

February 4, 2012 – Weekly Review

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Breaking a pattern that I wished would have continued for the rest of the year, the price of gold and silver fell for their first weekly loss of 2012. The loss was minor in each (around 0.5%), with gold falling \$10 and silver down 20 cents. As a result of the comparable relative performance, the gold/silver ratio remained just above 51 to 1. On the surface, it appeared the week was a price-yawner and gold and silver prices remain solidly ahead year to date.

Of course, there was some pretty sharp downside action on Friday which also broke a fledgling 2012 pattern of a strong finish at the end of the week. On Friday, gold was thumped for over \$30 and silver for 70 cents in the most violent of a price takedown since December shortly after the release of the monthly US employment report. Not for a moment do I believe that there was any data in the report that had anything to do with the price action, other than it being a convenient excuse for an engineered High Frequency Trading takedown. The release later in the day of the new Commitment of Traders Report (COT) did help explain Friday's sell-off and I'll talk about that in a moment. Make no mistake -Friday's takedown was 100% COMEX paper metal positioning. Particularly in silver, an important industrial material, the strong employment data should have strengthened prices, as was the case in copper which rose a dramatic 3% to its highest weekly close in 4 months.

Conditions in the wholesale silver market continue to appear tight. The turnover or in and out movement of metal in the COMEX-approved warehouses has actually intensified, although I don't know how that is possible. Since I have overused the words frenzied and frantic to describe this turnover over the past year, I've had to come up with a new one - torrid. Yes, in this unprecedented movement of metal, the total amount of COMEX silver inventories has climbed sharply to almost 131 million ounces, fully matching a prediction of mine not too long ago. I wouldn't be surprised if we witnessed continued turnover and growth in total deposits.

I know many, if not most observers are somewhat concerned at the climb in COMEX silver inventories and I empathize with that concern. After all, a normally functioning human mind will construe any increase in visible supply as being negative to price. Even my good friend and mentor, Izzy Friedman, mutters a soft Yiddish moan (which I can't replicate) whenever I have informed him that COMEX silver inventories had risen that day. This has been true on every day COMEX silver stocks have risen over the past near 30 years, which is a very large number of days. It doesn't matter that there is no obvious price connection between the daily, weekly or annual changes in these silver inventories. Increasing COMEX silver inventories feel bearish.

There are two explanations I can offer. First, there is very little about COMEX silver that functions as a true free market, so why apply free-market thinking and logic when it comes to its warehouse statistics? More importantly, there are any number of plausible explanations for COMEX silver warehouse movements and levels which are beyond our ability to confirm. For instance, these warehouse increases could be signaling a concerted attempt by someone to buy a lot of silver and store it at the COMEX. Or it could be a phony attempt to send out false signals of surplus. Or even that it may signify some developing battle for physical silver between Jeffries, JPMorgan and ScotiaMocatta, as suggested in the daily deliver reports. If ever an open war develops for physical silver, common sense suggests that the buyers will have a clear advantage. All the buyers have to do is write out checks or order bank wire transfers, which is a heck of a lot easier than the sellers' responsibility of securing physical supplies in times of shortage. The possibilities behind COMEX inventory movements and levels are endless and unverifiable. Look, I'm not saying that increases in COMEX silver inventories are necessarily bullish for prices, just that they are not automatically bearish either. I would remind you that prices have climbed sharply in the past month as COMEX silver inventories have also grown sharply.

COMEX silver inventories are a subset of the much larger total world silver inventories. It is important to put things in perspective. What we do know is that COMEX silver inventories are not increasing due to any obvious production surplus. Silver is not being dumped into the COMEX warehouses because it can't find a home anywhere else. The concurrent COMEX movement out negates the unwanted surplus argument, as do obvious delays in wholesale deliveries to the big silver ETF, SLV. Last week, I guessed that the SLV was owed 5 million ounces due to previous investor buying. This week, 4.5 million ounces have been deposited into the Trust, including 875,000 ounces yesterday. I'm not smart or clever enough to have picked the 5 million oz number out of the air. Only a delay in shipments could explain the whole thing. Certainly, no one would suggest that the 875,000 oz deposited yesterday was the result of investor buying in Friday's weak price session. Delivery delays are the only answer. Delivery delays are also at the core of physical tightness.

