

June 16, 2012 – Weekly Review

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Gold managed to snap back from last week's losses and finish the week about \$32 (2%) higher, while silver struggled to finish unchanged, as it has done, effectively, for the past 5 or 6 weeks. One notable pricing event was the 75 cent two-minute HFT crooked silver takedown on Wednesday morning. As a result of gold's outperformance, the gold/silver ratio widened out to just under 57 to 1.

While I beat the drums for a switch from gold to silver, that does not mean I am negative to gold's price prospects. In addition to a very bullish COT market structure, circumstances in place in the world do not point to lower gold prices. In fact, currency and financial system concerns have never been more supportive for gold and silver than at any point in my lifetime. If ever there was a time to hold hard assets in place of paper currencies and other financial assets, that time must surely be now. I can't imagine why a long term holder of gold or silver would sell now, except if tricked into selling by paper price manipulations.

Conditions in the wholesale physical silver market continue tight, based upon the movement of recorded inventories. Turnover in COMEX silver warehouse inventories continue strong thru Thursday (Friday's data was unavailable) as total inventories climbed to a new high of nearly 145 million oz, up almost 1.5 million oz for the week. There were also some notable increases in the metal holdings of some big silver ETFs. The biggest, SLV, added almost 2.5 million oz for the week, with another 2 million oz added by the Swiss silver ETF, ZKB. Metal movement means metal demand, at least to me.

My recent broadside at JPMorgan, et al, generated some concerns from subscribers that I had changed my mind about SLV, of which JPMorgan (UK) is the custodian. I haven't. I think JPM is up to its eyeballs with the COMEX silver pricing manipulation, but that is separate and distinct from its role as custodian of the Trust, as there is a long chain of built in institutional safeguards. I did promise to disclose if I ever changed my mind and I will if I do. As always, everyone decides for him or herself. One of the distrusts of SLV is the belief by some that the silver claimed to be there, doesn't exist. I don't buy that, but I can't guarantee I am correct. There is a private site that tracks SLV metal movement that seems to be reliable (again, no guarantees) <http://about.ag/SLV/> (thru June 8)

What I do conclude from the recent metal inflows into SLV and other silver ETFs is that silver investors have not liquidated metal during the recent price malaise. Metal holdings in SLV are at the same level (around 313 million oz) as they were at the price top at the end of February. This only emphasizes how silver prices are being artificially set due to paper trading on the COMEX and not in the real world of metal.

The new short interest report for stocks indicated a slight decline in the short position in SLV by 180,000 shares/oz, to around 14 million shares. Six months after my run in with BlackRock, we are still down substantially from prior peak levels of 26 million and 37 million shares and I think that is the key point. If the short position climbs sharply, we'll deal with it as best we can, but it doesn't seem to me that it should be obsessed over right now. Certainly, the short position in SLV went down as JPMorgan was increasing its COMEX short position by over 25 million oz over the same two week period. The increase in the COMEX short position of JPMorgan was almost double what the total short position is in SLV. As always, we need to keep things in perspective. <http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Sales of Silver Eagles from the US Mint seem to be plodding along at close to the rate of 2.5 million oz per month. Silver Eagle sales are still quite strong compared to Gold Eagle sales and I would imagine both would turn stronger as and when the price manipulation is broken. I'll talk about it more in the future, but I can easily envision a time in the not too distant future when the talk will no longer be of sluggish silver retail sales, but of unavailability. The supply of silver for sale may seem to be ample presently, but it wouldn't take much for that ample supply to suddenly dry up, just as has occurred in the not so distant past.

The changes in this week's Commitment of Traders Report (COT) featured slight increases in the headline number (the total net commercial short position) for both silver and gold futures on the COMEX. I didn't have strong expectations for big changes. Price action in the reporting week started with a big gain in gold and silver on Wednesday, the first day after the cut-off, followed by price weakness for the rest of the reporting week.

In gold, the total net commercial short position grew by a slight 2700 contracts; to 158,800 thousand contracts (15.8 million oz). In the previous reporting week, the total commercial net short position grew by almost ten times this week's change. By category, the gold raptors (the smaller commercials apart from the big 8) were big sellers of 10,700 contracts, increasing their net short position to 12,900 contracts. In contrast, the big 4 bought back almost 6000 contracts and the big 5 thru 8 bought back 2000 contracts.

At 158,800 contracts, the total commercial short position must be considered bullish, particularly when the low historical level of the big 4's concentrated short position is considered. There may have been some further increase in the total commercial short position in gold since the Tuesday cut-off, as gold prices traded above the key 50 day moving average (\$1615), albeit on moderate volume. All things being equal, gold looks set to blast off based exclusively on the current COT set up and frightening world financial concerns.

But all things are never equal and the opportunity for a manipulated sell-off is always present, especially this weekend with the Greek election drama. In our present unstable world, we may experience a sharp takedown first, before the bullish impact of the COT structure in gold is felt. I'm not making any short term price predictions, just explaining beforehand that if we go down first, it will be exclusively because of price manipulation on the COMEX. As if you didn't know.

