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

For the week, gold advanced $8 (0.5%), while silver fell 40 cents (1.3%). As a result, the silver/gold price ratio widened out by half a point to just over 53 to 1, still locked in a one year+ tight trading range. Intra-day price volatility may still be present, but weekly price changes have become muted. The weekly closing price of gold has flat-lined for almost two months and silver for a month. I think this overall price stability belies the real conditions present in the market, particularly in silver, although I have no way of timing when extreme price volatility may erupt. I do view conditions in the silver market as if they were contained by a pressure cooker under high heat, with the cooker maintained by JPMorgan.

One thing should be apparent to even the most casual of observers of the daily price action; the key practitioners of paper trading on the COMEX (think High Frequency Trading) have a death-grip on short term price movements in silver and gold. I am aware of no other market that experiences the sudden price movements (mostly, although not exclusively, to the downside) that are witnessed regularly in silver. I don't see these sudden movements occurring in other commodity or financial markets, just precious metals. Perhaps these paper market riggers, sanctioned and protected by the CME Group, have also been protected by the federal regulator, the CFTC. At any rate, if the

inexplicable price movements that have become a fact of life in silver (and gold) were present in grains or stock markets, the CFTC would be announcing investigations and remedies without delay. The most damning complaint against the CFTC has always been a double standard of regulation when it comes to silver (and gold).

Conditions in the wholesale physical silver market remain on fire. My main indicator, the unusual turnover of metal into and out from the COMEX-approved warehouses since April 2011, continues unabated. On weekly turnover of 3 to 4 million oz, total COMEX inventories rose by 1.3 million oz, to just under 158.4 million oz. This is another new high for COMEX total inventories since 1997, although these inventories would still need to climb by 120 million oz to exceed the all-time highs in COMEX silver inventories seen in 1993. I still maintain that the frantic turnover of metal is much more important than total inventories. I know that many are conflicted with how there could possibly be a shortage if silver inventories are growing, but that's exactly my position. It has to do with availability.

Silver inventories are growing because more metal is being demanded by investors. As and when investment demand (combined with industrial and total silver fabrication demand) overtakes total silver supply, some investors and industrial users will have to wait until sufficient supplies are available for delivery. When delivery delays are pronounced and obvious, the silver shortage

will be obvious, regardless of total inventories. Shortages are nothing more than the inability to deliver on a timely basis. That's why I'm so sensitive to the frantic turnover in the COMEX silver warehouses because it is strongly suggestive of delivery delays to come. Although I never predicted we would witness the continuous and persistent turnover in the COMEX silver warehouses, that doesn't mean I shouldn't notice that the turnover exists.

Not only does it exist, the turnover seems to have also come to the big silver ETF, SLV. Following the big one-day deposit of 18 million oz last month and the subsequent withdrawal of almost 10 million oz, there were deposits of nearly 3 million oz this week. These new deposits come at a time of lackluster trading volume and price action, suggesting to me stealth buying. I know that some commentators doubt that silver could ever go into a shortage situation, but neither can they offer any explanation for what's causing the COMEX silver warehouse turnover. At least, I haven't seen any alternative explanation to my contention that the turnover is due to tight and almost hand-to-mouth supply conditions. Please forward any other explanation you run across.

Sales of Silver Eagles from the US Mint continue to appear to be at maximum production capacity (or blank supply) for the Mint; somewhere around 120,000 coins (oz) per day. I still sense that the recent record demand for Silver Eagles has a strong foreign component to it, based upon feedback from the retail front. Of course, that's not necessarily bad, as the US has long been the prime retail

buyer of silver and if the rest of the world catches a bit of silver fever, there's no telling how far it may progress. When and if demand for Silver Eagles backs off, it is important to recognize such demand can again flare up at any time. The US Mint appears to have underestimated demand and, hopefully, will not do so again anytime soon.

The changes in this week's Commitment of Traders Report (COT) were not unexpected, in that the total commercial net short position grew in both gold and silver during a reporting week that featured higher prices. During the reporting week, gold gained as much as $20 and silver 80 cents or so.

In COMEX gold futures, the total commercial net short position grew by 7,500 contracts, to 174,600 contracts, following last week's large 29,000 contract decrease. It was basically all the raptors (the smaller commercials apart from the big 8), as they added more than 9,000 short contracts to a net short position now at 11,000. The big 4 actually bought back more than 3300 short contracts, reducing their net short position to 105,148 contracts, the smallest big 4 short position since late August. Of the total 84,000 commercial short contracts that have been bought back since the November 27 high point, the big 4 have accounted for 51,000 contracts and the raptors 32,000 (after this week's increase).

