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

So far, the year 2012 has been a charm for gold and silver as prices for both have climbed for the fourth straight week. Gold rose by an impressive $70 (4.2%) for the week, with silver tacking on $1.90 (5.9%). As a result of silver's outperformance, the gold/silver ratio tightened in to almost 51 to 1. Make no mistake the ascent of gold and silver prices this year is as a direct result of the artificial takedown of prices into the end of last year and the positioning of the commercials on the COMEX.

One has to be careful in quantifying percentage returns, either positive or negative. Figures can lie and liars can figure. Last year, silver declined for the year by 10%, while gold gained 10%. This year, silver is ahead by 22%, with gold ahead a further 11%. Go back two years and through today silver is up 94%, with gold ahead 58%. Measured from its top at the end of April silver is down 30%, while gold is down 10% from its top in September. My point is that the numbers can be massaged to show just about anything one wants to present. It's important to keep things in perspective and not become mesmerized by stated returns over specific periods of time. Most important, of course, are future returns, not past returns. Based upon everything that I can monitor, silver is still cheap relative to gold and other comparable items, like copper.

Conditions in the wholesale physical silver market still appear tight. For more than a year, I have been harping on the turnover in the silver inventories in the COMEX-approved warehouses as a prime indicator of wholesale silver tightness. Somewhat surprisingly, I have seen few others publicly comment on this phenomenon of frantic movement in and out of COMEX silver warehouses. The turnover continued this week, at perhaps the most frenzied rate yet, as total levels of COMEX silver inventories climbed to over the 128 million ounce mark. I still maintain that the turnover is indicative of hand to mouth supply conditions, as no one goes through the expense of moving material in and out of these warehouses unless the bulk of existing inventories were not readily available for sale. Again, it is my belief that the vast bulk of silver stored at the COMEX warehouses is held by investors and is unavailable for sale near current prices, necessitating new stuff being brought in to satisfy growing demand.

Adding to the signs of tightness on the COMEX was the steady drumbeat of silver deliveries on a daily basis on what had been a non-traditional delivery month of January. Almost every day, the firm of Jeffries seemed to be delivering to JPMorgan and ScotiaMocatta. Jeffries took over the commodities business of Prudential Bache last April, the top of the silver market. I don't know if there is any connection, but the last big commodities takeover was when JPMorgan took over Bear Stearns at the then-top of the silver market in March 2008. The persistence of the daily silver deliveries by Jeffries to JPM and Scotia may indicate some special fight for physical silver.

Sales of Silver Eagles by the US Mint continued strong, although it is touch and go whether January will be the second or first strongest month in the history of the program. At almost 5.7 million ounces sold, with two reporting days left, it remains to be seen if the record of 6.4 million coins sold in Jan 2011 will be broken. My sense is that retail demand may be slipping a bit, but it is important to remember that retail demand is not the principal driver of the silver price in the short term.

Also somewhat surprising is the lack of material coming into the big silver ETF, SLV, given the recent strong price action and volume increase in trading of the shares. My sense is that the Trust may be owed at least 5 million ounces and maybe double that amount as a result of recent price and volume data. Seeing how the Sprott silver ETF, PSLV, is waiting on delivery of 10 million ounces, the most plausible explanation for the lack of silver being deposited into the SLV is that the silver is not available, also indicative of wholesale tightness. This contrasts notably with the experience in shares of GLD, the big gold ETF, where pretty hefty metal inflows have occurred this week on rising gold prices. If new SLV shares are being bought and silver is not being deposited, the likely explanation is that short sales are increasing. Recent data point in that direction.

