December 29, 2012 – Weekly Review

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In a somewhat unusual twist, even for a holiday shortened week, the price of gold and silver finished exactly unchanged, following four weeks of lower prices. As a result, the silver/gold ratio finished unchanged at 55 to 1; much wider than a month ago, but still within the trading range for the past year. Given the market structure and the developing fundamentals in silver, I don't expect price volatility to remain subdued for long, but I still remain unsure of which direction short term prices will move next. This short term uncertainty stands in stark contrast to my price expectations for silver longer term.

Conditions in the wholesale physical silver market continue tight when measured by my most important metric Â? COMEX silver warehouse movement. Thanks to a big report day on Christmas Eve, in which more than 1.7 million oz were both shipped in and out, weekly movement into and out from these warehouses totaled over 2.5 million oz for the four reporting days of the week. Total inventories ended the week at 147.1 million oz, up a scant 200,000 oz. I know I am alone in almost beating this to death, but this physical turnover is the most important indicator of tightness since it began to appear around April 2011. I suppose the turnover could go away, but I am more inclined to think that it is a harbinger of a full-fledged silver shortage to come.

There was no notable movement in SLV inventories this week, but it is still instructive that on the recent 10% plunge in silver prices, metal holdings in the big silver ETF grew by 7 million oz. One would normally think such a price decline would result in some investor liquidation and a decline in the silver holdings of the trust. It certainly isolates COMEX activity as being the main agent for the price smash (more on that in a moment) and eliminates widespread physical investment selling as having anything to do with silver's recent price decline.

The new short interest data for stocks was released this week and since I had no expectations for what the report might show (other than always brace for an increase in SLV shorts), I was somewhat pleasantly surprised to see a decline of around a million shares in SLV, to just over 18.1 million shares (oz) http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99 It will be the next short report, due Jan 10, that may shed light on whether the recent big silver metal deposit into the SLV was related to the prior report's big increase of 6 million shares in the short position. But no matter what the new report might show, it's hard not to conclude that this all points to physical tightness as well. Any big increase in SLV short positions is invariably the result of physical metal not being readily available for purchase.

With only one reporting day left in the year, it looks like sales of Silver Eagles from the US Mint may have concluded for the year with no sales for the last couple of weeks of the year, traditionally a strong retail buying period. It appears clear that the lack of sales is because the Mint ran out of enough Silver Eagles to sell into the end of the year and not that the public stopped buying Silver Eagles. The Â?missingÂ? buying may turn up in January 2013 sales. Regardless, when the final numbers are in, the Mint will have sold more Silver Eagles relative to Gold Eagles than in any other year in the program's 27 year history.

The changes in this week's Commitment of Traders Report (COT), while expected, were highly instructive. Remember, the 4 day reporting week included the high-volume two-day price plunge below the 200 day moving averages in both gold and silver. Gold fell about $35 over those two days, while silver fell nearly $2. Let me cover the details and then get into what was so instructive.

In gold, there was another hefty reduction in the total commercial net short position of 14,500 contracts, to 187,700 contracts. This is the lowest total gold commercial net short position since late August. By commercial category, the big 4 accounted for more than half of the weekly reduction, buying back 7500 contracts of short positions. The gold raptors bought back 4600 contracts, reducing their net short position to 19,300 contracts and the 5 thru 8 largest traders accounted for the balance of around 2400 short contracts covered. Whether the gold commercials colluded by prearrangement or by circumstance, it is easy to see that they all happened to be on the same page Â? the one where it is written that if you knock the price below important technical fund levels, you will force the funds to sell so that all the commercials can buy at deliberately distressed prices. Or stated differently, if you (the commercials) rig prices lower, they (the tech funds) will sell.

From the interim price highs of over $1750 in late November, gold has fallen $100 or so. At those price highs, the total commercial net short position on the COMEX was 258,700 contracts (Nov 27). That means the commercials bought back 71,000 net contracts on the recent $100 decline in gold prices. The big 4 accounted for almost 39,000 of the 71,000 contracts total and the raptors for almost 24,000 contracts, with the 5 thru 8 accounting for the remaining 8,000 short contracts bought back since November 27.

