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

Since there is no audio interview with King World News this week, due to the holidays, I thought I would offer some brief comments on silver and gold. I plan to publish more in-depth research over the next couple of days, but I thought some interim comments were in order.

I have been under the opinion recently that the sell-off in silver and gold has been or will be ending and a spirited silver rally will soon develop. I hope I have conveyed that clearly in my suggestion to deploy any remaining dry powder in silver. That is still my opinion. While new price lows are always possible, my sense is that even if those lows do occur, they will prove brief, as the major path of least resistance is upward, particularly for silver. I haven't mentioned it recently, but I am still convinced that my long-held opinion of a coming vast outperformance of silver to gold is close at hand – the Final Divorce. Not that the gold price won't rally, but that silver will soar relative to gold.

It is true, however, that one ingredient is still missing from the normal equation of this being the major price bottom I suspect, namely, the structure of the COTs. In fact, if my speculation is wrong and we are about to witness major price weakness in silver and gold, that weakness will only come from the structure of the markets as defined by the Commitment of Traders Report. Simply put, the current COT structure doesn't resemble the structure seen at past major price lows. The commercial short position is still very large, particularly in gold, and it is highly possible that the markets can be manipulated lower. I still believe that new lows in gold, should they occur, are necessary for there to be new lows in silver. So why am I not more concerned about the COTs?

For one reason, the price action relative to the COT change to date is different this time. This has been true for months. We have experienced a notable decline in gold and silver from the highs posted in early December, with many (but not all) important moving averages violated decisively. Yet the resultant liquidation of technical long and dealer short positions has been remarkably light so far. In other words, we should have witnessed much more liquidation than we've seen. It comes down to a very simple equation □ either we have a lot more liquidation to go (on lower prices) or the liquidation is not going to take place (and prices will not decline). The holiday-delayed COT Report, to be released Monday afternoon, will provide important clues as to the extent, or lack thereof, of liquidation to date.

What makes this lack of big liquidation in COMEX gold and silver contracts more noteworthy is the tremendous amount of contract liquidation and new positioning that has occurred over the past few weeks in currency futures contracts, as evidenced in currency and dollar index COT changes. I first mentioned this in the King World News audio interview last week. Normally, I don't talk about currency movements in regards to silver, as my analysis is separate and distinct from such movements. But there are influences to metals prices from currency changes and, usually, they move in lockstep. What strikes me at this time is how quickly technical traders have abandoned the short side of the dollar and moved to the long side. Since the analysis of the COTs is basically contrarian (bet against the speculators), such a big move to the long side of the dollar would suggest dollar weakness ahead. This in turn could buoy metals prices.

Additionally, I am struck by how well silver has behaved, relative to gold, on the decline to date. On a pretty severe $150 decline in price of gold (extreme high to extreme low), silver would normally be expected to decline $4 or $5. Instead, it has declined only about half that amount, maybe $2.50 an ounce. This is the only time I can remember where on such a large gold price decline, the gold/silver ratio has not widened appreciably. Normally, as you know, when gold sneezes price-wise, silver catches a flu. Not this time. I think this portends silver outperformance ahead.

Lastly, I can't help but be impressed with how well both silver and gold have resisted a price collapse in the face of consistent new lows and therefore strong signals for the technical funds to sell. Even though we made new price lows earlier this week, both gold and silver rebounded impressively, with silver actually up 20 cents for the trading week. Eventually, something that stops going down goes up. Also, I recognize that volume was light on the rebound from the new lows on Tuesday, but that is not a negative to me, as it means there can't be much deterioration, or commercial short selling on the rebound. I think it is good that volume was heavier on the recent sell-offs, than on the rally over the past two trading days

I admit that I may be premature in my expectations for a price bottom and rally in silver after so little relative liquidation in COMEX contracts, but there are many other price influences present, apart from the COTs. Besides, any price weakness from here only sets the stage for a stronger eventual rally. I hope to touch on those influences in new articles. I want to thank all of you who took the time to write to the CFTC concerning their bogus public report from May 2008. I think it is important that you had done so and I'll follow up that issue shortly. Please accept my belated wishes for a Merry Christmas and the best to you and yours for the holidays and throughout the New Year.

Ted Butler

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