

July 23, 2011 – Weekly Review

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Strong price action on Friday resulted in gold and silver finishing higher for the third straight week. Gold finished about \$7 higher (0.4%) for the week, closing above \$1600 for the first time in history. Silver climbed 85 cents (2.2%), finishing above \$40, its highest weekly close in 12 weeks. Given silver's outperformance this week relative to gold, the gold/silver ratio tightened in to 40 to 1, also the best close for silver relative to gold in almost 3 months.

Silver is still more than 20% lower than its highs at the end of April and gold is at all-time highs, leaving the gold/silver ratio quite a ways from the 32 to 1 ratio that existed at the end of April. Still, it is interesting to note that this week's 40 to 1 close on the ratio is the seventh best weekly close in over 30 years. And while silver is still recovering from the illegal and manipulative takedown in early May on the COMEX (owned and run by the corrupt CME Group), silver is still up 30% year to date, while gold is up 12.6%. All the factors that I monitor suggest silver's outperformance this year and over the past years is no fluke.

Conditions in the physical market continue to signal tightness in silver. Turnover (the actual movement of silver into and out from) in the COMEX inventories still remains highly active, with the daily movements of quantities much larger than normal. Again, this comes at a time when deliveries on the usually active July contract have never been lower. The physical turnover in COMEX silver inventories suggests to me a hand to mouth tightness never witnessed before. I know that this is not reflected in the flat price of silver or in spread price differentials yet, but if it signals the tightness I perceive, it shouldn't be long before it is reflected in price.

It also occurred to me that the same pattern of physical turnover is present in the big silver ETF, SLV. An alert subscriber from Switzerland sent me a breakdown of the physical movements for the year in SLV, which were enormous and confirmed my thinking. What I had been thinking was if there was such frantic turnover in COMEX inventories, shouldn't there also be physical turnover in the largest silver stockpile in the world (SLV)? Both year to date and this week's turnover in SLV physical stocks also confirm the movements in the COMEX-approved warehouses. It seems to me that such physical turnover suggests a tightness in the wholesale silver market as you don't move these large quantities of metal around without the reason of great demand to take metal out and the necessity of having that metal replenished. I would remind you that there is no similar great turnover in the inventories of any of the other metals traded on the CME, such as copper, gold, platinum and palladium. This turnover is unique to silver.

The US Mint continues to produce and sell Silver Eagles at maximum capacity and in quantities disproportionately greater than Gold Eagles. Sometimes lost in the phenomenal sales of Silver Eagles over the past few years (largely thanks to Izzy, in my opinion) is the fact that the sales would have been even more phenomenal had the US Mint abided by the law and produced enough Silver Eagles to meet demand. I guess we'll never know how many Silver Eagles would have been sold had the Mint been able to keep up with demand.

http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2011

This week's Commitment of Traders Report (COT) confirmed expectations of a further deterioration or increase in the total commercial net short position in silver and, particularly, in gold. In some ways, however, the deterioration could have been much worse. After all, this reporting week (Wednesday to Tuesday, July 19) witnessed a price rise in silver of nearly \$5 and a gold price increase of some \$55, among the largest price increases in history.

In gold, the total commercial net short position increased by 19,600 contracts to almost 264,000 contracts. Technical fund buying was met with commercial selling pretty much divided between the big 4, the next 5 thru 8 largest traders, and the gold raptors (the smaller commercials apart from the big 8). The gold raptors are now net short more than 26,000 contracts. Over the past two reporting weeks, the total commercial net short position has grown by 62,000 contracts on a gold rally of \$120 since July 1. The gold raptors have accounted for almost 39,000 of the total increase with the big 4 adding on 13,000 shorts and the 5 thru 8 adding 10,000 contracts.

The COT structure in gold is now on the bearish side, although not excessively so. On a strict COT basis, there is plenty of room for gold to move either way price-wise. I am not making a short term call, as I honestly don't know and won't be surprised by a move in either direction. I do know that if we do sell off in gold, it will be because the commercials on the COMEX rigged it. Of course, if a sell-off does occur, it will get reported as being caused by a debt-negotiation breakthrough or some such excuse. The real cause, the COT structure, will not likely be cited.

In silver, the total commercial net short position increased by 2,000 contracts to 39,500 contracts. Again, I am somewhat amazed by the low level of increase, given the large (\$5) price move in the reporting week. The majority of the increase came from additional short selling by the big 4 (read JPMorgan) who added almost 1500 short contracts. Let me make one clear observation before expanding on it — had the big 4 (JPMorgan) not sold the additional 1500 contracts the price of silver would have climbed a lot more than the \$5 it did climb. In other words, JPMorgan may be back to actively capping the price of silver.

On the three week increase in the total commercial net short position of some 10,000 contracts, the silver raptors accounted for 7,000 contracts as they trimmed their net long position (now at 5,400 contracts). The big four added 2700 contracts to their net short position over the past three weeks. While some might maintain that's not much of an increase, I would differ. Any increase by JPMorgan or by others in the big 4 category in their concentrated net short position is an outrage and is clear proof of manipulation. Please allow me to explain.

