July 2, 2011 – Weekly Review and The Curse

Weekly Review

Another Friday thumping sent gold and silver lower for the week. Silver finished about 50 cents lower and gold about $16 lower on the week, leaving the gold/silver ratio not much changed at just under 44 to 1. The ratio has been in a trading range around current levels since the epic decline in the price of silver during the first week of May. It still appears to me that we will look back at the current level as having been an opportunity to have switched gold positions into silver.

Friday's price action was particularly notable in that it appeared to confirm a long-held premise of mine that short-term gold and silver price movement is dictated by activities on the COMEX and not by developments in the real world of supply and demand. On what should have been a subdued and low-volume pre-holiday summer trading session turned into a relatively brisk and volatile day instead, as important price lows were violated in gold. Undoubtedly, the trading session involved further liquidation of speculative long positions in gold and silver to go along with important changes revealed in this week's Commitment of Traders Report (COT). As I indicated recently, lower prices, especially in gold, would be required to get further technical fund liquidation. There should be no doubt that Friday's sell-off was solely about the commercials rigging that liquidation, as there were no new fundamental developments to account for the selling. As a reminder, this is contrary to commodity law.

Physical conditions in silver still appear quite tight, belying the recent punk price action.
I am still amazed at the frantic movement in and out of the COMEX silver inventories and in the big silver ETF, SLV. Again, the most plausible explanation for the frantic COMEX inventory turnover is an unavailability of silver from other sources and the resultant necessity to constantly replenish what is being removed from the COMEX with new supplies. This turnover pattern, now noticeable for 9 months or so is different from any pattern I've observed over the past 25 years. I'm sensitive to new patterns developing because I'm looking for signs which may signal the end of the long running silver manipulation itself. Certainly, between price changes and other signs over the past few years, I'm more confident than ever that the end of the manipulation is very close indeed.

Another new pattern that has recently developed on the COMEX is the dramatic reduction in the number of deliveries in the normally big traditional delivery months. July has always been one of the biggest silver delivery months (second only to December) on the COMEX, yet there have only been 139 deliveries for the first three days of delivery (normally the heaviest delivery days). There are still around 1600 contracts (8 million ounces) open in the July contract and there is no way of determining in advance if, or am I implying that there will be a delivery Â?problem.Â? To be fair, the lack of big deliveries and the low level of contracts open on first delivery days recently could imply no big demand for physical silver via COMEX futures contracts. But this no demand argument flies in the face of numerous other examples of strong physical silver demand, so I believe the small number of COMEX deliveries reflects something else. That something else is the joint observation by me and my friend and mentor, Izzy Friedman, that the formerly massive stockpile of silver that was regularly delivered and redelivered between the bullion banks on the COMEX no longer exists. The Â?cash and carryÂ? arbitrage has ended because there is nothing left to carry. With that former silver supply now used up or held by those not interested in arbitrage games, any emergence of new demand for COMEX physical supplies should have a dramatic impact on price.

Movements of silver, mostly out, still continue in the big silver ETF, SLV. I am still convinced that this is silver being shifted by strong hands into an ownership form away from the SLV. The 60 million ounces that has been redeemed from the Trust over the past couple of months still exist and are owned, just not in the form of shares of SLV. Lastly, sales of Silver Eagles by the US Mint had a barn burner of a month in June, especially relative to Gold Eagles. The Mint sold more Silver Eagles compared to Gold Eagles than any month in memory (January 2011 Silver Eagle sales were distorted with December 2010 sales carried forward). More money was spent on Silver Eagles than Gold Eagles for the month, a very rare occurrence considering gold is 44 times more expensive than silver. What makes the Silver Eagle sales particularly noteworthy is that US retail demand and premiums have softened with the recent price decline, implying big foreign demand for silver. Obviously, someone has been buying a heck of a lot of Silver Eagles.
http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2011
There have also been reports from other Mints, including the Royal Canadian Mint, which indicate disproportionate demand for silver relative to gold. That silver has weakened in price relative to gold amid stronger demand for silver coins compared to gold coin demand, suggests forces other than supply and demand are influencing prices.

