Weekly Review<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

It was a week that featured a strong start and finish which were bookends to a rotten mid-week performance. Still, the price of gold and silver managed to finish higher at week's close. Gold rose by $23 (1.5%) for the week, while silver ended 65 cents (2.4%) higher. During the week, some new low price milestones were set in silver, going back a year and a half. Still, silver did hold its own versus gold for the week and the gold/silver price ratio held just above 58 to 1. The ratio is still at levels where silver appears extremely undervalued compared to gold based upon everything I look at.

There is much uncertainty in the financial world and price volatility has been rampart in many markets. This price volatility necessarily breeds confusion and doubt across markets, making it more critical than ever for investors to focus on the facts and common sense. Admittedly, that is easier said than done when emotions run high, but it is in emotional times when a clear focus is most needed. This is especially true in silver, where price performance, particularly over the past four months, has been dismal. The question becomes if the recent poor price performance reflects the likely long-term price prospects for silver. Do the real supply/demand circumstances in silver explain why prices have been so weak or is there something else afoot? I'm convinced it is not the forces of the free market that have accounted for the weak silver price action.

This week the CFTC and other regulatory agencies announced a $450 million settlement against Barclays for manipulation of the London Interbank interest rate market. Libor is a key interest rate market, one of the most important short term interest rate setters of all. It is said that Barclays rushed to settle charges of manipulation to get ahead of other major financial institutions expected to be found to have participated in the interest rate rip-off. As I have stated often, manipulation is the most serious market crime of all because it impacts broad numbers of people away from the market where the crime occurs. CFTC officials were quick to point to the evils of manipulation in announcing the settlement.

The significance of the Barclays Libor settlement is that it demonstrates clearly that manipulation can exist. This is something that most deniers of the silver manipulation have claimed to be impossible in silver. How could a market like silver be manipulated for as long as alleged? Yet common sense would indicate that it would be easier to manipulate a smaller market than a much larger market. The silver market is much smaller than the Libor market and would be much easier to manipulate. If interest rates can be manipulated, why not silver? Additionally, the evidence of manipulation in silver is compelling and simple to document, including many thousands of public petitions to the regulators to end it. Most compelling is the proof pointing to the identity of the main silver price manipulator JPMorgan.

Conditions in the wholesale physical silver market appear tight according to turnover indications. Movement in and out of metal in the COMEX-approved silver warehouses remained high as close to 2 million ounces were brought in and shipped out. Total COMEX silver inventories declined around 500,000 oz for the week, to just under 146 million oz. Metal holdings in the big silver ETF, SLV, took a dip of almost 1.8 million oz, in response to the pronounced mid-week price declines and looked normal to me. However, this was in contrast to the steady holdings over the course of this year's price weakness. Certainly, there have been no signs that silver's price weakness is as a result of investor dumping of metal. Silver Eagle sales finished the month at the expected run-rate of over 2.5 million oz.

The changes in this week's Commitment of Traders Report (COT) were significant and largely as anticipated, given the sharp price declines during the reporting week for gold and silver on high trading volume. I split on my over/under guesstimates in last week's review. While still a very big number, the 19,500 contract reduction in the total net commercial short position in COMEX gold futures fell shy of the 25,000 to 30,000 contract I had anticipated. In silver, the almost 5,000 contract reduction in the total net commercial short position came in higher than the 3,000 or more contracts I expected. Needless to say, it is always better to get more of a reduction in the commercial short position than otherwise.

One key point I would make is that it is usually pretty easy for me to come close to anticipating big changes in the COT structures in gold and silver, certainly much easier than predicting short term price movements (which I try to avoid). The reason why anticipating big changes in the COT structure is relatively easy is because I know the silver and gold markets are manipulated by the big commercial interests on the COMEX and I look at it through that perspective. Silver prices are artificially manipulated for the precise purpose of benefitting the commercials' positions on the COMEX; there is no other reason. If someone tried to anticipate big COT changes without deploying this perspective, I don't know how they could succeed.

In gold, the 19,500 contract reduction in the total commercial net short position took that position down to 144,200 contracts, very much in the recent historical range of an extremely bullish reading. The big 4 bought back around 6,000 of their short contracts, but it was the gold raptors (the smaller commercials apart from the big 8) that did the heavy lifting, by buying almost 15,000 contracts. This completely eliminated the gold raptors' net short position and put them net long by 4700 contracts.

The details aside, please remember that the only reason gold declined so sharply during the reporting week was to induce and force speculators to sell so that the commercials could buy the 19,500 net contracts that they did purchase. That's the equivalent of almost 2 million oz of gold, worth more than

$3 billion. Those are big money stakes and anyone thinking that those contracts changed hands due to free market forces or on a whim is not thinking correctly.