Sales of Silver Eagles from the US Mint put in a strong performance for January, although the month's 6.1 million oz sold fell short of the record 6.4 million oz sold last January. Despite the strong showing, my sense is that we may be in for some relative weakness in Silver Eagle sales ahead, based upon completely unscientific anecdotal feedback I'm getting. I hope I'm wrong but even if I'm not, I don't consider retail demand to be a short term driver of the silver price, as I've written previously. Interestingly, 6.1 million ounces for a month is more than the annual total

http://www.usmint.gov/mint_programs/american_eagles/?flash=yes&action=MintageTotals

The new COT report indicated increases in the headline number (the total commercial net short position) for both silver and gold. The increase was particularly noteworthy in gold and I have little doubt that this was the impetus behind the sharp price sell-off on Friday. After all, the big commercials, including the raptors, don't have to wait until the report comes out to know what collusive positions they hold among themselves. A lesson brought home in this week's gold COT report is the false signal that daily changes in total open interest can sometimes send in anticipating net changes in the COT report. For example, the total gross open interest in COMEX gold futures declined by less than 2,000 contracts week to week, yet the net change was more than 15 times that amount.

In gold, the total net commercial short position increased by more than 30,000 contracts, the biggest weekly change since a similarly-sized contract decrease when prices were intentionally taken down at the end of September. Please remember that the gold price rose as much as \$80 in the reporting week, while silver tacked on almost \$2. Even though the regulators can't connect the dots between the collusive commercial activity, I hope you can. The total gold commercial net short position stands at 210,000 contracts, the highest level since September 13. Obviously, the gold COT structure can no longer be considered bullish. More on that in a moment.

All three categories of gold commercials participated in the selling, highlighting the collusive nature of the activity. The big 4 sold 7,000 contracts, the next largest 5 thru 8 traders sold almost 4,000 and the raptors (the smaller commercials apart from the big 8) sold 19,400 contracts. The gold raptors now hold a net short position of that same amount, since they were flat as of the previous COT report. I initially used the word raptors to describe these traders after the creatures in the movie, "Jurassic Park," which while smaller than the T-rexes, were extremely fast and hunted in packs. The modern day COMEX velociraptors are just as blood-thirsty and collusive; it's just that they are after blood money and utilize HFT techniques. I suppose we could characterize the CFTC as the fictional creator of Jurassic Park who lost control of the situation he created.

Compared to gold, the silver COT deterioration was much less severe. The total commercial net short position did increase by 3700 contracts to 28,700 contracts, which is the highest level since mid-September, similar to gold. But there is a difference in my mind, in that the current total net commercial short position in gold, at 210,000 contracts, can be considered neutral to bearish by recent historical standards. In silver, the 28,700 contract total commercial net short position must still be considered bullish by historical standards, at least prior to the late-September deliberate smash in price. Prior to that price smash, I never imagined the collusive commercial crooks could get their net short position below 30,000 contracts, even though I know there isn't an honest or free market bone in their collective bodies. My point is that it is impossible to underestimate the dishonesty of the COMEX commercials.

As far as the breakdown in the commercial selling of 3700 silver futures contracts, the big 4 (read JPMorgan) sold 1700 contracts, while the raptors sold 2200, reducing the raptors net long position to 12,200 contracts. The big 5 thru 8 bought back 200 of their shorts. Raptor selling of net long positions was fully expected and is, therefore, not surprising, especially considering the magnitude of the silver price rally. Clearly, however, I had not anticipated the additional shorting by JPMorgan.

In fact, I had predicted, as I have done on prior occasions, that JPMorgan would never again increase its concentrated COMEX silver short position after having successfully reduced it to near 13,000 contracts towards the end of December. I considered that a magnificent and manipulative feat that JPM reduced its position from more than 40,000 contracts at its peak a couple of years ago. Obviously, there can be a big difference between prediction and fact. Not for the first time or the last, I was wrong. My guess is that JPMorgan is now net short around 18,000 COMEX silver contracts, with next week's release of the monthly Bank Participation Report helping to clarify. If my guess is correct, JPMorgan added 5,000 net silver short contracts, the equivalent of 25 million oz, over the past month and on the \$7 increase in price. What gives?

