

February 15, 2014 – Weekly Review

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Gold and silver prices surged higher for the week to multi-month highs as gold gained an impressive \$52 (4.1%) and silver rose a more impressive \$1.50 (7.5%). Until yesterday's full dollar gain, silver had been lagging gold even though it had been up 11 days in a row. As a result of silver's relative outperformance this week, the silver/gold price ratio tightened in two full points to 61.5 to 1. Two weeks ago, the ratio was near the upper end of the broad trading range of the past year; now it's more in the middle. I still think we'll look back one day and marvel at how cheaply silver was priced to gold over these past few years.

It's hard not to be impressed with the power of the move yesterday and for the week. Both gold and silver finished the week by penetrating the 200 day moving average for the first time in a year, an unusually long time for any price to be so depressed. Silver broke above both its 200 day and 100 day moving average on Friday. One doesn't need to be a market technician to recognize the move to be notable. What's next?

I've given up on short term price predictions, but I do know that there were a hundred (or more) reasons for gold and, especially silver, to move higher over the past six months and only one reason why they may move lower. Everything from fundamentals to market structure pointed to undervaluation for gold and silver; virtually an oppressive undervaluation. The only thing that threatened continued undervaluation and possible lower prices were the commercial crooks on the COMEX. Take away the commercial monopoly on low prices and it is only reasonable to expect a price surge. There are some signs the manipulative grip on gold and silver prices may be slipping.

Turnover, or movement of metal into and out from the COMEX-approved silver warehouses abated a bit this week to around 3 million oz. This is somewhat calm compared to more recent movements, but still torrid compared to the time before April 2011. Despite the turnover, total COMEX silver inventories declined a slight 300,000 oz, to 181.5 million oz. I continue to equate the COMEX physical silver movement as indicative of tight supply/demand conditions.

There was also some notable metal movement in the big silver ETF, SLV, as nearly 2 million oz were removed from the trust yesterday. I hadn't expected yesterday's strong price move and high trading volume to result in a deposit immediately, but I certainly didn't expect a withdrawal. The most logical explanation for the withdrawal was that a shareholder decided to convert to metal form, either to move it elsewhere or to avoid having to report recently increased share holdings (think JPMorgan).

The same logic applies to the big gold ETF, GLD, which also experienced a surprising withdrawal of 164,000 oz yesterday, following a string of additions. While I have always felt that gold wouldn't experience the physical shortage I (still) expect in silver because so little gold is consumed industrially, I am mindful of the great migration of gold from West to East. Considering that 40% of the metal in GLD has been removed over the past year and that gold is now held in much stronger hands; it's no longer impossible for gold to be "tight." Adding to the tightness in gold is a backdrop of sharply rising prices over the past few weeks.

Sales of Silver Eagles from the US Mint continue to indicate that the Mint is operating at peak blank supply/production capacity. Year to date, sales of Silver Eagles are running at better than a 60 to 1 ratio relative to ounces of Gold Eagles sold, a familiar recent pattern that indicates phenomenally strong relative demand for Silver Eagles.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The changes in this week's Commitments of Traders Report (COT) were instructive, particularly when looking under the hood. I was braced for some ugly reading as both gold and silver prices were higher for every day of the reporting week, as gold gained more than \$35 and silver 70 cents thru the Tuesday cut-off. My expectation was for big increases in the total commercial net short positions in each market.

In COMEX gold, there was "only" an increase of 6900 contracts in the total commercial net short position, to 72,700 contracts. I had expected an increase several times larger. Most of the increase in the commercial short position came as a result of raptor (the smaller commercials) selling out of long positions, rather than new commercial shorts being placed. One big plus in the gold report was that the technical funds didn't cover any short positions and actually added close to 1000 new shorts. I'm sure some of that added fire power accounted for the price strength after the cut-off.

The other big plus in the gold report was that JPMorgan swum against the commercial tide for the second week running, by adding 2000 more long gold contracts to a long market corner now 68,000 contracts in size, still 21% of the total net open interest in COMEX gold futures (minus spreads). Of the hundred or more reasons gold prices should rise, JPMorgan's long market corner sits near the top of the list.

