

Weekly Review

ns = "urn:schemas-microsoft-com:office:office" />

Price-wise, it was a spectacular week for gold and silver, with gold up \$50 and silver exploding by \$2.50. As a result, gold established a new historic weekly close, while silver notched a new 30-year weekly high-water mark. The gold/silver ratio narrowed in to 48.25, another multi-year extreme level marking silver's outperformance relative to gold. I know I am repetitive, but all factors still highly support silver's continuing investment superiority versus gold. It is not too late to switch from gold into silver for maximum investment results.

This week's stunning gains in silver followed the day after Thanksgiving's price smash in the previous week. I had labeled that low-volume price smack down as the most blatant rig job in a while (actually, it's hard to recall all the notable previous rig-jobs in silver, as there have been so many). The sharp price snap-back this week confirms just how orchestrated was the prior Friday's phony sell-off. It also should serve as a reminder that the path to future price gains will be marked by increasing volatility.

Physical market developments continued to point to genuine tightness in silver supplies. COMEX silver warehouse inventories remained near 4-year lows with continued heavy in and out movements, suggestive of lack of ready availability.

The prior week's 6 million ounce withdrawal from the big silver ETF, SLV, didn't show up in entirety in COMEX inventory, but a portion of it may have. Deliveries against the big December contract did pick up after the lowest initial two-day total in history. In the three days since Wednesday's report to subscribers, almost 1000 delivery notices have been posted (5 million ounces), with the poster-boy of the silver shorts, JPMorgan, reemerging as the big deliverer in their proprietary trading account. This has relieved the fears of many of a delivery default, as the number of remaining contracts open in the December contract has fallen (as expected) to slightly over 800. I should note, however, that extreme tightness in silver could erupt at any time. If it does, it is very easy to imagine a rush to secure silver supplies by new buying coming into the December contract expressly to secure physical supplies quickly. In that case, what appears to be a delivery process under control could change quickly. That's not a prediction, just an observation.

There was a net addition of a million ounces or so in the big silver ETF, SLV, over the past few days, but there appears to be many millions of ounces still owed to the Trust. This puts much added pressure on the wholesale physical market, as do reports of delays in shipments to other silver ETFs. The US Mint is operating flat-out, as they have for the past couple of years, in trying to keep up with roaring demand for Silver Eagles and other Mint silver coin products. Everywhere you look, the signs of tight physical silver supplies are obvious. The demand seems unrelenting.

My guesstimate is that there are only about 10 to 12 million ounces of new silver per month currently available for total world investment. I get this figure by deducting from total monthly world production of 75 million ounces (mine plus recycling), the 65 million ounces the world consumes for industrial, jewelry, coinage and all other fabrication uses. That leaves roughly 10 million ounces for total investment demand. At \$30 an ounce, that's \$300 million per month, or \$10 million a day, available for investment from current total production for the entire world population. There is, of course, an additional, but limited potential amount of silver available from existing inventories, but there is no evidence this silver is coming to market any time soon. So, the world has 10 million silver ounces per month to divide amongst all world investors currently.

The problem is that there is much more than 10 million ounces worth of current monthly demand. The big silver ETF, SLV, has been acquiring, alone, more than 15 million ounces per month over the past 3 or 4 months. The new Sprott silver ETF bought roughly 15 million ounces in one shot at its recent offering. By my reckoning, world investment demand has been running at close to 20 million ounces per month over the past few months. A reasonable question should emerge at this point □ how can this be? How can the world buy 20 million ounces of silver per month if only 10 million ounces is currently being produced for investment demand? The short answer is that this can only occur for a short time, if there was a bit extra silver to start with, as was the case recently. Of

course, you would expect a big impact on the price, which we got (up 60% since the end of August). After that bit of extra silver was absorbed, if the investment buying continued unabated, you would expect a bigger price impact. This is precisely what I do expect, as I hope I have been conveying to you. The simple solution to the current mismatch between what is available for silver investment demand and actual investment demand is that the price must climb high enough to ration demand and increase supply. It is the law of supply and demand that will determine what that price will be. According to current silver supply and demand, that price will be very high.

