

Weekly Review<?xml:namespace prefix = o ns =
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After a big price pop on Monday in each, silver lagged gold for the rest of the week. Still, both managed to close at six week highs on what turned out to be relatively equal weekly performance in percentage terms. Gold finished \$38 (2.9%) higher for the week, while silver ended up 60 cents (3.1%). As a result, the silver/gold price ratio remained just under 67 to 1; still the most undervalued silver has been to gold in three years.

I know the sudden and repetitive silver price sell-offs and relative underperformance to gold is unnerving, but I can only point out the facts dictate that silver will outperform gold in the end and silver's undervaluation should be considered a rare opportunity to switch to it from gold. Admittedly, the facts are currently overwhelmed by manipulative pricing on the COMEX but there is little chance that the phony price-fixing will continue indefinitely. In fact, in light of the current news flow, it's hard to imagine the manipulation lasting much longer (with "much longer" undefined, but feeling closer each day).

The only advice I can offer is not to be over influenced by the daily pricing because it generally has nothing to do with the underlying silver supply/demand fundamentals. This is easier said than done and is a conversation I have with

myself daily. All I can say is that if one obsesses with daily price action too intensely, particularly in this day and age of HFT, one would surely lose a long term perspective; the most important approach in silver.

Turnover or movement of metal among the COMEX-approved silver warehouses, picked up fairly dramatically this week, after a month or so of lesser movements. Total movement exceeded 4 million ounces, as total inventories fell 2.9 million ounces to 163.3 million ounces. I know I wrote recently about not reading too much into COMEX (gold) inventories, so my constant mentioning of the turnover in silver might seem contradictory. I don't think so. The decline in COMEX gold inventories this year does not mean that gold ceased to exist or can't come back to the market, just like a decline in COMEX silver inventories means the metal is gone forever. On the other hand, the unique and specific to silver turnover in the COMEX warehouses suggests tightness to me. In addition, please don't confuse the current controversy over big banks controlling the LME base metals warehouses and phony movement of metal among them in the same light as the COMEX silver movements. The crooks may be the same, but there are different reasons for the movements.

As expected (and hoped for), there was a sizable reduction in the short position in the big silver ETF, SLV. I had opined (last week) that the recent large deposits of metal into the trust were intended to reduce the large short position and were not the result of plain vanilla investor buying. As of the close of business

July 15, the short position in SLV declined by 3.6 million shares (ounces) to just over 17.3 million shares. That's still too large of a short position as it represents 5% of total shares outstanding, but enough of a reduction for me to hold off badgering BlackRock (the trust's sponsor) or the SEC at this time. (Believe it or not ☐ I don't live to badger others).

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

The big SLV deposit this week of 4.5 million oz may have been related to the high volume price surge on Monday, but we'll know more in time. Since there was absolutely no deposits (just continued withdrawals) of metal in the big gold ETF, GLD, I was also not surprised that the short position in GLD did not decline at all and remained very high at almost 30 million shares (3 million oz) and 9.6% of total shares outstanding. This is the highest level in memory. Just to keep it in perspective, the short position in GLD is almost as large in equivalent ounce terms as the total commercial net short position on the COMEX. The dichotomy is that the COMEX commercial net short position is near record lows, while the short position in GLD is at record highs. I think that is due to the large speculative short position in COMEX gold also being present in the short position of GLD.

It's hard not to comment on the continuing sharp contrast in metal flows between SLV and GLD and what that might mean. I had been thinking, since early in the year that the metal flows from GLD would subside. Not only has that

not occurred (yet), there has even been a close to 2 million oz gold outflow over the past month, when gold rallied more than \$100. Since year end, GLD has lost 13.6 million oz, or near a third of the gold it held. SLV, in contrast is not down at all and up more than 3% in metal holdings. I still think the most plausible explanation is in the collective mindset of the investors in each exchange traded fund. A brief review of the history of each might bring that out.

In dollar terms, the assets in GLD grew from under \$20 billion in late 2009 to as much as \$75 billion between mid 2011 and the beginning of this year. As a result of giant metal liquidations and also declines in the gold price, the assets in GLD currently stand close to \$40 billion, a decline of \$35 billion from the top at year end. While the assets in SLV are down from over \$10 billion since the beginning of the year to under \$7 billion today; that's all due to the decline in the price of silver as there has been no net liquidation of metal. What does this mean?

