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

Friday's sharp sell-off put silver down for the week, joining gold which was already lower for the week before Friday's sell-off in each. Gold finished the week $35 (2%) lower, roughly what it had gained in the previous week and silver ended the week 50 cents (1.5%) lower. As a result of silver's relative outperformance, the silver/gold ratio finished below 51.5 to 1, but well off the best levels for the relative value of silver during the trading week. Generally speaking, it is rare when silver outperforms gold when both metals are lower. Whether this week's unusual ratio pattern is a harbinger of things to come remains to be seen.

Price volatility picked up notably this week, which should be of little surprise given market structure extremes. It is actually more surprising when prices are stagnant for too long as it would appear that the extremes in market structure, as measured by the Commitment of Traders Report (COT), demand resolution at some point by large price movements. Later on, I'll introduce another “what if” speculation on how the extreme market structure in COMEX silver may resolve itself. First, let me stick to the usual weekly review format.

Unless I am looking at the wrong indicators completely, conditions in the wholesale physical silver market continue to appear as tight as a drum. I am overly sensitive to signals that the physical silver market has grown tight because I am convinced that a physical silver shortage must and will terminate the ongoing silver price manipulation. My chief signal has been the rapid turnover into and out from the COMEX-licensed silver warehouses. That movement in silver inventory flows continued at about the highest levels seen again this week, as total inventories gained back the 1.3 million oz lost in the previous two weeks and ended at 142.6 million oz. Some 4 to 5 million oz were moved in and out of the COMEX warehouses this week.

It has now been more than six months that total COMEX silver inventories have remained on either side of 140 million oz, so it would be correct to say that total inventories have been largely unchanged. But to focus primarily on the total level of COMEX inventories (which is the traditional and intuitive focus) would cause one to miss the frantic churn on a daily and weekly basis that has prevailed since April 2011. Maybe I'm looking for love in all the wrong places, but I am fascinated by the sudden and persistent silver warehouse turnover. That COMEX warehouse turnover seems to have extended recently to the big silver ETF, SLV, where there continues to be counter-intuitive withdrawals of metal considering price and trading volume considerations.

I want to be clear that I had never anticipated the now persistent COMEX inventory turnover, even while fully expecting the inevitable physical silver shortage. This unprecedented and unique to silver warehouse movement was not on any check-list of mine of the signs of an impending silver shortage. I do admit to looking for any changes in silver different from the past because I know it is a crooked and manipulated market that must blow up pricewise at some point. That's why I noticed the unusual COMEX silver warehouse movement in the first place. There can be no doubt that the warehouse movement has continued and intensified over the past 18+ months; the only question is in explaining its cause. The only plausible explanation I have been able to uncover is that the turnover represents a supply tightness that necessitates the movement. We know that the vast majority of the silver held at the COMEX and elsewhere is not available for sale at current prices. We also know that no one goes to the expense and trouble to move silver (or anything) around for no good reason. My conclusion is that those two known's point to a tightness in silver supply bordering on hand to mouth. As always, I am most eager to hear alternative explanations.

Earlier this week, the new short interest report for stocks was released and it indicated a very slight decrease of 130,000 shares in the short position for SLV, to just over 13.1 million shares. While I still have concerns that the compiler of these statistics, the Depository Trust Clearing Corp (DTCC) is less than trustworthy, the reported level of short selling in SLV is not something to get excited about considering to was about double this level a year ago. The short interest in GLD, the big gold ETF, did increase more than expected but it's hard

to imagine that as having an undue impact on gold prices at this time.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

I've noticed a recent pickup in articles and commentary lambasting SLV (and GLD) as being untrustworthy and to be avoided. Often, those attacking SLV just happen to be affiliated with or have connections to competing metal storage programs and those connections are not made clear. I find this distasteful and unprofessional, as one should explain the benefits of your own program rather than denigrate another more popular version. I'm still a big fan of SLV and my family owns as much or more than ever before. I promised I would disclose any change in my sentiment and that promise still stands should ever that be the case. I despise the fraud of short selling of shares of SLV as much as ever and I certainly can't guarantee SLV will never have problems. Therefore, everyone should hold whatever they are most comfortable in holding. For me, that includes SLV, which is more responsible for the increase in the price of silver since its introduction than any other single factor. How so few SLV critics see that is remarkable.