At first blush, the COT report in silver looked disappointing, as the total commercial net short position surged by 7600 contracts to 22,400 contracts. But I was relieved by closer examination. All the increase (and then some) came from raptor selling out of 10,200 long contracts, reducing the silver raptor net long position to 32,500 contracts. Such large selling by the raptors mathematically dictated that short positions of the 4 and 8 largest shorts must have been reduced. That was the case and the main stand out in the report was that JPMorgan bought back 1000 contracts of a short position that now totals 13,000 contracts.

Seeing JPMorgan buy back silver shorts on higher prices for the second week running was the highlight of the report. I was disappointed that the technical funds bought back nearly 6000 short contracts on what I'd consider a fairly subdued price move up, but it was a certainty that those short contracts would be bought back eventually. As much influence as the technical funds have on silver prices, what JPMorgan does matters most.

In fact, I've long repeated over the past few years that whenever silver staged a price rally that rally would be determined by whether JPMorgan added to their controlling short position. The ongoing silver manipulation had become so clear to me that I could boil it down to whether JPMorgan shorted more or not. On every single silver rally over that time, JPMorgan added new short positions, eventually adding enough to cap each rally and result in an inevitable price swoon.

But I also knew that the flip side of my premise was that if JPMorgan didn't sell additional quantities of COMEX silver contracts short, the price would fly; even though that had yet to occur. The fact that JPM was able to position itself into a dominant long market corner in COMEX gold only enhanced my premise as it made it more appealing for JPMorgan to let both rip to the upside.

Since I believe the key is JPM adding silver shorts or not, I have had to sit up and take notice that in the last two COT reports, JPMorgan has not only not added silver shorts on rising prices, but has bought back short contracts to the upside. In addition, JPM has added to its massive long position in gold on rising prices, also highly unusual. Of course, all this is as of this past Tuesday; we can't know what JPMorgan has done over the past few days until time passes. The bank could have turned into the sole silver short seller on rising prices yesterday, but then again, maybe not. I continue to believe what JPMorgan does is what will determine silver (and gold) prices.

I'd like to follow up on Wednesday's article, in which I wrote about the Bear Stearns failure and takeover in 2008 as being the defining moment in silver (and gold). I plan on publishing a public version of that article soon and would like to share with you some additional thoughts. Hopefully, long time readers know that I like to stick to the facts and, while I say some things that are controversial or extreme, I strive to do so in a straightforward and non-emotional manner. I may have trouble doing so now.

This Bear Stearns business has come to consume me these past few days, almost to the point of being overwhelmed. I confess to having some trouble writing this; a condition I can't previously recall. Straight-out, this is the most important issue I have ever written about. It's not so much that I just discovered something new, as I've written about JPMorgan taking over Bear Stearns' silver and gold short positions for years. It's more a case that I am experiencing an emotional surge of suddenly understanding something I thought I was already familiar with. In a blinding flash, everything is suddenly clear to me. I'll try to convey that understanding to you.

There is good news and bad news. The bad news isn't so bad because it is something most of us already took for granted, namely, that the US Government has been actively involved in not protecting or working against the interests of gold and silver investors and producers, to the point of violating the law. The bad news is that now it can easily be proven in the matter of Bear Stearns. The good news is that same proof and that silver and gold prices will surge as the US Government's involvement becomes known.

Let me restate the facts around Bear Stearns' failure. On March 17, 2008, Bear Stearns suddenly failed and was taken over by JPMorgan. It wasn't known at the time, but Bear Stearns held the largest COMEX short position in gold and silver and JPMorgan inherited those short positions. Bear Stearns was massively over-leveraged and in no condition to withstand a sudden demand for more than \$2.5 billion in cash margin calls. The relevant price history of gold and silver is easy to verify as is approximating Bear Stearns' short positions.

Please consider that the day of Bear Stearns' demise coincides precisely with the day of the historic high price points in gold and silver. That is also the same day the biggest COMEX gold and silver short would experience maximum loss and maximum demand for upwards of \$2.5 billion in cash deposits for variation margin. It was no coincidence the music stopped for Bear Stearns on this day.

