March 12, 2011 – Weekly Review

Weekly Review

Thanks to a stunning turnaround on Friday, the price of silver closed the week 35 cents higher for its seventh consecutive weekly gain and a new 31-year high. Gold rebounded on Friday as well, but still ended the week about $11 lower. As a result of silver's relative outperformance, the gold/silver ratio closed the week at almost 39.5, a new multi-decade extreme favoring silver. I plan a more thorough analysis on why I expect this trend to continue mid-week.

On Friday morning, as silver was flirting with the $34 level, down sharply from Wednesday, my thoughts were very different before the dramatic $2 reversal into the close. Quite frankly, I don't think I had witnessed a more blatant manipulative takedown as what occurred on the COMEX on Thursday and into Friday morning. The vicious sell-off for no economic justification was simply outrageous. So outrageous, that I don't know how it could not be judged as manipulative by any level regulatory standard. I know many of you observed the same thing and felt the same way. I want to be very careful about not overstating what I observed, but it was clearly a deliberate case of disruptive trading when liquidity conditions were thin. This disruptive trading was also clearly intended to induce as much speculative long liquidation as possible.

Silver has doubled in price in a little over six months. It has surged almost $9, or 33%, in the last 30 trading days alone. Certainly, any market that has gone up so much is entitled to sell off, as many commentators are suggesting currently. Who knows, maybe we will get a sell-off. But my sense is that those calling for a significant sell-off are basing their opinion on the price action alone and not much else. I believe many are looking at the sharp price rise and are assuming certain things about the price rise that are not evident. These assumptions have already resulted in many of those calling for a sharp correction to have been cautious on the whole move up from $18. A lot of them have missed the whole move because of faulty assumptions. Let me be very clear here Â? I can't guarantee that we won't sell-off, but aside from the price being sharply higher I don't see the factors in place that favor a sell-off. In fact, the main factors I analyze suggest the odds favor higher, not lower silver prices.

The sharp rise in the price of silver and its increased volatility suggest to many that there has been a marked increase in leveraged speculative participation, even to the point of silver being in a bubble. While it is true that there has been some leveraged speculative buying on the COMEX, it can hardly be called excessive by historical standards. And as I have recently written, there is zero evidence that silver can be classified as being in a bubble by any objective measurement. People buying silver for cash and with a long-term perspective in mind are investors and should not be classified as leveraged speculators.

There have been other markets, like crude oil and even gold, where the leveraged speculators have come in much stronger than they have in silver. There is no way to reconcile the full extent of the surge in silver prices to only leveraged speculative buying. There are other factors more compelling. I suppose the commercial crooks (led by JPMorgan) could rig a sell-off to force leveraged longs to liquidate, but that is the most likely, if not the only, reason to explain a sell-off. Besides, I think we just saw that from Thursday into Friday morning and once any speculative long liquidation is complete, prices should move higher.

Conditions in the physical markets continue to suggest tightness. The rapid turnover (movement in and out) of material in the COMEX-approved silver warehouses has resumed after a brief hiatus. This physical movement is strongly indicative of tightness and points towards the bulk of the COMEX silver warehouse stocks as being unavailable to the market at current prices. Deliveries for the first full two weeks of the big March contract month are still lower (at 602) than in any traditional delivery month in history and over 1200 contracts remain open. This also suggests physical tightness and an unwillingness (inability?) on the part of the March shorts to make delivery. Silver has been flowing strongly into the big silver ETF, SLV, and were at record levels prior to yesterday's small withdrawal. This is in contrast to the flows of metal into the big gold ETF, GLD, where gold holdings are down 2 million ounces (almost $3 billion) since the first of the year. I was somewhat surprised to see that the short position in SLV shares continued to rise to over 18 million shares (ounces). I think the main reason for the big SLV short position is a lack of readily available additional silver to deposit in the trust. http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99 Retail silver demand remains white-hot, especially when compared to retail gold demand.

I've heard some argue that such signs of tightness in the silver market are not the same thing as being in a shortage. I would respectfully disagree. A commodity shortage is not defined by there being none of the commodity available. A shortage is defined as there being delays in shipments of the commodity. The longer the delays, the more severe the shortage. The delays in silver shipments appear to be growing longer; hence the shortage is growing more severe.

