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

Every market is multi-dimensional; meaning there are a variety of competing factors operating on different levels. Just like a three-ring circus, only with a lot more rings. There are short and long-term factors, as well as fundamental and technical trading forces all occurring simultaneously. Silver is no different. The trick, as an analyst or investor, is to distinguish which factors are most likely to influence prices over a given time frame. Likewise, the silver manipulation is multi-dimensional; meaning there are different forces involved in the manipulation. The two biggest manipulative forces, in my opinion, are the concentrated short position of JPMorgan and the excessive short-selling in shares of SLV, the big silver ETF. These are the lynchpins to the overall suppression of price over the past few years.

Fortunately, it has been relatively easy to measure JPMorgan's concentrated short position on the COMEX and the level of shorting in SLV by monitoring regularly-released government and industry statistical reports. The data indicate that JPMorgan has been steadily reducing its concentrated short silver position on the COMEX and JPM may be in position to reduce it further still immediately ahead. If JPMorgan does so and then continues to refrain from selling additional quantities of silver short on the next rally, one big factor behind the silver manipulation will be terminated. The same goes for the short position in shares of SLV. If the SLV short position gets reduced and does not grow on the next silver rally, the other lynchpin of manipulation will be removed. Time will tell.

But explanations for the daily price volatility in silver mainly reside in other factors. I know that this volatility and downward slant to recent silver prices is unnerving to many of you (as it is to me), but we have no choice but to try to see it as objectively as possible. Understanding why something is happening goes a long way towards coming to grips with it. Plus, you don't want to get too close to the tree (daily price action) so that it distorts your view of the forest (the long term price).

One of the main short-term factors behind the high volatility in price is that we are in a relatively low-volume silver trading environment. Almost by definition, low volume translates into illiquidity. The loss or death of liquidity is something I've written a lot about recently. Thin markets are easier to push around than are deep, liquid markets. Additionally, what volume that does exist in COMEX and SLV trading is currently more dominated than ever before by computerized High Frequency Trading (HFT). The combination of illiquidity and the economically illegitimate HFT explain the seemingly inexplicable price moves in silver recently.

If I am correct in my explanation for silver price volatility presently, it also explains why I am always hesitant to infer too much significance from that price volatility towards where silver should and will be priced in the future. In other words, if the market is illiquid and is being pushed around by uneconomic trading strategies, then it doesn't seem reasonable to place too much importance in price patterns and charts. Don't get me wrong, I study the charts and admit there are times when they seem to be able to predict future prices; but there are just as many other times when charts don't work. My point is that I wish I could divine the precise short term movement in silver prices by charts or any other means; but the truth is I can't and it would be wrong for me to suggest otherwise.

Of course, illiquidity is a two-edged sword in that a market thinly traded doesn't automatically translate into a market that should decline. Liquidity is a condition that is price neutral, all things being equal. Just because a market is illiquid doesn't mean it should go up or down. What illiquidity means is that prices will go up or down quicker and more than they would in a deeper, more liquid environment, depending upon the sum total of all forces. Right now, the bullish forces are not exerting themselves in the price. It's not so much that the bearish forces are so overwhelming as to mandate lower prices; it's just that the thin trading conditions make it easier for those interested in lower prices to prevail. But that doesn't mean those bearish influences will rule indefinitely. What it means is that illiquid markets are more susceptible to bullish and bearish influences. In other words, when the bullish forces exert themselves in silver, as I believe they will, the impact on price will be dramatic because of the illiquid trading conditions. I plan to write about this liquidity angle more in the future as it is a major theme of mine for the long term.

But if liquidity is a price neutral condition, all things are definitely not equal in silver currently. HFT has never been deployed to increase the price of silver to anywhere near the extent it has been used to cause the price to decline (and collapse, at times). I don't know if HFT will ever be used to greatly increase the price of silver, mainly because there are enough other factors present that HFT is unnecessary. HFT is almost exclusively used to cause the price of silver to decline. Almost perversely, the purpose behind HFT is to force other market participants to sell, so that the HFT practitioners can buy what others sell. Please remember that in silver, HFT is largely a derivatives play on the COMEX. As such, I can substantiate that HFT practitioners are buying what other market participants are selling by use of the Commitment of Traders Report (COT).

