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

Against a backdrop of an unspeakable national tragedy involving the most innocent victims of all, it seems almost inappropriate to discuss mundane matters of money and markets. As coincidence would have it, I pass through the area twice each year on my annual migration and a number of reviews have been sent from there over the years. There will be different thoughts on my mind in future travels. Relative importance aside, since I can't make sense of such horrors let me stick to matters I think I understand.

For the third week running, the price of gold and silver fell, gold by a modest $8 (0.5%), with silver falling a more significant 80 cents (2.4%). As a result of silver's outperformance to the downside, the silver/gold ratio widened out by a full point to 52.5 to 1. This is still within the ratio's trading range for the past year and I am still convinced we will someday (fairly soon) look back and marvel at the great amount of silver that could have been purchased by selling gold. Not the subject of today's discussion, but silver and gold are very different commodities in many important ways, not the least of which is that silver is heavily consumed industrially while gold is not. With such a starkly different overall demand pattern and above ground inventory profile, it is somewhat ludicrous that the relative price ratio between the two has been in such a tight trading range. Different commodities should behave differently price-wise; that gold and silver are more often than not in price lockstep should raise the question of why? I'll speak of that later.

There was a cool-off in the frantic turnover of COMEX silver warehouse stocks this week, perhaps reflecting a pause after big movements into the first delivery day of the big December futures contract. For the week, total COMEX inventories rose by a million ounces to 147.5 million oz. This is about the highest level of COMEX total silver inventories in 15 years, although these inventories are still down by nearly a half from the more than 280 million oz in these warehouses in the early 1990's. It's important to keep things in perspective and recognize that the changes in COMEX inventories are but a small fraction of the more than 650 million oz that total visible world silver inventories have grown since 2006, when the first true silver ETF, SLV, was introduced. Since silver has soared in price over the past 6 years precisely as world visible silver inventories have exploded, this is in conformance with my contention that rising inventories are not automatically bearish when it comes to precious metals, particularly in silver. That's because it is investment demand that will determine the price of silver long term and rising visible inventories are mostly an indication of growing investment demand.

It would take more than one week of cooled-off COMEX silver warehouse movement to explain and negate the frantic pace of the past 20 months. This silver has been moving for a reason, the most plausible of which is due to tight supplies. Besides, there was movement in SLV deposits this week in addition to the 6 million oz jump in the short position of SLV, so it would be hard to conclude that silver was now suddenly in supply equilibrium and the price was at rest. If you are looking for explanations for silver price movements, I don't think you should look first to total inventory levels and changes. Those explanations should first be explored in understanding dealings on the COMEX.

The changes in this week's Commitment of Traders Report (COT) weren't anticipated to be significant and those expectations were met, although there's usually some interesting detail under the hood. In gold, there was a slight decrease of 2700 contracts in the headline total commercial net short position, to 214,900 contracts. This modest reduction follows last week's big decline of more than 41,000 contracts in the total commercial net short position.

By commercial category, it was more interesting. The big 4 bought back more than 10,000 contracts of their net short position, meaning that the 5 thru 8 and the raptors actually added to their net short positions (by a combined 7000 contracts). I'm hesitant to add that means there was no commercial collusion this week, because it is more likely that there was a commercial double-cross of some type. Over the past two weeks, the big 4 have bought back roughly half of the 44,000 total net commercial shorts covered, perhaps indicating an urgency to buy back before eventual higher gold prices emerge. My reasoning is simple □ if the COMEX is the crooked cesspool that I have come to view it as, then the largest traders calling the shots are the biggest crooks. Over the broad scope of time, it is uncanny how big moves in gold (and silver) seem to occur when it has been convenient relative to the positions of the biggest commercials.

In silver, the total commercial net short position declined by a modest 600 contracts, to 57,900 contracts. Whereas the gold total commercial net short position has declined by a significant 44,000 contracts over the past two weeks, the total silver commercial net short position has only declined by a scant 1400 contracts. I have been hopeful that the growing tightness in the wholesale physical silver market might overpower the big crooked shorts, like JPMorgan, but the flip side to that is that it may make them more determined to rig a paper sell-off first. Desperate measures for desperate men in desperate times.