In silver, it was another week, another manipulative performance from JPMorgan. The total commercial net short position increased by 1400 contracts, to 17,900 contracts. While this is still an extraordinarily low level for a commercial short position on an historical basis, what stood out was that the big 4 (read JPMorgan) accounted for the entire increase, by increasing its net short position by 1500 contracts. The silver raptors did sell a slight 400 contracts, reducing their net long position to 22,800 contracts, while the 5 thru 8 largest shorts bought back almost 600 short contracts. In silver (and in gold) there was not a large amount of short covering by the technical funds that are short, preserving most of the buying potential for a later date. Since silver prices, in contrast to gold, were weaker since the cut-off and no moving averages were violated, there shouldn't have been a further increase in the commercial net short position.

The additional short selling by the big 4 this week increases my estimate of what JPMorgan holds short to around 18,000 contracts. This is 20% of the total net open interest in COMEX silver futures (ex-spreads); still an obscenely large and dangerous amount for any one trader to hold in any regulated futures market. JPMorgan's position still equals the entire net commercial short position. Once again, without JPMorgan, there would be no commercial net short position in COMEX silver. A market can't be more manipulated than if it has only one seller. For the past few weeks, JPMorgan appears to have been the only silver short seller on the COMEX.

I'd like to follow up on my recent conclusion that the US Government, through the President's Working Group on Financial Markets has authorized a continuation of the silver manipulation. I received some feedback from subscribers that I thought I would address.

One issue was whether my conclusion was supposition or absolute fact. Of course, it was supposition; but it was based upon facts. That's what I do. I try to look at all the facts present in the silver and gold markets, of which there are thousands, and then determine which are the most important to future prices. That's what I consider analysis. If I don't mention certain facts, that's generally because I don't feel they are particularly significant.

Of all the facts present in any market, none could be more important than whether that market is manipulated or not. I have been convinced for more than 25 years that the silver market has been manipulated, mainly by collusive and concentrated short selling on the COMEX. I have done everything I can to alert the regulators of the manipulation. Nothing that has occurred over the past quarter century has dissuaded me from my original conclusion that silver was manipulated in price; instead every development has strengthened my conviction.

I have always tried to focus on the facts of the manipulation, such as the extreme concentration on the short side of COMEX silver, and not so much on the motives behind it. It always seemed more important to point out the mechanics of the manipulation and not why it was done. My recent conclusion of government involvement represents a change in that I have now focused on the motive, but I am still relying on the same set of ongoing facts. What good would it have done to dwell on the motive without first establishing the facts proving a manipulation existed?

More than supposition, it was a process of elimination in concluding the Working Group had signed off on the silver manipulation. It's easy to say everything is one big conspiracy, rather than first establish whether a manipulation exists on market facts. I doubt I would have succeeded in getting the CFTC to specifically review and publicly comment on silver on multiple occasions if I only wrote to them about government conspiracies. The agency wouldn't have published two 15-page detailed letters denying a manipulation or opened an Enforcement Division investigation in response to conspiracy theories. All the inquiries were generated because they were based upon Commission published data.

Another subscriber asked if I comprehended the seriousness of my claim of government involvement. Yes, I'm the one waiting for the serving of legal papers and other reprisals to the allegations; so I'm taking it real serious. Another subscriber inquired about the suddenness of my conclusion. It may appear to be sudden, but was actually a long time coming considering all the facts. I had been publicly allowing for the plausibility of government involvement for a while. The process of elimination just doesn't allow for any other plausible explanation to my remaining open questions. What's gained by being tentative about it?

As a citizen and as a silver analyst, I've always felt an obligation to speak up if I saw strong evidence of wrongdoing. But government involvement takes the silver manipulation to a disturbing level. By sanctioning JPMorgan's silver manipulation, the Working Group has cheated all the world's silver investors and all the world's silver producing companies and countries. Their motive may have been to keep silver prices from climbing and thus spooking the financial markets, but that is wrong on so many levels and doomed to failure. Here we have one government agency, the US Mint (part of the Treasury Dept), selling Silver Eagles to its citizens at more than \$40 to \$50 (pre-May 2011), while the Treasury Secretary is approving a 30% smack down of the price. This is wrong on too many levels to contemplate.

Chairman Gensler of the CFTC says repeatedly that his agency is not a price setting agency; but by siding with the short silver crooks, that's exactly what the Commission has become. The CFTC has become an agent of the silver manipulators. The Working Group may have quasi-legal cover for allowing silver to be manipulated lower; but it has no moral or ethical cover. Those involved in the Working Group may prevail in a court of law on some arcane technical grounds; but they will never be able to stand up and openly proclaim that what they have sanctioned was in keeping with American values. Allowing JPMorgan and the CME to cheat investors and legitimate producers of silver should be something that haunts everyone involved forever.

The Working Group cannot assist in manipulating the price of silver indefinitely and when the manipulation is terminated the pricing landscape will be altered radically. Silver investors will rejoice on that day, but it will be a day of shame for the government officials who quietly went along with the scam.

Ted Butler

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Silver – \$28.65

Gold – \$1628

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