If there is one word to describe the changes in this week's COT for gold and silver, it is spectacular. Make that two words, spectacularly bullish. Rarely do we see the reductions in speculative long/commercial short positions witnessed this week. The total commercial net short position was reduced by 6400 contracts in silver and by 42,500 in gold. Even for someone who believes (me) that the commercials control and manipulate the price of both silver and gold, I stand somewhat in awe of how brazenly and collusively the commercials pulled off this recent sell-off rig job. I don't use the word collusively loosely. In both gold and silver, all the commercial categories, the big 4, the big 5 thru 8, and the raptors, seemed to divide evenly the speculative selling they were able to induce. I don't know how that could be accomplished so efficiently without collusion.

In silver, the total commercial short position dropped to 29,200 contracts, the lowest level since April 2009, when silver traded at $12. The big 4 shorts (JPMorgan) bought back more than 2200 short contracts, reducing that concentrated short position to the lowest level since October 2006, when silver traded at $11. The raptors (the smaller commercials apart from the big 8) bought 3400 of the 6400 commercial contracts bought during the reporting week, increasing their net long position to 12,400, their largest since last November. The 5 thru 8 largest commercial shorts bought the balance, reducing their net short position to among the lowest in years. The obvious takeaway here (aside from all the commercials behaving collusively) is that the commercials are all buying because they expect the price of silver to be higher in time. That's what you should expect as well.

In gold, the big 4 bought 10,000 of the 42,500 commercial contracts bought, with the 5 thru 8 buying almost 9,000 contracts and the gold raptors buying around 23,000 contracts. This swung the gold raptors from a net short position in the previous week to a net long position of almost 11,000 contracts. As I indicated previously, whenever the gold raptors get net long, that portends an eventual higher price for gold (especially when the big 4 and big 5 thru 8 are holding as low a net short position as currently). The price takedown in gold has brought the commercial net short position from neutral to bearish readings to bullish territory, especially considering the further improvement as a result of yesterday's sell-off.

One thing should be clear to all, namely, it is these changes in the COT structure that has dictated price change in gold and silver. These price changes have had little to do with the dollar, or inflation, or Greece, or QE2, or the man in the moon. These recent price changes (down) have had everything to do with commercial maneuvering on the COMEX. The price of silver and gold has dropped recently because the commercials have tricked the technical funds and others into selling so that the commercials could buy. That the criminal CME Group has sanctioned this activity and the hapless CFTC has continued to look the other way in the face of this manipulation reflects the very worst of what is wrong in America. That we celebrate the birth of our independence as a country with such blatant institutional criminal behavior and regulatory failure must have the founders of America spinning in their graves.

As painful as these deliberate sell-offs may be, they are also setting the stage for a rally of monumental proportions in silver. That's the essence of the COT. I make a point of telling you what the price of silver was the last time the short position was as low as it is now because I believe you should look at silver as if it is $11 or $12. The beauty of the COT is that it does not consider price; all it is concerned with is structure. If the structure indicates a large speculative long/commercial short position, then the danger of a significant sell-off looms large. If there is a small historical speculative long/commercial short position, a large price rally would seem to be in the cards. Currently, there is a small historical speculative long/commercial short silver position.

Of course, there is no way of gauging the ultimate price bottom, as the COT analysis is not a timing measurement. The commercials have been extremely successful in their collusive rigging of lower prices. They must be expected to continue to press their advantage, particularly since the CFTC has abandoned any role in protecting the public against the commercial manipulators. This means you must protect yourself. You do this by buying and holding silver on a fully paid basis. You do this by knowing that the crooked commercials are doing everything in their power to scare you from your silver positions so that they can buy. I can't tell you when the market will turn up, just that it will turn up and when it does it will richly reward those who positioned themselves properly. The same as what occurred at $11 and $12.

This report is running longer than I prefer but since I want to cover a related topic, I'll do so separately.

The Curse

Upfront, I consider myself among the luckiest people in the world. While I have many reasons for which to be thankful, the one I'd like to address today is the opportunity I have been given to publicly record my thoughts on silver. As I have reflected on in the past, my silver journey was as spontaneous and unstructured as is possible. I didn't set out to be a silver analyst; it was just something that happened. An early intellectual challenge by Izzy Friedman set me on a course I never would have been able to predict. We're all just creatures of our own collective experiences and I am no different.

