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

Due to sharp rally on Friday as the monthly employment report was released, gold finished higher for the week by $10 (0.8%) and silver managed to erase sharp early week price declines to finish unchanged. This was the third consecutive weekly gain for gold, something that has occurred sparingly (once or twice) over the past year and a half. As a result of gold's outperformance, the silver/gold ratio widened out a half point to 62 to 1. After Wednesday's review concerning the relative historical changes in world gold and silver inventories, I'll spare everyone my mantra to switch gold into silver (no leveraged paper ratio spread trading, please).

I hope it is clear that the sharp Friday rally had as much to do with the employment report about as much as I have anything to do with the nation's space program. Don't misunderstand me I know the price of gold and silver usually move violently when this report is released, most often down, but occasionally up and sometimes both. I know I was expecting a violent move based upon what has usually occurred, but did not have a clue as to which direction(s). My point is that there's no logical economic justification for the sharp moves based upon any data in the report being specific to gold or silver; just that, regardless, a big move will come.

We should all know by now that for whatever reason, the release of the monthly employment report (or the release of Fed minutes or commentary), has morphed into an HFT moment of orgasm, when all hell breaks loose in the computer trading gone wild on the COMEX. This week was no exception. The simplest explanation for the phenomenon is that the set up for the price movement is already in place by prior positioning and the report's release ignites what was already preordained. Please allow me to make a different point on this issue.

We all have things that bug us and one of the things that bugs me is hearing from the rabid manipulation deniers that nothing is heard from those who see manipulation when the price of gold and silver jump sharply. You know the drill □ □how come there is a sudden silence and no cries of manipulation when a flash crash is upward?□ What bugs me is that the sudden (though infrequent) reverse flash crashes to the upside prove the manipulation every bit as much as do the more typical flash crashes to the downside. That's because flash crashes in either direction indicate a price-mechanism that is malfunctioning.

Let me define a flash crash as a sudden (within seconds or minutes) large price move (2% to 3%) in which after the sudden price move the price flat-lines and tens of thousands of COMEX futures contracts are transferred from technical

funds to commercial traders. Certainly, stop orders are triggered by the sudden move and just as certainly, the subsequent COT data will confirm the continuous pattern of tech fund buying on up flash crashes and tech fund selling on down flash crashes (with the commercials as the counterparties).

I guess there could be some debate (not in my mind) as to who was zooming whom; technical funds or commercials, but there can be no debate about the actual cause and effect of flash crashes. Whether up or down, the flash crashes have nothing to do with gold or silver production or consumption or real investment; they are simply the result of a private betting war between traders that number no more than 50 on either side of COMEX gold and silver.

Yet this private betting war is dictating gold and silver prices to tens of thousands, if not millions, of real producers, consumers and investors throughout the world. It is beyond preposterous, it is illegal. A relative handful of traders should not be dictating prices to the real world at large. Worse, the HFT trading cowboys offer absolutely no benefit to the overall market. Yes, I know that all this computer-generated trading has supposedly enhanced liquidity (by increasing official exchange trading volumes and fees), but even that claim can be trashed.

The hall-mark of any flash crash is the sudden move of 2% or 3% in price. Any

market that has regular moves of 2% or 3% in a matter of seconds is, by definition, an illiquid market. I contend that HFT actually restricts true liquidity because it concentrates trading to fewer and fewer entities, namely, those who make the investment in sophisticated computer hardware and software. All HFT has accomplished is the restriction of the number of traders who can influence price. How can there be any benefit in that to the gold and silver markets?

You can be sure that flash crashes (certainly to the downside) would not be tolerated for long in markets like the stocks or bonds. If the stock market fell or rose 300 to 500 points on a regularly occurring basis, it would not remain a regular pattern for long. The blame here goes squarely to the CME Group, which encourages (for fees) the flash crashes in gold and silver on the COMEX. To those that insist there is no complaint heard when there are flash crashes to the upside, please examine the facts.

Turnover in metal movement in the COMEX-approved silver warehouses continued torrid this week with close to 6 million ounces moving in or out. Total COMEX inventories climbed to a new 16 year high of 176.5 million oz, up 1.6 million for the week. As discussed on Wednesday, total COMEX inventories have climbed by 75 million ounces over the past two and half years. Over that same time (when the high silver turnover first appeared), total movement of silver into and out from the COMEX has exceeded 400 million oz. In searching for a legitimate explanation for why there has been such a remarkably large turnover

in silver in these warehouses, I can't come up with a better one than the turnover is necessitated by an underlying physical tightness and that the metal already warehoused is not available for sale at current prices.