The 71,000 COMEX gold contracts represent 7.1 million gold oz with a total notional (face) value of more than $12 billion. Over the same past month, total visible and privately held gold bullion inventories (world gold ETFs and exchange stocks) declined by only 160,000 oz (source Â? www.sharelynx.com) In other words, the paper oz change in COMEX commercial holdings was 44 times greater than the change in world real gold oz holdings. Even though the COMEX is largely paper trading, because the amounts transacted there dwarf the amounts being transacted anywhere else in the world, it must be concluded that COMEX transactions are setting the price of gold short term. This is particularly obvious when one considers that the biggest gold (and silver) price changes occur in short bursts on high-volume COMEX trading episodes.

Further, because it is impossible for the commercials to always be able to buy on falling prices, it must also be concluded that there is some free market principle out of kilter to explain the commercials' continual good luck. That's when it should hit you Â? the only possible explanation is that the commercials are rigging the game by hoodwinking the technical funds. If there are any alternative explanations, I have yet to uncover them. The instructive lesson here is that it is impossible for all three groups of COMEX commercials to be able to execute such a sizable and coordinated gold purchase (7.1 million oz) in such a short time period on sharply lower prices unless they were rigging and manipulating the price.

In silver, the commercials bought a staggering 8,600 net COMEX contracts and reduced the total commercial net short position to 46,700 contracts, their lowest since early September. Not coincidently, the weekly reduction was the largest since the 8,800 contract one-week reduction that occurred when silver prices were smashed after the Feb 28 price high. 8,600 contracts are the equivalent of 43 million silver oz, an amount much greater than the total annual US mine production and more than 5.6 % of total world mine production. If 5.6% of world crude oil production was transacted it would result in 1.7 million contracts changing ownership in a NYMEX market with a total open interest of less than that amount. And please remember, the 43 million oz of COMEX silver likely changed hands over only two days, not the four day reporting week. How can COMEX silver not be considered manipulated if you can know beforehand that the commercial group in charge will always be the big buyer on any significant price decline?

By commercial category, the big 4 (read JPMorgan) bought back 3900 contracts, reducing the group's net short position to just under 48,000 contracts. The raptors (the smaller commercials apart from the big 8) bought 4700 new longs, increasing their net long position to 12,400 contracts, their largest net long position since mid-August. Always expected, the raptors are providing strong buying competition to JPMorgan on the lower prices that both the raptors and JPMorgan are colluding and rigging jointly. I have to laugh (it's a bitter laugh) how the CFTC can announce banks are colluding in the LIBOR manipulation and then ignore the clear collusion that their own data prove in silver (and gold). Arbitrary and selective enforcement of the law causes irreparable damage to society as a whole.

I would estimate JPMorgan's concentrated short position in COMEX silver to now be 30,000 contracts. That's down 8,000 contracts (40 million oz) from the end of November, but still up by 16,000 contracts from the low point of JPM's 14,000 short position of the summer. As such, no one knows what JPMorgan and the other collusive commercials (the raptors) will do in the short term. I can tell you that the crooks at JPMorgan capped the $8 silver rally from $27 in the summer to $35 by selling an additional 24,000 contracts (120 million oz) and have succeeded in buying back 8,000 contracts on the engineered price decline to date. These crooks would most likely prefer to rig prices lower to buy back more or all of their shorts and may succeed in doing so by rigging silver prices lower still, if the brain dead technical funds will accommodate them by selling more. Then again, the still-tightening physical market might prevent the JPMorgan-desired price smash. The way I see it, there's room for gold and silver prices to go either way at this junction according to the COT market structure.

Late in the day yesterday, I received an email forwarded to me by Ed Steer from a reader which contained a notice from his lawyer that the judge in the class action civil lawsuit against JPMorgan for manipulating silver had dismissed the case. I can't find confirmation elsewhere, but the notice look legitimate to me and in the interest of timely analysis I'm going to assume the notice was accurate and run with the story a bit. If it turns out that the notice was incorrect, I will have been proven incorrect and will have to wipe a good deal of egg off my face. For the sake of contemporary reporting, let me proceed under the assumption the case was dismissed.

My first reaction, of course, is of disappointment. As I have written previously, I was not directly connected with the suit, but I was hardly a disinterested observer. After all, in addition to originating the premise that COMEX silver was manipulated (more than 25 years ago), I was also the first to identify JPMorgan as the big concentrated short a few years ago. Therefore, I can say without fear of contradiction that without me (or my research) there would have been no civil lawsuit to begin with. That said, I did speak with some of the attorneys early on, but not in the last year and half.