Since the price of gold is still within striking distance of the lows and given the short term price control that the commercial traders hold, new price lows can't be ruled out as the commercials look to buy more contracts at lower prices. Still, the gold market structure is quite bullish, despite this week's increase in total commercial shorts. There hasn't been the same strong physical demand in gold ETFs as there has been in the silver ETFs, but it is usually difficult to gauge total physical gold demand, as central bank activity is most often opaque. (Central bank activity in silver is more non-existent than opaque). The gold COT structure currently suggests to me that prices should move higher and by a greater margin than in any temporary sell-offs.

In silver, the total commercial net short position expanded by almost 1700 contracts, to 51,900 contracts, the highest level since mid-December. By commercial category, the big 4 (read JPMorgan) sold a bit over 1000 contracts and the raptors sold about 500 of their long positions, reducing their net long position to 12,200 contracts. As is usually the case, the big 5 thru 8 didn't do much.

I would estimate JPMorgan's concentrated silver short position in net COMEX contracts to now be 35,000 contracts, after analyzing the companion monthly Bank Participation Report. This is the equivalent of 175 million oz, or almost 23% of world annual mine production (770 million oz). I know I harp on this matter, but I don't think near enough. This is a preposterous amount for any

one entity to hold and, in and of itself, is manipulative to the price of silver. That this amount is held by a US bank and is on the short side is even more preposterous. Banks should not be speculating in commodities and certainly not on the short side of the one commodity that could turn into a pronounced shortage. In a moment, I'll try to dash forever the possibility that JPMorgan may be legitimately hedging.

The 35,000 contracts held net short by JPMorgan is also 34.5% of the entire short side open interest in COMEX silver futures, once the 50,000 spread contracts listed in the disaggregated COT report are deducted. http://www.cftc.gov/dea/futures/other_lf.htm It is not possible that such an unprecedented concentration is not depressing the price of silver, just as it is not possible that JPMorgan isn't crooked in their silver dealings. I admit that one of two things is not right either I'm dead wrong in labeling JPMorgan as the big silver crook or JPMorgan is dead wrong for being that crook. And I'm not trying to make this personal because what matters to me is if silver is manipulated, not who the manipulator might be. Let me see if I can make the case by looking at the COT and Bank Participation reports.

Usually I try to avoid detailed analyses of these reports for fear of drowning you in those details, but let me risk it a bit today. The Bank Participation Report, as the name implies, monitors bank activity in regulated futures contracts. Here's link for the most recent report, for positions held as of Feb 5

http://www.cftc.gov/dea/bank/DeaFeb13f.htm (As a quick aside, the reason the number of banks is missing from so many markets in this report is because JPMorgan complained to the CFTC that by showing how few banks held silver on the short side, it made it easy for me to identify them. JPM was correct, of course, but their whining and complaining came too late).

Banks are classified as being either US or foreign. You'll note right away that banks hold a relatively small share of most markets (as it should be), with the exception being currencies and precious metals. Since the banks are the biggest dealers in currencies, I suppose it's natural for them to hold bigger shares of currency markets. Banks also hold very big market shares in precious metals, but I question whether that is proper or legitimate.

As of Feb 5, US banks held a net short position of 40,192 contracts. To get this figure you must subtract the 1292 contracts held long from the 41,484 held short. Doing the same calculation with foreign banks gives you a net short position of 15,370 COMEX contracts held by foreign banks. Since the Bank Participation Report is published monthly, in order to get the net change for the month, one must compare the numbers above with what was held in the previous month's report. In the Bank Participation Report as of January 8, http://www.cftc.gov/dea/bank/DeaJan13f.htm US banks held a net short position of 32,236 and foreign banks held a net short position of 14,913 contracts. Therefore, from Jan 8 to Feb 5, US banks increased their net short position in

COMEX silver futures by 7956 contracts and foreign banks by 407 contracts. 7956 contracts are equal to 39,780,000 oz of silver.

In my weekly review of January 12 (in the archives), I estimated JPMorgan's net short position to be 28,000 contracts, down from 38,000 contracts at the end of November. This incorporated the data in the January Bank Participation Report. Now I am calculating that JPMorgan's net short position is 35,000 contracts (of the 40,192 net short position for US banks), or 87.5%of what US banks held short. Over the past month, JPMorgan has increased its concentrated net short position by at least 7,000 contracts (35 million oz) of the 7956 contracts sold by US banks in that time. This makes JPMorgan, effectively, the sole new short seller, a theme I discussed on Wednesday and on previous occasions.

