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

After a very minor and brief respite last week, prices of gold and silver were lower for the fifth week in the past six weeks. Gold finished $22 (1.8%) lower, while silver was down 50 cents (2.5%) for the week. As a result of silver's slight underperformance, the silver/gold price ratio widened out to 63 to 1, but the ratio had traded wider than during the week. With gold and silver prices close to the previous lows for the year of six months earlier, the ratio isn't quite as close to bottom as flat prices are.

While silver can always weaken further relative to gold in the short term, given the extremely oversold technical structure of both gold and silver, a sharp rally should come at any time. When that rally does come, I would expect silver to do what it usually does on sharp precious metals rallies, namely, outperform gold. On the sharp summer price rally that came from the extremely oversold technical structure in gold and silver of late June, the silver/gold price ratio tightened in by ten full points in three weeks, from 67 to 1 to 57 to 1.

This summer's price rally was capped by JPMorgan short selling in COMEX silver and by its selling of long gold positions, otherwise the rally would have surely continued. What JPMorgan does on the next rally will determine not only the extent that gold and silver prices climb, but what the silver/gold price ratio does as well. In a moment I'll discuss some new reasons why I don't think JPM will sell aggressively on the next rally; but the bottom line is that if JPMorgan does not add to its silver short position, the $5+ price rally of the summer and the ten points tightening in the price ratio will look like kid stuff.

Turnover in the COMEX-approved silver warehouses cooled a tad this week, but more than 2 million oz were moved in and out, as total inventories fell 600,000 oz to just under 169.6 million oz. I have detected no unusual movement in COMEX gold inventories, as has been the case for months and COMEX copper inventories (along with LME copper stocks) seem to decline on a daily basis. It has also been the usual pattern in the metal holdings of the big ETFs, SLV and GLD. Gold continues to be liquidated in GLD and holdings continue to hit new lows, albeit at a rate that appears to be diminishing. Silver holdings in SLV have shrunk a bit on the six week price swoon, but not by much and those holdings are still up slightly for the year, in marked contrast to the 38% shrinkage in GLD inventories.

There appears to be little doubt that China has been the ultimate destination for much of the gold leaving GLD and from other sources in the West. I still believe that the purposeful price decline emanating from COMEX rigging by JPMorgan was the impetus behind the big GLD inventory liquidation and that China was reacting to the bargain prices. Regardless of what caused the transfer, we are now at an interesting junction. Clearly, we are at a point where not much more metal can be drained from GLD as easily as has already been drained. If Chinese demand remains strong, one has to wonder where the metal will come from to satisfy that demand. Throw in the super-bullish COMEX COT structure and it's easy to envision gold popping big in price. An even more bullish set up exists in silver, but that is not intended to detract from gold's prospects.

Developments in the current December COMEX delivery period continue to warrant interest. JPMorgan has now taken more than 95% of the 3849 December gold contracts issued so far this month in the bank's proprietary (house) trading account. Based upon normal exchange procedures for assigning delivery notices, it is reasonable to assume that JPMorgan is in position to accept (stop) delivery on 95% of the remaining 2800+ December contracts still open, unless JPM decides to sell out some or all of those contracts. We can't predict what JPMorgan might do, but we certainly can monitor what they actually do.
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

One thing the December COMEX delivery indicates so far is that JPMorgan has a desire and determination to acquire physical gold (in addition to its futures contracts holdings) and doesn't appear to object to doing it fairly openly. Another thing this delivery process would appear to confirm is my allegation that JPMorgan has a long market corner in COMEX gold futures. As I'll discuss in a moment, I had discovered (thru CFTC data) earlier in the year that JPMorgan held anywhere from a 20% to 25% net market share in COMEX gold and seeing the bank stand for the vast majority of deliveries in both August and currently does nothing to undermine my allegations.

Additionally, JPMorgan continues to stop more silver delivery notices than anyone else, albeit not at the same extreme rate as in gold. So far this month, JPM has taken, in its house trading account, 1020 silver deliveries, or more than 56% of the 1798 total deliveries issued. Again, what makes this unusual is that JPMorgan is still net short COMEX silver, although the new data indicate its short position is now at the lowest level since the bank acquired Bear Stearns almost six years ago. As is the case in gold, one takes delivery when one desires to hold physical metal.

The new Commitments of Traders (COT) and Bank Participation Reports confirmed expectations of new technical fund short selling in COMEX gold and silver, as well as commercial buying. Prices for the reporting week ended December 3 were sharply lower, with silver down as much as $1 and gold off by as much as $40 on volatile and high volume trading volume. The surprise would have been if the headline total commercial net short positions in gold and silver weren't lower.

