

December 28, 2011 - The Cure for Low Prices

The Cure for Low Prices<?xml:namespace prefix =  
o ns = "urn:schemas-microsoft-com:office:office" />

It's no fun for silver investors to have to live through the current slam down in prices. Knowing that the sell-off is intentional makes the pain more acute. The sell-off this week, in particular, has taken on the characteristics of an historic bottom. Since the predominance of the evidence indicates that silver is oversold on an absolute basis and relative to just about everything else, the most logical investment approach is to treat it as a bottom. A deliberately created bottom, but a bottom nevertheless. That means holding or buying, not selling.

There's an old commodity market saying that holds that the cure for low prices is low prices. What this means is that if prices go or stay too low for a long enough period of time, it will increase demand and curtail supply, causing prices to rise. It works that way for high prices as well, but only in the reverse. In fact, this old saying is the embodiment of the law of supply and demand. Especially on a long-term basis and in truly free markets, low prices will eventually cause prices to move higher.

Even in a highly manipulated market, like silver, low prices will create eventual higher prices, but for different reasons and over a different time frame. In free markets, low prices cause a previous oversupply of material to be absorbed to

the point that demand overtakes supply. In a manipulated market, one must look to the motivations of the manipulators. One of the key differences between a manipulated and a free market is how prices behave after a major price bottom is achieved. I'll discuss how I think silver prices will act after this bottom has been recorded in a moment. First I'd like to explain (again) why silver has dropped so much in price recently.

There is little evidence to suggest that profound changes in actual world silver supply and demand were behind the price collapse. We produce and consume roughly 900 million ounces annually, or 75 million ounces per month. There have been no documented increases in supply, nor shocking decreases in demand to readily explain the almost 35% price collapse from early September thru today. Certainly, investment demand can and has softened over this time, but not to the degree the price decline would indicate. I would submit that investment demand cooled to the extent it has because of the deliberate takedown in price and not vice versa. Total holdings in the world's combined silver ETFs and other investment holdings exhibited little change over the past three of four months. Therefore, there is little evidence suggesting wholesale physical silver dumping is behind the price smash.

There is only one thing that could possibly account for the stunning price collapse, namely, the tremendous change in net holdings on the world's largest silver futures exchange, the COMEX (owned by the CME Group). As indicated in

the COT report of September 6, when the price of silver was around \$42, the total commercial net short position was 47,300 contracts. In the most recent COT report for positions held as of December 13, the total commercial net short position declined to 14,800 contracts (with further reduction likely in Friday's new report and beyond, given the continued decline in price since the last report). The commercials were able to reduce their total net short position by 32,500 contracts on the 35% price collapse. That's the equivalent of 162.5 million ounces of silver.

Try to put these 162.5 million ounces in perspective. It is more than two full months of total world silver production and consumption and close to 22% of world annual mine production. In essence, the commercials, as a group, bought more than two full months of world silver production on sharply lower prices. Try to imagine any group of traders buying the equivalent of more than two full months of the world production of any other world commodity, like copper, oil or corn. Additionally, please factor in that the concerted buying occurred over a time frame of less than 4 months. Any reasonable person would assume that buying the equivalent of 22% of the world annual mine production of any world commodity would have a profound upward impact on the price. Common sense would dictate that such a major purchase by a small group of traders, in such a condensed time frame, could not possibly occur with prices falling 35%. It would be hard to imagine such a purchase not causing prices to rise more than 35%. Yet, your eyes are, unfortunately, not deceiving you. The COMEX commercials

just pulled off the impossible. Again. How did they do it?

The COMEX commercials pulled it off by a variety of dirty market tricks, illegal in every spirit of the word. They have deliberately rigged prices lower for the express purpose of forcing other market participants to sell because of the falling prices. This is as far from legitimate market activity as it gets. The commercials know that other traders are motivated by price movement. When prices fall, it is normal for investors to sell out and even go short. The commercials know this better than anyone and they deliberately rig prices lower to induce others to sell, mostly from fear of further losses. Knowing that rapidly falling prices will scare others into selling, the commercials then lay back and wait for this induced selling by others to come to the price level that the commercials are willing to buy at. This cannot be accomplished without collusion on the part of the commercials.

This type of market behavior on the part of the COMEX commercials is akin to financial terrorism. In fact, there is no other plausible explanation for the price collapse in silver and the documented commercial buying other than a deliberate price rig so that they could buy. I know I may be preaching to the choir to most readers on this issue, but there is something that does puzzle me. I've been studying the COT for decades and have noticed that more commentary is being written about this data series than ever before. What puzzles me is how anyone could report on the changes in the COT over the 35%

price decline over the past few months and not conclude that what the commercials did was manipulation and not free market activity. Or how a federal regulator, the CFTC, could possibly not make the connection between the extraordinarily large silver purchases by a small group of commercial traders amid a collapse in price. And that these unusual circumstances occurred while the CFTC is supposedly actively investigating the silver market because of prior allegations of manipulation.

