

Weekly Review<?xml:namespace prefix = o ns

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It was a rotten week for silver and gold; actually it was a rotten Thursday and Friday, when all the price damage took place. For the week, silver declined about \$1.45 (4%) and gold dropped \$36 (2.3%). As a result of silver's underperformance, the gold/silver ratio widened out to 43.75 to 1, still below where it began the year (meaning silver has still outperformed gold year to date, as well as for the past few years). Silver has certainly underperformed gold since the engineered take down starting May 1.

The catalyst for the late week price drop in silver was centered on crude oil, gold and general commodity weakness, which I plan to discuss in a moment. My point will be that it didn't appear to be silver leading or initiating the overall price decline; just that silver seemed to end up as among the weakest of all after the downward spiral started. This is not coincidental, as it happens all too often to qualify as such. First, let me walk through developments in the physical world of silver.

As has been the case most every week, the tempo of turnover in the COMEX silver warehouse inventories remained frantic, with big movement in and out. There was more out than in, as total COMEX silver inventories ended the week

below 98 million ounces, a new low level for the decade. There has been continued unusual movements of metal in the big silver ETF, SLV, with late week deposits for a change. Still, the big movement recently in the SLV has been metal redemptions. Again, my attention to these physical movements lies in my premise that this indicates a demand for silver by unknown entities (likely big in size) and an inability to meet this demand except by flows into and out from the two largest known repositories in the world. If there were large silver stockpiles available from other sources, the visible footprints would not be made in SLV and the COMEX. This is suggestive of physical tightness.

US Mint production and sale of Silver Eagles still seems to be pinned at capacity and, if anything, the sales of Silver Eagles seem to be accelerating over gold Eagle sales for the month of June (and the year). Investment demand for silver is stronger than gold, at least from the perspective of the US Mint. Other mints in Australia, Canada and China report silver demand growing relative to gold. One must rule out a lack of retail demand as a cause behind silver's recent underperformance to gold price-wise. The real reason can be found elsewhere.

The data in the new Commitment of Traders Report (COT) explained much of the late week sell-off and will serve as a segue to my discussion on crude oil and other commodity price weakness this week. In silver, there was an increase in the total net commercial short position of around 2300 contracts to 35,500 contracts, as the technical funds bought on some price strength early in the

reporting week. The commercial selling seemed to be divided between all three commercial categories; the big 4 (JPMorgan), the 5 thru 8, and the raptors. Undoubtedly, the tech fund speculative buyers were the big sellers on Thursday and Friday, with the commercials collusively buying back short positions. All things being equal, 2300 contracts should not be a sufficient quantity of paper silver to cause a \$2 drop in the price in two days, but this time it was, thanks to other circumstances.

In gold, the commercials increased their total net short position by almost 14,000 contracts to just over 250,000 contracts, up more than 43,000 contracts (4.3 million oz) over the past month. The big sellers were the big 4 and the gold raptors (the small commercials apart from the eight largest traders). I have been reporting the gold COT structure as neutral, meaning the market could move \$50 or more in either direction. Either gold would have continued to move up with increasing commercial short selling until we reached nosebleed COT territory, or the commercials would harvest the existing speculative long position with an engineered move below the 50 day moving average. Obviously, the latter came into play.

As I have written previously, the COT analysis is not a timing indicator, but a directional guidepost. One of the COT weaknesses is that sometimes it warns almost too far in advance; other times it doesn't give enough of a warning. This week's report clearly came after the fact, as Friday's report (with a Tuesday cut-

off) came after the damage was already done on Thursday and Friday. This was more true in gold, as silver's COT structure still looked bullish despite the week's 2300 contract increase. There is never a sure way to know when the commercials will pull the plug on the market and they may not even know themselves so precisely in advance. But the commercials are extremely opportunistic and will quickly capitalize on any advantage given to them. Such was the case with the sudden down take in crude oil this week on the announcement of a release of oil from strategic petroleum reserves.

