

Weekly Review

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For the third week in a row and the second consecutive holiday-shortened trading week, the price of gold and silver closed little changed, with gold exactly even once again and silver up a scant 15 cents. As a result, the silver/gold ratio remained near 55 to 1. If you were disconnected from the financial world for the week, you would have assumed in viewing the Friday to Friday close that it was a quiet year-end trading week with little volatility. You would have been incorrect, of course, as there was near apoplectic price movement over the four trading days.

In fact, the trading volatility in gold and silver this week was clearly extreme, with gold establishing a \$70 high/low trading range, while silver traded in a \$2.30 trading range. In contrast to the near unchanged finish, prices first soared, and then crashed into Friday morning on exceptionally high COMEX and ETF trading volume, only to stage a late day rally. This extreme price volatility was exactly what I had been anticipating given the extreme COMEX market structure that is being unwound. I know other reasons can be given for the price volatility in gold and silver this week, including fiscal cliff concerns and currency movements, but I don't think these other factors had a bit to do with the price volatility – it was all deliberate commercial maneuvering of the gold and silver price to dictate technical fund activity on the COMEX.

I don't deny that the commercials look for any convenient cover story to camouflage their continued manipulation of the gold and silver price and will use political developments, Fed announcements, employment reports or dollar fluctuations as a cover story to HFT takedowns at any point of the day or night. It is important to see these cover stories for what they are – flimsy excuses to obfuscate price-fixing. The COMEX commercials would use a weather forecast for partly cloudy skies and seasonal temperatures for a price smash if they had to. The cover story is secondary; getting the price set at a predetermined low level to induce technical fund selling is all the commercials are interested in and that is exactly what occurred this week. Just remember the correct sequence – the price is set first and then the trading volume comes in on the COMEX.

Another holiday-shortened week, another week of frantic COMEX silver warehouse movement; my prime indicator of physical market tightness. Total COMEX silver warehouse inventories rose by a hefty 3.3 million oz, to almost 150.4 million oz. This is the highest level of COMEX silver inventories in 15 years, although we are still down from the all-time COMEX inventory highs of more than 280 million oz some 20 years ago. I'm still more interested in that 5 million oz came into the COMEX warehouses over 4 days and that nearly 2 million oz were physically removed, than I am with the new high total level, as it is the consistent high turnover that points to physical silver tightness. All things considered, it is likely that total visible world silver bullion inventories, of which

COMEX inventories are only a subset, should grow by 100 million oz each year, as they have over the past 6 or 7 years. Certainly, that amount of inventory growth has not prevented prices from climbing dramatically over that time, nor should future inventory increases prevent silver prices from climbing in the years ahead.

There were some minor movements in SLV holdings, but the main takeaway is still that investors have held onto shares and added more over the recent 10%+ decline in price. Of all the things that can be said about silver, the most obvious is that its owners are holding tight for much higher prices over the long term. I believe that posture will be highly rewarded, just as it has been rewarding for those that bought and held silver 5 and 10 years ago.

There are still no sales reported for Silver Eagles from the US Mint for the New Year yet, in addition to the lack of sales for the past couple of weeks of 2012. Since Gold Eagle sales are off to a strong start for 2013, in addition to finishing very strong for 2012, the lack of Silver Eagle sales is clearly related to US Mint production miscalculations and reporting quirks. There's no reason to believe the lack of Silver Eagle sales is anything else at this point, so let's wait and see how the month develops. Antidotal reports from the retail front suggest strong silver demand. As I'll talk about in a moment, more people are angry and disturbed about the continuing and ever more obvious silver price manipulation, but that anger is not resulting in the net selling of physical investment silver.

The changes in the latest Commitment of Traders Report (COT) weren't expected to amount to much, given the relatively-subdued price movement during the holiday-shortened reporting week that ended Monday, Dec 31. In contrast, I do think that there were significant reductions in the total commercial net short positions for gold and silver as a result of high-volume price declines of Thursday and early yesterday.