Is there anything encouraging I can say about silver at this point? There sure is. While I can't pinpoint the bottom, I can tell you that the commercial rigging of the price and their concurrent buying has important implications for the future price of silver. Quite simply, it has made silver a better buy than previously by a wide margin. The commercials are motivated by greed alone. The most obvious motive behind the blatant rigging of the silver market is because the commercials believe silver prices are destined to go higher. No buyer, especially one acting illegally and in collusion with others, would buy something they thought would go lower in price. The COMEX commercials are buying with both hands because they know the bargain they have created. Aside from complaining to the CFTC, the most practical thing you can do is buy and hold silver.

Given the brazen and blatant nature of this week's price smash, which almost dares the CFTC to do anything about it, there are some additional features to

December 28, 2011 - The Cure for Low Prices

silver that suggest that the inevitable price rally will be especially sharp. The commercials have rigged prices so low and have purchased so aggressively that one must ponder what is in store for prices once the turn up commences. More specifically, who will the sellers be on the next rally? Long-time readers know that I have speculated in the past that after a sell-off of historical significance (this one qualifies as that), a selling void or vacuum could allow for a price explosion. All that would be required for such a selling void and price explosion to occur would be for the commercials to do nothing when the price turns up; just sit there and keep their hands in their pockets and not sell. This is apart from JPMorgan not adding to its short position on a price rally.

I know that the raptors (the smaller commercials away from the big 8) now have a big net long position and will most probably sell on the next price rally. While this does represent potential supply to the market, it's not as bearish to price as it would first appear. That's because the raptors only sell on price rallies and when they have a profit to book. My back of the envelope calculations indicate that the raptors' break-even point on their 21,000+ contract net long position is somewhere around \$31 to \$32 an ounce. They may sell some portion of their position up to those levels, but I would be surprised, based upon their past behavior, if they sold all or most of it at those levels. If my guess is close to being correct, we could easily see a \$5 rally in a matter of days (which days I don't know). Given the extent of the price decline, it appears logical to be thinking of what the next rally will look like.

That's assuming the raptors are fairly aggressive in selling on a \$5 rally. If they decide to keep their hands in their pockets and not sell aggressively, the rally could be much steeper. Away from the raptors, it's hard to conceive who would be aggressively selling the next rally. I don't think JPMorgan will be an aggressive seller as that would just drag them into the manipulation deeper; something they should want to avoid. The managed money speculators who have recently gone short shouldn't be candidates for selling more on the way up. Ditto for all the speculators, large and small, who have already sold out long positions due to the financial terrorism to the downside of prices. If anything, the only likely sellers would appear to be the raptors. To the upside, I can conceive of many who would likely come to the market as buyers, not the least of which are the managed money speculators who have recently gone short. Not many potential sellers, lots of potential buyers. In a nutshell, that's the basis behind an upside explosion scenario.

An alert subscriber pointed out to me that the short data on stocks was released this morning, for positions held as of December 15. The short position in shares of SLV, the big silver ETF, declined by more than 3 million shares to around 22 million shares, offsetting the prior period's increase which I originally found odd. This reduction in the short position of SLV was expected, as prices fell sharply in the two-week reporting period. Still, at just less than 7% of total outstanding shares, the short position in SLV is still outrageously excessive. The real test, of

December 28, 2011 - The Cure for Low Prices

course, remains ahead to when silver prices rally. As with any increase in the COMEX short position of JPMorgan, any big increase in the short position of SLV on the next silver rally will confirm that the silver manipulation continues.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

We are at an important junction for silver. The commercials have clearly manipulated the price lower so that they could buy as much as possible. They have succeeded beyond my expectations, to be sure. This has put the commercials in their best position yet to exit the long-term silver manipulation. Whether they will refrain from future manipulation will become obvious on the next silver rally. I know that this has been a trying time for silver investors, but it's important to both understand what has happened and to look ahead. The intentional price smash has created a powerful set up for the next silver rally. Shame on the COMEX commercial crooks and the regulators who have been derelict in fulfilling their principal mission of protecting the public and preventing manipulation. Just don't compound the pain by missing what should be a coming silver rally of historic proportions.

Ted Butler

December 28, 2011

Silver - \$ 27



December 28, 2011 - The Cure for Low Prices

Gold - \$1552