Now that gold has penetrated the 50 day moving average to the downside on high volume, joining all the other metals (silver, copper, platinum and palladium), the COT analysis now shifts to measuring how far the liquidation has progressed. At some point, the price bottom in gold will be achieved when no further liquidation is possible. It's no longer a question of when gold will penetrate the 50 day moving average, but when will the liquidation be complete. This is a function of many things, including price action, volume, other markets and fundamentals. However, in order to get more gold liquidation, new price lows must be recorded. I can't tell you whether we will see new price lows in gold (or silver or oil), but I can tell you that no further big liquidation will come unless we have new price lows. This is because the tech funds sell on the way down and buy on the way up in price. Given the high volume and price violence of this week's decline, it is possible for the liquidation to be quickly resolved.

If this week's COT release came too late to give a sufficient warning in gold, the COT's offered too long of a warning in crude oil and grains, which suffered big losses this week. A few months back, I wrote how the speculative long holdings in crude oil and grains were at record massive levels. I remember making this point back then as way of a comparison to the relative low level of speculative long positions in silver. All that was needed to cause a substantial sell-off in crude oil and the grains was the violation of important moving averages to the downside. Hundreds of thousands of technical fund long contracts were purchased for no other reason than the price was rising above the moving averages. Regulators, such as the CFTC's Bart Chilton, expressed the legitimate concern of what impact this speculative buying was having on driving prices higher for fuel and foodstuffs, hurting the average consumer. I think Chilton was correct that these speculative positions were largely responsible for much of high level of prices in oil and grains. I even offered the suggestion that technical funds be subject to separate and additional position limits to eliminate any group concentration of positions.

Now that the moving averages in oil, grains and gold have been penetrated to the downside, the technical funds are selling and this is why prices are falling. I don't see any other common price influence amongst all these varied commodities. This goes directly to my point that the futures market (and not just in silver) is setting the price for important world commodities. This is strictly

against the spirit and intent of commodity law which holds that the futures market should discover or follow the fundamental developments of supply and demand. Technical funds shouldn't be allowed to set commodity prices with massive buying and selling. This does not diminish, in any way, the role the collusive commercials play as the real manipulators of the markets. I think both the technical funds and the commercials exert too much price influence, but with a twist. The commercials intend to manipulate the markets; it is unlikely that the technical funds would intentionally damage themselves by continually buying and selling simultaneously and trying to all squeeze through a narrow door at the same time. When are the CFTC and the Department of Justice going to stand up to the crooked CME Group which facilitates the artificial setting of prices by the commercials and technical funds in energy, grains and precious metals?

I'd like to share some thoughts on what I think transpired in all the markets this week, from the perspective of the silver market. As I indicated, some big markets, like oil and grains and gold were vulnerable to a sell-off given the presence of large long speculative positions in their COT structures. Silver had no such large speculative long position (save the 2300 contracts recently added). The announcement of the release from strategic reserves triggered a move in crude oil below the 200-day moving average, which followed a prior recent penetration of the 50-day moving average in oil, as the tech funds rushed to sell simultaneously. This selling spilled over into gold and the silver.

The only difference is that there was massive technical fund selling in crude and gold, on the order of tens of thousands of contracts in each, given the large fund position held. In silver, only a couple of thousand contracts were sold by technical funds, since the funds held a small historical position to begin with. Then why was silver down in price so disproportionately to the number of tech fund contracts sold? Because silver is a special commodity.

Silver is special because of the unique problem it poses to certain big commercials and to the exchange itself. Silver is the one commodity that offers the possibility of real trouble to big short entities and the exchange. It's the one commodity that threatens jail time for some, in my opinion. Silver is the one commodity with genuine concerns about concentration and manipulation. Silver is the one commodity where the public has asked questions that haven't or can't be answered. It is the commodity of never-ending investigations that end with weak or no findings. This makes silver the center of the universe for the big shorts. That's why the abomination known as High Frequency Trading (HFT) has found its way to silver like in no other commodity.

Whatever the big shorts, led by JPMorgan, can do to discourage the buying of silver and to encourage the selling of silver they will do. Nothing accomplishes this better than weak price action. Putting silver prices artificially lower creates a chill like nothing else. Unrelated weakness in other commodities is always automatically taken by JPMorgan and their ilk to initiate price attacks on silver.

It's standard procedure and comes as a natural reflex to them. That's because these market crooks know many outsiders (and regulators) will assume it's natural for silver to be down when other commodities are down. Price speaks volumes.