The most recent statistics for SLV (as well as for PSLV and GLD) did indicate an increase in the short position of 1.67 million shares, to a total of over 26.5 million shares. However, this was as of mid-January and before the recent big up days on heavy volume. The next short report, in two weeks, could be very telling. Still, the new short position in SLV represents almost 8.5% of total shares outstanding. In the most simple of terms, that means that there is no silver backing the shorted shares. This is fraudulent and manipulative. If 26.5 million ounces of physical silver were purchased and deposited in the Trust, as dictated by the prospectus, the price of silver would be much higher. Period. http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Towards the end of December, as a result of articles published here and in the public domain, I received the most blistering letter possible from attorneys representing BlackRock promising to sue me for defamation should I not cease and desist. I showed it to a lawyer who advised me, in effect, to change my identity and flee the country and/or join a hippie commune. In other words, this was a no-win situation and I would be buried under an avalanche of legal papers and never ending attorney fees should I persist in labeling BlackRock as being responsible for the short position in SLV. I am still convinced that the short position in SLV (and every other hard metal ETF) is fraudulent and manipulative and I plan to attack it. However, I will attack it in the future by going to the regulators and not BlackRock. Besides, at the very least, I am certain that

BlackRock is now aware of the situation and should the SEC or any other regulator ever move against the manipulative short sellers in SLV, there will be no we didn't know. I'm probably going to wait until the next short report to initiate that campaign to the regulators.

I did promise to inform you if I ever changed my opinion on holding shares in SLV. Not only have I not changed my opinion, I (my wife) added shares on the recent decline. This SLV short position is multi-faceted. Yes, it is fraudulent and manipulative; but it is also potentially very bullish to the price of SLV and silver. The short sellers are not omnipotent and I know they are selling short because the silver is not available for deposit. One of these days, this short position will come back to haunt the sellers and ignite a rocket in silver, quite separate and distinct from all the other bullish factors in silver. What's kind of ironic is that I take a lot of abuse from many for speaking favorably of SLV, while taking guff from BlackRock for prodding them on the short position. I guess it's not a perfect world and to annoy so many, I must be doing something right. By the way, the recent decline in the premium on PSLV shares to net asset value (as a result of the recent offering) reduces what was my only hesitancy in recommending the shares.

This week's Commitment of Traders Report (COT) for gold and silver did indicate increases in the headline number, the total net commercial short position. But once again, it could have been a lot worse. After all, we were up more than

$2.50 in silver and $30 in gold during the reporting week ended Tuesday. We have shot higher in price since the cut-off over these past few days, but volume was not heavy (which is good, in my opinion). This is true in gold as well, as what may look like heavy volume was inflated by roll-overs into next Tuesday's big first notice day of delivery for the February contract.

In silver, the total commercial net short position increased by 4600 contracts, to 25,000 contracts, the highest level since mid-November. The raptors (the smaller commercials apart from the big 8) sold 4700 contacts, reducing their net long position to 14,400 as of Tuesday. The big 4 (read JPMorgan) increased their net short position by 700 contracts, while the 5 thru 8 largest commercial shorts bought back 800 contracts. The good news is that the reciprocal buying by tech funds and speculators was still largely of the short covering variety and not new long contracts being established. I consider this good because until a significant number of tech funds and speculators establish long positions, the risk of those long positions being liquidated on a manipulated move lower in price remains low.

I am concerned that JPMorgan may have increased its concentrated short position, but the increase wasn't significant this week. I was hoping that they may have moved to buy back silver shorts on the price rise, but that didn't happen either. It still may happen, but we must await new COT readings to confirm that. More than anything else, the increase in JPMorgan's short position this week and month suggests they reached the limit on how much they could cover on the downside. I know many thought the commercials could keep buying on the lower prices they were engineering in the fourth quarter, but it looks like they ran out of technical selling by the speculators at the lows, as I had speculated.

In gold, the total commercial net short position increased by 6800 contracts to just under 180,000 contracts. The gold raptors sold 3600 contracts, eliminating their net long position and leaving them flat. The 5 thru 8 sold the balance, while the big 4 stood pat. Please remember that gold exploded by $70 since the cut-off on Tuesday (silver by almost $2), so there must have been further deterioration, or an increase in the total net commercial short position. Still I am struck by how little overall deterioration we have seen in the gold and silver COTs on the recent big up move in price and how that is very supportive to further price gains.