The nearly 5,000 contract reduction in the total COMEX silver commercial net short position was stunning, establishing record bullish extremes in a number of important categories. The newly reduced total commercial net position is down to 12,000 contracts, in effect, the lowest ever in the modern COT experience. What made the reduction particularly stunning was that it came in a structure already squeezed out of speculative long positions over the past four months. Then again, the sell-off during the reporting week was so deliberately nasty and vicious that it had the desired effect of inducing speculative selling. Changes in the COT structure in COMEX silver are nothing but cause and effect.

By category, the big 4 (read JPMorgan) bought back almost 2700 short contracts, reducing the big 4's net short position to 30,279 contracts. The silver raptors bought 3400 contracts, increasing their net long position to 27,200 contracts, for all intents their largest ever. I was somewhat unsure if the raptors were getting to the point where they could not add to long positions, but this report indicated they had the ways and means to keep buying undervalued silver contracts. There should be no doubt that the raptors are collusively aligned with JPMorgan and others in rigging HFT attacks to the downside; but neither should it be overlooked that the raptors are frustrating JPMorgan's efforts to rid itself of its manipulative short position. I believe this is complicating things for JPMorgan, as I'll discuss later.

It's hard to express the true meaning in the proper words, but the big 4 now hold a net short position that is 2.5 times greater than the total commercial short position, an extreme level never witnessed in my memory. In many ways, even though the total amount of commercial shorts in COMEX silver has never been lower, it has also never been more concentrated than it is now. The true measure of manipulation is the level of concentration because concentration determines market control.

There were some other notable changes in the various silver categories. Most important was the large increase of over 3700 contracts in the gross short position of the managed money category (in the disaggregated report). This is the category of traders the collusive commercials were most interested in luring onto the short side and the commercials succeeded in spades. Now standing at almost 17,000 contracts, these tech fund short positions will turn around and be bought back at some point on rising prices, providing bullish fuel to the upside. So large was the increase and size of this category of shorts, that I believe one of them may now be among the 5 thru 8 largest shorts. I think this tech fund was behind the increase of more than 1000 contracts in the 5 thru 8 category of larges silver shorts in his week's report. You'd have to go back many years to find a non-commercial among the 8 largest short traders in COMEX silver.

I was also impressed that the managed money gross long category did not decline at all in this latest silver price smash, suggesting there may be few remaining managed money longs to be flushed from the market. Still, the increase in managed money shorts has put the net long position of the tech funds to the lowest effective level in years. This is wildly bullish, as is the extremely low level of net longs in the non-reporting category. It would appear that just about every category in this week's COT is flashing bullish readings that have rarely been seen previously. All, perhaps except for one.

The one possible exception is the short position of JPMorgan. While JPM did reduce its concentrated short position this week by 2000 contracts or more, that short position still amounts to as many as 16,000 contracts. There are a number of things that make this position stand out. By itself, JPMorgan holds a short position that is larger by a third than the total commercial short position on the COMEX. That's obscene and demonstratively manipulative. Also, the buying back of short positions by JPM this week proves the recent shorting by the bank had nothing to do with legitimate hedging, as real hedgers aren't interested in quick in and out trading. Manipulators go in and out of a small market with outsized positions for dominance and quick gains, not bona fide hedgers.

But the standout feature of JPMorgan's current silver short position is in how much they increased it recently on depressed prices and in how little they have been able to close out on the lower prices they created during the reporting week. Six weeks ago, JPMorgan held a net COMEX silver short position of close to 12,000 contracts. Today, I would estimate their short position to be roughly 16,000 contracts on flat to lower prices. Over that same period, the silver raptors have increased their net long position by almost 9500 contracts, to 27,200 contracts. Clearly, the raptors buy on lower silver prices and rarely sell on anything but higher prices.

So if we're at or close to the end of speculator selling on lower prices and the raptors appear intent on buying more if prices fall, what does JPMorgan do from here? Does JPM (and the raptors) push silver prices lower in the hopes of buying more and to what extent? And then what? Does JPM intend to sell additional contracts on any silver rally, thereby garnering more attention to their concentrated position? The answers to these questions will determine future silver prices.

I think that because of JPMorgan's short position, the price of silver is poised to climb sharply higher. This is in addition to the many other bullish forces aligned to drive silver higher. I freely admit that I have not emphasized the bullish aspect to JPMorgan's short position recently. That's because my overriding emotion to witnessing JPMorgan manipulate the price of silver is one of contempt. In gutter terms, what JPMorgan has done and what the CFTC and the CME have condoned pisses me off to no end. Who do they (all) think they are to cheat and defraud and hurt so many people; to make a mockery of important markets and the rule of law? But there is another and very positive aspect to the silver manipulation, namely, it may be the single most bullish factor in the silver price equation. Simply put, it may be the best reason going for buying silver now.

