

January 15, 2011 – Weekly Review

Weekly Review

The price of silver and gold continued to drop for the second week of the New Year. After three days of gain at the start of the week, a severe pounding on Thursday and Friday pushed the price of silver down by 35 cents for the week, with gold down about \$9. Volume in COMEX and ETF dealings picked up noticeably on the two days of decline, strongly suggesting further long liquidation and dealer short covering. The gold/silver ratio remained largely unchanged.

One thing about the late-week price decline that struck me was how widespread the recognition that the drop appeared to be intentional was among many observers. I continue to be amazed and encouraged by the growing realization that the price of silver is manipulated. I've looked hard and objectively for any free-market explanations for this sell-off and can find none that hold water. Most other commodities, including base and other precious metals, were steady to higher during the gold and silver sell-off. There was no apparent currency or other macro-economic justifications for the silver and gold price weakness. This leaves only the desire of the big commercial COMEX operators to rig prices lower in order to induce technical long liquidation as the most plausible explanation. That this explanation has been the most plausible cause for most, if not all, of the sharp declines in gold and silver for two decades only adds to the growing awareness of just how crooked the CME Group's COMEX market has become.

The paper market induced sell-off continues to clash with developments in the physical silver markets. Not a day goes by that new reports of unprecedented tightness in retail silver availability seem to emerge, from the US Mint struggling to keep up with demand to similar stories from Europe, Australia and elsewhere. I have also looked hard to uncover evidence of physical silver selling on the sharp sell-offs, but I can never find any such confirmation. Always the same conclusion, namely, manipulative paper trading on the COMEX, emerges as the most plausible explanation for any sharp silver price drop. This explanation is so diametrically opposed to the spirit of US commodity law that most amazing of all is that the only entity that apparently hasn't picked up on it is the federal regulator, the CFTC. I say amazing because the primary proof of the manipulation lies in data published by the CFTC, in the form of their weekly Commitment of Traders (COT) and monthly Bank Participation Reports.

This week's COT proved no exception to providing evidence of the real cause of the current sell-off. It also provides encouragement that the sell-off is running out of steam on the downside and setting both silver and gold up for a substantial rally. For the reporting week ended Tuesday, Jan 11, in which the price of silver and gold made a number of new price lows on high volume, the expected occurred, namely, the technical funds and other speculators sold long positions and the commercial bought contracts. For the reporting week, the total net short positions of the commercials declined by 3000 contracts in silver and by nearly 30,000 contracts in gold, a very big amount.

The combined commercial net short positions in gold and silver rival their previous combined positions last seen back in August, prior to the resultant \$200+ gold and \$12 silver rally into the end of the year. Let me be clear in what I am saying ^? the COT set up in silver and gold is now the same as what existed before the big recent rally. Importantly, the sharp sell-off in each over the past two days, as blatant a price rig-job as it was, should have greatly reduced the combined commercial net short position further, thereby improving the COT market structure even more. Yesterday's move to new lows in silver and the penetration of the 50-day moving average for the first time in many months no doubt uncovered more speculative selling and commercial buying. It is easy for me state this without fear of contradiction, because every high volume sharp price drop in gold and silver over the past twenty-five years has occurred with net commercial buying and speculative selling on the COMEX.

This repetitive pattern, selling by speculators and buying by the commercials on commercially-induced lower prices is both infuriating and welcomed. As citizens and taxpayers, it is infuriating that the regulators can appear to be unaware of an illegal pattern clearly visible to thousands of market observers, many of who go out of their way to regularly notify the regulators of that wrongdoing. As investors, on the other hand, the artificially depressed prices which come as a result of the illegal takedowns create welcomed buying opportunities. Quite literally, the only challenge for investors is in trying to gauge when the manipulative takedowns may be complete. Admittedly, this is a pretty sick way to have to perform proper investment analysis and try to decide on the appropriate time to buy silver, but it is reality and not of my making. The alternative, to pretend there has been no manipulation and that the commercials don't rig prices lower for their own benefit, is both unrealistic and a guarantee for losses.

Can the commercials rig prices lower still at this time? That is always possible, given how corrupt they are and how negligent the regulators have been. The precise price bottom is always defined at the point at which the commercials can't induce any more speculative selling. It's not a matter of how many COMEX silver contracts the commercials would like to buy; it is strictly a matter of how many contracts the commercials can trick the speculators into selling. Considering the low level of potential speculative selling remaining, my guess is still that we are close to an important bottom. While I may be wrong in the short term by a bit, I don't think I will be wrong that the inevitable rally, whenever it commences, is very likely to be explosive in nature.

