-off day for the report. In silver, the total commercial net short position grew by 1800 contracts to 44,600 contracts, the highest level since April. The raptors (the smaller commercials apart from the 8 largest traders) accounted for 1600 contracts of the increase, as they reduced their net long position to 1500 contracts. The raptors have been the main sellers over the past 5 weeks or so, being responsible for 11,000 of the 15,000 contract net increase in the total COMEX commercial net short position.

The monthly Bank Participation Report, also as of Tuesday and published yesterday, confirmed that JPMorgan had increased its net short position in COMEX silver futures by roughly 3,000 contracts over the past month. I would estimate that JPM is now net short 20,000 to 21,000 contracts (100 to 105 million ounces). JPMorgan's net silver short position on the COMEX is significantly lower than peak levels over the past few years, although it has grown very recently. There is no question that the overall reduction in JPMorgan's concentrated short position coincides with and, to a large extent, explains the dramatic increase in the price of silver over the past few years. It is clear to me that JPM wants out of its concentrated silver short position and is staging a strategic retreat. Like an army retreating from a losing battle, there is no practical option of sudden disengagement for JPMorgan in silver. Just as a retreating army would be mowed down if it tried to haphazardly run away from the battlefield, if JPMorgan rushed to buy back its remaining silver short position, the price would explode. I would contend that this is further proof that JPMorgan has manipulated the price of silver. That JPM short covering to date has resulted in silver doubling and tripling in price is obvious; that they must still sell additional amounts from time to time to keep from having the price of silver explode is also obvious.

In gold, the total commercial net short position grew by 4,700 contracts to 287,600 contracts, another new high level since last November. However, there was a potential twist to this week's report. Whereas the gold raptors added 4300 contracts to their net short position (now at 39,300) and the 5 thru 8 largest traders added almost 7,000 contracts to their net short position, the big 4 shorts in gold bought back almost 6,500 contracts of their net short position. While rare in gold (and even rarer in silver), this potential breaking of ranks by the gold commercial shorts may be significant and I would ask that you allow me to speculate a bit.

Last week, I wrote about the commercial silver crooks as never breaking ranks or turning against one another. It was this continuous uniformity of behavior that made it easy for me to label them as collusive and manipulative. There was never any competition among the silver commercials, as they always lined up as one against the technical funds and other speculators. The silver commercials always hunted together as a pack and if there is another word to describe this other than collusion, I have yet to hear it. As of the latest COT report, the commercials in COMEX silver are still behaving collusively. But this week's gold COT report suggests a potential breaking of ranks in that market.

Here's my speculation Â? it is possible that the gold commercials, starting around July 1, planned to encourage the tech funds and other long speculators to come into the gold market at progressively higher prices so that the commercials could go short against that speculative buying, as the commercials had done on countless occasions over the past two decades. Then, after the tech funds had built up a large net long gold position with all the commercials large net short, the commercial would rig prices lower, forcing the tech funds to sell while the commercials bought back short positions. After all, this is the rhythm of the market that I have written about for years. But, as I also have been writing recently, it is possible for the commercials to miscalculate, as they have often done in other markets, although not in silver and gold. The potential breaking in ranks by the big 4 shorts in gold this week might indicate an admission by these traders that they had miscalculated in shorting gold and were looking to close out their short positions.

Let's face it – the commercials that started selling and shorting gold (and silver) 5 weeks ago are not fortune tellers and psychics and had little firm knowledge of what the world would look like a month later. Today, the world looks very different than what it looked like a month ago, in terms of unease and nervousness. When I wrote of a nervous new world a short while ago, I certainly hadn't planned on the stock market weakness we experienced last week, or the downgrade yesterday by S&P of the US Government credit rating. I don't suspect that the big commercial gold and silver shorts planned on these events either. Now that the level of unease has been kicked up a few notches, perhaps the big gold shorts are also uneasy and looking to cover. If my speculation is close to accurate then we may see a lot more commercial short covering. There is no doubt that the recent events would not drive a reasonable person to run out and short gold or silver.