In COMEX gold, the total commercial net short position was reduced by 6000 contracts to 22,300 contracts. There has been only one other week in modern history where the total commercial net short position has been lower — July 9 of this year (which resulted in the summer gold rally of $200+). Importantly, in other measures, this week's readings are the most extreme ever; such as the net long position in the producers/merchants category and the net long and gross short positions of the technical funds. Never have the producers/merchants been more net long, the technical funds (managed money) been less net long or more gross short. Make no mistake — these are extremes of the bullish variety.

By gold commercial category, the 8 largest shorts purchased the entire 6000 contract reduction in the total commercial net short position, as there was no new raptor buying of long positions. The standout feature was that the technical funds accounted for all 6000 contracts sold and all those contracts were new short sales. This lifted the tech fund gross short position to a new record high level of more than 83,700 contracts, up more than 62,000 contracts since Oct 29.

In COMEX silver, there was a significant reduction of 4300 contracts in the total commercial net short position to 12,200 contracts. You can count on two hands the number of weeks the commercial short position has been lower and those weeks were largely during the early summer months this year which preceded the late summer rally. The raptors (the smaller commercials) accounted for all the buying, increasing their net long position to just over 40,000 contracts, the highest level since the end of July.

As was the case in gold, the technical funds were the big silver sellers, accounting for 5600 total net contracts sold, including more than 4500 new short positions. This puts the gross short position of the technical funds at the highest level ever (more than 32,000 contracts) and also for the first time in modern history, the technical funds are now net short. From Oct 29, the technical funds added 20,000 new shorts in COMEX silver, the equivalent of 100 million oz. Whether you believe my version that the tech funds were lured and duped into selling or some other version of what motivated the tech funds into selling that much short; no one can deny that the effect of selling 100 million oz of paper silver short in a month is what caused prices to drop more than $3. I'll come back to this.

The big surprise to me was in the companion Bank Participation Report. The release of this monthly report allows for a recalibration of what JPMorgan holds in gold and silver because the bank dominates the US bank category. In silver, there was a monthly reduction in the US bank net short position of 8000 contracts from the previous Nov 5 report. JPMorgan accounted for 7000 contracts of that total reduction which reduced its net short position to 10,000 contracts.

This is the lowest level of COMEX silver shorts for JPM since the bank acquired Bear Stearns. In one month, JPMorgan reduced its silver short position by more than 40%, from 17,000 contracts on Nov 5 to 10,000 on the Tuesday cut-off. Considering how aggressively JPMorgan bought back shorts on the $3+ price decline, it's hard for me not to conclude that the bank was the prime instigator behind the pronounced silver sell-off; simply because JPM bought many more silver contracts than any other single entity.

The big surprise to me was in the Bank Participation Report on gold. I've been dithering the last few weeks trying to pinpoint JPMorgan's long market corner in gold, varying between 70,000 to 80,000 contracts. My last guess was 80,000 contracts and I was even expecting more privately. Unless JPMorgan has figured a way to put long gold contracts in a foreign subsidiary, the new BPR indicates the bank holds no more than 70,000 long gold contracts as of Tuesday. True, 10,000 contracts are only 12.5% off my 80,000 contract guess, but there was something else that jumped out at me.

Since Oct 29, the commercials have purchased almost 85,000 net contracts on the $130 gold price decline, thanks largely to net selling by the technical funds of a near identical 88,000 net contracts. Yet over that same period, JPMorgan actually reduced its long market corner in gold by 5000 contracts to 70,000 contracts. Let me state it a different way; Over a 5 week period in which the gold price was rigged $130 lower (by the commercials) and in which the commercials absolutely gorged themselves in buying 85,000 net contracts from technical funds, the largest gold long in COMEX history didn't buy a single contract and, in fact, sold 5000 contracts. Huh?

To my mind, JPMorgan could and should have bought 20,000 to 30,000 gold contracts on the engineered price drop. Easily. Instead, it didn't buy any, even though it is taking 95% of December gold deliveries. When something occurs that is this outside expectations, it is natural to ask why. JPMorgan has accounted for more than 75% of the 200,000 gold contracts bought by the commercials over the past year. Why would they not buy more during the super-attractive buying circumstances over the past month? I think the correct answer to this question could be the key.

I can't help but believe that the reason JPMorgan didn't join in on the commercial buying festival is because its long market corner in gold had become too well known. I can't know if the pressure not to add to JPM's gold market corner came from regulators, the exchange or from within the bank itself; but something prevented JPM from adding when it was most advantageous for them to add long positions. Since I discovered the gold market corner in the first place and have been shouting about it from the hilltops, it's possible the sending of my articles to JPMorgan actually woke them up.