There were no big changes in the holdings of SLV, with the last change being a deposit this week of nearly 1.4 million oz. Neither was there much change in the short position in SLV as of December 31, as there was a minor reduction of less than 200,000 shares to a total of just under 20.2 million shares (ounces). Although I believe no short position should be allowed, just to keep it in proper perspective, the total short position in SLV is less than the nearly 30 million oz change in the commercial net short position on the COMEX over the past two weeks. http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%2599

There was a more notable reduction in the short position in GLD, the big gold ETF, of more than 4.6 million shares to just under 18.6 million shares (1.85 million oz). It would appear the GLD short position was reduced through straight share purchase, rather than by the deposit of metal. There have been no statistics from the US Mint released for sales of Silver or Gold Eagles for 2014, but according to statements from the Mint, we should have some data over the next week. The unmistakable conclusion from the Mint's statement was that production of Silver Eagles is still constrained, as it has been for some time.

The changes in gold and silver positions on the COMEX that were reported in the Commitments of Traders (COT) and monthly Bank Participation Reports weren't particularly pleasing to me in that the total commercial net short positions increased in gold and silver for the second week running. I had expected (hoped for) reductions as a result of late reporting by the CFTC, but that was not the case. As is usually the case, the Bank Participation Report allowed for a recalibration of JPMorgan's position in both gold and silver.

In COMEX gold, the total commercial net short position increased by 8900 contracts, to 41,900 contracts. While still small by historical standards, this is the highest level of the commercial short position in seven weeks. We witnessed some rather volatile pricing during the reporting week ended January 7, with gold prices first rising more than $40, before falling almost $20 from the highs. For the second week running, the technical fund shorts bought back contracts; this week 3900 contracts (in addition to the prior week's 4400 contract buyback). This is what provided price pressure to the upside in gold. This was completely as anticipated at some point, but I guess I was hoping for more price juice given the set up.

What bugs me the most is that JPMorgan has emerged as the big commercial seller in gold over the past weeks and month. In the previous month's Bank Participation Report (December 3), I had JPMorgan pegged at 70,000 contracts net long. With the new COT and Bank Participation Reports, JPMorgan is down to

57,000 net contracts long in COMEX gold futures, a reduction of 13,000 contracts for the month. That still qualifies as a long market corner, but not to previous extremes.

Since JPMorgan took delivery of more than 6000 gold contracts during December and those deliveries automatically close out long positions, the actual number of gold futures contracts sold by JPM is closer to 7000 contracts. But that doesn't change the fact that JPMorgan, by itself, accounted for 65% of the 20,000 contract increase in the total commercial net short position from December 3 to January 7.

I know JPMorgan is long COMEX gold futures and as such has a right to sell those contracts whenever it chooses. But JPMorgan does not have a right to control gold prices and it is clear that is exactly what has occurred. Gold prices, while erratic on a daily basis, didn't move much for the month beginning December 3 thru January 7. One entity, JPMorgan, accounted for 65% of the total commercial contracts sold for this time. It is impossible to conclude that the price of gold wouldn't have been higher without JPMorgan's concentrated selling. Let me run through silver before returning to this theme.

In COMEX silver, there was a rather insignificant increase of less than 800 contracts in the total commercial net short position which now totals 25,500

contracts. While not particularly large by longer historical parameters, it is a level that has resulted in recent past sell-offs. As was the case in gold, there was technical fund short covering of 3200 contracts this week (in addition to the 3000 short contracts bought back in the previous reporting week). Also as was the case in gold, I was hoping for more bang for the buck on the upside than we've seen.

There was another commonality in silver with gold when it comes to JPMorgan. As is usually the case, JPMorgan's actions in silver were more egregious. I have been harping for months (and years) that the nature of whatever silver rally we eventually witnessed would be determined by whether JPMorgan added to its manipulative short position. If JPMorgan didn't add to its silver short position we would likely go boom to the upside. If this crooked bank did add to its silver short position, the rally would be contained – which is exactly what happened.

So far, the silver rally has been contained and with the release of the new COT and Bank Participation Reports it's easy to see why JPMorgan has been almost the exclusive COMEX commercial short seller from December 3 to January 7. The total commercial net short position in silver has increased by 13,300 contracts in that time and raptor selling of 5300 long contracts means that 8000 contracts of new commercial short selling had to have occurred. Well, guess what JPMorgan added 7000 new short silver contracts according to the new data, meaning of all the commercials adding to short positions, JPMorgan

accounted for almost 90% of the new short contracts sold.

As was the case in gold, silver didn't rally all that much over this time; not much more than a dollar or so amid choppy but volatile price conditions. Over the past few years, the crooks at JPMorgan have been the exclusive new short sellers on silver price rallies ranging from a few dollars to as much as ten dollars. But this is the first time I have seen these dirt bags (I use other words in my mind) sell short so aggressively on the feeble price rally seen so far. Why do I think JPMorgan has been so aggressive in shorting silver and selling long positions in gold on such a marginal price rally and what does it mean for the future?

