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

While there was notable price volatility on Thursday and Friday, prices for gold and silver closed modestly higher for the week. Gold finished $6 higher (0.4%) and silver ended 25 cents (0.8%) up for the week. It certainly didn't feel like a quiet price week and there was no shortage of metal-specific news that added to a sense of greater price volatility to come. Silver's slight relative outperformance caused the silver/gold ratio to tighten in a bit under 55 to 1, but my feeling is still not to be fooled by the tight trading range over the past year and longer. Short term movement aside, silver is still massively undervalued relative to gold with an emphasis on the word "massively."

Movement of metal into and out from the COMEX-approved silver warehouses continues to astound, as the past week recorded one of the most active weeks of turnover in memory. Total COMEX silver inventories fell 1.4 million oz, to just under 149 million oz, on what had to be close to a 4 million oz gross turnover. Please remember, these movements in and out are not bookkeeping entries or some form of paper trading, but pallets of 1000 oz bars of silver physically unloaded from and loaded into trucks and warehouses. A reasonable person must ask him or herself why this rapid physical turnover is occurring when it rarely occurred in the past. The only plausible explanation I have been able to uncover is that the metal is being moved around because it needs to be moved

around. In other words, the movement is not some ruse designed to confuse it is occurring out of the necessity of having silver delivered where it is needed in a timely manner.

A basic definition of a physical shortage of any commodity would involve the inability to deliver on a timely basis. In many ways, a shortage is nothing more than a delivery delay; the more widespread the delays, the more intense the shortage. A silver shortage will not mean there is no metal available at any price; it will mean that not all those demanding it will receive timely delivery. Some will be forced to wait. In case you haven't noticed people generally don't like to wait, especially waiting for a delivery that if not received will disrupt a manufacturing process. What usually happens when a manufacturer faces a delivery delay of a key component or material vital to the operation is to attempt to buy more than needed to guard against further delays. This, as I'm sure you know, has been one of the key reasons behind my prediction of a coming industrial user panic to build silver inventories. Even the perception that future silver supplies might be delayed or unavailable could be enough to set off a buying binge. (A current example is the rush to buy guns ahead of any new legislation restricting sales).

I can't help but believe that the rapid turnover in COMEX silver inventories since April 2011 is the precursor to actual delays and shortage. That's why I have subjected you to reading about it in just about every weekly review for almost

two years. In observing the levels and movement patterns in COMEX silver inventories for the better part of three decades, the now-entrenched rapid turnover pattern is unlike anything I had previously witnessed. Inexorably, I think we are closing in on a physical silver shortage and the unprecedented COMEX warehouse turnover is a canary in a mineshaft. Supporting this premise has been the relatively high numbers on contracts delivered in the January COMEX silver delivery month, normally a contract month not associated with the heavy deliveries seen so far this month.

The US Mint finally started reported Silver Eagle sales this week, after a few weeks of reporting no sales due to the coin year transition. As of yesterday, almost 4.8 million were reported as sold. Obviously, these coins were not all produced over the first eleven days of January, as the Mint's production capacity over the past few years has been around 100,000 coins per day. Clearly, the coins were largely produced prior to the New Year, just not reported until this week. Since 2012 Silver Eagle sales were curtailed by lack of inventory relatively early in December, I had been privately hoping for January sales to reach the 6 million+ level before the month was out (similar to last year). That goal seems to be in reach with the reports this week. Also encouraging is the continued strong sales of Gold Eagles. The key here is if sales continue strong. If so, then we could quickly see demand for Silver Eagles outrun the Mint's capacity to produce them. This has occurred on several occasions in the past and other anecdotal reports of recent delivery delays in other forms of retail

silver products away from the Mint suggest growing tightness on the retail side of silver investment demand. I still maintain that wholesale conditions are more responsible for the price of silver than retail demand, but I continue to sense wholesale tightness as well.
http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2013

I was all set to launch into a diatribe about the short position in SLV, as reported on Thursday, but as I sat down to write this report, the numbers were radically revised. Originally, the short interest report for SLV indicated a shocking increase, including a revised previous amount much higher than originally reported. The new and assumed by me to be correct numbers are still higher than what I had expected, but nowhere near the wacky numbers reported on Thursday. The revised report indicates that the short interest in SLV declined by 1.1 million shares (ounces), to 17 million shares, as of December 31.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

In previous commentary, I had speculated that the short position in SLV might be reduced as much as 6 million shares, given the increase of that amount in a recent short interest report which was followed by a deposit of physical silver into the Trust, also in the 6 million oz range. I was dumbfounded when the new report first indicated an increase to 25 million shares before the late revision, so the revised amount makes more sense (there was also wacky reporting on the

shorted shares in GLD, the big gold ETF, until the new revision). Let me make one comment on the reporting of shorted shares before giving you my take on what this may mean for silver.