According to my analysis, JPMorgan has been able to reduce their concentrated net short position to 35,500 contracts over the past two weeks, from their peak of 38,000 contracts. The 5 thru 8 largest traders have added around 1000 shorts during this time and the raptors are a few hundred contracts less net long, at 6300 contracts. It's not the changes over the past two weeks that matter, but the starkness of the size and the degree of concentration of JPMorgan's and the other big commercials silver short positions. Due to a slight increase in spread positions (in the disaggregated COT); JPMorgan still holds over a third of the entire short side of COMEX silver, a concentration that is shocking. Additionally, 35,500 contracts is the equivalent of 177.5 million oz, or 23.4% of annual world silver mine production.

Lost in the weekly observations of COT changes is the enormity of the size of JPMorgan's COMEX silver short position. It would be impossible for any one entity to hold a short position equaling 23.4% of the world annual production of most food or industrial commodities (like corn or crude oil) because such a position would require a size well in excess of current total open interest levels in most markets. For instance, someone holding 23.4% of world annual oil production would have to hold 7 million NYMEX contracts; a neat trick for a market that has a total open interest of 1.5 million contracts. The record still indicates that JPMorgan added more than 100 million oz of COMEX short positions since the summer, making the bank the only real silver short seller during that time. When there is only one buyer or seller in any market, that market is manipulated.

The current market structure in COMEX gold futures is still neutral and all the commercials will be looking to rig prices lower in order to buy. By virtue of JPMorgan's position alone, it is hard to call the silver structure anything but bearish, with the same observation that all the silver commercials will be looking to rig prices lower in order to buy. I want to be careful in noting that something can come along, especially in silver, to upset the plans of the commercials to rig prices lower; but it's generally wise to understand how the game is being played. That includes understanding the motives of the most important participants.

I have speculated in the recent and distant past about the possibility of a shutdown of the COMEX to remedy the extremely large and concentrated short position in silver. That's in keeping with trying to understand how the game is played and the big guys' motives. A shutdown of the COMEX would not be possible if it would benefit everyone at the expense of the biggest players. In other words, if such a shutdown of COMEX silver trading were against the best interests of JPMorgan, it is not possible for it to occur. I'd like to take this line of thought further.

History has shown that, in times of crisis, any regulated commodities exchange will take actions in the best interests of its most important constituents. This despite exchanges being authorized to operate by Congress to serve the public interest. No exchange has demonstrated this clearer than the COMEX in silver. More than 30 years ago, the COMEX took actions against the Hunt Bros that hurt them and benefitted the biggest shorts who happened to be mostly leading exchange members. After reflecting on this for many years, I do believe that the Hunts were attempting to manipulate the price of silver and the exchange was more or less justified in bringing that manipulation to an end. But more recent actions by the COMEX (owned by the CME) can hardly be called justified.

Specifically, the actions of the COMEX in precipitating and inducing the shocking price declines of May and September 2011 are clear cases of the exchange siding with insiders with no justification of wrongful actions by the longs. By allowing and facilitating the HFT takedown on the Sunday evening of May 1 and then piling on with a series of margin increases designed to frighten and punish longs, the CME orchestrated a massive price rig to the downside to benefit their own members even though there was no wrongdoing by the longs. I would define wrongdoing as manipulation or attempted manipulation. The best and only way to measure manipulation is by the extent that concentration exists. The Hunts held a concentrated long position in 1980 and despite the insider COMEX shorts also holding concentrated positions, the exchange acted properly in hindsight, in my evolved opinion. But COMEX silver hasn't been concentrated on the long side for the past 30 years and the longs couldn't have been manipulating or attempting to manipulate the price. In fact, COMEX silver is the least concentrated on the long side of any other commodity market relative to concentration on the short side, save one (Soybean meal go figure).

It is one thing for an exchange to rush to the aid of important members when an outsider may be doing something wrong and against the insider members' interests; but it's a very different story if there was no outside wrongdoing and the insiders were the guilty party. That's exactly what happened in 2011 on separate occasions and is still happening to this day in COMEX silver. It is a circumstance without precedent, namely, an exchange working against the public's interest when there is nothing that the public is doing that is wrong. The thought that the New York Stock Exchange would diligently work to lower overall stock prices is too absurd to contemplate, as it would be shooting itself in the foot. But that's exactly what the COMEX is doing in silver. The exchange should care less about price levels, but because the most important member of the COMEX (JPMorgan) is up to its eyeballs on the short side, that forces the exchange to be an active partner in attempting to bring about lower silver prices. This is so bad, it is almost inconceivable. Yet the evidence is right in front of us.