A question should come to mind if it's such a good deal for US banks to go short silver, then why is JPMorgan the only bank to do so, effectively? Thinking back on the last quarter-century, I remember the banks all doing the same thing at the same time, whether it was loaning money to South American countries and oil producers before collectively embarking on mortgage lending to borrowers who couldn't repay loans. It got to the point where it was routine that banks imitated each other to the point of folly. Now some may suggest that JPMorgan sees something constructive in shorting silver that other banks haven't seen, but I think there's a different explanation. I think JPMorgan is stuck in its concentrated position and must resort to selling additional contracts

short to control the price and keep it from rising.

Some continue to suggest that JPMorgan has a legitimate reason to be so massively short COMEX silver and to short more. The most popular excuse is that JPMorgan is shorting for its clients, such as mining companies looking to hedge production. The continued inaction from the regulators in dealing with JPM's blatant manipulation of silver gives credence to the hedging angle, as if the regulators were really on top of things. There is a simple dismantling of the JPMorgan is hedging fallacy by looking at COT data. JPMorgan sells short and the other commercials only sell in COMEX silver when technical funds and other speculators buy and vice versa. This is the essence of the market. If JPMorgan didn't sell to technical fund buyers when those buyers came to market, the price of silver would explode. That's basic. Therefore, that basically destroys the JPMorgan is hedging for clients nonsense. When JPMorgan sells thousands of additional COMEX silver contracts short, it is doing so to satisfy buy orders from technical funds, period. That's proven in the continuous stream of data from the CFTC — as speculative long positions grow so does JPMorgan's short position. It has nothing to do with mining companies hedging anything.

This does bring us to the real heart of the matter, namely, the corollary excuse that JPMorgan (and the other collusive commercials) are merely "market-making" or providing depth and liquidity to the silver market. There is more truth to this excuse than the hedging story, but it still falls way short of being

legitimate. And make no mistake — this is the center of discussion between the regulators and JPMorgan and the other commercials. If the CFTC tried to go straight and deal appropriately with JPM's concentrated short silver position and ordered this crooked bank to reduce its short position (as it should), the response from JPMorgan would likely be, “fine, but it'll be on your heads when the price explodes.” There is no question that silver prices would explode if JPMorgan stopped selling short and/or moved to buy back existing shorts, so the CFTC and the CME go along with the market-making charade, rather than risk publicly discussing the details after silver prices exploded. In other words, the CFTC has gone along with the silver manipulation because the minute it ends, the agency will be under the spotlight. That's the real reason the CFTC has dragged its feet on anything that would end the manipulation.

The real cost here is the damage that the CFTC is bringing to the country as a whole as it refuses to fulfill the agency's most important mission — preventing market manipulation. We don't need a CFTC if they are not going to prevent manipulation. Those aware of the silver manipulation are not great in overall numbers, but those numbers are growing. A record has been established of neglect and malfeasance by the Commission that is impossible to erase. My allegations of silver manipulation have been credible and documented enough as to warrant multiple investigations by the Commission, but not to the point of resolving the matter. That a formal investigation into a relatively straight-forward matter (JPM's concentrated short position) could persist for 4.5 years is

shameful in itself. That the CFTC took to flat-out lying in its May 2008 public letter by omitting any reference to the biggest short, Bear Stearns, going belly up (probably because of silver) has to be among the greatest government lies of all time. That the agency's own data proves a continuing silver manipulation that the Commission ignores is the greatest shame of all. I'm not kidding when I say that the CFTC's disregard for the rule of law diminishes us all.

Please don't interpret this as an expectation on my part that things will remain as they are and this silver crime in progress will continue indefinitely, as that is not how I feel. Instead, I feel that things are coming to a head. The spotlight on JPMorgan is certainly not being reduced in any way and this is not a circumstance that can last forever. The abject incompetence or willful intent not to regulate by the CFTC and the CME is also not something that can continue indefinitely. Even if JPMorgan, the CFTC and the CME intend the silver scam to last a little longer, the signals from the physical silver market suggest those intentions will not be fulfilled. Price action may seem dull and boring and controlled, but that's hardly the case away from the current price. Most amazing (and telling) of all is how such important financial and regulatory institutions can pretend all is well in silver. It isn't. On the flip side, when all is well in silver (the manipulation ends), it will probably be time to sell.

Ted Butler

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Silver – $31.45

Gold – $1668