

Weekly Review<?xml:namespace prefix = o ns =  
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In a relatively low-volume trading environment, silver slipped about 45 cents for the week (1.23%), while gold rose by \$6 (0.4%). As a result of silver's underperformance, the gold/silver ratio widened out to 43 to 1. My sense is still that very few are actually trading gold and silver on a ratio basis and changes to the ratio come as a result of the most recent flat price movements.

Background conditions still favor silver outperforming in the long run, with short term ratio movements being random and unpredictable.

I've noticed an increased number of commentaries predicting some very big price targets for gold (\$5000+). I'm an agnostic on such lofty gold targets, although one has to be careful about ever saying never. In the event of a true flight from paper currencies I suppose anything is possible. My skepticism basically lies in the total value or gold market capitalization that would result from a \$5000 or higher price for gold. After all, with three billion (bullion) to five billion (total all forms) ounces of gold in the world, the total value of gold would range from \$15 to \$25 trillion at \$5000. If all other assets were marked up accordingly, due to a genuine currency debasement, this might be possible. In such an event, I would imagine silver would outperform spectacularly well, given its rarity and greater propensity for physical shortage compared to gold, so I do not fear \$5000 gold. It's just that I wouldn't plan my finances on the

certainty of such a gold price target.

In the physical world of silver, the lull in COMEX warehouse inventory turnover mentioned last week did prove to be temporary, as silver movements in and out returned with a vengeance. We did dip and finish the week just below the 100 million ounce mark in total COMEX inventories for the first time in ten years, but what impressed me the most was the tempo of turnover which indicates tightness. Yes, I know that the price action has been punk the past six weeks, but analysis involves more than extrapolating the most recent price changes. These COMEX silver warehouse turnovers, completely lacking in COMEX gold and copper warehouse movements, still suggest an unusual demand for silver.

I did detect a cooling off in retail demand for silver based upon feedback from those in the business, which I attribute to the price action since May 1. Premiums have finally contracted a bit on Silver Eagles and other retail forms of silver. Still, the US Mint is reporting sales of Silver Eagles remaining at a record pace, especially compared to gold. I've long suspected that a good number of Silver Eagles are finding their way to foreign locales or into the hands of large investors, as the Mint still seems to be producing Eagles to capacity.

Silver movements out of the big silver ETF, SLV, have remained notable. More than 56 million ounces have been redeemed from the Trust since late in April.

At less than 310 million ounces, the holdings in the Trust are now back to levels last seen in September when silver traded around \$20. Much of the reduction in holdings is a result of the intentional manipulated takedown in price commencing on May 1 (more on that in a moment). But it is important to remember that the 56 million ounces redeemed still exist and are very much owned by someone. This change of ownership was a prime motive for the silver price takedown, along with the forced liquidation of COMEX contracts.

I've characterized the forced liquidation of SLV holdings and COMEX silver contracts as a transfer from weak hands to strong hands. Let me add a new thought along those lines. The 56 million ounces redeemed from the Trust represents 15% of the 366 million ounces held in late April. If this silver was purchased by a single or related entities and left in the Trust, it would become subject to the SEC's reporting requirement when a stock position exceeds 5%. In other words, the ownership would be made public had one or two big entities bought it and left it in the Trust. By converting to metal by turning in shares, the new owner(s) could avoid public disclosure of ownership, since there is no reporting requirement for physically owned metal.

Obviously, I can't prove this to be the case, but if someone wanted to build a big position in silver with as little public disclosure as possible, one way would be to buy as much as possible in the SLV, but to convert shares to private metal ownership as the share stake approached the 5% reporting level. It goes

without saying that someone looking to build a big silver position by taking delivery on the COMEX, would leave a trail a blind squirrel could follow. Just ask the Hunt Brothers or Warren Buffett. Please put all this in the reasoned speculation category.

A number of subscribers have asked me why I don't renounce ownership of shares of SLV, especially given my caustic criticism on the fraudulent and manipulative short position in the shares, apparently condoned by the sponsor of the Trust, BlackRock. It's a fair question that deserves a response. My answer is similar to my reaction when I first uncovered the excessive and concentrated short position in COMEX silver futures. Rather than run away and avoid silver because of the failure of the regulators to uphold the law, I chose to do what I could to expose the manipulation and fix it. The COMEX was too important an American financial institution to do otherwise. Same with the SLV; as the largest global holder of silver I feel it would be irresponsible to not try to remedy the fraud of its manipulative short position. Besides, as an analyst, I must conclude that the short position is as bullish a future force on the price to the same extent it has been bearish up until now.

