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

Amid increasing price volatility (and diminishing true liquidity), the price of silver and gold finished higher for the week. Silver was up almost 80 cents, its fifth consecutive weekly gain and the highest weekly close in over 30 years. Gold was up more than $20, its fourth consecutive weekly gain and the third highest weekly close in history. As a result of continued outperformance by silver, the gold/silver ratio closed at a new 27-year extreme favoring silver. No lecture this week on switching gold for silver, but expect new benchmarks in silver's favor as time unfolds.

One of the good things about a weekly review, rather than a daily review, is that it allows me a longer time perspective to filter out the daily price volatility and news flow. Silver is a fascinating topic to many (especially if you have skin in the game) and it's easy to follow on a micro level. The truth is that there is enough new stuff that I could write about on a daily basis if I chose to, but I believe that would be counterproductive. As interesting as silver may be on a day-to-day basis, it's important to remember that the big gains come from sitting and holding on a much longer time frame. In case you haven't noticed by now, those two time frames clash, especially in highly volatile and news-rich conditions, as we are currently experiencing. The trick is to absorb the daily price volatility and news flow without jeopardizing long term positions and the long-term thought process. Better yet is to try to put the short term gyrations to good use, such as only adding to positions on sell-offs, if possible. But the main point is to guard against having your daily scrutiny of the silver market come to dominate long-term investment decisions. Of course, the preceding was a reading form the Good Book of do as I say, not as I do.

This is not to say that I find it any less deplorable that the COMEX silver shorts still have as much influence over pricing as they demonstrated this week on the afterhours rig jobs they engineered both on Monday and Thursday. While the CFTC's Enforcement Division is supposedly investigating the silver market and the Commission is debating disruptive trading practices under Dodd Frank, the commercial crooks on the COMEX are merrily continuing to manipulate through disruptive trading practices as obvious as they get. It is frustrating that the CFTC seems blind to what many can see so clearly. The general perception that the agency is not doing its job diminishes us all.

Physical conditions in the silver market still appear tight. The rapid movement of silver into and out of the COMEX-approved warehoused seemed to abate a bit this week, but there was a sudden pick up in turnover appearing in the big silver ETF, SLV. After a one-day withdrawal of 5.7 million ounces not linked to investor liquidation, there was a two-day deposit of over 10 million ounces which was linked to investor accumulation. That the shorts can't seem to reduce the number of SLV shares held short also strikes me as related to tight physical market conditions. The GLD shorts were able to reduce the total share short position. http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99 Reports of delays in silver retail and wholesale shipments continue and the US Mint and other mints still struggle to keep up with investment demand. COMEX silver deliveries remained high in the non-traditional delivery month of February, at close to 600 contracts (3 million ounces). All these factors, plus others, point to tight physical conditions in silver.

Data is now available for the first notice day of delivery for the big March COMEX contract, the subject of much speculation over the past month or so. I've tried to steer clear of the speculation, which centered mostly on a possible hedge fund squeeze of the shorts by physical delivery demands. Privately, I was hoping such speculation was not accurate, as the banding together by speculators to take delivery for the sole purpose of influencing the price is clearly manipulative and, therefore, illegal. Yes, I know that silver has been manipulated by the big shorts, but that doesn't permit another manipulation to break it, as two wrongs don't equal a right. In any event, the most recent data suggest tightness, but no obvious coordinated attempt to squeeze the market.

Although the open interest data from Friday is still preliminary (it is usually fairly accurate in the spot month anyway), it does indicate only a bit over 4000 contracts remaining open in March. This is not a particularly large number into first delivery day. If hedge funds are banding together to take delivery, they are not doing so in great amounts. Offsetting the relatively small number of open contracts in March is an even smaller number of contracts offered on the first notice day of 252 contracts. (Of special note is that JPMorgan didn't issue any silver deliveries, unlike their pattern over the past two years). This is about the smallest number of contracts tendered in my memory for what is usually the heaviest day for deliveries in any physical commodity, including silver. Generally, the first delivery day is the heaviest day for the delivery month, as it makes little economic sense for those shorts intending to make delivery to delay beyond the first delivery day.

There will be, undoubtedly, more deliveries made in the March silver contract as the month progresses, but the very small number of delivery notices on the first day, relative to the number of contracts still open, is another indication of wholesale physical tightness. In addition, it is always possible for new buyers and sellers to initiate positions during the remainder of March for the purposes of physical delivery. On balance, it appears more likely that those desiring to buy physical silver would be more aggressive than those looking to dump physical silver, based upon the totality of what is currently known.