In COMEX gold, there was a tiny 1000 contract increase in the headline total commercial net short position, to 188,700 contracts as of report's Monday cut-off. The change by commercial category was not significant enough to examine closely. I do think that through yesterday, a big chunk of commercial gold short contracts, say 20,000 or more, were bought back on the COMEX as the technical funds sold on the new price lows rigged by the commercials (and perhaps 5,000 or more net silver contracts). It is important to recognize that the sole reason we witnessed new gold (and silver) price lows late in the week was to get as many technical funds to sell as was possible. Technical funds sell on new price lows (and buy on new price highs); this is almost as immutable as the movement of the tides. If you are looking for alternative explanations for why gold and silver prices collapsed late this week, then you are looking in the wrong places.

If my speculation is correct and the commercials were successful in liquidating that many gold short contracts, then the gold COT market structure must be considered bullish for the first time since late summer and following several weeks of neutral readings. That doesn't mean we must move higher in price from here, but we could. We could also continue to move lower in price if the collusive COMEX commercials can manipulate and rig prices lower to uncover further technical fund selling. The important point is that some 90,000 or more net commercial short gold contracts may have been covered on the \$120 gold price sell-off from late November to the intra-day lows of Friday. We are certainly much closer to a COT-generated gold price bottom than we have been in more than four months. It is also important to recognize that if the commercials can't rig further new price lows in the COMEX gold and silver price, there will be no additional tech fund selling. Bottoms are made when the technical funds have exhausted their selling. This is the essence of short term price movements in gold and silver. It is also the essence of the manipulation and price rigging.

In silver, the total commercial net short position decreased by 1400 contracts, to 45,300 contracts, the lowest since mid-September. By commercial category, it was all raptors (the smaller commercials apart from the largest 8 commercial traders), as they added 1300 long contracts, increasing their net long position to 13,700 contracts. This is the largest raptor net long position since mid-August. Clearly, the raptors are interested in buying COMEX silver contracts at

current prices (and lower) and, just as clearly, they have provided the stiff buying competition to JPMorgan as expected. It's worth noting that while the raptors may have to wait at times before they have the opportunity to sell long silver contracts at a profit, there are not many times I can remember that the raptors don't eventually sell long silver contracts at a profit. In retrospect, the raptors have been the most profitable commercial silver traders and not a bad sector to mimic.

I am struck by the current high level of raptor silver long positions relative to the large number of short positions still held by the big 4 and JPMorgan. I don't recall either being as large relative to one another as they are now. In the past, when the raptors held large net long positions in silver, the big 4 and JPMorgan held historically low net short positions, as both the raptors and the big 4 bought aggressively and collusively from the selling technical funds. Usually, it turned out that important silver price bottoms were made with the raptors heavily net long and the big 4 and JPMorgan very lightly net short. Most recently, this was seen in the important silver price lows of December 2011 and again this past summer. Of course, I can't know if this means we have some distance to go on the down move or if this configuration (plus what is occurring in the physical market) indicates the different outcome of a move higher from here soon.

The big 4 are still net short nearly 48,000 contracts (240 million oz) and

JPMorgan accounts for 30,000 contracts (150 million oz) of that total. I want to be clear that the net position of the big 4 is a hard number from the long-form COT report (still requiring some simple mathematical calculations) and JPMorgan's position is based upon my proprietary analysis (on which I invite JPM or the CFTC to dispute). The important point is that the big 4 commercials in silver are net short 47,965 contracts, or 33.9% of the total open interest of 141,489 contracts in the current COT report. However, the companion disaggregated COT long form report indicates the existence of a minimum of 43,645 spread contracts in COMEX silver futures this week. In other words, more than 30% of the total open interest in COMEX silver futures is comprised of spread contracts.

A spread position is the simultaneous holding of a long contract in one futures month and a short contract in a different month of the same commodity. In a spread, there is no net long or short position; an equal number of long contract positions are balanced by short contract positions. As such, spreads are not considered to be price directional bets; all spread profit or loss is determined by the change in the differences between the months held long and short, not as the price of silver goes up or down.