One of the main impediments to the civil suit succeeding was the fact that the federal commodity regulatory, the CFTC, has refused to charge JPMorgan or anyone else in the ongoing silver manipulation. In my opinion, the attorneys involved took a chance that the agency might join in before long, but that was not to be the case. Let's face it Â? had the Commission brought charges against JPMorgan (as they should have) the civil suit would have been a slam dunk. I still think that pressuring the Commission to bring charges is the correct approach and that is why I have persisted in attempting to do so (that and by using my First Amendment rights of free speech in petitioning the government I may have avoided libel charges from JPMorgan or the CME).

More importantly, I believe the class action lawsuit was not properly prepared in that it did not focus sharply enough on the proper issues. The proper issues, of course, are JPMorgan's concentrated position and market control, as well as the obvious collusion (see above), all proved in COT data. For instance, I never knew why the lawsuit originally included HSBC, since I had never uncovered any strong or conclusive evidence that they were involved in the silver manipulation. When HSBC was dropped as a defendant, it confirmed to me that the lawsuit was lacking strong focus. In fact, when I read some of the actual filing documents, they left me (the most ardent silver manipulation advocate) unconvinced that manipulation was proven in the filings. I hate to say it, but JPMorgan's legal rebuttals were more convincing, even though there is no doubt in my mind that JPMorgan is as guilty as sin in manipulating silver. Knowing something and proving it in court can be two very different things.

This brings me to something that has always bothered me a lot. That something is the recurring circumstance of many commentators, just like the lawyers in the civil case, learning of the silver manipulation and immediately veering off on some unrelated tangent in advancing it. Silver has been manipulated by JPMorgan (and by others before them) due to the unusual concentration on the short side on the COMEX and by the collusive commercial behavior proven consistently in COT data. Many seem to get side-tracked by trying to imagine the exact motive (unknowable at this point) behind the manipulation and other peripheral issues related to the Fed or to protect the dollar or by minute and peripheral daily trading details. It's almost as if there is a need to personalize and make complicated something that is becoming clearer by the day. Those that are not exclusively focused on the concentration and collusion are missing the silver manipulation story, pure and simple.

I'm not a lawyer, but I think I know that attorneys are almost as much (or even more) as critical to any case as even the actual merits of the case. In short, JPMorgan has the best lawyers that unlimited money can buy and this was proven in this case, just as it was when industry lawyers got position limits thrown out against CFTC lawyers. JPMorgan is a legal juggernaut always difficult to defeat even when a case may be presented expertly; anything less than an expert legal presentation hardly stands a chance. While hopeful, I had doubts about the civil lawsuit from the beginning, so I can't say I'm surprised by the reported outcome. Why the plaintiffs didn't press on the hard facts of concentration and collusion is beyond me.

Please don't think it's just sour grapes on my part for not being more involved in the civil lawsuit, as no one would have benefitted more than me had JPMorgan been ultimately found, even in civil court, to have manipulated the price of silver. It would have validated a unique and deeply personal quest of a lifetime. I am more disappointed than surprised at the apparent outcome, with a stronger feeling that it could and should have been a better presented case. I recall that it was filed in a hurry, against a ticking statute of limitations deadline for trading losses that occurred in 2008. Ironically, the hurried filing and time wasted in the interim probably has prevented more compelling cases being brought as a result of the egregious price takedowns of 2011. Now those blatant price smashes face their own statute of limitation deadlines.

The civil case against JPMorgan being dismissed is not the same as proving JPM is not manipulating the price; it just means their lawyers came out on top in this round. The case always represented a potential long-shot positive surprise, but little else. If I don't think something is important to silver, then I don't write of it much. I think the record will reflect that I didn't write about this civil case much. I do stand guilty of writing repetitively about the same themes that I think are important, such as concentration and collusion on the COMEX. Those are the issues that will determine the future price of silver.

Please try to put all this into the proper perspective. The price may continue to experience short term weakness given the short concentration of JPMorgan and their collusive behavior with the raptors. Then again, the crooks at JPMorgan may not prevail in the short term, given physical tightness and other considerations. But the long term is another matter completely and the case for higher prices has never been stronger. If I had to sum it up, it's short term iffy, long term as certain as it can ever be. Please do buy on any weakness, as any such weakness almost guarantees market structure improvement, but don't lose long term positions on short term concerns.

Ted Butler

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Silver – $30

Gold – $1657

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