I think it means that there were many "fair weather sailors" in the GLD who were never sure of the fundamentals in gold and were just along for the ride as long as the price was behaving well. Remember, the key feature of and promise to the precious metals ETFs was that they made it possible, for the very first time, for stock investors to, effectively, buy metal by buying a stock. Also remember that the fundamentals in gold are confusing to many, including me. Therefore, in retrospect, it doesn't seem terribly surprising that so many sunny

day sailors in gold bailed out when the seas got rough. In the future, some may come back (when prices rise), but many will not. What about silver?

Silver investors in SLV hit their patch of really rough weather back in May of 2011, when the crooks at JPMorgan and the CME Group arranged for the 30% one week price smack down. Of course, there were some fair weather sailors aboard for the silver ride up to \$49 and on the subsequent deliberate price smash some 60 million ounces were cast overboard with two months, or 20% of the metal in the trust. I believe those investors who remained were not fair weather sailors but mostly understood the real silver story. Furthermore, the silver price hurricane this year has hardened the resolve of those onboard the silver ship.

On the journey ahead, which promises to be swift and sudden, what occurred in past rough seas will influence what happens next. While I'm bullish to gold's immediate price prospects, based upon market structure considerations, I don't see the potential future inflows into the GLD and other gold ETFs as being as strong as in past gold price rallies, because so many have bailed out. In silver, I see a hard core band of investors who have taken the worst of what JPMorgan can dish out price wise and still remain on deck with many prepared to buy more. This sailing story is speculation on my part, but based upon what has occurred.

Sales of Silver Eagles are still reported on Monday only and still indicate that July may be the strongest sales month of the year (save for January which included millions of coins held over from December). At the same time, Gold Eagles seem to be trailing off and as a result July might prove to be a record of sorts for silver versus gold relative sales (excepting January). I still sense a higher percentage of Silver Eagles are headed overseas than in the past, but sales are sales.

The changes in this week's Commitments of Traders Report (COT), while not dramatic on the surface, did contain one big surprise under the hood. While prices were volatile during the reporting week, gold did rise as much as \$60 and closed over the 50 day moving average on the Tuesday cut off and silver did jump more than a dollar on the Monday of the reporting week. Therefore, some deterioration or increase in the total commercial net short position was expected.

In gold, we got the expected deterioration as the total commercial net short position increased by 10,000 contracts to 34,600 contracts. Keeping the price action in mind, it could have been much worse and all things considered, we are still at a markedly bullish market structure in gold. By commercial category, the big 4 and big 5 thru 8 shorts stood pat and the raptors, basically, sold the entire

10,000 contracts from a net long position that still remains high at almost 122,000 contracts. I'll come back to this in a moment for the big surprise.

The biggest disappointment in the gold COT was that the technical funds (in the managed money category of the disaggregated report) bought back another 8000 contracts of their gross short position, adding to the 17,000 short contracts the tech funds bought in the previous week. This is fuel responsible for and being consumed on the price rise of more than \$100 in gold that I was hoping would have resulted in more of a price rise, since once consumed, is gone. Any disappointment must be balanced with what turned out to be the big surprise in this week's report.

That surprise was the large increase in JPMorgan's massive net long COMEX gold futures position. The data indicate JPMorgan may have increased its net long position in gold by almost 9600 contracts to bring that position close to 85,000 contracts. What data? There is only one data point, but it's a very hard number. The percentage of the big 4 net long position (which JPMorgan must reside in) jumped to the highest ever at 32.4% and when multiplied against total open interest of 434,750 contracts results in a hard net number of 140,859 contracts held by the big 4 longs. This represents an increase in the big 4's net long position of 9655 contracts from the previous week.

I'm alleging that JPMorgan accounted for the entire one-week increase in the big 4 category and that the bank now holds 85,000 contracts of the 140,859 contracts held net long by the big 4. Certainly, if JPMorgan or the CFTC dispute my calculations, then they can set the record straight. I further allege that JPMorgan holds, once all spreads are removed from total open interest, more than 23.6% of the entire net open interest in COMEX gold futures, up from 20.6% in the previous week. Never has any entity held such a large concentration in COMEX gold futures, to my knowledge. Certainly that is something the CFTC should respond to, as the implications for manipulation in gold has never been clearer.

In silver, despite the big one-day price pop in the reporting week, the total commercial net short position actually declined by 1200 contracts to 10,100 contracts. By commercial category, the raptors (the smaller commercials apart from the big 8 shorts) added 1500 contracts to a long position which now totals 41,300 contracts. The big 4 added 500 shorts and the big 5 thru 8 bought back 200. The only disappointment was that the tech fund shorts bought back 1600 contracts, using up some fuel.