I think it would be instructive to analyze the recent price moves off the bottom and just how little COT deterioration has occurred. Let's go back to the COT report of December 27 and the price lows put in back then. In silver, we've rallied more than $7 on an increase in the total net commercial short position of 11,000 contracts. In gold, we have rallied just over $200 on a 16,000 contract increase in the total commercial net short position. Let's break down those numbers further.

The 11,000 contract net increase in the silver commercial short position since Dec 27 was basically due to the raptors selling more than 8,000 contracts of their net long position and the big 4 (JPMorgan) adding 3000 contracts to their net short position. On the reciprocal speculative buying side, short covering (rather than new long purchases) accounted for nearly 9,000 contracts of the 11,000 net speculative contracts bought. I had speculated back then that the tech fund and other speculative shorts would be the first ones out the door and buying on any rally and that has occurred. Again, this is very good news since so few new speculative long contracts were bought on the rally and, therefore, subject to liquidation. That JPMorgan has increased its short position by 3,000 contracts since then is evidence that they are still manipulating the price of silver. Without JPMorgan's short selling during this rally, the price would have unquestionably climbed even higher than we've witnessed.

In gold, of the 16,000 contract increase in the total commercial net short position, the raptors accounted for 11,600 contracts as they sold out their entire net long position. The big 4 sold the 4,600 contracts, increasing their short position to a still historically low 132,000 contracts. How much deterioration may have taken place since the cut-off will be revealed in time, but I am hard-pressed to recall a circumstance of such a strong price rally in silver and gold off a major bottom with so little overall deterioration in the COT structure. Simply stated, the rallies in silver and gold, as impressive as they have been, appear to have used up little potential COT fuel. These are still crooked markets, so we must be prepared for anything, but the gold COT set up is still bullish and the silver structure is super-bullish.

On the topic of COT structures, I can't help but mention an unusual set up in currency trading, specifically the situation in the Euro and the US Dollar Index. Speculators hold a historically large short position in the Euro and long position in the US Dollar Index on the CME, with the commercials on the other side. I don't pretend to know anything about currencies and openly stipulate to my lack of knowledge. However, I have seen this movie often enough of what generally happens when things get this lopsided to guess at the ending. Therefore, I would not be surprised if the Euro rallied and the dollar index declined. I'm not playing it, nor am I suggesting that you should do so either. But since metals tend to rally as the dollar sinks, I figured I'd mention it as a possible additional bullish factor for a further metal rally.

There is a world of difference between explanation and prediction. That's because it is easier to examine the facts after something has occurred than in speculating on what may happen in the future. Oftentimes, I prefer to offer an explanation in advance for something that may occur rather than offer a prediction of what's to come, based upon the facts as I see them. It just seems less presumptuous to me that way. But it also seems true to me that if one does offer the correct explanation for what has occurred more often than not, then it is more likely to lead to correct predictions than for someone who never explains what happened correctly. This is an awkward way of inviting you to review what has transpired over the past few months in regards to price changes in silver and gold and COT changes.

As I hope I have chronicled on these pages, the price takedown starting in late-September and lasting through the end of December was all about commercial COT positioning and price manipulation. Especially in silver, the epic decline in price with the concurrent radical change in the COT structure was deliberate and intentional. Only a fool or someone who refuses to see would fail to recognize what just occurred. Silver (and gold) were driven lower in price to force speculative selling and to allow the commercials to buy massive quantities of what the speculators sold. After the commercials bought as much as they could possible buy, then prices rallied sharply. It is impossible for this commercial activity to have occurred without collusion and intent. That the CFTC sat by and allowed this to occur (once again) without defending and protecting the public or our free markets is beyond shameful.

The CFTC's failure to regulate aside, this last few months seem to have developed as explained in advance, if not predicted. I did not predict (or expect) the 35% price smash over the last few days of September; but I feel I have explained it adequately. There is no way that one can be invested in a market and not invested at the same time. All you can do is pay your money and take your chances. Risk grows as prices increase, but the structure of the COT is still bullish and not bearish. Maybe that will change in time, but until it does it is reasonable to expect higher prices. And maybe sharply higher prices.

Ted Butler

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Silver – $33.90

Gold $1735