

Weekly Review

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On a closing price basis alone, it might have seemed to be an uneventful week, as gold finished \$10 (0.6%) higher, while silver added 65 cents (2%) for the week. As a result of silver's relative outperformance, the silver/gold ratio tightened in to just under 52.5 to 1. Away from the closing numbers, it was anything but uneventful, as price volatility burst upon the scene. Over the past three trading days, gold has traded in a wide \$20 daily trading range, while silver traded in almost a full dollar trading range each day. I've been expecting violent price behavior and it seemed to arrive just as I stopped predicting it. Based upon the week's developments behind the scenes, I have a sense that price volatility may settle in for a spell.

Wide daily price changes can prove to be unnerving to many, but shouldn't be of great concern to long term silver investors. After all, it's hard to travel from where we are price-wise to where we most likely will arrive with no price violence along the way. In fact, it is almost impossible for silver to achieve its long term price targets without great price volatility along the way. There are many competing forces in play and it is reasonable to expect price violence as those forces interact. I think that may be behind the recent daily price changes in gold and silver and I would expect it to intensify.

The signals from the wholesale side of the physical silver supply chain have clearly intensified. Movement in COMEX silver warehouse inventories remained white-hot this week as more than 5 million oz came into the various COMEX silver warehouses with hardly any leaving, resulting in total inventories jumping to 157.1 million oz, up 4.8 million oz for the week. Some may be concerned about growing total COMEX silver inventories, but I am not among them. That's because I expect total visible silver bullion inventories to grow due to investment demand and COMEX warehouse inventories are a subset of total world inventories. Plus, it appears that silver seems to now be in motion in the big silver ETF, SLV, and other similar investment vehicles. Following continued withdrawals in SLV earlier in the week (I'm still partial to the big buyer premise I outlined last week), a notable deposit of 1.5 million oz came into SLV yesterday. There can be no doubt that there are great and growing demands for metal in wholesale quantities that is quite specific and unique to silver. No one is moving this metal around for no good reason; silver is being moved because of great demand for it. Certainly, silver is not coming into the COMEX warehouses because there is no other place to put it.

It's important to put the quantities of silver movement involved into proper perspective. This week, there was a least a million oz per day on average put into the COMEX warehouses (2.5 million oz just yesterday). Total daily world mine production comes to around 2.1 million oz per day. Adding recycling, there

is less than 2.5 million oz of silver produced daily in the world from all sources (7 day week). This is silver produced in China, Russia, Poland, Australia and North and South America. The world consumes (including investment) about the same 2.5 million oz a day. This is the quantity that COMEX and total ETF silver movement should be measured against. On this metric, the turnover in COMEX and ETF silver inventories is extraordinary and unprecedented. I can't help but think that the turnover indicates a circumstance suggesting a great effort to plug holes developing in the silver supply chain dyke. This is certainly in keeping with my general opinion of silver price manipulation being strained to near the breaking point. The silver manipulators are running out of fingers to plug into holes in the dyke.

The final numbers are in for sales of Silver Eagles from the US Mint for the month of January and they were off the charts. A record of nearly 7.5 million coins was sold, well above the 6 million oz I thought the Mint was capable of producing (combined with the curtailed December sales).

http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2013 It would appear that the Mint's production capacity may be near the 4 million oz per month level. Whether the Mint will continue to sell coins at that level is questionable and it's a pretty safe prediction that January's record will not be broken any time soon (I do hope to be proven wrong). It seems unreasonable to me that the record sales of Silver Eagles were due to plain vanilla domestic retail demand; I sense a big foreign demand component in the

reported sales. But whatever has driven demand for Silver Eagles (Gold Eagles as well) could possibly continue and accelerate, even though 3 million a month would have been great as far as I'm concerned. Certainly, no one should be extrapolating Silver Eagle demand at January's pace.

The changes in this week's Commitment of Traders Report (COT) were very instructive, as there was a wide disparity between silver and gold on the COMEX. Given the sharp downturn in prices during the reporting week, I had expected big declines in the total net commercial short position for both gold and silver. After all, there was a reporting week price drop of nearly \$40 in gold and \$1.50 in silver (which included important moving average penetrations) and that is the prime determinant for technical fund selling and dealer buying. In last week's review I speculated that the entire near 11,000 contract increase in the previous COT commercial gold short position and 5400 silver contract increase would be reversed.