A big part of what will make the coming silver price rally explosive in nature is the expected behavior of JPMorgan regarding its large concentrated short position, still estimated by me to be close to 20,000 contracts (100 million ounces). I believe that it is what's on the scoreboard that counts and JPMorgan has been moving decisively to buy back its short position, having reduced it by a third in the past two months and by half from its peak a year ago. I never suggested the JPM silver traders were dumb, only that they were crooked. Amidst all the negative publicity that has accrued to what had been considered a highly-respected financial institution, it is only natural that JPM would look to rid itself of what has been a cause of public ill-will. This should be particularly true if JPM was concerned that the CFTC was about to take a close look, for the first time, at the OTC swap book that supposedly justifies the big COMEX short position. I mentioned in my last report that the prospect of CFTC staff taking this first look at JPM's silver swap book was a cause of great underlying tension and concern at the last open meeting. Perhaps I am imagining this, so I ask you to judge for yourself. The recorded hearing is now available. Please take the 15 to 20 minutes necessary to view the webcast, starting at the 21:00 minute mark, as it's not necessary to view the entire meeting. I ask you to view it with the thought that this entire discussion was about the prospect of the staff looking into JPM's silver swap book, even though there was no specific reference to JPM or silver. Click on the Jan 13 meeting <http://capitolconnection.net/capcon/cftc/webcastarchive.htm>

This week I received an email from a new subscriber that confirmed my long-held feeling that the big hedge fund and institutional community had not yet discovered silver as an investment and the bullish impact on price that would come as that discovery occurred. I'll have more to say on this in the future, but I would like to share that email with you.

Mr. Butler,

First, allow me to say thank you for the effort and diligence you've applied in attempting to bring the silver issue to the attention of regulators and those (unfortunately) in a position to enact change. I value your work and while only a recent subscriber, am an avid reader of your postings, which have realigned certain of my perspectives regarding metals.

Separately, I wanted to share the email below with you. I run a portfolio at an asset management firm, and like many in our business, often dialogue w/ others in the industry regarding various ideas. Today I was speaking with a friend on the macro desk at Goldman Sachs regarding precious metals and market positioning by institutional asset managers. Suffice to say the clients of this individual's group are some of the largest hedge funds in the world, which revert to GS macro division for FX strategy and flow (this friend's group in particular). As an FX-centric professional, I was sure my friend would have heard (even if only trading desk buzz) about the ongoing matter of position limits/manipulation, as their implication for precious metals no doubt merit consideration in a Forex context. However, I was shocked to discover that not only was this not on his radar, this topic had not surfaced among his colleagues, or to his knowledge, their clients!! The point being, Sprott aside, there remains a large community of institutional money that is apparently "in the dark" when it comes to silver (even the known big-name managers with gold exposure), and this speaks very encouragingly to the prospects of price appreciation. Also, I receive a daily recap from a metals trader at Barclays, which summarizes flow and gives a look-a-head to the next day's events: not even a head nod to the CFTC hearing tomorrow or any past discussion of their mandate for position limits—indeed awareness remains quite low => a blessing for buyers.

I of course attempted a summary of the silver issue for my friend before referring him to numerous key postings of yours, as well as news stories for relevant history. He was quite intrigued, and has already informed me this has piqued interest across his desk. Whether this intrigue will be relayed to clients or find its way into silver spot prices I can't say, but I thought you would be interested to know of this apparent vacuum of understanding and potential as awareness "comes online".

As long-time readers know, I try to introduce new thoughts about silver or different ways of considering what may already be around us in a fresh perspective. I tend to think that this is a big reason why anyone would wish to subscribe to this service in the first place. So let me see if I can earn my keep and throw out something new for you to think about. It's a thought that occurred to me over the past few days.

Not too many years ago, when silver was still priced in the single digits and before the manipulation was recognized by many, there was widespread acceptance that a big reason behind the then-low price was due to there being abundant physical supplies of silver throughout the world. This was a case of creating a set of imaginary supply/demand fundamentals to explain the then-current price, in my opinion, rather than investigating if the price truly reflected the correct fundamentals. This is something that comes natural to us as human beings and this flaw must be resisted in proper analysis. Particularly prevalent at the time was the near universal opinion that should the price of silver ever increase from the \$4 to \$5 level at the time, say to \$8 or \$10, or even as high as \$12 (don't laugh, as \$12 was a triple from the lows), then the market would be flooded with the billions of ounces of silver pouring in from all the households that owned it and were anxious to cash in. On wag (who will remain nameless) took issue with me being doubtful of the premise and even went so far as predicting that at \$8, there would be non-stop boatloads of silver from India being dumped on our shores.

Now that we have passed \$12, and \$15, and \$20, and \$25, and even having recently passed \$30, my question is Â? where is all this silver that was going to flood the market? This is not about me being correct in questioning the validity of the original premise of massive amounts of silver in households coming to market on an increase in price. This is about what actually did occur and did not occur. What did occur was that massive amounts of gold came to market from the world's households on a rise in price, something I don't recall anyone (including me) ever predicting. What did not occur was a similar outpouring in silver.

That leads to the question concerning the future. If silver did not come pouring out of the woodworks up to \$30, what price will cause it to come out? \$50? \$100? Or is it more a question of the form and real availability of this silver stockpile and not simply the matter of price that so many insisted upon? For me, I remain an agnostic on the premise that millions of households are just itching to sell and melt household objects at the right price. I am also still of the opinion that when and if this great mountain of silver does come to market someday we will see it and be able to analyze what impact it will likely have on price. Until then, an important lesson to remember is that everything widely assumed doesn't necessarily have to come to fruition. You have to think for yourself.

Ted Butler

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Silver – \$28.50

Gold – \$1363

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