The two principle means that prove the COMEX (CME) is serving the interests of JPMorgan and is actively working against the public is the level of concentration on the short side and the continued advancement of High Frequency Trading (HFT). The concentrated short silver position of the big 4 and JPMorgan specifically, should be the CME's prime concern as a designated Self Regulatory Organization (SRO). I shouldn't have to pressure the (unresponsive) CFTC to deal with JPM's manipulative concentrated short position; the CME should be all over this like white on rice. That the CME never utters a word about accusations that they are aiding a scam in silver is the only strategy open to them because the facts are clear. In just about every market, HFT seems to be on the wane. Thank goodness and I pray for the day HFT is completely banished. Only in COMEX silver (and gold) is HFT on the ascent. Concentration and HFT are the two main tools of the CME and JPMorgan working against the public interest, even though the public has done no wrong.

Last week was a perfect example. Silver (and gold) erupted upward following supposed Fed statements, only to quickly collapse. In actuality, the price movements had little, if anything, to do with the Fed. This was all about commercial maneuvering. Prices moved higher because the commercials allowed them to in order to induce technical fund buying in which the commercials sold into. After accumulating enough new short positions, prices were rigged lower (by HFT) to induce the technical funds to sell and for the commercials to buy back at a profit. The key to understanding this is to fight the temptation to assume that prices only move sharply higher or lower when great numbers of contracts are bought or sold. What matters is the sequence of events. I maintain that, through HFT, prices move first and then the volume of trading comes in. It should be clear that HFT is a commercial activity as opposed to being a widely practiced public activity. The commercials first rig prices higher or lower to cause the technical traders to then react. Volume does not cause price movements; volume follows artificially-rigged price movements.

That the CME and JPMorgan, two of our most important financial organizations, are involved so deeply in the ongoing silver manipulation is a tragedy of epic proportions. I'm not going to bother you with the advice that you shouldn't deal on the COMEX, same as I wouldn't tell you to close out a checking or credit card account at Chase: as that would do little practical good. So, what to do about the crooks at the CME and JPMorgan? Ironically, I think some very good advice has come from the CEO of JPMorgan, Jamie Dimon.

Last week, in a special Dealbook conference on CNBC, Mr. Dimon gave an impressive presentation. Truth is, were it not for the bank's role in the silver manipulation, I see a lot to learn from Dimon. He's certainly no-nonsense and to the point, an admiral trait. In response to a question suggesting JPMorgan might be too aggressive in lobbying and dealing with regulators, Mr. Dimon bristled that two of the most important assets in America were guaranteed by the Bill of Rights freedom of speech and the right to petition the government and JPMorgan had those rights as well. While I would think some of the founding fathers might question the personal freedoms in the Bill of Rights being attached to a giant world banking conglomerate 200 years later; we can't read their minds. Certainly, no one would dispute personal freedom of speech and the right to petition the government as personal human rights granted to all in America.

I think Mr. Dimon has given some good advice that I intend to keep following. I'm just as much a US citizen as the next guy and as much as JPMorgan. The data is clear and compelling that an excessively concentrated short position is causing silver prices to be lower than they would be if the short concentration didn't exist. Further, the practice of High Frequency Trading is actively discouraged on every exchange except in COMEX silver (and gold) mainly because such trading benefits the big shorts. It is clear to me that JPMorgan and the CME are as guilty as sin in the ongoing silver manipulation and I have a right (and responsibility) as a citizen to speak up and petition the regulators to move against them. I'm not trying to ruin or hurt JPMorgan or the CME; I'm just trying to stop them from continuing to violate the law as I know it. Maybe I'm nuts, but I don't think either can stop me. They can remain silent, but that has done little to prevent growing numbers of observers from seeing their wrongdoing. With a new Congress set to be sworn in, new opportunities to speak up and petition are presented. I appreciate all past suggestions and solicit your continued input on how to take it to the next level.

None of this is easy, but neither is it that difficult either. Silence on our part is not an attractive option. I'm thinking in terms of a campaign to shut the COMEX down since I am absolutely certain that will end the silver manipulation; as opposed to the insider crooks choosing when it might be most advantageous to close the COMEX from their selfish perspective. I'm still concerned about one last sell-off because as far as I can see, through the concentrated short position and HFT, the crooks still have the means, motive and opportunity to cause prices to decline. But looking beyond any short term price rig to the downside, the facts dictate that such an increasingly obvious manipulation must cause an explosion in the price of silver that will not be believed, even after it occurs. The trick, as always, is to make sure any price rig down doesn't knock you out of a long term position.

Ted Butler

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Silver – $32.30

Gold – $ 1697