February 25, 2012 – Weekly Review

Weekly Review

After chopping in price for the past several weeks, gold and silver advanced strongly in the past week. Gold surged $50 (2.9%) for the week, while silver jumped $2.15 (6.5%). The gains put gold and silver at multi-month price highs. As a result of silver's outperformance, the gold/silver ratio tightened in to almost 50 to 1, a drop of an impressive 2 points in the ratio for the week. The ratio also closed at a multi-month extreme favoring silver. Since the end of the year, gold is up $210 (13.4%), while silver is up $7.50 (27%).

As a reminder, gold ended up outperforming silver last year, despite silver having had largely outperformed during much of the year. Therefore, you don't want to read too much into week-to-week or even yearly price changes. Since this is a weekly review, I try to report the week's events as objectively as possible. Please look at these reports as a type of mile marker on a long and, hopefully, profitable journey. It's no secret that I favor silver over gold for a wide variety of reasons, but one reason is not the recent price performance of each. I try to guard against getting too bullish as prices rise and too bearish as prices fall because that can lead to trouble. If anything, that's a premise behind the Commitment of Traders Report (COT).

I'll discuss the COT for this week momentarily, but first I would note that the multi-month price highs in gold and silver coincide with multi-month extremes in the COT readings of each. But coincidental is not the same as accidental. This is more causal than anything else. This is not a question of which came first, as in the chicken or the egg. This is a case that prices went higher in gold and silver primarily because of changes in the market structure on the COMEX as recorded in the COT reports. The speculators bought and the commercials (in reality, merely other speculators) sold. On a short to intermediate term basis, it is usual for this to be the case. Prices of these two world commodities (and others) are set largely due to the trading of paper contracts. It is when the commercials rig prices to induce the speculators to buy or sell that we cross into manipulation. We cross into manipulation most of the time.

Conditions in the silver wholesale physical market continue to appear tight. I keep waiting for the frantic turnover or movement of metal into and out from the COMEX-approved silver warehouses to abate, but it hasn't happened. This turnover pattern, which started about a year ago, is still confined to silver and is not present in any of the other metals traded on the NYMEX/COMEX. I also have not been able to uncover a more plausible explanation for the high turnover than silver is in a tight, hand-to-mouth physical circumstance.

Likewise, heavy physical turnover came this past week to the big silver ETF, SLV. Into the beginning of week, around 4 million ounces of metal were withdrawn from the Trust. As I reported last week, it appeared that the withdrawal was not due to plain vanilla investor liquidation, as price and volume data did not support that at all. Instead, it looked like the silver was removed because it was needed more urgently somewhere else. This is also supportive of the tight physical conditions suggested by COMEX movement.

Now, over the past two days, almost 4 million ounces has been deposited into the Trust. This does look very much like plain vanilla investment demand, as silver prices were strong and volume in SLV was heavy. This does not detract from the tight physical premise. This recent inflow of metal into the Trust has come quicker than has usually been the case in the past. I can't help but think that this is also supportive of my hope that BlackRock, the Trust's sponsor, has pressured the manipulative short sellers of SLV shares. This will not be reflected in the about to be released short position report, as that report will cover the short position as of Feb 15 and won't include the trading activity from this past week. I don't want to get my hopes up too much, but it will be very encouraging if BlackRock has done what we petitioned them to do, as it will remove a manipulative tool from the crooks' toolbox.

On the retail front, physical demand looks as weak as I had feared over the past few weeks. Sales of Silver Eagles from the US Mint are slow. Ironically, I have read several recent commentaries that suggest Silver Eagle sales are soaring. Go figure. It is important to remember that retail demand for silver is important to the price on a long term and cumulative basis, not in the short term. We need look no further than the recent strong price action versus weak retail demand for confirmation of that premise. If silver prices do remain strong, however, I would expect retail demand to improve. In any event, sales of Silver Eagles are still beating the stuffing out of sales of Gold Eagles, although I would much prefer that both were strong.

The changes in this week's COT report for gold and silver were expected, in that the total net commercial short position rose in each, largely due to buying on Tuesday, the cut-off day. Gold prices surged $32 and silver jumped $1.20 that day, as volume also surged and speculators bought and the commercials (dark speculators) sold. While there was an increase in the total net commercial short position in both gold and silver, I had a somewhat different take away in each. First, I'll cover gold.

The total commercial net short position in COMEX gold futures increased by 19,900 contracts, to 229,300 contracts. This is the highest level of commercial shorts since Sep 13. All three commercial categories appeared to participate proportionately in the short selling this week, as speculators bought. It appeared to be a cohesive and coordinated commercial arrangement, with it being hard not to use the term collusive. The big 4 sold an additional almost 8,000 contracts, with the big 5 thru 8 adding 3000 contracts short. The gold raptors added almost 9,000 contracts to their short position. All for one, one for all.

