March 17, 2012 – Weekly Review

Weekly Review

As a result of another deliberate COMEX price smash on Tuesday and Wednesday, the price of gold and silver finished the week sharply lower. Gold fell by $52 (3%) for the week, while silver fell by $1.70 (5%). Despite the weekly losses, gold is still ahead for the year by 6%, with silver still ahead by close to 17%. As a result of gold's relative outperformance this week, the gold/silver ratio widened out by a point to 51 to 1. Normally, short term price fluctuations should be ignored, but the recent relative underperformance of silver compared to gold creates an opportunity to switch gold positions to silver, in my opinion.

Before commencing in the usual format and discussing this week's new developments, I'd like to direct your attention to a new audio interview I did with Jim Puplava which was recorded at the depth of the price lows on Wednesday. Also highlighted in the interview were clips with Commissioner Bart Chilton, as well as Eric Sprott and David Morgan. I tend to shy away from audio interviews, preferring to state my case in written form. One thing I take away from this interview and other developments of the week is a growing awareness of the silver manipulation by others. I believe this has been a recent theme of mine and is one that promises to impact silver prices strongly in the future. http://www.financialsense.com/financial-sense-newshour/big-picture/2012/03/17/02/ted-butler/how-the-silver-manipulation-scheme-works

Conditions in the wholesale physical market continue tight, based upon my principle indicator, namely, turnover or movement in COMEX-approved silver warehouse inventories. Daily movement remained strong, as total inventories rose to 132.2 million ounces. Deposits and withdrawals from the big silver ETF, SLV, and other silver ETFs and funds have generally flattened out and my sense is that the important factor is still the recent dramatic reduction in the short position in SLV shares. (The next report is not due until March 26). My hopes are still high that the days of manipulative and excessive short selling in shares of SLV are over, but time will tell.

Sales of Silver Eagles from the US Mint have picked up from the extreme low levels recorded in February, but it's too soon to celebrate yet. Sales of both Silver and Gold Eagles for March are already ahead of the full month totals for February with two weeks remaining in the current month. Certainly, sales of Silver Eagles are still outpacing sales of Gold Eagles compared to historical patterns. In addition to reminding you that I don't believe the level of retail demand has that much impact on silver prices in the short term, I've been meaning to mention that the Mint has likely retained its former production level for Silver Eagles despite the recent cooling off in demand. After struggling to keep up with retail demand for Silver Eagles for the past few years and generating criticism for that, the Mint has likely built up some cushion of Silver Eagle inventories presently. If so, any sudden increase in demand for Silver Eagles could result in unexpectedly large numbers of coins being sold.

There were no dramatic changes in this week's Commitment of Traders Report (COT), although gold did improve its market structure. I sense there may have been some further notable reductions in the total net commercial short positions in both gold and silver after the Tuesday cut-off as a result of Wednesday's sharp price decline.

In gold, the total commercial net short position was reduced by a not-insignificant 8,500 contracts to 191,700 contracts. For the reporting week, the price of gold only fell by a few dollars, but the price did fall by almost $30 on Tuesday, the cut-off day and closed below the 200-day moving average, undoubtedly setting off technical fund selling. This is the lowest total commercial net short position since January 24, as the gold commercials collusively tricked the tech funds into selling by rigging prices lower.

The big 4 bought back 2000 contracts, with the gold raptors (the smaller commercials apart from the big 8) buying back around 6500 contracts, reducing their net short position to 12,600 contracts. My sense is that another ten to twenty thousand net commercial gold short contracts were bought back on Wednesday's high volume gold price plunge. The gold market structure must now be considered bullish; although that doesn't necessarily insure that the price plunge is over.

In silver, there was a scant reduction of less than 200 contracts in the total commercial net short position, bringing that total position to 35,700 contracts. It's almost not worth breaking down the category change, as they were also in the hundreds and not thousands of contracts change. The main reason for the lack of big change in the silver COT was because prices were remarkably subdued during the reporting week, trading and finishing higher, not lower in price. However, as a result of Wednesday's deliberate and high volume sell-off, I would guess the total commercial net short position declined by 5,000 contracts or more.

The big COMEX silver short, JPMorgan, still holds at least 22,000 contracts net short.
This is almost 5 times larger than the proposed position limit according to the formula used by the CFTC. There is no other such mismatch between the proposed level of position limits in any other commodity and the actual positions that are currently held. No wonder there is such stiff legal opposition by JPMorgan to any type of positions limits. I'll let you in on a dirty little secret. The securities industry (read JPMorgan) is not really opposed to position limits for commodities in general; they are only opposed to position limits in silver. It's just that the weasels will never admit that openly.

