

## March 16, 2013 – Weekly Review/Unprecedented

### Weekly Review

Gold and silver reversed last week's pattern and this week gold rose and silver fell a bit. Gold finished \$12 higher (0.8%), while silver fell 20 cents (0.7%), pushing the silver/gold ratio out almost a full point to just under 55.5 to 1. In a broader sense, we've remained in a fairly tight trading range for more than a year for this relative valuation between the two main precious metals. It is still my view that we will look back from some future time and wonder why there wasn't a more pronounced movement from gold to silver given all the known facts. That's not to say, however, that there hasn't been some movement from gold to silver, despite this week's price action.

Even since Wednesday's report, there has been a continued notable decline in the metal holdings of the big gold ETF, GLD, while the big silver ETF, SLV, continues to gain deposits of metal. While I expect the withdrawals to subside in GLD as gold prices end their COMEX-induced decline, it is hard not to reach the conclusion that there is some movement underway of converting gold holdings into silver. Since the little guys usually leave telltale market tracks when they are active in markets, it's also hard for me not to conclude some bigger money may be behind the switch from gold into silver movement that's been visible this week and since the first of the year.

Certainly, not all of the gold money that's been liquidated in GLD has been switched into silver, as the relative dollar flows preclude that from being the case. And it is the relative dollar flow that constitutes my switch from gold to silver conviction. For instance, let's look at yesterday's metal movements in GLD and SLV. More than 100,000 oz of gold were liquidated in GLD yesterday, worth more than \$160 million, while a bit less than 1 million silver ounces were deposited in the SLV, worth less than \$30 million. From the first of the year, more than \$6 billion worth of gold metal has come out of the GLD, while the 20 million ounce metal inflows into SLV has come to only a bit more than \$600 million. This clearly indicates that not all or even a significant amount of the gold that has been liquidated has found its way into silver – yet. Look at it this way – if the \$6 billion that has come out from the GLD over the past two and a half months had come into the SLV, that would have required the purchase of 200 million oz of silver, or double the amount of silver available for world investment for a full year. That's the whole premise behind the switch recommendation – silver's price is so out of line with gold's due to JPMorgan's ongoing manipulation that when just a little too much money flows into physical silver, it will be game over for these crooks.

Other signs of growing physical demand for silver continued to flash from the turnover in metal into and out from the COMEX-approved warehouses. This week featured the "normal" 3 million oz turnover, with total stocks rising 1 million oz to 163.6 million oz. Of course, this frantic metal movement is only normal in that it has been occurring for the past two years. Let me try to describe, in slightly different words, why this points to extreme tightness in wholesale silver supplies. Silver is coming and going from these COMEX warehouses because there's not enough metal in place at traditional supply points around the world to satisfy demand and that necessitates an almost "FedEx" type overnight shipment process to get metal into the hands of those who demand it. The sole purpose behind the almost overnight silver shipments is to mask the developing shortage, because when shipment delays become obvious, the silver industrial users will panic and rush to build inventories.

Sales of Silver Eagles from the US Mint continue strong. I noted recently that more than 50% of the 325 million Silver Eagles minted in the 27 years of the program came in the last 5 years. Here's another note "sales of Silver Eagles for the first 2 and a half months this year are greater than sales for the full year in 22 years of the Mint's bullion coin program.

The changes in this week's Commitment of Traders Report (COT) were within the expected range of not much change. The headline number of the total commercial net short position increased a very slight 200 contracts in silver and by 8300 contracts in gold. However, as in last week's report, it looked better once you got under the hood.

In gold, the total commercial net short position grew by the above-stated 8300 contracts to 142,100 contracts. This is still a relatively low (and bullish) reading in the COMEX gold market structure for the past few years. By commercial category, the raptors (the smaller commercials apart from the big 8) did most of the heavy lifting, selling 5,000 contracts that they held long, reducing their net long position to just under 6,000 contracts. The big 4 sold almost 2400 new contracts short, while the 5 thru 8 also joined in, adding the balance of 900 new shorts.

