

Weekly Review<?xml:namespace prefix = o ns =
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In a week that seemed a lot more price-volatile and newsworthy than was reflected in the final results, the price of gold and silver finished slightly higher. For the week, gold was up \$5 and silver by 15 cents, both insignificant percentage-wise. The two month trading range remained intact for both markets, although my sense is that, beneath the surface, much was afoot. The gold/silver ratio remained near unchanged at just under 58.5 to 1.

Certainly, there was no shortage of new developments (the unfolding scandal at PFG) and old (the latest on the LIBOR manipulation and the JPM London Whale Saga). About the only scandal left out of the headlines would seem to be anything related to the ongoing silver manipulation. We should be resigned to that being revealed to all just prior to the Second Coming. Better late than never, I suppose.

Conditions in the wholesale silver market would appear tight based upon my usual metric of metal turnover. Movement in the COMEX-approved silver warehouses tallied well over the 2 million ounce mark (according to my usual back-of-the-envelope daily count), while total COMEX silver inventories declined for the week by 1.5 million oz, to 144.7 million oz. Since I haven't mentioned it

in a while, this near constant daily turnover in warehouse inventory only seems to occur in silver of all the NYMEX/COMEX metals markets (although there has been an almost daily net withdrawal from COMEX copper inventories for the past 2-3 months). The turnover in COMEX silver inventories, now evident for a year and a half, suggests a tightness in silver not present in other metals.

There was a million oz withdrawal from the big silver ETF, SLV, reported yesterday which didn't look like a straight investor liquidation to me, based upon volume and price data. This suggests demand tightness, but I may be looking too closely. The biggest silver ETF news, however, was the follow up offering for the Sprott silver ETF, PSLV, for more than \$200 million. This should result in perhaps 7 million oz being purchased in physical silver, by my calculations. In the long run, new silver investment demand will determine the price of silver, notwithstanding the paper manipulation the market must endure in the interim. The timing of this offering of PSLV caught me a bit off guard, as I hadn't detected particularly strong investment demand at this time. I sense (and that's all it is, a sense) a single investor may have prompted the timing of this offering, as opposed to broad retail interest.

In further silver ETF news, the short position in SLV registered a significant drop in the most recent short interest report, falling by almost 2.4 million shares, to just over 11 million shares (ounces). There was a bigger percentage drop in the short position of GLD, the big gold ETF. The percentage of shorted shares to

total shares outstanding is now below 3.5% in both SLV and GLD, which is down substantially from the levels of over 8% in SLV earlier this year (at the time of my confrontation with BlackRock, the sponsor of SLV).

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

As I think you know, the short position in SLV has been an underhanded tool for the manipulators to control the price of silver in the past. Short sales in SLV allow shares to be sold with no metal backing them up, in strong contrast to the intent of the prospectus. The manipulative short sellers in SLV have resorted to selling shares short when they don't have enough actual silver to satisfy demand. It is critical that these crooked short sellers in SLV not be allowed to short shares aggressively in the future. We must remain alert to any big increase in the short position in SLV.

I mentioned last week that the current delivery situation for the July contract in COMEX silver should be monitored. That's still the case. We are half way through the delivery month and it still appears that the equivalent of 7 or 8 million oz of silver remain open to potential delivery. While that's a larger than normal amount open, what causes me to focus on it at this time are the other overall indicators of metal tightness, as discussed above. Given the allegations of a silver price manipulation and the knowledge that a physical shortage will surely break that manipulation some day, it is only natural to look for signs that the day of reckoning may be at hand. Chances are that the reckoning will come

unannounced, but that can't stop us for looking for clues at the scene of the crime.

The changes in this week's Commitment of Traders Report (COT) were, once again, close to expectations. In a reporting week that featured as much as a \$50 gold decline and a \$1.50 drop in the price of silver, the commercial short positions in each market declined. This should not be surprising, as the only reason for gold and silver short term price movements is due to commercial positioning in COMEX futures contracts.

In gold, the total commercial net short position fell by 13,800 contracts to 152,800 contracts. This week, the only commercial category that mattered was the raptors (the smaller and very collusive commercials apart from the big 8). The gold raptors accounted for 12,500 contracts of the commercial buying and ended up with a net long position of 2,800 contracts at Tuesday's cut-off. The only real question was how much gold raptor and other commercial selling emerged on Friday as gold flirted with both the 20 and 50 day moving averages after rallying more than \$25 on the day.

In silver, the total commercial net short position declined by a not-insignificant 3200 contracts, to 14,100 contracts. As was the case in gold, the silver raptors accounted for the majority of the commercial buying, by accounting for 2500 of

the commercial contracts purchased. The big 4 (read JPMorgan) bought back 500 contracts and I would still peg JPMorgan's net short position to be in the 15,000 contract range. Given silver's relative weak price performance on Friday, I don't sense any big deterioration or increase in the commercial short position since the cut-off.