Since the price lows of late December, we have added $250 to the price of gold on a 65,000 contract increase in the net speculative long/commercial short position on the COMEX. This is the equivalent of 6.5 million oz of gold. While these are paper ounces, from a quantity perspective it dwarfs any verifiable change in ownership in physical ounces, such as in ETFs. Simply put Â? we went up $250 in gold because speculators bought and commercials sold 65,000 net contracts on the COMEX and the speculators were more aggressive. Where does that leave us and where do we go from here?

Back in December, it was easy to call for higher prices in gold and silver because of the very bullish COT set up and I hoped I had conveyed that at the time. There was little additional speculative selling that the commercials could rig at that time. Now, it is different. There is enough potential speculative selling in place that the commercials could arrange for prices to decline enough to trigger off that selling. Does that mean that the commercials will definitely rig prices lower now? No, not necessarily. But they could. The commercials could also be forced to buy back shorts in gold, as happened to them this past August amid soaring prices. My point is that it is different now than it was in late December, when it looked like a sure trip north in price. We may be headed much higher from here; it's just that I can't say that with certainty. I wish I could, but I can't. I can tell you if we go down big in the relative near term, it will be because of the dirty rotten commercials rigging prices lower. But they may not be able to pull that off, so we have to be prepared for that as well. I wish I could uncover way of being in and out of the market at the same time, but don't hold your breath. Let's go on to silver.

The total commercial net short position in silver did increase, but perhaps not as much as I feared this week. The commercial position did increase by 1900 contracts to 39,200 contracts (196 million oz), the highest level of commercial shorts since Sep 20. What set silver apart from gold was in the composition of which commercials sold by category. The big 4 (read JPMorgan) did all the selling, accounting for 1800 of the 1900 contracts sold, with the big 5 thru 8 and the raptors basically doing nothing. Unlike in gold, there appeared to be no cohesion, coordination or collusion among the silver commercials; it was all the big 4 and deeper than that, I would say it was all JPMorgan. If it wasn't JPMorgan doing all the short selling this week (as I contend) and some other entities in the big 4 conspired and colluded with JPM in the selling, so what? Instead of one silver manipulator, we have two or three. That's a difference without a distinction.

What the data suggest in this week's silver COT is that there was likely one seller, or at the most two or three. I ask you a simple question Â? what would have happened to the price of silver if that one seller hadn't sold? The answer must be that the price would have been higher, although no one can ascertain the exact amount higher. If that one seller, who I label as JPMorgan, hadn't sold, then other sellers would have had to come to market, as there must be a seller for every buyer. Those other sellers, were they to replace JPMorgan, would have clearly had demanded a higher price; otherwise they would have already sold instead of JPMorgan.

While I contend that JPMorgan has been instrumental in the silver manipulation for the past four years, I am now presenting specific evidence, by way of this week's COT, that JPMorgan had manipulated the price during the reporting week. Let me fine-tune that Â? JPMorgan manipulated the price of silver on Tuesday, Feb 21 (in addition to JPM manipulating silver all along). When one market participant controls the price, at any time or all the time, that market is manipulated. That the CFTC refuses to see or act against this is disgraceful.

Since the price lows of late December, silver has climbed $9 on a 25,000 contract net change in the COMEX market structure. That's the equivalent of 125 million ounces changing hands in two months; equal to the entire world mine production in that time. This is not trading volume, which is much larger and includes all the phony HFT trading that a computer can spit out. The 125 million ounces represent a genuine change in ownership. These are paper ounces, to be sure, but the scale of the change in ownership boggles the mind. The equivalent of every single ounce of silver taken from the earth's crust every day for the past two months changed ownership on the COMEX. I would guess that the world's real miners had little to do, maybe nothing, with the change of ownership of that silver on the COMEX. This was strictly one group of speculators changing ownership with another group of speculators (called commercials). This is not true price discovery as intended by commodity law.

Of the 125 million paper ounces of silver that changed hands and caused the price to climb more than $9, the data indicate that the 4 big shorts on the COMEX were responsible for approximately 53.5 million oz or 42% of the sell side. JPMorgan, alone, accounted for 45 million oz of that (9,000 contracts) according to my calculations. Let me ask you the same question I asked above, with a different numbers set. If JPMorgan had not sold 9,000 contracts or 45 million ounces of silver over the past 2 two months, or 36% of all the commercial silver sold during that time, what would a reasonable person conclude would have been the effect on price? The answer must be that prices would have been higher as the market searched out alternative sellers.

Not only does JPMorgan hold a disproportionate and manipulative share of the market (a concentrated position), it has now resorted to being the dominant, if not exclusive seller on any big up days. It's hard to imagine a more manipulative set of circumstances. It's equally hard to imagine how the regulators can't see it or react to it. More on that in a moment.