As an analyst, I am held captive to the accuracy of reported data. I rely on public data; I don't mess much with rumors and unverifiable data. If the data are wrong, then my analysis is likely to be wrong. I've rarely complained that the CFTC reports inaccurate numbers in their COT reports; quite the contrary, I am amazed that no one seems to tamper with the main data source for my allegations of a silver manipulation. I have commented in the past that I don't trust the stock short share reports as much and I think for good reason. Stock short sales derive from the Depository Trust Clearing Corp www.dtcc.com. Quite frankly, I don't trust this Trust. It is not a government entity, but a consortium of banks and large financial organizations. In case you haven't noticed, I'm not a big fan of big banks. Based upon the evidence around us, I think my feelings are justified. I have been steadfast in naming JPMorgan as the big silver crook, but my feelings about the DTCC make JPM look like Mother Theresa in comparison. After all, the DTCC appears to be little more than a secret private organization comprised of bankers and controlling most of the world's financial assets. I'll continue to report on short sale activity in SLV, but remain distrustful of the source. At the very least, if the CFTC put out anywhere near a radically revised COT report as was issued in the latest stock short report, there would be a public explanation. As far as I know, the DTCC reports

to no one so don't hold your breath waiting for an explanation. I have come to think that DTCC is short for distrustful. Spend some time at their website and see if you can figure out who the heck they are and what they do.

That said and assuming that the revised short figures for SLV are close to being accurate, the lack of a sharper decline in the short position points to further signs of wholesale physical tightness in silver. Let me come back to this and attempt to answer a pertinent subscriber question after reviewing the latest Commitment of Traders Report (COT).

We did get substantial reductions in the headline number of the total commercial net short position in both gold and silver, although not as much as I had speculated. Please remember, the reporting week in question, as of Jan 8, included a number of days in which gold and silver fell to price lows not seen in months. New price lows are expressly created by the commercials to force the technical funds into selling, so it is not particularly difficult to predict technical fund selling/commercial buying when new price lows are rigged. Or as Izzy Friedman might say, the commercials were just slicing the salami.

In gold, the total commercial net short position declined by 10,200 contracts (versus my guess of 20,000+). At 178,500 contracts, this is the lowest short position since August and the gold market structure must be considered bullish

for the first time since then. That doesn't mean it's up, up and away from here for gold, but it is suggestive that a price bottom is being formed. Gold physical conditions are much “fuzzier” to me than is the case in silver and that means COT considerations in gold are even more important to price. We are down 80,000 contracts from the top in total commercial net short position of Nov 27 on the $120 engineered price decline, but still 40,000 contracts higher than the extreme lows in price and the commercial position of the summer or spring. It goes without saying that in order for the commercials to further reduce their total short position we must witness new gold price lows or salami slicing. So the question is, as always, can the commercials rig lower gold prices on the COMEX?

By commercial category, there was a slight twist in the gold COT report. The big 4 bought back 1600 short contracts and the gold raptors bought back almost 16,000 contracts, reducing the raptors net short position to only 4600 contracts, the lowest since July. The twist in this report was that the 5 thru 8 largest gold traders added more than 7000 new shorts. If the 5 thru 8 had gotten the commercial memo and not bucked the trend I would have been real close on my original estimate. Then again, if Queen Elizabeth was my mother, I'd be Prince Charles.

In silver, the total commercial net short position was reduced by 4100 contracts (much closer to my 5000 contract guess than in gold). At 41,300 contracts, this

is the lowest total commercial net short position since late August and down more than 18,000 contracts from the November 27 top. Since we are also more than 20,000 contracts higher than the lows in price and commercial short positions of the summer, the COT structure in silver must be considered neutral. That's not necessarily bad, as the silver physical fundamentals have improved markedly.