From what I can tell, there is a higher percentage level of spreads in COMEX silver futures than in just about any other commodity futures market, with the exception of crude oil and some other energy markets. I find this most peculiar.

At least in crude oil and energy, there are seasonal and other legitimate economic considerations to expect potential big changes between the different months. Silver is largely a carrying charge type market with little apparent reason to expect big differential changes between the months (other than physical shortage and the backwardation that would involve). This makes the large number of spreads in COMEX silver even more peculiar.

I think there is a dark reason to explain the existence of the large number of COMEX silver spreads (which I have raised in the past). The large number of COMEX silver spreads exists in order to artificially inflate the total level of open interest so that the true levels of concentration on the short side are disguised and distorted. When all spreads are removed from the total open interest in COMEX silver, there is a marked increase in the level of true concentration. Instead of the big 4 holding a very large 33.9% net market share as is reported, after spreads are removed, the true percentage jumps to 49%, or an increase of nearly 45% over the amount reported. Instead of JPMorgan holding 21.2% of all open interest including spreads, after removing them, JPM's true market share jumps to 30.7%, the same increase of 45% as with the big 4. Please remember that these are the current levels of concentration in the latest COT report and not the absolute peaks in levels of concentration on the short side of silver. At the November 27 peak, the big 4 were almost 51% net short and JPMorgan was 34.7% net short on a true, non-spread basis



Let's face it □ the most pertinent issue in the allegations of a silver manipulation is the level of market share or concentration held by the big 4 and JPMorgan on the short side of COMEX silver. Here we have mathematical certainty that the peculiarly large number of spreads in COMEX silver necessarily causes the true level of concentration to be vastly understated without calculations unlikely to be made by the public. Whether this understatement is intentional or not is the important question. I say it is intentional and is likely intended to deceive the CFTC. Judging by some of Commissioner Bart Chilton's recent responses to readers about concentration matters on the short side of COMEX silver, I would say the spread deception is working as intended and the agency has no clue about the silver manipulation. The alternative explanation, of course, is that they are fully aware of the COMEX silver spread deception and are just acting as if they are as dumb as a bag of dirt. We should know which it is in the fullness of time.

The overriding message in this report is the observation that more investors than ever seem to be aware that silver (and gold) are manipulated because of the unusual volatility witnessed this week. Some are understandably dismayed at the continuing ongoing crime of manipulation and price-fixing, but many more seem to be flat-out angry and disgusted at JPMorgan and the CFTC for their roles in the manipulation. I have observed almost universal criticism of JPM, the CME and the CFTC from all quarters on the Internet, including extremely distasteful (but funny and truthful) lampoons and cartoons of the

bank and the regulators. I can tell you from experience that when the levels of awareness and criticism and ridicule reach such levels, change is usually afoot.

In the US, as well as most corners of the world, change is effected only when enough people get fed up and angry enough to demand change. Only then do governments and regulators do what is required. I think we are close to that in silver. While it is true that silver investors represent a very small part of the investment community; it is also true that an incredibly large percentage of the silver investment community now "gets" that the silver manipulation exists. That's an interesting and important dynamic in which real change, in the form of the manipulation's termination, can occur in almost spontaneous terms.

Because we seem to be at almost fever-pitch levels of awareness and anger, I am highly encouraged. Let's face it – if you are not disgusted at JPMorgan and the CFTC for what has transpired in silver (new silver purchasers excepted), then you just aren't aware of the true story. It is in such an overall environment that any particular effort to motivate the regulators can pay big dividends. Therefore, please keep any constructive suggestions coming. Not to tease you, one such suggestion from a reader which I have begun to implement has me quite excited. I don't want to get into specifics at this point, for fear of jeopardizing the suggestion, but I am kicking myself for not having thought of it sooner. I'll report as soon as I am able, but it was a spectacular suggestion that may pay big dividends. Getting angry is generally something to be avoided, but

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if it serves as the motivation for constructive change, it can be a beautiful thing.

Ted Butler

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Silver - \$30.15

Gold - \$1657