Certainly, my silver journey was far from smooth, but I suppose that's what made it interesting. That I was generally able to help others and especially not hurt anyone has made it particularly rewarding. Most rewarding of all has been the opportunity to document various original thoughts on silver of some importance. I would include among them my early writings on the folly of precious metals leasing/forward selling, the manipulation in silver (and gold) by concentrated short selling on the COMEX and the remedy of legitimate position limits, the observation that there is now less silver bullion in the world than gold and the advancement of the COT analysis in silver and gold. Please don't think I am patting myself on the back, as my intent is different.

My point is that I always strove to introduce new thoughts on silver; points that no one else was discussing. I always felt that I could only add value by speaking differently than others. In fact, that's the premise behind this service. And when the time comes when I feel that I don't have anything original to contribute, I plan to stop trying. But introducing original thoughts is not always peaches and cream. There is a natural human resistance to accepting new and original thinking, particularly if it clashes strongly with previously held beliefs. Certainly, new and original thinking is rarely accepted quickly and universally; it usually comes after much kicking and screaming. The time it takes for a new idea to become accepted by many can be trying. On this I speak from experience.

I have often wondered if there is a mythical Greek deity that represents a person cursed with seeing things too far ahead of others. I mean, there's no big problem if you see something just a short time before it becomes obvious to others; but if you see something ten or twenty years before others see it, then you have a big problem. Because then you've got to figure what you do in that time before others see it and/or you lose your sanity. Unfortunately, I've been hit with that curse on occasion. Fortunately, the time is up on some ideas of mine and I am hopeful that new ideas may not take as long as the old ideas took.

As back up to what I'm saying, let me offer a recent example. In the Â?thank goodness the time is upÂ? category, there an absolutely terrific new piece out by Eric Sprott and Andrew Morris from the Sprott organization on the recent manipulative take down of silver starting May 1. That such a detailed and reasoned article pointing to such a controversial topic as market manipulation could be written by a well-known entity is nothing short of remarkable. It's as if 10 or 20 years just flashed before my eyes and the curse has been lifted.
http://www.industrymailout.com/Industry/View.aspx?id=288771&q=332369795&qz=711798
I am honored to have been mentioned in the article and in the interest of full disclosure will remind you that Sprott is a subscriber.

To see such confirmation of my thinking makes me feel even luckier and hopeful that it will aid in ending the silver manipulation. After all, the more people that see it make it more likely that the silver manipulation will end; as such scams can't cope with transparency and awareness. I want to press my good fortune here and segue into the purpose of this piece. That purpose is to fast track my newest original thought into as much acceptance as possible. That original thought concerns the short-selling in shares of SLV. (Not surprisingly, as is often the case, this also applies to GLD, the big gold ETF, although not to the extreme seen in SLV).

I'm not out to make a fool of myself. I'm not out to propose something that can be easily and legitimately explained away. I don't expect everyone to simply accept something because I say so. I know that the idea that massive short selling in SLV as being fraudulent in nature and manipulative to price will meet with intellectual knee-jerk resistance from many and intense denial from those who might be proven to be liable for damages (BlackRock). I am only interested in a fair hearing and examination of the issue.

I won't mince words Â? I feel as strong about this issue as any I've previously introduced. There is not the slightest doubt that what I am alleging is true. It's not even a question of whether I am correct; it is only a question if I can explain it sufficiently until the light suddenly goes off in your head. This is very similar to the light that goes off in a person's head when he first sees the silver manipulation through concentrated short selling and the need for position limits.
Of course, some will never see it, if they can't look at the issue objectively. In any event, if you don't quite grasp it, yet remain objective Â? keep asking me to answer any questions you have. It's my responsibility to explain it sufficiently.

Before the SLV was introduced in 2006, the SEC had a fairly rigorous and unusual vetting process before the SLV was allowed to be issued. Many had various concerns as to whether the security should be permitted to exist. I remember the process and participated in it by public comment and public articles. The issue of short selling in shares of SLV never came up. There was and is mention of short selling in the prospectus, but it was clearly implied that any short selling would be minor, short term and arbitrage-like in nature, until the silver metal was deposited and the short sales quickly covered. That is not what has occurred recently.