That brings me to the main point that I wish to raise today. The thought on everyone's mind is what happens on Monday? How will the markets react to the past week's events, especially the S&P downgrade yesterday? Let me lay out what should happen and what is likely to happen, as there may be a big difference between the two. Overall, we know that the world is more nervous right now than it was a week or a month ago. Markets should reflect that nervousness. The question is will they? In terms of gold and silver, it's hard to imagine holders of either looking to dump their positions to reinvest in stocks or bonds or similar assets. It is precisely for nervous times like now that precious metals investors bought gold and silver in the first place. Therefore, it is illogical to predict that gold or silver should sell-off. Yet, that is exactly what may occur, especially in silver. That's not a prediction, mind you, as if silver does sell-off, it should represent a compelling buy and I do plan to personally buy speculative longs in that event (especially call options which I started buying Friday.)

If it is illogical to expect gold or silver to sell-off in the face of what is right in front of us, why would I suggest that as a possibility? Because manipulation trumps logic. On Thursday, the price of gold and silver were trading higher at midday, when suddenly silver sold off \$3 in little more than an hour or so, similar to the manipulated takedown of early May. The reason? Well none legitimate, just another HFT overt takedown. The silver raptors, having liquidated at great profit almost all of their long positions, were anxious to buy those positions back at lower prices. So they rigged the price sharply lower in order to scare and induce longs to sell to them. This is real important, so let me be as clear as possible.

Sellers always try to get the highest price possible; buyers try to get the lowest price possible. This is the cornerstone and framework behind the free market system and the law of supply and demand. Even the crooked commercial traders on the COMEX adhere to this principle. The problem is that these commercial traders resort to collusion and treachery in their quest to buy low. The treachery involves employing market tricks that are illegal when they go to buy. These crooked commercials always (repeat always) buy on the sharp down days that they themselves induce. This is at the heart of the silver manipulation. Perhaps the commercial selling is not illegal when isolated, because they are selling at progressively higher prices as speculators buy willingly. But the artificially induced sell-offs are always illegal because they are accomplished with dirty market tricks explicitly considered illegal under commodity law. In other words, these COMEX commercial crooks have never bought without a deliberate takedown. I say this is collusive behavior as it is not possible for it always to have been coincidental or just blind luck on the part of these crooks. Every big sell-off in gold and, particularly in silver, has always been caused by the commercials for the express purpose of them being able to buy from speculators that they induced to sell. No exceptions.

It is maddening that such repetitive illegal tactics can be continuously deployed with no action from the regulators. I understand the self-regulating CME Group looking the other way, as management there has a vested financial interest in supporting the illegal behavior of their most important constituents. The criminal enterprise that the CME represents is at least driven by a basic motive — unbridled greed. But what is most disappointing is the lack of response from the prime regulator, the CFTC. Commission people have sworn an oath of office to uphold their own law, yet they have not lifted a finger to stop what thousands see more clearly every day. I plan to deal with the CFTC's public be damned silver track record in the near future.

What gives the COMEX commercial crooks such power in silver is largely of our making in that we let them control us as much as they control the CFTC. Let's look at the question on everyone's mind — how do we trade on Monday in response to last week's tumultuous world events and the downgrade? The logical answer is that gold and silver should trade higher, perhaps sharply higher. Maybe that's the way it turns out given the heightened level of unease. But this is not the outcome desired by the COMEX commercial crooks. They are heavily short; although there may have been sizable commercial buying in silver on Thursday's and Friday's intentional sell-off. Therefore, these crooked SOB's will be doing whatever is in their power to rig prices lower on Monday, especially in silver. That much appears certain to me, although I can't know if they will prevail, given the overall news and nervousness. The COMEX commercial crooks know that if they can rig prices lower, most people will look at the lower prices and conclude that the price can't be wrong and that our expectations of higher prices was wrong.

Don't be fooled by these COMEX crooks. Nothing that occurred last week or over the weekend was bearish for the price of silver. Nothing in the physical market is bearish for the price of silver. Nothing in the world is bearish for the price of silver. Yet, if these COMEX crooks can succeed in smashing the price, the vast majority of market observers will conclude that there must be something legitimately bearish that caused the price to decline. Instead the only reason will be because these crooks rigged prices artificially lower so that they could buy themselves.

Bottom line — we should move sharply higher based upon all that's known. We may go lower temporarily if the COMEX crooks pull off their scam again. In that event, we will move sharply higher after the COMEX commercial crooks buy what they can on another deliberate price smash. I've been writing of market danger and price volatility due to this set up. Last week's market events and the downgrade enhance that. For sure we go sharply higher in silver in the long run and maybe even in the short term. But if these crooks knock it down again, don't lose your position and try to take advantage of any deliberate takedown.

Ted Butler

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Silver – \$38.30

Gold – \$1663

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