All in all, there was nothing outstanding in the silver COT report to compare to the big surprise in gold. I'm guessing JPMorgan holds around 14,000 silver contracts net short. One thing I will add, just like my sailing analogy in GLD and SLV, JPMorgan has been able to build up such an unprecedented and historic

net long position in COMEX gold while still being stuck on the short side in silver because more investors and speculators have been willing to sell gold than have been willing to sell silver. And I think that's going to add some powerful mojo to silver going forward.

The big news, of course, is JPMorgan's announcement late yesterday (Friday afternoons are usually the time for such news) that it was mulling an exit from the physical commodity business. The bank was quick to add that it was certainly remaining in the business of manipulating gold and silver prices, lest there be any question about that.

<http://www.bloomberg.com/news/2013-07-26/jpmorgan-says-it-may-sell-or-spin-off-physical-commodities-unit.html>

As I have been writing recently, the news on JPMorgan (and other large banks) and their role in various commodities has been intensifying. It's bad enough when the Federal Reserve wonders out loud if banks should be in this line of business or that the CFTC is notifying the banks not to destroy documents ahead of a potential investigation, but the absolute low point for JPM and the other banksters has to be when your financial activities make it to the Comedy Channel for mocking purposes. There's nothing like humor to get to the heart of a serious issue. http://www.youtube.com/watch?v=eoaGEx01_0E

One thing for certain is that JPMorgan is not undertaking any exit from an extremely profitable business without a gun being held to its head by government officials. Another certainty is that JPMorgan has known of the government's intent before just about anyone else, save the government itself. My guess is that JPMorgan has know of their getting booted to the commodities curb for enough time to have done something about it – like repositioning themselves to be in the best possible market state when the jig is finally up. There's no doubt in my mind that the timing of this year's magnificent (and illegal) flip for JPM from being massively short to being massively long COMEX gold and for the crooked bank largely eliminating its concentrated short silver position coincides with the bank first learning of the government's intention. Hey, if you have to leave, leave on the most advantageous terms possible.

I still don't trust anything about JPMorgan and I am mindful that they made a similar statement about ceasing any proprietary trading in September 2010 that they did not honor. (Please see JPMorgan and Silver, dated Sept 2, 2010 in the archives). My guess is that the bank determined back then that their army of lawyers and lobbyists could delay or deflect any government attempt to rein in a financial institution determined to do what it wanted. I think it will be different this time and the government will prevail, but getting JPM to tow the line is like killing a vampire – if you don't plunge the wooden stake through its heart, it isn't going to die.

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I can't help but inject my personal thoughts here. For almost five years I have labeled JPMorgan as the big silver price manipulator in almost every article I have written. I have sent to Jamie Dimon, the bank's CEO, every one of what must be 500 articles, because I would never accuse anyone behind their back. Each and every time I have sent an article accusing the bank (and the CME Group) of being crooked and of manipulating the price of silver (and gold), I have braced for the legal blowback that I was certain was forthcoming. I suppose my fear of reprisal was outweighed by my outrage at the crime in progress.

I have been, despite never hearing a peep from JPM or the CME, certain that something had to give – there was no way anyone could continue to publicly accuse major financial institutions of illegal activity without some resolution; either legal action against the accuser or the ending of the illegal activity. I'm still not sure how it will turn out, but it has got to be one or the other. (I don't have to tell which one my wife is rooting for – me, too).

It is simply preposterous that banks should be trading in commodities in the first place and beyond absurd that the most systemically important US bank should be allowed to continue to manipulate the price of gold and silver. Even though JPMorgan has denied exiting gold and silver, I don't believe them. The most important aspect to the electricity manipulation about to be settled by JPM with the Federal Energy Regulatory Commission is the allegation that the head

of commodities for the bank lied under oath. You may remember this same bank official stated on TV that JPMorgan doesn't take price directional positions in the silver market. How many times must someone lie before you disbelieve anything they say?

These are exciting and fast-changing times in the gold and silver markets. Most remarkable is that all the new developments fit precisely with a long term manipulation in silver and JPMorgan's critical involvement in it over the past five years, a theme I have never varied from in the slightest. Whatever causes JPMorgan to end their lying and cheating ways in precious metals will end the manipulation and allow the price of silver to break free to the upside. That day can't come soon enough.

One quick and somewhat unrelated comment. As you go to fill up at the gas station and wonder why prices have jumped so much, please be aware that speculative net long positions and commercial net short positions are larger than at any point in the history of the NYMEX, much greater than when crude oil traded near \$150. I think, in the end, the commercial shorts (including JPMorgan) will prevail in resolving the NYMEX position mismatch to the downside to their advantage, but please don't take that as investment advice.

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Silver - \$20

Gold - \$1333