Understandably, many feel that JPMorgan can continue to manipulate the price of silver indefinitely, particularly if they have the backing of the CFTC through the President's Working Group on Financial Markets, as I have recently concluded. After all, who has the power to stand up to an alliance of JPMorgan and the US Government? I did also indicate recently that it is not a who that will stand up to JPM, but a what, in the form of physical supply and demand. But I don't feel I emphasize that enough and I would like to try again.

It's one thing to get caught in holding too large of a derivatives position in anything, like the credit default index position that JPMorgan finds itself in. Those losses have been recently reported to exceed $6 billion. Similarly, it is not a good position to be fined and accused of manipulating a market as Barclays has been and other banks will be in the Libor manipulation scandal. But it would appear to be a particularly bad thing to find a major financial institution involved in both simultaneously, namely, getting caught in holding too large of a position that is also recognized by the market at large as being manipulative to price. That's what JPMorgan potentially faces. It's not whether the regulators bring charges against JPMorgan, as I admit that to be unlikely; it's more a case of enough investors throughout the world recognizing that JPMorgan is responsible for setting too low of a price on silver and moving to take advantage of the bargain created.

The key component in making JPMorgan's silver short position to be wildly bullish to the price is the world's newly created ability to buy large amounts of physical silver in various forms, both to hold in one's own possession and through professional storage vehicles, like ETFs. Without the ability or mechanism to buy physical silver, then JPMorgan may have succeeded in maintaining the silver manipulation indefinitely. If it was simply a case of the world demanding paper and not physical silver for investment, then I would stipulate that JPMorgan could supply all the paper silver that was demanded. But that is not the case, as investors have gravitated towards either personal metal ownership or bona fide storage programs, like the various silver metal ETFs.

One of lessons from the COTs is that the high price volatility and intentional price takedowns have resulted in the low historic investor and speculator ownership of paper silver contracts on the COMEX, in years past the most important paper silver investment vehicle. Over the past few years, investors interested in silver have shifted away from leveraged paper contracts on the COMEX to non-leveraged vehicles, like the ETFs. As the knowledge that the silver market has been manipulated lower in price advances, this shift to physical ownership is highly logical. It's also bad news for JPMorgan and other paper silver manipulators. If investors continue to demand physical silver, as should be expected, paper silver sales become ineffective in supplying that physical demand. That's the predicament that JPMorgan will increasingly face.

It's not so much that JPMorgan, particularly if it were aligned with the US Government interests, has no power in financial matters. It's more a fact that no entity is omnipotent. For instance, the government is powerful in many aspects, yet in certain cases has little power, such as in preventing natural disasters. Just like man can do little to prevent a drought or horrific forest fires or a tsunami, the same can be said of preventing a worldwide physical shortage of silver. In fact, any attempt to forestall the effects of a physical silver shortage, by promoting a continuation of the current manipulation will only exacerbate shortage conditions in time.

The US Government has no stockpile of physical silver to dump on the market; any such stockpile was squandered years ago. Neither is JPMorgan capable of dumping big quantities of silver on the market. If they did have physical silver, they would be looking to sell at as high a price as possible, not in dumping paper silver contracts to keep prices depressed. It has been written that is was a trader known as the London Whale amassing a huge position at disadvantageous prices that is behind JPMorgan's credit derivatives disaster. It was called a hedge gone badly at first, but it quickly became apparent that this was no hedge. Isn't that a remarkably similar circumstance to JPM's massive silver short position and wouldn't it be reasonable to expect a similar outcome? What it took for the market to punish JPMorgan's ill-fated credit derivatives foray was for other traders to recognize it and position themselves against JPM. The same will occur in silver, only it won't require trading in exotic derivatives; all it will take is for investors to continue to buy physical silver.

An old friend from my Drexel Burnham days remarked the other day that if the hotshot traders at JPMorgan and commercials elsewhere were so talented and plugged in, then how did they all manage to miss getting net long on the whole ride up in silver from $4 to nearly $50? It's undeniable that the commercials have caused much recent damage to prices and investor sentiment. As is usually the case, in the silver fall from $37 at the end of February, the last $2 of the $10+ decline has caused the most emotional damage. That's just the way it works. The trick is to fight the emotion and focus on the facts. There is now less risk, not more, because of the price decline. The set up, in terms of COT market structure and in the potential mountain of scared money around the world looking for safe assets, is so much better now than it was at $37 four months ago. Throw in an environment that has just witnessed a whale of a derivatives position gone wrong and the recognition that manipulation exists in the banking community and everything alleged in silver matches perfectly.

Ted Butler

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Silver $27.50

Gold – $1595