One thing I haven't mentioned in a while is that it is much easier for anyone to take delivery than it is for someone to make delivery, all things being equal. All a buyer has to do is write a check. A seller, on the other hand, must own or secure the physical metal before he can even entertain the idea of making delivery. During times of physical tightness, the deliverer's obligation to secure material to be delivered grows much more difficult, just as potential buyers become more interested in taking delivery. Please keep those relative responsibilities in perspective; writing a check versus finding physical material during scarcity.

Another thing to keep in mind is the oft-repeated thought of my silver mentor and friend, Izzy Friedman. Izzy always reminds me that a real delivery crunch doesn't require a massive mismatch between the amounts of material demanded for delivery compared to what may be offered. In other words, it doesn't have to be a mismatch amounting to thousands of contracts; a mismatch involving relatively few contracts could set off a panic, as such a circumstance is set at the margin. In summary, while no apparent squeeze is evident from the current data, there is still enough of a potential mismatch to warrant continued monitoring of the March delivery process. If we're going to have a squeeze, it's much better that it come naturally, rather than by the collusive intent of a few hedge funds.

This week's Commitment of Traders Report (COT) was instructive once again. There was some increase in the total commercial net short positions in both silver and gold, but considering the price action during the reporting week the increase was subdued. During the reporting week, which featured a $2.50 rise in the price of silver, the commercial total net short position increased by only

2700 contracts. In gold, on a $30 price rise through the important 50 day moving average, the total commercial net short position increased by only a bit over 13,000 contracts. Privately, I had expected a much larger gold deterioration. The bottom line is that the commercial short positions in silver and gold are not particularly bearish.

But the standout COT feature was the lack of big selling by the four largest shorts (read JPMorgan). In fact, in silver the big four actually reduced its net short position by almost 900 contracts on the $2.50 reporting week price increase. Once again, it was the smaller commercials away from the big 8 (the raptors) that accounted for the increase in the total commercial net short position. In silver, the raptors are now short 4,000 contracts, the first time they have been this net short in four years. I think this is important for a number of reasons.

If there has been one major theme of mine on the big silver price rally from $18 over the past six months, it has been the behavior of JPMorgan, the biggest concentrated silver short. This has been the prism through which I have interpreted the silver market. I hope I have clearly conveyed that to you. In my opinion, JPMorgan is the silver manipulator, by virtue of their concentrated COMEX short position. The fact that JPM has been methodically reducing its short position has allowed the price of silver to increase markedly. I don't know how it could be seen any other way. JPMorgan reducing its silver short position is like them taking their boot off the throat of the silver market. If they had been able to reduce their short position as much they have without silver rising in price, I would have been shocked. Therefore, as long as JPM continues to reduce, or at least not increase, their short position, that is a favorable tailwind for higher silver prices.

It does not concern me much that the raptors have gone net short or if they sell short additional contracts. As long as they are not teaming up with JPMorgan and the other big shorts, the raptors shouldn't be able to continue the silver manipulation by themselves. I do believe, however, that it may have been the raptors (and not JPM) behind the after-hours takedowns this week. I think these raptors do act collusively, either with or without the big concentrated shorts, to rig prices to their benefit. In the process they make fools of the CFTC and a mockery of commodity law. On balance, however, as long as it remains the raptors and not JPM doing the selling, it's hard not to be bullish towards the price of silver. Yes, we will still have price volatility involving sharp uneconomic sell-offs, but the days of the manipulation appear numbered.

Finally, I want to thank all of you who did take the time to write to the CFTC about position limits or intend to do so shortly. If you weren't planning to publicly comment, I ask that you reconsider. In the less than 72 hours since I made my appeal, more than 2100 comments on silver position limits have been recorded. Hopefully, many more will be received before the March 28 deadline.

I'd ask that you put this into perspective. The number of silver comments to date is roughly ten times the total number of all the public comments received for all the other 11 rule making topics combined. (Click on view comments). http://comments.cftc.gov/PublicComments/ReleasesWithComments.aspx The public is speaking in a unified and specific manner on the issue of wanting a position limit in silver of 1500 contracts. I believe this sends an unambiguous message to the Commission. I fully expect the matter to be directly addressed by the agency in an appropriate manner and within a reasonable time. In the very unlikely event that the Commission tries to sidestep the will of the people, you have my word that I will do all I can to insure that they stay on the right path.

Ted Butler

February 26, 2011

Silver – $33.30

Gold – $1408