I know it gets repetitive and tiresome to observe that the commercials are dictating and controlling the short term price movements in gold and silver, but it is also still the correct observation. As is usually the case, this week's net change in commercial paper holdings in COMEX dealings were larger than what transpired in the real world of silver. The 3200 contract net reduction in the COMEX commercial short position was the equivalent of 16 million oz, an amount larger than the actual metal transactions highlighted above. And this week's changes were less than the weekly changes in COMEX dealings of the previous two COT weeks.

If more paper silver is being transacted than actual metal, it stands to reason that the paper dealings will have more influence on the price than actual metal transactions. This is at the heart of the allegations that silver is manipulated in price. Moreover, it is not possible that the commercials can always be significant buyers on all silver price declines and significant sellers on all silver price rallies without some logical explanation. The only plausible explanation for the commercials always being correct on what should be random price

movements is that there must be an element of control present. Add to the mix the unusual concentration by JPMorgan and the promotion of disruptive and uneconomic trading activities (HFT) by the CME and the picture is complete. Complete to all, of course, except for the primary market regulators at the CFTC.

The bottom line for the structure of the market for gold and silver in COT terms is that the structure is bullish for both, particularly for silver. Despite the super-controlled prices over the past 5 months or because of it, the COT set up is potentially explosive to the upside. That's not to say the COMEX commercial crooks can't continue to smack the price down at will in the short term; just that extensive speculative selling doesn't appear likely. Certainly, there are no signs of net investor selling in physical silver; if anything renewed signs of investor buying are appearing (the Sprott offering).

This week's revelation of another big commodity scandal in the sudden bankruptcy of Peregrine Financial Group continues to dominate the news. Coming so soon after the MF Global disaster, it's hard to conceive how the image of the futures industry and its regulators could be lower. While both MFG and PFG share the common denominator of thousands of innocent customers being victimized, it may be instructive to focus on the differences.

The PFG scandal is more related to the Madoff Ponzi scheme than what occurred at MF Global. That may be small consolation to the customers impacted, but it's important to correctly identify a problem before an appropriate solution can be crafted. The founder of PFG has confessed to a long-term systematic looting of customer accounts through the creation of false financial records, just as Bernard Madoff had done. Yes, it is deplorable that the regulators at the National Futures Association and the CFTC didn't uncover the scam earlier, but all the rules and regulations and enforcement in the world won't completely eliminate criminal activity. If all it took were more laws and police and prisons, murder wouldn't exist. Still, the regulators must not be given a free pass.

I think the most constructive thing to do when faced with a scandal is to learn from the wrongdoing. The recent plethora of financial scandals offers a rich combination of lessons for regulators. That's my first point, namely, that it is the regulatory organizations most in need of learning and adjusting. This includes the legal and compliance sections of the firms like JPMorgan and the CME who stand publicly accused of manipulating the price of silver. It's not the investors in silver who have done anything wrong in the ongoing manipulation; just like it wasn't any customers of PFG who orchestrated the looting of the company. It's time for the CFTC to address the silver manipulation head-on, just like they now wish they and the NFA had done sooner with PFG.

Every recent scandal, from the Barclays LIBOR manipulation, to JPMorgan's disastrous credit derivatives debacle, to the looting of PFG, seems to reveal that there were prior warnings that were ignored. That's the killer – if only the early warnings had been addressed, the damage could have been kept to a minimum by nipping the problem in the bud. Nowhere is this more evident than in the silver manipulation where the warnings of wrongdoing date back two decades. Unlike the other scandals, the regulators in silver have not only ignored the early warnings, they actively resisted them. That's what makes silver so special – the regulators have fought hard not to do the right thing, as opposed to just not recognizing the problem, as was the case in Madoff and PFG.

What also makes silver special is that there is a way for the individual investor to profit from the manipulation. The only way for the investor to profit from Madoff or PFG was to stay the heck away. In silver, it's just the opposite; the manipulation has created the investment opportunity of a lifetime. Yes, the commercial crooks on the COMEX wear you down with the now daily control of price. But it is that same control that has resulted in an artificial price that promises extraordinary gains to come. It's all a matter of perspective.

In the end, we do and say what we think is correct and what we are capable of doing. Then we live with the results, even though the results are not necessarily evident day to day. That's how we measure our lives (or our investments). If the regulators at the CFTC, or the silver crooks at JPMorgan and

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the CME are content with their roles in the silver manipulation, that's something they will live with. They will probably choose to ignore the continuing manipulation or actively engage in perpetuating it, based upon their record to date. I'm more convinced than ever that silver has been and is manipulated in price and this provides a spectacular investment opportunity because of it. It seems like every day new events strengthen that conviction.

Ted Butler

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Silver - \$27.25

Gold - \$1590