That silver is special is reflected in other ways. One way is in the special circumstance of its concentrated short position. While JPMorgan and the other big shorts work to depress the price of silver, JPM is doing everything it can to reduce its big COMEX short position. The fact is that JPMorgan's COMEX short position is now around 18,000 contracts or so, down almost 60% from the high water mark after Morgan acquired Bear Stearns. One of the biggest reasons silver went up so much is precisely because JPM covered so many silver shorts. Not only does this prove that JPMorgan manipulated the price of silver (first down when shorting, then up as it covered shorts), it suggests there will be further significant price gains as the process continues. But JPM has to be careful on how it closes out its remaining silver short position, lest it become too obvious the control it has had over the silver price. It could never just cut and run, as that would cause too much of an upward impact on silver. So JPM resorts to other deceptive means.

The latest short figure for shares in SLV was just released. As of June 15, the short position for SLV rose by 4.2 million shares (ounces), to a new record of more than 37 million shares.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99> The SLV short position now constitutes more than 11.6% of all shares outstanding. This is truly an obscenely large short position for any stock; so large that it is inherently fraudulent and manipulative to the price of SLV from a size point alone. In turn, the price of silver itself is also manipulated given that SLV is the largest inventory of silver in the world. It also means that there are more than 37 million shares of SLV in existence that have no silver backing, as required by the prospectus. There is no question in my mind that BlackRock, the Trust's sponsor is negligent for this continuing fraud and manipulation in SLV and will, hopefully, be brought to justice.

So large is the short position in SLV, that it seems impossible that the largest COMEX short, JPMorgan, is not somehow involved in it (and every other manipulative dirty trick in silver). To my knowledge, there is no disclosure as to the identity of short sellers in stocks. As I previously indicated, it seems patently unfair that large long holders in stocks must publicly identify themselves over certain thresholds, but no such rule applies to shorts. My suspicion is that JPMorgan is involved in the SLV short in conjunction with its big COMEX short position. On the one hand, the concentrated COMEX short position has come down significantly; but on the other hand, the short position in SLV has grown to levels never seen. Is there a connection here? I think so. I did privately ask (at the highest levels) that the CFTC inquire into this with the SEC, but asking and getting are sometimes two different things. But given the unusual price action

in silver, both at the beginning of May and late last week it would seem reasonable for the regulators to see if there is a connection between the COMEX and SLV short positions. These are very unusual circumstances.

It is precisely these unusual silver short positions on the COMEX and in shares of SLV that contribute to silver being very special. These short positions exist for a very basic reason; there is not enough real silver available for sale at current prices. That makes it necessary for shares of SLV to be sold short, as not enough silver is available to issue new shares legitimately and in accordance with the prospectus. That makes it necessary for additional COMEX contracts to be sold by existing short holders even though they can't economically justify their existing large short positions.

Truth be told, I'm sick and tired of all the manipulative tricks played in silver. I can't say I'm tired and discouraged of writing about the manipulation or of silver as an investment; just that I am tired of observing that the manipulation still exists. I know that the manipulation keeps prices lower than they would be otherwise and that's good for buying (and certainly holding) purposes, but it's not healthy for society when so many see wrongdoings, report it to the regulators, and still the wrongdoing exists.

Despite all the roadblocks assembled by the shorts, all the significant downward

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corrections over the years and recently, all the new dirty tricks concocted, silver has been the best investment over almost every reasonable timeframe. I suppose it almost had to be that way, as nothing that has performed as well as silver has could come without some negative conditions. The main negative condition in silver is having to cope with the crooks at JPMorgan, the CME Group and now BlackRock, as well as regulators who won't regulate.

The antidote to the negatives is the same solution that has worked for the past decade □ holding a fully paid metal position on a long term basis. That puts the passage of time in your favor, as the longer you own silver, the better off the returns have been. If silver goes lower in price, it won't be because of legitimate factors, only due to temporary dirty tricks from the shorts. That's the only reason we've ever gone down in price over the past two decades. Since buying and holding is as passive and non-time consuming as it gets, I would also suggest that you stay after your elected officials and the regulators as well. It would be one thing if reasonable answers were given to the reasonable questions that you have asked. But since that is not the case, the questions must be asked anew.

Ted Butler

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Silver □ \$34.35

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Gold - \$1502