July 13, 2011 – A Real Cleanout

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I know Monday's and Tuesday's price action in silver was disappointing, at least until late Tuesday. That's because silver was particularly weak compared to gold and other commodities, especially other industrial metals. This made no real economic sense considering what has been transpiring in the real world, but what's new about that? Once again, the most plausible explanation for silver's two-day, two dollar price swoon was rooted in activities on the COMEX, owned and operated by the criminal enterprise also known as the CME Group.

Those activities basically consisted of commercial rigging of the price lower to force the technical funds and other speculators to sell the 4000+ contracts purchased in the latest COT report. Both the bad and good news is that it looks like the commercials were successful in their intent to buy back these contracts. Bad news because it was a blatant and easily proved manipulation and an outrage to the concept of the rule of law. Good news because I think it cleaned out any remaining speculative long positions that could be liquidated. If I am correct, that may have marked the bottom in price for silver.

Certainly, today's explosive price action would seem to confirm the spectacularly bullish COT set up recently observed here. Such a large move in silver, up more than $3 from yesterday's intraday lows, is exactly what should have occurred if we were at a cleaned out bottom. Now it becomes a question of if and whether JPMorgan significantly increases their silver short position on the higher prices. My guess is still no, but that should be a major determinant to price.

Undoubtedly, there has been deterioration in gold as it races to all-time highs on high volume and increasing total open interest. But coming off an extremely bullish COT report last week, gold may have room to run on the upside. New COT reports will be monitored to gauge the level of new speculative buying/commercial selling in gold.

While the gold price has been above all the important moving averages for more than a week, silver has penetrated its important 50 and 100 day moving averages for only today. Although volume has been relatively heavy today, the silver COT market structure is not likely to have deteriorated to a dangerous level in one day. In any event, silver must be played as if this is the start of the real move. Save some powder for pullbacks perhaps, but don't be timid in exposure to the long side. With the exception of the intentional takedown in May, pedal to the metal has been the correct approach in silver over the past year.

It's important to remember that silver moves in spurts, both up and down. Rather than guess when those spurts may come, it is usually better to make sure you are already positioned to capture the spurts up and be mentally and financially disciplined to accept the spurts down. In other words, no margin. And while it is encouraging to see all the metals (precious and base) moving decisively higher today, it is also important to remember that silver has the ingredients to outperform them all. Sooner or later, that should become evident in price.

In other news, the short position in shares of SLV has contracted by almost 4 million shares as of June 30, back to 33.4 million shares.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99 While encouraging, this still represents almost 10.7% of all SLV shares outstanding, an obscenely large and manipulative amount. Simply put, this is 33.4 million shares that have no metal backing, as proscribed by the prospectus. Admittedly, I don't think there should be any share shorting allowed in hard metal ETFs, but a level close to 1% of shares outstanding (the average short position to shares outstanding in most stocks) might be acceptable. But to have 10.7% of the shares outstanding held short is off the charts (and the wall) and amounts to fraud on the part of BlackRock, the Trust's sponsor, for allowing this. BlackRock, by the way, got real quiet after Jack pointed out they were violating their fiduciary responsibilities. Up until then, they answered fairly regularly and denied anything was wrong.

Somewhat alarmingly, the short position in GLD, the big gold ETF run by State Street, rose to over 30.4 million shares, or 7.5% of the 404.4 million shares outstanding. Although not as egregious as the short position in SLV, this short position is also fraudulent and manipulative to price. I'm surprised the gold community has overlooked this market travesty.

Finally, CFTC Commissioner Bart Chilton delivered an important speech to the American Soybean Association yesterday. http://www.cftc.gov/PressRoom/SpeechesTestimony/opachilton-50.html Let me be clear that I largely agree with Chilton and that he deserves much credit for having the gumption to speak out on important issues that plague our markets, like High Frequency Trading, the growing unhealthy dominance by the exchanges (read CME) and speculators (mostly commercials, in fact) determining prices and not real supply and demand fundamentals. Chilton again commented on the May 1 takedown in silver, making him the only one from the agency to speak out on the most blatant manipulation ever witnessed. Where the heck is the Enforcement Division? However, if I had one wish to be granted in this matter, I would wish that Commissioner Chilton would stop referring to these HFT crooks as cheetahs needing to be caged. They are cheaters, pure and simple, who need to be made extinct for the greater good.

Ted Butler

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Silver – $ 38.10

Gold – $1586

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