By commercial category, it was the usual big 4 (read JPMorgan) and raptor operation with each divvying up the 4100 contracts, almost fifty-fifty. The raptors hold a net long position of 15,800 contracts, their largest since August. Based upon past behavior, the raptors will be looking to add a bunch more on lower prices, providing continued buying competition to JPMorgan on lower silver prices. Come to think of it, there's been almost a fifty-fifty division between JPMorgan and the raptors of the 18,000 net contracts purchased by the commercials since Nov 27. I don't mention it often, but the big 5 thru 8 largest COMEX short traders rarely adjust their net silver short position much. Because this 5 thru 8 short silver position doesn't fluctuate much confirms to me that it really comes down to what JPMorgan and the raptors do or don't do (unlike the big 5 thru 8 gold changes this week).

I would calculate JPMorgan's short position in COMEX silver futures to be 28,000 contracts, down 2000 for the reporting week. (By the way, this goes along with the data in the new Bank Participation report.) This is down 10,000 contracts

(50 million oz) from the high point of JPM's short position, but still double the low point of 14,000 contracts for their short position in the summer. As is always the case, what JPMorgan does in silver determines the price. If JPMorgan hadn't added 24,000 new short contracts (120 million oz) on the price rally that began in the summer, the rally would have been for $80 and not $8. There is little doubt in my mind that silver would currently be trading over $100 were it not for JPMorgan's dominant short position (assuming no other entity held such a massive concentrated short position in their place).I can't know what JPMorgan will do next, but I do know that what they are doing in silver is wrong in every way imaginable.

A long time subscriber asked a question this week that I would imagine may be on many minds. Larry asked Ted, you have frequently stated that all manipulations must end. Why is that? After 25 years it still appears to be going strong. Why can't it go on for another 25 years, or for infinity?

That's a great question. First, let me define all manipulations as being commodity price manipulations, as opposed to manipulations of other things. We have documented experience in such commodity market manipulations over the past decades, including copper, soybeans, potatoes and even silver in 1980, to the upside. All these previous manipulations did end and ended dramatically, but I admit that doesn't prove conclusively, by itself, that such manipulations must end.

What I think mandates that all commodity price manipulations must end is the law of supply and demand. Actually, this law would be better termed the law of supply and demand and price, because supply and demand are balanced by the fulcrum of price. If a price is set artificially too high, eventually supply increases and demand decreases to the point where the price must collapse. Likewise, if a price is set artificially too low (as I allege in silver), eventually supply is reduced and demand is increased to the point where the price must explode.

Therefore, an artificial price, either too high or too low, will distort the forces of physical supply and demand to the point of a radical rebalancing of the price. Incidentally, the distortion of the free market forces of supply and demand by an artificial price causes such collateral damage to the workings of a free market economy that explains why preventing manipulation is the most important mission of the CFTC and is at the heart of US antitrust law.

The difference between most prior manipulations (except potatoes in 1976) and the current silver manipulation is that they were upside manipulations, which are much easier to understand. Most people grasp that if a single entity buys such a large percentage of an item that it can create a corner on the market and force prices higher, whether by the Hunt Bros in silver or the Sumitomo trader in copper. More people have trouble with the concept of short selling

(selling something that you don't own) than the concept of buying something you don't own. But a controlling market share can artificially set prices to be either too high or too low and invariably the law of supply and demand and price will force a radical change for the price.

It is said that no one entity is bigger than the market. I hold this to be true because of the law of supply and demand and price. While I believe that JPMorgan has set an artificial low price in silver by virtue of their massive concentrated short position I also believe the forces of real silver supply and demand must overwhelm JPM's artificial price setting. The real key to Larry's price is of timing. Specifically, when will the forces of supply and demand overwhelm JPMorgan's rigged lower price of silver? Usually, I answer that I'm an analyst not a prophet to explain my reluctance in timing such an event, but I'm going to look at it differently today.

The truth is that the downward silver manipulation has lasted much longer than I ever imagined it would, especially considering just how successful I have been in convincing others that it exists. This manipulation has existed for more than 25 years, as Larry says, so what guarantee is there that it can't last another quarter of century or forever? The guarantee lies in the law of supply and demand and price. The guarantee is that if the price is set artificially low, there will be enough of an increase in demand and decrease in supply to eventually cause the price to explode. I think the key here is too look at what's on the

scoreboard rather than dwell on what we want to be on the scoreboard. Let's face it □ most of us (me in particular) want this manipulation to be over and for the price to explode already. When it doesn't explode we naturally imagine that it may never explode (especially on down days). I would ask that you look at it differently.