Sales of Silver Eagles from the US Mint had a decent, if unspectacular November, after getting off to a roaring start. Sales of Gold Eagles, by comparison, finished the month with a notable spurt. Still, it is near impossible for Silver Eagles not to have their best year ever relative to Gold Eagles in the program's 26 year history.

http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2012

The changes in this week's COT report were largely expected to indicate an increase in the headline number of the total commercial net short positions for both gold and silver. That was because this week's report included the sharp high-volume price rally of last Friday for gold and silver. This week's sharp sell-offs of Wednesday and yesterday came after the report's Tuesday cut-off and will be reflected in the coming COT report.

In gold, the total commercial net short position grew by 16,000 contracts to 252,000 contracts. This put the three week increase of total gold commercial net short positions at almost 44,000 contracts, slightly above the 40,000 contract increase I estimated in Wednesday's article. By commercial category, it was a three musketeer collusive effort, as the big 4 added 7,000 short contracts, the 5 thru 8 added 3500 and the raptors more than 5000 contracts. I am still somewhat surprised at the gold raptors' willingness to add shorts, but I am assuming that the raptors fully participated in the commercial short covering after the Tuesday cut-off. On that cut-off, the gold COT structure was bearish, but should be much less bearish thru yesterday, by 25,000 contracts or more in my estimation.

In silver, the total commercial net short position increased by "only" 1600 contracts, to 56,800 contracts. As is usually the case, the details under the hood were instructive. The big 4 (read JPMorgan) increased their concentrated net short position by 3,000 contracts, to 55,618 contracts. This is the largest and most concentrated big 4 short position since Feb 2010. I would calculate JPMorgan's share of that to be 38,000 contracts, also their largest and most manipulative silver short position in almost 3 years. Three years of speeches by the CFTC about the evils of market concentration, the passage of Dodd-Frank and position limits (fought in court by JPM), an ongoing formal silver investigation and the growing awareness that JPM is the big silver price manipulator and this crooked bank is holding what is, effectively, their largest short position in that time. The crooks at JPMorgan now hold roughly seven times the amount of contracts proposed by the CFTC for silver position limits and more than twenty-five times the 1500 contracts thousands of you recommended to the agency. This mismatch does not come close to existing in any other commodity.

The real twist in this week's silver COT report is that the raptors (the smaller commercials apart from the big 8) bought 1800 contracts, increasing their net long position to just over 9000 contracts. Silver prices were stronger by about a dollar over the four trading days of the reporting week and I had expected the raptors, as is their custom, to be selling on that price strength and taking profits, not to be adding longs. I had expected that the raptors would be offering stiff buying competition to JPMorgan on silver price sell-offs, but this is the second recent occasion where the raptors have been buying while JPMorgan was selling short additional silver contracts on higher prices. I can't help but sit up and take notice, especially considering the signs of tightness from the physical market.

Certainly, there are aspects to the silver COT report that concern me, like new tech fund buying and new short selling by other large traders in the disaggregated COT report. I can easily envision a sharp price smack down due to these concerns. But I am also encouraged and fascinated by the buying by the raptors in the face of JPMorgan grossly extending its manipulative short position. Something has got to give soon in the resolution process. What I don't know is if that something includes a sharp sell-off in price first, followed by a price explosion or if we explode in price straightaway.

Whereas I question the accuracy of the DTCC's data on stock short sales, I have no doubt that the CFTC is publishing accurate data on COMEX silver. Without that data, I couldn't begin to make a case for manipulation. The problem is that all the agency does is to publish accurate data that prove that silver is manipulated in price and then refuses to react to the clear proof of manipulation. Due to a decrease in reported spread positions in this week's disaggregated COT report, JPMorgan's 38,000 contract silver short position "only" increased to 34.7% of the entire net COMEX short position from the previous week's 34%. But the 190 million ounces that the 38,000 contracts represent is equal to 25% of the world's total annual silver mine production of 760 million oz. If one trading entity was short 25% of the annual world production of any other commodity that entity would be in jail the day it became known. For that entity in silver to be a systemically important US bank is shocking in its own regard. In many ways, I admit that this is so extreme as to not be fully comprehendible. Believe me when I tell you that I can hardly comprehend that I label JPMorgan as crooked and get away with it.

Following last week's "what if" speculation as to a physical silver shortage catching JPMorgan completely off guard, I'd like to share another "way-out" vision of how this extreme silver market structure might get resolved. Increasingly, when I ponder all the facts in silver and how they may get resolved, one far out resolution keeps appearing in my mind. That resolution is a shut down and termination of COMEX silver trading. I am not stating that the COMEX will cease trading silver; just that it may not be as farfetched as it sounds at first.