In gold, the commercials covered a massive 28,900 short contracts, reducing the total commercial net short position to 167,100 contracts. This is the lowest level of commercial shorts in gold since August. By commercial category, it was obvious that the office memo to collusively cover shorts was widely circulated as all three groups of commercials participated at the expense of the technical funds. The big 4 bought back 9000 short gold contracts, the 5 thru 8 bought 5000 and the raptors bought back about 15,000 contracts, reducing their net

short position to less than 2000 contracts, the lowest since July. My previous feeling that the gold COT structure was bullish was kicked up a notch to strongly bullish. Perhaps it can get even more bullish on new price lows, but there doesn't appear to be a lot of room left for technical fund selling.

If the gold COT was surprising in that it exceeded expectations of commercial short covering, the silver COT was shocking in that there was no commercial short covering at all. In fact, the total commercial net short position increased by a hefty 2900 contracts, to 50,300 contracts. I'm hard-pressed to recall a time when the commercial net short position in silver ever increased this much on such a pronounced price decline. By commercial category, the big 4 (read JPMorgan) added 2300 new short contracts to nearly 52,000 contracts (Yes, as has been the case since late December, the big 4 in silver are net short more than the total commercial net short position. No, that is decidedly not normal, but a sign of super-concentration). The raptors sold out 1100 of their net longs, reducing their net long position to 12,700 contracts. The 5 thru 8 bought back 500 short contracts.

I would calculate JPMorgan's net short position to be 33,500 contracts, up 2500 from last week. That's the equivalent of 167.5 million oz or almost 22% of annual world mine production. After deducting the near 47,000 spreads reported in the disaggregated COT, JPMorgan's true net share of the COMEX silver market is back to 33% of the entire short side. Have I mentioned lately

that JPMorgan is the big silver short crook and that the CFTC should be ashamed of itself to allow this crime in progress to continue? It is impossible for one entity to hold a one-third share of any active futures market or 22% of world production and for that not to be manipulation, no matter what the flimsy excuse.

The surprise in this week's silver COT came down to the 2951 contract increase in the net long position of the managed money category in the disaggregated COT report. This is the category that is usually exclusively populated by the technical funds, although there is no requirement that only technically motivated traders can be in this category. This is the category that should have sold heavily on the near \$1.50 orchestrated price drop in silver, enabling JPMorgan (and the raptors) to buy. Instead, this category bought which mandated that JPM and the raptors had to sell. Either the report contained a major error or there is some other explanation for why this managed money category bought heavily on a price drop. I don't think the report is in error or that technical funds bought where they have always sold before. I think the most plausible explanation is that a non-technical fund bought. We should know soon enough.

The stand-out feature here is that the short side of silver is still so concentrated after a significant price decline. Instead of a big reduction in the concentrated short position (like was witnessed in gold), the big silver shorts were forced to

sell short additional quantities of contracts in the midst of a big price drop. What the heck are these crooks going to do if silver rallies in price?

I suppose with this extremely concentrated silver short position we still must remain vigilant for further engineered price drops, but the short position is also so extreme as to represent a real danger to JPMorgan and other big shorts. I think it instructive to recall that JPMorgan got into big trouble on the London Whale derivatives position because they kept adding to a bloated position going the wrong way. Added to the growing pressures from the physical market and the attention that the silver short position has garnered (is there any commentator not talking about the silver short position?), I get the feeling something will break soon. More than ever, I am mindful of Izzy Friedman's "full pants down" circumstance.

I think we are at the point where nothing should surprise us, except perhaps that calm price patterns will break out. It looks like it could get very interesting, especially considering the recent changes in the COT market structure. Regardless of short term price changes, the big move in silver must inevitably be to the upside. I still think that may come sooner than most expect.

Ted Butler

February 2, 2013 - Weekly Review

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Silver - \$31.85

Gold - \$1668