One thing that I haven't emphasized about redemption of silver from the SLV Trust is the effect it has in shrinking the number of shares outstanding. The 15% reduction in metal holdings in the Trust has also reduced the total number of shares outstanding by that same 15%. This reduction in shares outstanding

mathematically increases the percentage of shares held short relative to total shares outstanding. The 33 million share short position in SLV (as of May 31) now represents almost 10.5% of all the shares outstanding. This is truly an epic and obscene percentage of shares to be held short. It is head and shoulders above whatever could possibly be considered normal. I will note that the big gold ETF, GLD, also has an obscenely large and manipulative short position of 5.8% of shares outstanding. But that's still half of the SLV short position.

Just for comparison's sake, the "normal" percentage of shares held short in an individual stock is a fraction of the 10.5% held short in SLV. The average percentage of short shares to shares outstanding in the ten largest US stocks (Exxon, Apple Computer, Chevron, Microsoft, GE, Wal-Mart, Proctor and Gamble, Johnson and Johnson and American Telephone) is less than 1%. Yet the short position in SLV is more than ten times that amount. I'd like to see someone try to explain how an increase in the short position of the largest stocks (or any stock) by ten-fold wouldn't depress the price artificially and manipulatively.

Worse, there shouldn't be any short position in SLV (or GLD), as these are truly unique securities that promise, via the prospectus, that a certain amount of metal backs up each shares. Point blank □ there is no metal behind any shares held short. To my knowledge, there is also no way to determine the identity of those short shares. This raises an important regulatory issue, namely, the inequity between how large long and short stock holders are treated. All long

holders have to disclose ownership at the 5% threshold or higher. I don't know of any similar reporting requirement for short holders. With 10.5% of SLV shares held short it is possible for a super large short holder to exist and no one would ever know. For a market like silver which has been the target of short selling allegations for decades, this is beyond crazy. For BlackRock to tolerate this borders on criminal negligence. I firmly believe BlackRock should be held liable for the role that excessive and possibly concentrated short selling of SLV shares played in the recent silver price smash.

There were no big surprises in this week's Commitment of Traders Report (COT). In silver, the total commercial net short position was reduced by a miniscule 104 contracts. The big 4 (JPMorgan et al) bought back 600 contracts, while the raptors sold out 400 longs. This is analysis by microscope, so let's call it unchanged. The only surprise was that there wasn't more technical fund and speculative long liquidation, as the price for the reporting week was down \$1.50 Tuesday thru Tuesday, with a particularly wicked \$2.50+ HFT decline on Friday and Monday of the reporting week. I would have thought such a deliberate sharp sell-off would have shaken more longs from the market. The most plausible explanation is that we may be at the no more blood from the stone point. You can't rule out more intentional takedowns from the big COMEX crooks, but the silver COT market structure is still remarkably bullish.

In gold, given its neutral COT market structure, an almost \$30 peak to trough

sell-off within the reporting week was sufficient to reduce the total commercial net short position by 10,300 contracts to 237,400 contracts. The big 4, the 5 thru 8, and the gold raptors pretty much divided up the speculative selling. The market structure in gold is still neutral.

About a month ago, I mentioned an interesting set up in the other metal futures markets covering platinum, palladium and copper, in addition to silver and gold. Back then, all these markets, except gold, were below their 50 day moving averages and had relatively constructive COT structures, setting the stage for all to move higher. Subsequently, platinum and palladium did rally above their 50 day moving averages, joining gold. Silver and copper never made it above their 50 day moving averages. A sell-off in platinum and palladium this week pushed those markets back below their respective averages. Now we have all four markets below their 50 day moving averages, except gold. It still seems to me that all four markets will decisively cross the moving averages to the upside at some point, setting off a rally of some significance. I wish I could tell you when, but I just don't know.

Six weeks ago, we witnessed the most blatant manipulative takedown in the history of the silver market. Those are strong words from someone who has witnessed countless deliberate price smashes in silver for decades. I'm excluding the silver price decline of 1980. Even though I believe there was collusion on the part of many to have the price decline then, there was also

clear evidence of manipulation on the upside in the form of the Hunt Brothers. The Hunts had a concentrated long position and the commercials had a concentrated short position. The exchange and the government sided with the concentrated shorts over the concentrated longs. To be honest, I can see that and not get outraged. But times and circumstances have changed. Since 1980, I have detected no further manipulative attempts to the upside. All the takedowns have been orchestrated by the shorts on a unilateral basis. For the CFTC to continue to side with the concentrated silver shorts over the widely dispersed longs, including millions of physical owners and mining stock investors is patently unfair and un-American.