The most plausible explanation for JPMorgan increasing its silver short position is that they felt that they had no choice. With silver prices rising strongly, despite strong raptor selling (more than 10,000 net contracts since Dec 27), it doesn't take a rocket scientist to conclude that prices would have risen much faster and higher were it not for JPM's short selling of an additional 5,000 contracts. I can only conclude that JPMorgan didn't want silver prices to rise faster or higher than they did climb. My guess that JPM might aggressively buy from the raptors on higher prices to completely eliminate its short position was particularly wide of the mark. But in my defense, it should be clear that had JPMorgan, instead of selling an additional 5,000 silver contracts short, bought 5,000 or 10,000 contracts in an attempt to close out the entire short position, silver prices would have truly exploded. When a market boils down to the behavior of one participant, it is safe to say that market is manipulated and that participant is the manipulator.

What is JPMorgan thinking? Perhaps it thinks that if it just ignores the allegations of manipulation, the allegations will disappear. It doesn't seem to be playing out that way. It is now more than three years since I first revealed that JPMorgan was the big COMEX silver short, having inherited that position from Bear Stearns. It was never my intention to libel or harm JPMorgan in any way, as I was just trying to end what I saw as a serious market crime in progress. Three years after my revelation, I am absolutely amazed at the universal knowledge and contempt on the Internet (definitely not in the mainstream media) that JPMorgan is held as result of being the big COMEX silver short. Reputation is everything to a financial institution and my take is that JPM, in matters related to silver, could not possibly be held in lower esteem.

The CEO of JPMorgan, Jamie Dimon, is held by most to be a first-rate professional manager, a true Master of the Financial Universe. Over the years, I have read or heard nothing that suggests he is not fully aware of every aspect of his organization. After almost every JPM earnings conference call, the analysts covering the bank invariably marvel at his in-depth and detailed knowledge of the inner workings of the company. How can he not respond to the allegations of a silver manipulation, considering what a serious potential situation that would represent?

Unfortunately, I have questions, not answers. I do know that I am not intending to defame JPMorgan and I send every article in which I mention the bank (admittedly just about every article I've written over the past few years) to Mr. Dimon at two email addresses given to me by the bank. I can't say he gets or reads them, but they are never returned as undeliverable. Let me be clear, I think it would be better if the issue of silver manipulation and JPMorgan's possible involvement in it was fully vetted. If there is a silver manipulation, as I believe to be the case, it should be terminated and restitution made or it should be fully dismissed and we should go on to other things.

So what do the current changes in the COT structure portend for price direction in gold and silver? Clearly, we are no longer structured as we were at the price lows of late December. It was precisely the extreme bullish COT readings created by the deliberate price lows that almost fully accounted for the subsequent \$200+ rally in gold and \$7+ rally in silver. So, chalk another one up for the COTs fully explaining the recent gold and silver price rallies in advance. As you should know, it doesn't always turn out thusly. Unfortunately, I don't have any short term price predictions, just some explanations in advance.

If we go down in price, it will be because the COMEX commercials are successful at another deliberate price smash, as was the case Friday. But that is not to say that these commercials will be successful in tripping off speculative selling. The gold COT structure is relatively much more negative than the COT structure in silver. Sometimes that matters, other times not. I suspect because of the relatively much better structure in silver, the commercials will definitely need to rig gold lower if they hope to get silver down. I think I know what the crooked commercials want, but that doesn't mean they can pull it off.

I am still impressed with the nature of the deterioration of the COT structure in silver. The increase in the total commercial net short position came about mostly from speculative short covering as opposed to new speculative buying. To me, the key metric in the COT report is the managed money category of the disaggregated report. This is the category of the technical funds, those traders most likely to trade on price signals and most easily fooled by the commercials. This is the category that got heavily short into the price bottom of late last year. Most of the speculative buying from the bottom in silver has been short covering by traders in this category, again as expected and desired. Expected because they are always the first ones out the door and desired because short covering by the technical funds is a closing transaction, not requiring an offsetting trade. If the speculative buying was mostly new long positions being opened, then that would raise the question of when and at what price those new longs would be sold. When there is a sufficient number of technical fund long positions, then it has always been just a matter of time before the crooked commercials plan and execute a collusive price smash. That's the essence of the silver manipulation.

The commercials may have tipped their hand that they will press for lower prices based upon the COT structure in gold and the action on Friday. The question is will the commercials be successful? I don't know. I do know that silver is going much higher in price in the long run, regardless of the short run. But given the signals from the physical market and the still relatively bullish silver COT structure what matters is how you play it. I'm playing it as always, expecting the best, but prepared for the worst. Same as always.

Believe it or not, I had intended to comment on a number of recent announcements and developments pertaining to silver that I ran out of time and space for. I'll try to cover them mid-week.

Ted Butler

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Silver – \$33.70

Gold – \$1725

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