Yes, I know that the COMEX is the principal world trading exchange and pricing mechanism for silver and I don't believe London even comes close in importance when compared to it. But let me explain why the COMEX may cease trading silver and what the fall-out might be. For one thing, many of you believe that there is a US Government connection to JPMorgan's silver manipulation which I am not inclined to argue with.

Since the problem is JPMorgan's 38,000 contract net short position in COMEX silver, that problem will disappear if the regulators, as is within their powers, decree that a market emergency exists and orders all silver contracts to be unilaterally closed out and settled at an arbitrary price. In an instant, JPMorgan will be let off the hook and the problem, from a regulatory perspective, will exist no more. Yes, it would represent a contract and market default and reflect badly on the regulators, but it would resolve the extreme market structure issue immediately. Further, this is not a resolution that would be without precedent. Almost 40 years ago, the predecessor of the NYMEX defaulted on their important Maine Potato contract because the largest short seller, the late J.R. Simplot, couldn't deliver as promised. All open contracts were artificially closed out at a set price and that was it. Yes, it was a scandal and a black eye on the world of commodity trading, but not one in ten million even remembers it today. The scandal led to a cessation in the trading of Maine Potato futures and a similar COMEX forced settlement today most likely would lead to the termination of silver futures trading in the US. One could argue that silver trading today is more important than potato trading was in the 1970's, but my point is that to the average citizen, a COMEX silver shutdown would be forgotten in time and life would go on.

I know I've written about the Maine Potato default in the past, but it has been years and I can't remember when. The best argument against a COMEX silver default was always that it would open a legal Pandora's Box and the legal and regulatory repercussions would prevent the regulators and JPMorgan from considering such a solution. But lately I have begun to change my mind. The crooks at JPMorgan have already tipped their hand and have demonstrated that they know how to use the legal system to their own selfish advantage. After failing to prevent Dodd-Frank from setting position limits by intensive lobbying, when the provisions for position limits did pass, the very first thing that JPMorgan did was attack it in the courts. I can see the same thing in a COMEX silver default and trading cessation, namely, JPMorgan will be guilty as hell and liable for damages to thousands if not millions of silver investors, producers and other participants, but JPM will have their vast army of lawyers fight it for decades or until all the victims die. I've reached this conclusion only because sometimes you must think like a criminal in order to anticipate what a crook, like JPMorgan, is likely to do next.

The big losers in the event the CFTC, the CME and JPMorgan do decide to shut down COMEX silver trading and force all contracts to settle at an arbitrary price will be those holding paper COMEX silver contracts on the long side. If you do hold such long contracts please be advised that you could wake up one morning to find your contracts declared null and void and closed out at a price that is arbitrary and capricious. I would imagine that the arbitrary price set for a potential shut down of COMEX silver would be high enough to offset some of the sting of being cheated, but you never want to be in a position where you must depend on the generosity of criminals. Fair warning if your exposure to the long side of silver is denominated in COMEX paper contracts, you best fix that quickly.

The cruel irony of a potential COMEX silver shutdown is that it should prove super-bullish to the price of silver. That's because the chief mechanism of the silver manipulation is COMEX silver short selling, particularly by JPMorgan, and that mechanism will be destroyed the instant the COMEX shuts down silver trading. Without the ability to short unlimited amounts of paper contracts, it's hard to see how the price could possibly be kept from exploding. In addition, deprived of the ability to buy highly leveraged paper contracts on COMEX silver, buyers will be forced to buy the real thing, physical silver metal, in the wide variety of forms offered, including ETFs. My way out warning does not include physical metal held in the COMEX silver warehouses, whether that silver was acquired through a delivery on a futures contract or through a dealer.

I'm trying to be circumspect and careful in what I am saying. I'm not saying that the COMEX is likely to default, but that such a default, among the limited number of other ways of resolution, would at least get JPMorgan off the hook. In contemplating the resolution of an outrageous situation, sometimes you are forced to think outrageously. The extreme market structure and situation in silver will not be resolved quietly and not without extremely high prices in the end. It's a shame to have to think in such terms of a COMEX shutdown, but not to think this way could prove to be the bigger shame.

Ted Butler

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Silver – $33.50

Gold – $1715.