Even in 1997-98, when Warren Buffett purchased over a hundred million ounces, he appeared to bend over backwards to buy with the least possible upside disruption to price. There was no way such a large purchase couldn't have had a major market impact, but Berkshire Hathaway was incredibly professional in its accumulation. Here's an article I wrote at the time. I'd like to rewrite it and reduce the word content by 50%, but this was 13 years ago. Or just read the second to last paragraph. As I remember, Pan American Silver used it in their annual report back then

[http://www.gold-eagle.com/gold\\_digest\\_98/butler051698.html](http://www.gold-eagle.com/gold_digest_98/butler051698.html)

What makes the recent silver takedown the most egregious in history is the clear proof of manipulation provided by public data. I know the notion exists



that silver was in a bubble, driven up by hot speculative money that suddenly turned tail. But I also know that there is no objective data backing such bubble claims. All that was looked at was the rising price and then an assumption was made that there must have been hot speculative money behind it. The data in the COT for the week ending April 26, when silver closed at \$45.60, having traded above \$49, was that the big buyers to the upside were the big commercials, mostly buying back shorts, to the tune of more than 10,200 contracts net. JPMorgan was a noted buyer, as confirmed in the May 3 Bank Participation Report. The speculators were the big sellers. I still believe that there was a backdoor deal between JPMorgan and the few big speculators who did go short, illegally swapping positions, as I wrote at the time. Illegal swap or not, there was no hot speculative money driving prices higher, just commercial buying.

What happened next was particularly rotten. The price was taken down the following Sunday evening by High Frequency Trading (HFT) crooks by \$6 and then by \$15 (30%) in total over the next week. It was only after the price had declined drastically and was kept down for weeks did the full speculative liquidation take place. I'm trying to make special point here, so please bear with me. Just like the price didn't go up to \$49 on speculative buying, it did not come down because of speculative selling. It came down because of HFT and other deliberate price depressing factors. Only after the price was put and kept down low and long enough were the long speculators and investors on the COMEX

and in SLV forced to sell by fear of further financial loss. This is where the crooked margin increases by the corrupt CME Group had their effect. It took weeks to get the long speculators and SLV investors to sell. In other words, the price was rigged to cause the final speculative liquidation; it wasn't the speculative selling that caused prices to collapse.

This is a distinction that should have been made and acted on by now by the CFTC. Their own data (as well as the data on outflows from the SLV) show that the price move up and down was orchestrated by factors unrelated to legitimate changes in supply and demand. The CFTC knows, or should know, the difference between true price discovery and manipulative price setting. It was nice that Commissioner Bart Chilton publicly stated that the agency was examining the Sunday evening silver price takedown, but it isn't near enough. Real financial damage has been inflicted on innocent silver investors and the Commission appears impotent and intimidated to rectify that damage. A friend remarked to me recently, after I described in detail what was occurring in silver how it was a shame we couldn't just call 911 to report the crime in progress. It reminded me that I had already written an article on just that some years ago. It turns out to have been 5 years ago, almost to the day.

[http://www.investmentrarities.com/ted\\_butler\\_comentary/06-19-06.html](http://www.investmentrarities.com/ted_butler_comentary/06-19-06.html)

There have been a number of acting chairman at the CFTC since that last wish of mine to be able to call 911 in an emergency. I have often referred to the

current chairman, Gary Gensler, as the greatest in agency history. I have observed and written to countless CFTC chairs over the past 25 years. Gensler has said more right things in his two years than all previous chairman and chairwomen combined. The best of his best words is his goal to protect the American people. This silver takedown, perhaps the most blatant manipulation in history for any commodity, has occurred on his watch. There is no doubt that he grasps the accuracy and significance of everything I have just written. Yet, he and the Commission have said little and done nothing to protect the people regarding silver.

I sense the importance of the historic regulatory reform the Commission and Gensler are undertaking. I know that silver isn't the big market that energy and food stuffs are. But I also know the importance of applying justice and the law evenly. And I know that justice delayed is justice denied. Nothing short of criminal activity has and is occurring in the silver market, proved by the agency's own data and the agency appears to do nothing and look the other way. That's unacceptable.

As always, please don't take any of the above as a diminishment of my bullish expectations for silver. Truth be told, this just strengthens my conviction of how the silver story will evolve. The facts are becoming clearer and the evidence of manipulation more compelling. Also clear are the coming termination of the manipulation and the freeing of the price.

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Ted Butler

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Silver -\$35.75

Gold - \$1538