What made the gold COT look better under the hood was the composition of the counterparty buyers, particularly the traders I refer to as the technical funds. These are the traders the commercials are most often tricking and luring in and out of positions to the commercials' benefit. The category that most clearly identifies the tech funds is the managed money category of the disaggregated COT report [http://www.cftc.gov/dea/futures/other\\_lf.htm](http://www.cftc.gov/dea/futures/other_lf.htm) (Yes that means these tech funds are largely trading OPM — other people's money, perhaps explaining why they don't care about getting tricked continuously in silver and gold). Since the tech funds are the principal puppets on the commercials' strings and that makes them the prime category to monitor.

The good news this week is that the tech funds only accounted for less than 3200 contracts of the 8300 contract deterioration (increase) in the commercials' net gold short position. Moreover, the single most important sub-category at this time is the gross short position in the managed money category, since the tech fund shorts will be the most aggressive buyers when gold prices penetrate the key moving averages to the upside. The good news here is that the gross short position in the managed money category rose to a new record high; indicating the prime fuel source for next gold rally grew larger despite the headline number.

In silver, it also looked better under the hood. Despite the slight 200 contract increase in the headline total commercial net short position, the big 4 (read JPMorgan) bought back 400 short contracts, reducing that concentrated short position to a low not seen since last August. The raptors sold out 200 long contracts and still hold a near record long position of 24,600 contracts. The 5 thru 8 largest short traders added almost 400 short contracts. As was the case in gold, the important managed money category was much better than the headline number indicated. In fact, the net long position of the tech funds was reduced by nearly 1200 contracts and the gross short side increased to a new record high.

I would peg JPMorgan's concentrated net short position to now be at 23,500 contracts (as of the Tuesday cut-off), also the lowest since August. While down substantially from their 38,000 contract net short position of late November and the bank's 35,000 contract short position on February 5, JPMorgan's manipulative COMEX silver short position is still almost double what it was at the most recent important price lows in silver (Dec 2011 and last Summer). As suggested last week, JPMorgan appears to trying to scrape up as much tech fund selling as is possible.

There is no doubt that JPMorgan and the raptors engineered the recent almost \$4 price decline in silver and the proof of that is in the COT readings. Just as has been the case in almost every silver price rig to the downside, the crooks at JPMorgan and the crooks that are the raptors, pretty much divvied up the 22,500 net silver contracts that were sold by tech funds and other speculators since Feb 5. If this was not planned and collusively engineered by both sets of crooks as has been the case on the COMEX for many years, then I would ask how the commercial crooks always get to buy on the way down and sell on the way up in price. Is JPMorgan such a model financial institution beyond reproach which never engages in questionable business practices? If so, then who the heck is this other JPMorgan who seems to settle, for outrageous dollar sums, in government settlements for every crime imaginable against their millions of customers? Who is this other JPMorgan paraded in front of lawmakers for hostile questioning about lying in a speculative derivatives bet remarkably similar to my allegations in silver? My dad must be rolling over in his grave for once having been associated with predecessors of this crooked bank.

Please understand that I try not to be too technical in my analysis of the COT; my goal is to provide a backdrop of how the market is structured and how that structure will most likely be resolved price-wise. It's just that the same analysis also provides prima facie evidence of an ongoing price manipulation, led by JPMorgan. The current market structure is bullish for both gold and silver, but it is difficult to pinpoint the actual timing of the coming price rally of significance in gold and silver.

That's because the crooked commercials always control the timing and they can spring a trap for the technical funds at any time the commercials wish. Since the commercials control short term pricing via HFT, they also control when the tech funds buy and sell (since the tech funds are price-motivated and activated). Sometimes the commercials can spring a trap after as little as a week and sometimes before a new COT gets published; other times the commercials can drag it out for months, as they did last spring and summer. And if JPMorgan or the raptors sense more tech fund selling is possible, no one can rule out the setting of new price lows intended to uncover new tech fund selling. Such new price lows, should they occur, should prove fleeting in duration based upon the market structure.