This week's Commitment of Traders Report (COT) was largely as expected by me, in that there wasn't much of a change in the total commercial net short positions, which declined by 1100 contracts in silver and by 3100 contracts in gold. What made the silver report noteworthy was that the price during the reporting week was up $1.25 (the price was unchanged for gold in the reporting week). This underscores my previous point that the sharp silver price rise has not been exclusively due to speculative buying, as speculators sold contracts net in this reporting week.

But the most meaningful aspect to this week's COT was that it left my previous analysis intact. Based on last week's COT and the monthly Bank Participation Report, I had concluded that JPMorgan had been the sole short seller of 6000 additional silver contracts (30 million ounces). I had some private fears that this week's COT would be radically revised and negate my controversial finding that JPMorgan was continuing to manipulate the price of silver. Since there was no revision, I am more confident than ever that JPMorgan is the prime silver manipulator. One thing I may not have fully explained in my findings last week was that JPMorgan was the only commercial short seller in silver. In last week's COT, all the other commercials bought silver futures contracts and JPM was the only commercial seller. Even the other three entities in the big four appeared to have bought contracts last week, as JPMorgan was selling more contracts short. This week's COT shows no change in that pattern. All the other commercials (mainly the 5 thru 8 largest traders) either bought or stood aside, while the big four category increased slightly. I think this has potentially profound significance for the future course of silver prices.

In essence, it appears to me that JPMorgan is becoming isolated from the other commercials. I do believe that all the commercials will continue to behave collusively in attempting to rig silver sell-offs (like Thursday into Friday), but I think there has been a breech in the commercial collective behavior in other ways. I think the other commercials want off the short side of silver completely and are content to leave it to JPMorgan to run the manipulation from here on out. In other words, where it had always been essentially a group of big commercial traders (the largest 8 traders) being on the short side against thousands of long contract holders, it looks to me that it is developing into only JPMorgan being short against the world. Of course, this is an impossible and futile (to say nothing of being blatantly illegal) position for JPMorgan to find itself in, but that is what the evidence from the government data indicates.

I further believe that JPMorgan has made a massive miscalculation with this concentrated silver short position and that there is no easy way out for them. The real problem for the silver market is that one large trader has come to completely dominate one side of the market. This creates an instability that argues why concentration must be avoided at all costs. Any time there exists a large concentrated position in any market, the risk automatically also exists for price disorderliness and default. The regulators must ask Â? what happens if something goes wrong with the concentrated holder? Who can step in to replace Mr. Big?

In 2008, the financial world was brought to its knees by AIG's concentrated position in credit default swaps. Ultimately, the US taxpayer had to front $180 billion to prevent a panic. Fortunately, silver is not near as critical as were credit default swaps. But the regulators were largely unaware of AIG's concentrated position until it was too late. The concentrated short position in silver is known and visible. The remedy for the silver concentration, position limits, is being openly debated. But debate is no longer enough. JPMorgan's concentrated short position will be broken, either by the regulators or by the market. For the sake of the rule of law, I much prefer the regulators break it.

A reader recently wrote to me, asking if I ever discuss silver's fundamentals, like mine supply and industrial demand, etc. Or do I just focus on the COTs. I admit it set me back a bit, as I cut my teeth on silver's fundamentals and it was all I wrote about a ways back. There are hundreds of articles in the archives attesting to that. However, I must admit that the reader was correct. I do tend to harp more and more on COMEX dealings and the concentrated short position and the manipulation. But that's intentional on my part. I think the manipulation and its resolution are more important to the price currently than changes in mine production or industrial consumption.

Further, I think this has been the correct approach in the doubling of silver prices over the past six months. Maybe I'll come to regret not having done so, but I have not advocated selling silver for a long time. If anything, I've kicked it up a notch by advocating call options from time to time recently. I still feel the same way. Of course, you have to use your own common sense and personal money management, but not selling has been the correct advice. If we do sell-off any time soon, it will be for one reason only Â? the commercial crooks on the COMEX rigged the price lower. Considering the damage that has accrued to the commercials for being on the wrong side of the market for so long, that makes them weaker, not stronger. It increases the odds they will break ranks and panic to the upside.

I guess we have to be prepared for volatility, continued commercial dirty tricks and the deplorable lack of regulatory relief, but the only logical remedy is hold on a cash, not margined basis, and to keep after the regulators. I know I repeat myself, but I am still amazed that so many factors continue to point to substantially higher silver prices, even after the substantial gains we have already witnessed. The really big moves will continue to be to the upside.

Ted Butler

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Silver – $35.85

Gold -$1417

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