Instead of focusing on why the silver manipulation hasn't already ended amid increased demand and restrained supply, try to look at what has occurred in the real world of silver supply and demand over the past 25 years. If silver had been manipulated and the price was kept artificially lower over the last quarter century (as I allege) then certain supply demand factors should reflect that. I think those factors are visible.

For one thing, there is far less above ground silver in the world than there was 25 or 75 years ago. Twenty five years ago, there was close to three billion oz in silver bullion inventories and seventy five years ago there was ten billion oz. Today, there's only a bit over one billion ounces. If silver wasn't manipulated in price, then where did all that silver go? I didn't say that prices didn't go higher (over the past 6 years or so) just that if prices weren't artificially depressed in price the world wouldn't have eaten up so much of it. Further, the billion ounces of silver bullion that does still exist is now owned by a radically different type of owner than held silver 25 or 75 years ago. I claim these new owners are much more aware that silver has been artificially depressed in price and that is the

main reason they have chosen to own it. This new set of owners is not interested in selling until the artificial low price is rectified.

Yes, the mine production and consumption of silver has grown over the past 25 years, but that's more a function of by-product mining gains and the growth of population and world economic growth. The lynchpin is the drop in inventories from 25 and 75 years ago. If silver weren't artificially depressed in price, that wouldn't have occurred. This article is about silver, but I can't help but highlight the difference between silver and gold. Whereas silver inventories had declined drastically (until recently), world gold inventories have done nothing but expand over every time period.

Particularly instructive is what has occurred in silver supply and demand recently, say the last two years. There are more signs today that physical silver demand is closer to overwhelming supply than ever before due to the artificial low price. I didn't know it at the time, but in hindsight the world was on the brink of a physical silver shortage for the first time in history around the April 2011 high in price. We ran up from $20 to $50, from the fall of 2010 not because of speculative buying on the COMEX, normally the key price driver. By process of elimination, it had to be physical demand overwhelming physical supply, because nothing else could explain the jump.

I guess what I'm saying is that instead of wondering why the silver manipulation hasn't ended yet, look at all the accumulating evidence that demand is overcoming supply. Silver is tighter today than it has ever been (except in April 2011). If these signs weren't present, then there might be some worry about how much longer the artificial low price could persist. But these signs do exist and it's up to us to recognize them for what they are, namely, confirmation points of what must occur.

That brings me back to the SLV short discussion. I think the reduction of only one million shares in contrast to the much bigger drop I had expected adds confirmation to the tightness premise. The most plausible explanation is that enough physical silver is not available and the short sellers of SLV can't get it. I see a big difference between what happened after April 2011 and today. Back then, there were many momentum stock traders who bought the SLV simply because it was going up in price. These stock buyers didn't care that the SLV had to buy silver on a mechanical basis. On the price rise from $20 to $50, some 60 million shares/oz were purchased on the way up and this was the amount that was sold and liquidated on the terrible price crash that started May 1, 2011.

Over the past month or so, some 10 million oz has been added to the SLV (in addition to what is "owed" from short sales). This time, however, the silver was added to SLV on a decline in price, not on a sharp rise as was the case in

2010/2011. Clearly these new buyers are not chasing price higher like momentum traders do. Therefore it seems unlikely they will sell and liquidate on lower prices. By the way, there have been no similar net additions to gold ETFs over the past month; this buying on lower prices seems confined to silver. My point is that it feels we are setting up for the big one in silver, you know, the one in which physical demand completely overwhelms physical supply. Even if we are as close as I think we are, that doesn't rule out further deliberate price takedowns on a short term basis.

How can I talk simultaneously about a price explosion to come but still warn of one more takedown? It has to do with table stakes. Even though I think we are now exceeding the 10 million physical oz per month necessary from world investment demand needed to drive prices higher, the short term stakes on the COMEX are much higher. If JPMorgan and the collusive raptors can shake 5000 to 10,000 more contracts from duped technical funds, that's the equivalent of 25 to 50 million oz. That's a powerful short term incentive for a bank that is already crooked beyond imagination. As I've been saying all alo