I believe the main reason JPMorgan has sold so aggressively is that the other commercials have refused to do so, given the extremely low prices of gold and silver. These other commercials (I call them the raptors) are waiting for higher prices; otherwise they would have sold already. I think these raptors will sell on higher prices, but that's to be determined in the future. For now, the data clearly indicate that JPMorgan has been the dominant seller in gold and new short seller in silver over the past month.

As to why, the answer should be just as clear — so that JPMorgan could prevent the price from demonstrating the least bit of strength which would have

attracted additional buying. Over the past month, JPMorgan has been both the dominant new short seller in COMEX silver by adding 7000 contracts to a total short position of 17,000 contracts (35 million ounces), while taking delivery of 3000 contracts in physical form (15 million oz), fully two-thirds of all the silver contracts delivered in December and January. And all this in JPMorgan's proprietary trading account and not for customers. How can this possibly be legitimate? How can one entity be allowed to so thoroughly dominate and control any market?

You will not find a clearer example of price manipulation than what JPMorgan has done over the past month in gold and, particularly, in COMEX silver. It's hard to conceive of what rule or law JPMorgan hasn't violated; delivery restrictions, spot position limits and the Volcker Rule against banks trading on a proprietary and speculative basis. Of course, the single biggest violation is the also the most obvious JPMorgan is single-handedly manipulating the price of silver (and gold). Without JPMorgan's selling in COMEX gold and silver over the past month, the price would have been higher. How much higher is an issue separate from the mathematical certainty that alternative sellers would have sold had prices been high enough for them. Prices weren't high enough so JPMorgan had to take it on its own to be the dominant seller. Since when doesn't a single dominant trader controlling prices constitute manipulation?

I'd like to raise a new thought here, although it's possible I may have raised it

before, seeing as I think about it constantly. JPMorgan is, arguably, the most important private financial institution in the US. As such, it is expected that the bank operate at the highest level of integrity and trustworthiness. JPM has a code of conduct and an ethical responsibility that is clearly spelled on its webpage and in its corporate documents.

I am accusing JPMorgan of wrongdoing of the most serious kind possible (market manipulation) and I am sending this and every allegation I have made to the bank (to the email addresses that haven't been blocked to me, like the bank's general counsel and all but one of the board directors). As a private citizen it's hard to imagine what more I could possibly do (except continue). While the CFTC and CME have turned away from the ongoing crime, the most incredible aspect is that JPMorgan has remained silent in the face of such unprecedented and direct allegations of market manipulation.

Since my allegations can't possibly be helping JPMorgan's overall reputation, the bank and its directors have a clear obligation and legal responsibility to uphold the company's reputation by addressing the accusations. Considering all the legal and regulatory travails JPMorgan has experienced recently, one would think management and directors would be more sensitive to allegations of similar wrongdoing. In other words, JPMorgan shouldn't need any incentive to openly address the allegations that they are manipulating the price of gold and silver, they should be doing it on their own. Of course, in the meantime, I'll

continue to encourage them.

One thing that must be recognized by the management and directors of JPMorgan, as well as all market participants is the danger that JPMorgan's recent actions create for the bank and everyone else. By continuing to dominate and control COMEX silver and gold, JPMorgan has created an almost no win circumstance for the bank that endangers not only the bank but the market itself. That's because by increasing its short silver position so aggressively and at such low prices, JPM has made it easier for it to be accused and harder for the bank to exit this dirty manipulation business gracefully. How the heck do you not make the whole deeper by continuing to dig?

OK, so what does all this mean for gold and silver prices? It means volatility must increase. The exact path of prices is more difficult to divine, at least in the short term, but considering all the facts, the risk of a sell-off in the short term is vastly overshadowed by the higher prices to come in the long term. And prices can just as easily rise in the short term, particularly considering that we just closed right at the 50 day moving averages that I have discussed so often recently.

Will the crooks at JPMorgan take a stand here and prevent gold and silver from decisively penetrating this key moving average by rigging prices lower

forthwith? Or will we get a rush of buying by technical funds that blast us through the moving averages? If the raptors don't sell aggressively enough (on higher prices), JPMorgan will be forced to shoulder the short selling duties in silver and that may lead them to getting over run. All these possibilities could occur and all must be anticipated. About the only thing I can rule out is that we will remain at current prices for very long. In a very real sense, it's time to buckle up and prepare, at least mentally and emotionally, for price volatility.

As for me, I'm playing it to the upside by holding nothing on margin, just fully paid for positions and a typical exposure in call options. I freely admit to the possibility prices may get rigged lower, either quickly or after a more substantial rally, but considering the real risk/reward equation at current prices, the biggest potential risk (and nightmare) would be to watch silver soar after selling to avoid a short term temporary decline. I can live with a lot of things, but not that.

Ted Butler

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Silver $20.15

Gold – $1248