Ironically, I wrote about life after Bear Stearns in broad reflective terms at the time, not knowing they were the biggest gold and silver short on the COMEX.

http://www.investmentsrarities.com/ted_butler_comentary/03-18-08.html What I did know was that the concentrated short position of the 4 largest short traders in silver was at extreme levels of more than 300 million oz. In contrast, the concentrated long position of the 4 largest long silver traders was a bit above 100 million oz. In COMEX gold, the big shorts held two and half times what the biggest longs held.

Any regulator worthy of the name should have known that lopsided of a large trader mismatch was dangerous to the short side. Having misjudged just how dangerous the situation was, the CFTC and CME, put in motion a scheme to save the shorts and punish and lie to gold and silver investors. By arranging, with the Federal Reserve Chairman and the US Treasury Secretary, to have JPMorgan take over Bear Stearns' silver and gold short positions, the US Government embarked (or continued) on a journey of allowing price manipulation, in stark violation of commodity law and lying about it.

In fact, the now-clear overt interference of the US Government in the Bear Stearns affair, explains what was previously inexplicable; such as why the CFTC couldn't find anything after investigating a silver manipulation for five years, or why the CFTC and CME were deathly quiet in reaction to the giant price smashes in gold and silver, particularly the two 30% price smashes within days in silver in 2011. The CFTC and CME didn't say anything because they both were complicit.

The blinding flash of understanding I'm experiencing centers on the impossibility that all the relevant parties could be unaware of the trouble Bear was in because of its reckless silver and gold short positions. There is no way that the Federal Reserve Chairman, the Treasury Secretary and the heads of the CME, CFTC and JPMorgan could be unaware that the cause of Bear Stearns' financial desperation was centered on its exploding gold and silver short losses. Yet not a word on the real cause was ever uttered. Instead, all these entities have allowed the silver and gold manipulations to continue even though all had to know it was not only wrong, but illegal as well.

A good friend, Ed Steer, has privately dubbed this Bear Stearns affair as Wall Street's Watergate, after the US political scandal that caused President Nixon to resign 40 years ago. The big difference is that Watergate involved a two-bit burglary followed by a high level cover up. In Silvergate, not only do we have proof of a wide ranging crime against millions of investors and producers for years on end, there is also present a cover up many times worse than the political scandal because it involves so many different agencies and personnel.

For years, many have alleged that the US Government has been involved in a precious metals manipulation, ostensibly to protect the dollar or other markets; but hard proof was always lacking. Now there is indisputable proof that the US Government has been involved in a gold and silver price manipulation, as well as the CME and JPMorgan, because it would be impossible for any of them to not know why Bear Stearns failed. Because they all had to know, all are guilty for allowing it to continue. Any claim that they were doing the right thing in a financial emergency is out the window — no emergency lasts for six years and amid continuous denials of anything being wrong.

Worse, since the date of the JPM/Bear Stearns takeover the manipulation has grown more extreme, compounding the original guilt of having done the wrong thing at the time of Bear's failure. Remember, all the government officials involved swore an oath of office to serve the people and protect the law of the land; not to reward special interests, manage markets and damage the investing public at large. It saddens me that these high officials could be involved in such misguided and illegal activities, but it would be worse to leave it unaddressed.

The most amazing thing of all is that this whole episode confirms just about every allegation I've made over the past 25 years. Undoubtedly, the emotional feelings that are almost overwhelming me are related to the confirmation that the Bear Stearns affair brings.

Most important is the impact all this should have on price. I'm not worried that my contentions about Bear Stearns will be proven to be false, it will be amusing if I am challenged at all. Nor am I concerned that all the entities party to the fraud and cover up may remain silent, as the facts are so compelling as to render continued silence as impotent. As the world becomes aware of the fact that the US government was complicit in manipulating gold and silver prices lower, the reaction is likely to be severe, especially considering the existing flow of metal to the East.

And it's possible, just possible, that the extreme price reaction of the past couple of days could be related to JPMorgan and others reading the handwriting on the wall that Bear Stearns may be emerging as Wall Street's Watergate. If that's the case, the price reaction has just started.

Ted Butler

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Silver – \$21.50

Gold – \$1319

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