The big players in COMEX HFT silver trading are basically the commercials, like JPMorgan and the other big 8, as well as the raptors (the smaller commercials apart from the big 8). There are other participants, but take away the commercials and the HFT ranks would be decimated. Today, I would like to focus attention on the raptors, as I believe they are the main culprits behind the current price volatility, as well as the low prices. Certainly, the raptors have been the big winners in COMEX silver trading over the past few years. While I don't begrudge anyone from making a profit in any market, I would object if those profits were due to manipulative or illegal trading activities. There is no question in my mind that the raptors have been illegally gaming the silver market, but I'm (still) not the market regulator. My objective here is to point out that the raptors' current position is very supportive of a silver price rally

In just about every weekly review, I highlight what the raptors did for the week and what that activity might suggest for the future price of silver. I do so for what I think is a good reason □ the raptors' phenomenal track record. They are not always correct, but most often they are. Not only is their track record almost impeccable, they are so successful as to raise the question □ how the heck do they do it? Again, my purpose today is not to focus on what I believe to be the illegal trading practices of the raptors, but just what their current activities and resultant position mean for silver. While I point the finger at JPMorgan incessantly, there is little doubt in my mind that the raptors are the day to day manipulators in silver. And there is no way that the raptors could do what they do without actively colluding among themselves.

Currently, the raptors hold a net long position in silver among the largest they have held in years. In the latest COT, the raptors' net long position was around 17,000 contracts (85 million oz). This is greater than JPMorgan's net short position. I would not be surprised to see that the raptors' net long position increased in the COT report due this Friday. The raptors built up their current large net long position on the big break in silver prices in late September; the second 30% take down in price this year. JPMorgan also reduced its short position at that time, making it obvious that both the raptors and JPMorgan bought aggressively on the big September price break. It seems clear to me that the big silver price break occurred because it stood to benefit the raptors and JPMorgan. Both the raptors and JPMorgan colluded amongst themselves to rip the price lower (by means of HFT), thereby scaring the wits out of other speculative long holders to force them to sell so that the raptors and JPM could buy; which they did. About the only observers not clued into this scam seems to be the CFTC.

Since September, after the raptors built up their big net long position, they have been able to toy with the silver market, selling some contracts (2 to 3 thousand) on rallies of a couple of dollars an ounce and then replacing those contracts by repurchasing on sell-offs. In a nutshell, that's why silver prices have remained in a 5 or 6 dollar trading range since the big September break. Now that the raptors are so heavily net long and JPMorgan has concurrently reduced its short position to the lowest level since it existed, the stage is set for prices to go the other way, namely, up. Maybe not today or maybe not tomorrow, but up and probably soon.

Of course, the raptors may continue to rig the silver market short term, but it is important to recognize that they don't sell on the way down, only on the way up. That means the raptors are likely to rig prices lower only when they can buy more, with the intent of selling out at higher prices to make a profit. When there is no more of an opportunity for the raptors and JPMorgan to buy to the downside, both will stop trying to rig prices lower. What determines when there is no more to buy is whether there are any more speculative longs to scare out of the market or other speculative short sellers which can be tricked into selling short. There is no way to precisely measure that beforehand, but when we get into historical extremes in the COT, with both the raptors big net long and JPMorgan small net short with the speculative long position also low, then we are usually close. That's where we are right now, with Friday's COT likely to confirm.

I've never seen the raptors panic and sell out at a loss at lower prices, only at a profit to the upside. They did panic a bit near the top in April when they bought, as did JPMorgan, but conditions are the opposite of that currently. The only question is where the raptors will sell on a silver price rally. Will they be content to book a profit of a few dollars an ounce or will they hold out for more? I don't know, but future COT reports will tell us. I can tell you that the stage is possibly set for a real conflagration to the upside if JPMorgan tries to buy aggressively from the raptors and/or the raptors decide to hold out for really high prices. It wouldn't take much in the current illiquid trading conditions to ignite an upside price event.

Not for a moment am I suggesting that the raptors are any kind of ally in the long term movement to higher silver prices. On the contrary, I think the markets would be well-served if the regulators cracked down on them for their role in manipulating silver prices. But right now, the raptors' big net long position is supportive to higher silver prices in the short term. If we get lower prices first, that will likely only occur as they build up an even larger long position. In that case, they will then be more supportive of higher silver prices, if they can trick others into selling. While this activity is responsible for the recent price volatility and lower prices, it should not be construed as being a permanent means of depressing silver prices. These are short-term dirty trading tricks that only work temporarily when other forces in the silver ten-ring circus are in the background. Besides, the raptors are now big net long and if history is any guide, they will only sell on higher prices.

Ted Butler

December 21, 2011

Silver – $29.40

Gold – $1617