### Another Unprecedented Circumstance

While I try to introduce something new each time I write a commentary, I also try to stick to the facts as I see them and can document. Often I have used the expression that I don't think I could have invented much of what I have written about silver if I relied solely upon my imagination. But by observing the facts and what exists around us, I haven't had to make up anything at all. Here's something new that has recently occurred to me.

We live in a time and place (the world today) where there seem to be more contentious issues than previously, combined with almost an even distribution of proponents on either side of these issues. No matter what the issue, there seems to be equally strong representation on either side. On broad matters like politics, here in the US or elsewhere, I have never seen a sharper divide between the leading political parties than presently. On more specific issues, like gun control, immigration, entitlements, or social policy, there is also broad sponsorship on either side. Hopefully, we will reach some reasonable solutions on those issues that divide, but my observation is that our times seem to be marked by greater disagreement on more things than ever before.

I'm reminded of these deep divisions and how they stand in stark contrast to one of the very few issues where there is no apparent divide. I'm speaking of the centerpiece issue that dominates these pages — the silver (and gold) manipulation. What prompted the thought that the issue of silver manipulation stands apart from a divided opinion was the recent front page story in the Wall Street Journal about a possible CFTC investigation into whether gold and silver were manipulated by virtue of the London Fix.

<http://online.wsj.com/article/SB10001424127887324077704578358381575462340.html?KEYWORD=>

For the record, I don't sense such an investigation will occur. After all, the CFTC is avoiding, like the black plague itself, any appearance of interest in the silver investigation it has been conducting for the past four and a half years. It hardly seems plausible for the agency to spring to alert in silver at this time.

It wasn't so much the article itself that caught my attention, but rather the unsolicited public comments on the article both on the Wall Street Journal's site and on the various Internet sites that featured the story. The overwhelming consensus of the many hundreds of total comments I read was an agreement that the CFTC hadn't done its job of preventing silver from being manipulated in price. Depending on the web site, the comments were often crude and with a strong emotional vibe that only underscored the collective agreement. Many comments referenced the CFTC's 4.5 year old formal silver investigation that still remains unresolved. I have read not a single comment defending or praising the CFTC's actions to date in any matter related to the regulation of the silver market. Please think about that for a moment.

The collective public opinion of a silver market manipulation by JPMorgan and the CFTC's inability to deal with it by those that closely observe the market are nearly unanimous by any reasonable measure. I'm not suggesting that the average citizen is aware of the silver manipulation as I doubt that awareness will exist even after the manipulation is terminated. What I am saying is that to those who have taken the time to consider the issue, there exists a near unanimous opinion that the silver market is rigged and the federal regulator is doing a rotten job in not ending it. As I wrote on Wednesday, it's even hard to uncover a legitimate bear case for silver on supply and demand fundamentals. Of course, there are some commentators who denied that a silver manipulation was possible from long ago, who will stick to their guns no matter what the facts, mostly to avoid the confession of ever being wrong. But they avoid addressing the facts concerning JPMorgan's concentrated market share on the short side of silver. Particularly in light of the near universal divide on most contentious issues of the day, it's almost unprecedented that there is such a public consensus on the idea that JPMorgan is manipulating the price of silver and the CFTC is allowing it. In matters related to silver, JPMorgan and the CFTC have a remarkably poor collective reputation among informed observers. Those in the precious metals community may be relatively small in number, but they are remarkably united in sentiment about a silver (and gold) manipulation.

What I believe accounts for the near unanimous opinion of an existing silver manipulation are two things; a clear set of verifiable facts proving manipulation and the lack of any credible rebuttal of those facts by JPMorgan or the CFTC. Government data indicate a heretofore never tolerated level of market concentration by JPMorgan on the short side of COMEX silver since its takeover of Bear Stearns in early 2008. After acknowledging this unusual concentration by initiating a formal silver investigation in September 2008, the CFTC refuses to conclude what must be the longest investigation in history. The market data facts and the non-response to credible allegations account for the unanimous collective opinion that the silver market is rigged. That's the cause of the unanimous opinion; now what are the implications of that opinion?