The latest Commitment of Traders Report (COT) indicated an increase in the total commercial net short position in silver of 3000 contracts and 6600 contracts in gold. Interestingly, the increase in the commercial net short position was not due to increased short selling by the big 4 shorts in silver, but instead by the selling of long positions by the raptors (the smaller commercials other than the big 8). I did take some heat, starting a few years ago, when I took to labeling the commercials by my dinosaur nicknames. But I have to tell you that it has turned out to be something that has helped me immensely in analyzing silver. First and foremost, silver is a manipulated market (although that manipulation is ending). The key to understanding silver has been to look at it through the manipulators' actions. That means the big 4 and big 8 commercial shorts. If these traders (JPMorgan, et al) are adding to their short positions, there may be trouble ahead for prices. If they don't increase, or

actually reduce their short positions on rising prices, that's a great omen. That's the case in this COT. The big 4 in silver reduced their short position a bit. It also confirms my longstanding conviction that these traders are trapped on the short side and they will take prices much higher if they continue to cover, as I expect.

In summary, physical market conditions and the COT structure are still flashing green. Even though we have climbed over \$4 from the special setup I wrote about on November 17, I don't see any real danger signs of a reversal, aside from the expected growing volatility. The path of least resistance is towards much higher silver prices.

Of, By, and For the People

There are certain things that are sacred to the idea of America, none more so than a belief in government of, by, and for the people. That's what Abraham Lincoln espoused in his Gettysburg Address and the meaning has endured to this day. America also stands for the Rule of Law. I think these ideals have special current meaning when applied to silver.

For some reason, the CFTC appears to be stumbling in fulfilling the mandate given to it by Congress and the President in the new Dodd-Frank Act. The new

law requires the implementation of speculative position limits by mid-January for energy and metals markets. At the very least, some unnecessary delays seem to be creeping into the process. It's time to get this show on the road and to stop the dilly-dallying.

Much to his credit, Commissioner Bart Chilton has been outspoken in urging prompt action on position limits recently, as I indicated in Wednesday's article. Chilton has followed up on recent public statements with a new forceful appeal to fellow Commissioners to resolve the matter as required by law.

<http://www.cftc.gov/pressroom/speechestestimony/chiltonstatement120210.html>

As most of you know, enacting legitimate position limits in silver (along with disallowing phony hedging exemptions to those limits) has been a signature issue of mine for more than 20 years. Until the silver shortage hits in earnest (which gets closer everyday), legitimate silver position limits are the one effective remedy for terminating the silver manipulation. Many of you have joined with me in officially commenting to the Commission on several occasions on the proper level for position limits in silver. For this, you will always have my sincere gratitude.

I know the implementation of legitimate position limits in silver is bitterly

opposed by powerful industry insiders from the exchange and the leading short sellers. I would expect no less. But you are the people, not the CME and JPMorgan. You have spoken openly to the Commission with your comments being placed on the record for a 1500-contract limit and the 1% of world production formula. There has been no alternative number or formula publicly offered by anyone else. I applaud the Commission for reporting on all private meetings with industry representatives, but there is no public record of what has been proposed by those against legitimate position limits in silver. There has been no open discussion at all. The people present their case openly, seeking an honest debate, while the special interests seek to influence privately in the shadows. I don't think that is the meaning of government of, by, and for the people. It is time for the CFTC to govern according to the law and the ideals of America and not by the selfish desires of the special interests of the CME and JPMorgan.

In fact, I think it's unfair and un-American for the Commission to even ask for additional public comments on the matter of silver position limits. How many times must the people voice their opinion before that opinion is considered? (Of course, if the Commission does ask for additional public comments I will ask you to accommodate them.) The best and desired outcome at this time is for the CFTC to openly debate the issue of position limits and to acknowledge that the public has been overwhelmingly uniform and specific in their opinion on silver position limits. They don't have to agree to the 1500-contract level or the 1% of

December 4, 2010 - Weekly Review

world production formula, but they do have a responsibility to offer some alternative level and openly justify whatever level is proposed. It's time to begin the legitimate debate, hopefully on December 9th, as Commissioner Chilton has urged.

Ted Butler

December4, 2010

Silver - \$29.39

Gold - \$1415