It's always necessary to put things in perspective. Although the net short position of the big 4 in silver, despite the recent increase, is among the lowest in recent years, at 37,352 contracts, it is still so excessively large and concentrated as to be manipulative, in and of itself. First, it is the equivalent of almost 187 million ounces of silver or 25% of annual mine production. It is also more than 26.5% of all the known silver bullion in the world (704 million oz) and almost 19% of the one billion oz of silver bullion thought to exist in the world. By comparison, the big 4 net short position in COMEX gold of 16.5 million oz is only around 0.5% of the total 3 billion ounces of gold bullion in the world. In other words, the concentrated short position of the big 4 in COMEX silver is more than 30 times greater than that in gold compared to equivalent above ground metal in existence.

Most importantly, the concentrated short position of the big 4 in silver represents almost all, or 95%, of the entire commercial net short position. In recent times, it has not been rare to witness the concentrated big 4 position in silver to exceed the entire total commercial net short position. In other words, was it not for the concentrated short position of the big 4, there would be no commercial net short position in silver at all. Please think about that. Four entities are responsible for the entire commercial net short position in silver. How much more concentrated can you get than that?

The main thrust of commodity law as regards manipulation and potentially disruptive markets is to root out concentration. Already embedded in existing commodity law, the key promise of Dodd-Frank revolves around position limits and transparency with the express purpose of eliminating and preventing concentration. Certainly, this thought is conveyed every time Chairman Gensler of the CFTC (who I highly regard) speaks on the record. Yet, every week the Commission publishes data that indicate the concentrated short position in silver is so large as to constitute manipulation. That thousands of silver investors have petitioned the agency repeatedly on this very specific and important issue with no remedy or response to date is shameful. The concentrated short position of the big 4 in COMEX silver is criminal, pure and simple. The CME Group, for allowing this crime to exist, lives up to my description of it being a criminal enterprise. I am exploring legal remedy against these crooks under RICO statutes, considering the repetitive nature of the crime.

Overall, the silver COT structure, away from the concentrated short position, is not bearish, despite having deteriorated over the past three weeks. The current silver structure is still better than it has been over the most of the past year. While the COMEX commercial crooks can always rig a sell-off, selling out in anticipation of such a sell-off would have been a mistake over most of the past year. The best approach over the past year would have been to aggressively position when the COT indicated and ignore it at other times. (Certainly, there was no clear COT warning into the top in April, the manipulative assassination of price came for other reasons). Therefore, the best approach to me is to emotionally and financially prepare for a crooked takedown. But hold strongly on to silver positions. And keep after the silver crooks.

My sense is that the commercials don't fear going short gold, but they are reluctant to sell silver short aggressively. Any new shorting by the big 4 in silver is a matter of necessity to keep the price from exploding, as is suggested in this week's COT report. Simply put, the price of silver is and has been kept artificially low by concentrated short selling by the JPMorgan and the other collusive entities in the big 4. Take these crooks out of the equation and silver will no longer be considered manipulated. It doesn't get simpler than that.

A good number of readers sent me a link to a presentation on the Internet about Tuesday's after hours' takedown in the price of silver by \$2 in a very short time, asking for my comments.

<http://www.youtube.com/watch?v=Y-jCrDOSjk&feature=youtu.be> After responding to most requests privately, it occurred to me that I should also do so here. The basic thrust of the presentation is correct, namely, that silver was artificially and manipulatively taken down exactly as the author of the piece represented. I said exactly that in my Market Update of July 20. So, I am in basic agreement with the author.

However, due to a bad data feed or other technical glitch, it was erroneously represented that 50,000 contracts, or 250 million ounces, were sold in one minute. That is not true and virtually impossible. There was a volume spike in the after hours, but that amounted to some 25,000 contracts that were traded in the entire 4 hour session after the 1:30 regular closing time. The misstatement of the actual trading volume, however, should not be taken as reason to disregard the spirit of the piece. The author is to be commended for pointing out the manipulative after hours' takedown. Don't let a bad data feed detract from the intent of the presentation. Silver was illegally and manipulatively taken down on Tuesday. Thursday, too.

The Senate banking committee hearings on Thursday, featuring Fed Chairman Bernanke, SEC Chair Shapiro, and CFTC Chairman Gensler, among others, on Dodd-Frank was instructive. http://banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=8dca4578a3c0-4fd6-b813-2088ad08584b Gensler brought up the issue of position limits and seemed to indicate it would be addressed in September. I'm disappointed it will not be resolved earlier, but after waiting more than 20 years to see this issue in the spotlight, what's another month or two? I still am not predicting how the matter of position limits in silver will be resolved, just that it will be resolved. This is the key issue for the silver manipulation and you can be sure that JPMorgan and the other concentrated short crooks are working overtime to prevent legitimate silver position limits from being enacted. When the dust settles, we will all have a clear idea of whether the rule of law applies the big COMEX silver shorts. Up until now, it certainly hasn't, much to the diminishment of us all.

Finally, on a somewhat unrelated matter, I'd like to reference an interesting COT set up in crude oil, the world's most important commodity. Several months ago, I highlighted an unusual COT set up in all the CME metals, with copper, silver, platinum and palladium trading below key moving averages and holding favorable COT readings. Since then, all these metals have penetrated the moving average to the upside. It looks like a similar set up may exist in crude oil. For the past couple of months, crude oil has traded below key moving averages. As a result, there has been significant speculative selling, primarily long liquidation. Now, crude oil prices may be in the process of violating moving averages to the upside and threaten to set off a wave of speculative buying. This is not intended as investment advice, but more of a head's up. If we witness a sudden pop of 5 or 10 dollars to the upside in crude oil one of these days, it will likely be because the tech funds and others have re-entered crude oil on the long side.

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Silver – \$40.10

Gold – \$1601

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