The first implication is that this is potentially very damaging to the reputations of both these important institutions (and don't leave out the CME Group). Particularly with large financial institutions and regulatory bodies, reputation can be everything, as the heart of the financial system is based upon mutual trust. The silver (and gold) community is not large, so the loss of a good reputation for JPMorgan and the CFTC doesn't appear to have materially damaged either institution yet. But the unanimity of the negative feelings within this community towards JPMorgan and the CFTC is unprecedented and troubling. What banker or regulator wants to be universally disdained? Unless one were rooting for each institution to disappear (understandable) it's hard to see where JPMorgan or the CFTC are doing themselves any favors by ignoring the facts in silver and the growing negative public opinion of the bank and agency.

I know it gets old waiting for the silver manipulation to be over, but I'm sure it gets old for JPM and the agency as well. Perhaps not fully-appreciated is that the pressure continues to build for an inevitable resolution to this crime in progress. I believe that is the most important implication of all, namely, this issue is not going to quietly disappear. I know that JPMorgan has controlled the price of silver since March of 2008 (with the acquisition of Bear Stearns), but I also know that the bank can't up and quit its manipulation of silver without notice. In a very real sense, JPMorgan both dominates the silver market and is held captive to it. That's because the bank allowed itself to become too big of a fish for what is a very small pond. This occurs more frequently than imagined.

Yesterday, the US Senate held hearings on JPMorgan's "London Whale" derivatives debacle, in which the bank was raked over the coals by a number of senators. I can't help but compare the similarities between that derivatives disaster and JPMorgan's position in silver. The main similarity is that both represented positions grown too large to be unwound in an orderly manner; too big a fish for the pond. You'll recall that JPM's London derivatives mess came to light only after some in the hedge fund community recognized that the bank was over-exposed and way out of position and took advantage of the imbalance by first taking opposing positions and then by alerting the media of JPMorgan's vulnerability. The prediction that hedge funds would do the same in silver was a theme in Wednesday's article of what's to come. Quite literally, JPMorgan was harpooned in London and will meet the same fate in silver.

Similarities aside, the big difference between JPMorgan's London derivatives disaster and its short silver position is one of tense; the London loss is mostly past, while the silver derivatives loss lies ahead. Moreover, there was no long lead-in to the London loss; it was over almost as quickly as hedge fund positions were taken against JPM and the word was spread. In the silver manipulation, the drama lies in the future, merely awaiting the emergence of physical demand over available supply. From everything I see, this is a story of timing and not of whether it will occur – when, not if.

So now we add another unprecedented circumstance, that of near-universal acceptance that silver is manipulated and that the regulators are impotent to deal with it, to the ultimate unprecedented fact that the perpetrator and regulator have been warned of the manipulation for far too long. We've never witnessed a public recognition and prior warning of a crime in progress than we have in silver. Most remarkable is that the recognition and accusations of a silver manipulation are growing stronger as JPMorgan and the CFTC (and CME) remain silent. That silence and lack of proper action will prove particularly damaging to those institutions as the physical silver market continues to tighten.

There's never been such a circumstance quite like exists in silver. We've had commodity price manipulations before, but none that have lasted nearly as long as the decades-old silver manipulation. We've had cases where government officials have ignored public warnings of a crime in progress, but none where there were many thousands of specific warnings over many years. We've had cases of stalled investigations that deliberately go nowhere, but not on a scale like in silver. As far as I know, there has never been a case where a leading financial institution like JPMorgan has ignored repeated public allegations that it is breaking the law. All these unprecedented circumstances argue that the silver crime in progress must end at some point. But the most encouraging circumstance of all for silver investors is the impossibility that prices can remain depressed for long when physical demand exceeds supply as appears to be developing now.

Ted Butler

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Silver – \$28.75

Gold – \$1592

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