If you'll indulge me for a moment, I imagine JPMorgan's metals manipulation to be like a rattlesnake in the water barrel. I can't rest until the snake is gone, but to keep sticking my hand into the barrel can result in being bit (by legal action). Maybe by making as much noise as possible (specific allegations based upon government data) the snake will up and slither away. Maybe, just maybe the allegations of a market corner in gold have started to register. Please remember that even though JPMorgan's gold position is only 70,000 contracts that is 21.7% of the entire COMEX gold market (minus spreads). It is also more than 46% of all the long contracts held by commercial traders. There is no possible legitimate explanation that could justify JPMorgan's outsized COMEX gold market corner. By any measure, this is a concentration and market corner of scandalous proportions. Therefore, maybe JPMorgan just blinked.

I can't help but notice that more and more attention is being focused on the COT and Bank Participation Reports by many commentators. I know the data is confusing at first glance, but given the specific detail the reports provide about market structure, it's no surprise to me that the reports are increasingly referenced. That's certainly why I have followed the data for decades. I was somewhat astounded about the many published comments pointing out how new records have been established in a variety categories (as referenced above). I'm happy to report that most of the commentary is quite good.

But there is one thing about much of the recent commentary that leaves me puzzled. As factual and graphic are the descriptions of the extreme changes in COT positions in COMEX gold and silver, particularly this year, I am a bit taken back by the lack of discussion as to what may be the reason for the extreme changes. It is one thing to accurately portray the changes in positions and even to label the current set up as being strongly bullish for the price in the future; but, apparently, quite another to explain why the changes are occurring. But it is the "why" that completes the picture.

For instance, there's no disagreement that the commercials (particularly banks) have been the big buyers this year and over the past month on price declines and that the technical funds have been the big sellers. The statistics are accurately portrayed and proper emphasis is given the record extremes in different categories. What's missing is how these extreme positions came to be or in stating the case in a common sense perspective.

Missing most is the question of how the heck did the commercials (mostly JPM except in gold this past month) manage to buy more gold and silver contracts than ever before on the biggest price decline in history? One bank, JPMorgan, bought 150,000 COMEX gold contracts flipping a short market corner of 75,000 contracts a year ago into a long market corner of similar size today and 25,000 silver contracts on the most severe price decline in decades. Unless JPMorgan is the greatest trader in history (a proclamation destroyed by the London Whale experience), logic dictates that the bank cheated in some way. Yet the question of how could this be is never asked, even when the manipulation is described in detail.

The good news is that the question of how JPMorgan came to dominate gold and silver will be asked more frequently in the future because it has to be asked by anyone with the slightest concern for cause and effect. Then it will be a very short distance to understanding that there is no legitimate answer. There's an answer all right, just not a legitimate answer. This is why I believe that JPMorgan has remained mute in the face of growing allegations of wrongdoing. That's also why I am sensitive to JPM not buying more gold over the past month because it suggests we may be near the end game where the bank, not able to justify its positions, instead looks to end its death grip on the market. Then again, maybe that rattlesnake will still bite me.

The important point is that this is a spectacular set up for higher prices to come. The price decline has lasted so long that the market seems conditioned for further sell-offs. More are concerned about the next dollar or so to the downside in silver instead of the next ten or twenty dollars to the upside. The fact is that we are structured to go up big and not go down big based upon what JPMorgan and the commercials have achieved this year and month; to say nothing about being below the realistic cost of production for many silver miners.

The technical funds which are heavily short have amassed their record gold and silver short positions at average prices not far above current prices. The 62,000 gold short contracts and 20,000 silver short contracts sold since Oct 29 have an average price maybe $40 or $50 in gold and a dollar or so in silver above where we closed on Friday. That's not a large price margin for turning a profitable open position for the tech funds into a loss, based upon recent price volatility. Almost certainly, a price move back to where we were on Oct 29 ($1340 in gold and $22.50 in silver) would result in all the new tech fund shorts added since then to be bought back or attempted to be bought back (based upon past tech fund behavior). I'm not talking any big deal; just a move to where we were 5 weeks ago.

That's why I am more concerned with how JPMorgan will behave on the next rally. Having not added any gold on the move down from $1340, JPM wouldn't seem to be in position to begin to sell until those prices are achieved. And in silver, it has always been the case that the next (as in every previous) silver rally will be determined by what JPM adds in new COMEX silver shorts. Now, more than ever, that is the only question that matters. We still may go lower temporarily, but rather than focus on that, it makes more sense to me to try to comprehend just how powerful the next rally could be.

Ted Butler

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Silver – $19.50

Gold – $1230