The latest short position in SLV is large, at over 37 million shares (ounces) and more than 11.6% of all outstanding shares. The short position appears permanent, rather than temporary.
A year ago, the SLV short position was around 6 million shares. At the end of December, it had doubled to 12.6 million shares. As of June 15, it had tripled to 37 million shares, up six-fold in a year.

In addition to the burgeoning size of the SLV short position, it does not appear to be related to legitimate economic pricing activity. The short position, to date, is insensitive to price change. It grows no matter what the price change may be. It grew as silver ran from $17 to $49 and grew as silver fell to $33. If the SLV short position never shrinks on the way up in price or on an historic decline, when does it shrink? On a time and price change basis, this looks like a permanent short position. What's the legitimate economic explanation for that?

Alarmingly, the short position in SLV has grown as the concentrated short position on the COMEX has shrunk dramatically. This creates the impression and maybe the actuality that certain large silver shorts have transferred their short COMEX position to SLV. Or that the SLV is being shorted to manipulate the price of silver so that short contracts on the COMEX can be bought and covered. As I explained in the COT section, 6400 contracts were covered net in the reporting week, representing 32 million ounces of silver. Sell a few million more in SLV shares short so that 32 million ounces can be covered on the COMEX? From the top in April, some 28,000 commercial net short contracts have been covered net, representing 140 million ounces of silver. Why wouldn't a manipulative short sell 5 or 10 million more ounces short in SLV shares to cover 140 million ounces worth of COMEX shorts? Where are the SEC and CFTC as this is happening?

Aside for the apparent permanence of the SLV short position, its incredible large size and manipulative impact on price and the motive to a large COMEX short to use it as a means of reducing positions there, my basic core allegation is that the SLV is a highly unique security that shouldn't be shorted at all. The investors who hold SLV believe there is a fixed amount of metal behind each share held, as represented in the prospectus. Short selling in SLV negates that belief. There is no silver backing any shorted share of SLV. It is impossible for there to be silver backing any share because no short seller puts up silver. Please hear me out, as this is the key.

Some have tried to argue that since all shares shorted have been borrowed from existing shareholders before being sold short and are not, therefore, Â?nakedÂ? that all is well. That misses the point completely. I am not alleging that the shares weren't borrowed; I'm stating that makes no difference. Borrowed or not, no new silver is being deposited into the Trust on a short sale. Please think this through. The original shareholder who lends his shares out (often times unknowingly) to a short seller still retains ownership. The original lending shareholder didn't sell his shares he merely lent them out, like an owner of an apartment might rent it out. Those shares are still listed as being held for that shareholder in his brokerage account. There is silver on deposit to back up those shares.

Unlike the renter of the apartment who gets constructive usage of living in the apartment in return for paying rent to the owner, the borrower of SLV shares can only find one use for borrowing the shares Â? the ability to sell them short. There is no other practical use of borrowed shares of common stock than to sell them short. In order to sell the shares short there must be another new and separate buyer of those shorted shares to complete the transaction. The problem is that both the new buyer of the shorted shares and the original owner (who lent them to the short seller) both now think they have silver behind the shares they own. But that's impossible because no new silver was deposited as a result of the short sale transactions. New shares were, effectively, created by the short sale, but no new silver backs those shares. I don't know which shares are backed and which don't have metal backing, but I do know that 37 million shares or 11.6% of the total SLV shares outstanding don't have metal backing. That's a big problem. That's also fraud and manipulation. I recognize that I am staking my reputation on this allegation, but I have no doubt I am correct.

Several subscribers have contacted BlackRock and have been assured by them that there is no problem. I have reviewed BlackRock's responses and am not surprised by their denials of a problem or that BlackRock has any responsibility for working to reduce the excessive SLV short sales. Whenever a large financial organization is first presented with a potential problem that might involve liability, there has never been a case where the financial organization admits responsibility. I didn't expect them to accept responsibility and offer to send a blank check. The way these things normally work is that there is nothing but consistent denials up until the point of settlement for billions of dollars, like occurred with BankAmerica just the other day. Let me be clear Â? BlackRock is negligent for allowing this excessive SLV short position to exist because it is inherently fraudulent and manipulative. Of course, I'll send this to BlackRock and they will continue to deny there is a problem. This reminds me a lot of my warnings to Ba

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