So where does that leave us in silver from a price expectation perspective? As in gold, we are nowhere near the favorable COT set up that existed in late December. We could go down, we could go up. Both price possibilities have occurred in the past from similar COT readings. If we go down, it will be solely due to commercial rigging, same as always. But there are some very compelling factors pointing to higher silver prices, including the previously mentioned tight physical situation. In fact, the obvious and outrageous short position of JPMorgan has become so extreme that it could serve as the catalyst for a price explosion.

I received a thoughtful email from a long-term subscriber this week that I thought I would publish here and respond to publicly, as I suspect it mirrors the thoughts of many. Normally, I would edit out the complimentary comments as my personality profile is not given to praise (probably due to DNA and upbringing) and I would never think of publishing testimonials. But sometimes you lose the true flavor of others' thoughts if you tinker with their words.

Ted,

After reading your post today I felt I needed to email you. In today’s post you make momentary mention of those who, like me, believe the manipulation is a govt. run operation. With all respect I can manage, I honestly do not understand how you cannot come to the same conclusion.

Don’t get me wrong, I first and foremost thank you to the heavens for bringing the manipulation to my attention and potentially saving my financial life by this opportunity. If I ever meet you I will probably have to hug you!

But after being in and studying the market intensely for 10 years and watching all that has happened and following your writings for the same period, I cannot escape the conclusion that the paper metals markets are not markets at all, but tools used by the Fed, Banking Cartel and Government to manipulate perception and the physical price of metals. It is a game as old as the Fed itself – a partnership between the government and the banks. The govt looks the other way from the criminal activity in exchange for the value given to them by the perpetrators – in this case, control of the price of precious metals. Without this control of the metals market the fiat money system begins to break down much more rapidly in the eyes of the populace. That is not in the best interest of the banking cartel or the federal government. I don't know if it was you who used the term "financial terrorism" to describe the violent price takedowns in silver. In any case, it was highly effective terrorism. It has effectively kept the big money out of the silver market.

While I continue to enjoy reading your posts, I have absolutely no faith that any amount of contact of elected representatives will accomplish anything. The manipulation will not end as long as the current financial system is still intact. I believe we are getting very close to the next major collapse. It will be bittersweet to see silver finally break free while everything is falling to pieces around us. I hope we all can survive it.

Thank you again so much for all you have done for me and so many others. I hope you feel a great sense of accomplishment that you have helped so many.

With gratitude,

Tim

First, I can understand why Tim feels the way he does, as it is logical and based upon a fair reading of the facts. Certainly, it would be ironic for me to argue with him about the possible involvement of the US Government in the silver manipulation. After all, ego aside, I think I have done more to expose the silver manipulation than any other person. I don't want to position myself against a premise that may come to be true. I've further admitted that government involvement is a very plausible explanation for motivation.

The article that Tim was responding to was The Highest Level Possible, in which I tried to describe the high level of the silver manipulation debate. One thing I left out was that one reason for the high level of the silver manipulation discussion was that I've always tried to be as professional as possible in its presentation. I'll speculate, of course, but I do try to stick to the verifiable facts as much as I can. Almost by definition, that means leaving aside theories of the crime and possible motivations as those can never be verified. Guessing motivation is like trying to read someone's mind. I was always afraid of bringing discredit to the manipulation premise by introducing theories which I couldn't prove beyond a doubt.

That all said, Tim's letter (and many like it over the years) really got me to thinking. As a result, I can say that not only is the government-orchestrated motivation plausible, it is one of only two plausible motivations behind this running scheme that come to my mind. I'm still much more inclined to believe that this is a manipulation motivated originally by greed on the part of JPMorgan and other commercial speculators, because that is what the sum total of my experience in this life points to. But if it isn't that, then I am stuck with the government-orchestrated version.

The most troubling aspect to the government-motivated version is that it would mean that the government is participating in activities that are not only illegal, but activities that knowingly cause many citizens to suffer and lose money to benefit other citizens or corporations. The deliberate and manipulative sell-offs of May and late-September come to mind. This silver manipulation is criminal and, as such, should conclude with people going to jail. Maybe I'm an idealist, but if someone does go to jail, I would much prefer it be some greedy silver traders finally uncovered and not high-ranking government officials. I'm just thinking about the greater good of the country and our institutions.

At the very least, the increase in concentrated short selling in silver is not only manipulative, but it also raises the risk of disorderly market conditions because a much larger concentrated short position needs to be resolved that much more. I hope it is incompetence or bureaucratic indecision that is preventing the CFTC from addressing the clear danger of an increased concentrated short position in silver and not willful intent. In due course, this too shall be answered.

Ted Butler

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Silver – $35.40

Gold – $1775

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