After removing all the spread transactions listed in the disaggregated COT report, JPMorgan's share of the total net COMEX open interest is still over 26% of the entire market. That level of concentration, in and of itself, is manipulative to the price of silver. I know I'm preaching to the choir here in repeating this fact, but it is still widely unknown away from here. As this fact becomes more widely known, I believe it will take on greater investor interest and regulatory response. That's the trouble with facts and truth; they can get very stubborn for those trying to subvert and obfuscate.

If my projections of what occurred after the Tuesday cut-off are accurate, we are back to bullish readings in the gold and silver COT market structure. In gold, we may be not far at all from the readings seen back at the lows in December and January. In silver, we have more room to go to approach the extreme readings at the lows in December, but part of me suggests we won't go back there because I doubt we'll get the unusual speculative short selling witnessed at that time. We can never underestimate the treachery and ruthlessness of the crooked commercials in rigging further sell-offs, but we must also recognize that there has been much improvement to this point.

I'd like to comment on a matter many of you sent to me over the past couple of days. Please continue to send me what you find important, as it greatly helps me on deciding what everyone is thinking and what I should comment on. This particular item concerned a letter to the CFTC by an alleged whistleblower who supposedly worked for JPMorgan. I didn't find the letter to be genuine for a number of reasons, including that it didn't have much credible content. Plus, it didn't seem to me to be the way a real whistleblower would contact the regulators. The letter appeared on the CFTC web site for only a short while before it was removed.

I admit to being somewhat surprised at the level of interest and acceptance the letter appeared to generate. And please don't think, for a moment, that I didn't want it to be genuine. After all, for more than 25 years I have been petitioning the CFTC to end the silver manipulation and doing everything I could to persuade others of its existence. Nothing would please me more than to see this ongoing crime brought to an end. That said, there is always a right way and a wrong way to do something. Making up stuff is never the right way.

The only credible content in the letter concerned the statement that JPMorgan held 25% of the COMEX silver market. Maybe I'm being overly sensitive, but I believe that was lifted from my analysis without permission. That's because I've never seen anyone ever use that number, except in acknowledging that it came from me. Plagiarism is a form of stealing and to resort to such an act diminishes whatever point is being made. I think it's good that the letter may have alerted people to the fact that silver has been manipulated in price, but it was not written in a completely above board manner. At least, that's my take.

Finally, there was an article in Friday's Wall Street Journal indicating that the CFTC was preparing to take a close look at the impact High Frequency Trading (HFT) was having on the futures market. I don't know whether to laugh or cry. As regular readers know, I find no economic benefit whatsoever in HFT and feel it is a practice that should be immediately and permanently banned. I doubt very much that the Commission will ever have the wisdom or courage to reach that conclusion.

But there is something that I find completely unfair and prejudiced in the regulators' approach to HFT in futures trading. Almost two years ago, the stock market experienced the infamous Â?flash crashÂ? of May 6, 2010, when prices suddenly fell as much as 1000 Dow points for no legitimate economic reason. It was quickly traced to HFT and other computer trading gone mad. The regulators and securities industry quickly came together and there has been no repeat of such a flash crash in the stock market ever since.

Here's my gripe. Everyone quickly agreed that this HFT stock crash would never be allowed to occur again. That's because everyone recognized the importance of the stock market to people's wealth and net worth. A few computer jockeys gone wild were not going to ruin it for everyone else. I think that's good. What I think is bad is that these same computer rocket scientists were given free rein to operate in other markets, principally silver, to manipulate and disrupt prices precisely because a large segment of the investing public was not involved in silver. In other words, the regulators selectively chose to enforce the law against disruptive trading by whim. That's not what the rule of law is all about. Regulations should be applied evenly, not selectively.

It is clear to me that HFT is being used in silver (and gold) to artificially rig prices in order to force others to sell, as I've outlined in the interview with Jim Puplava and on these pages.
It is shameful that the CFTC allows HFT to exist in silver when it made sure it stopped it in the stock market. HFT is just a fancy term for manipulative and crooked day trading designed to artificially rig prices. It's not bad enough that silver has the manipulative concentrated short position of JPMorgan and the easy to prove collusive price setting by the commercials as a whole; it is also plagued by a trading practice that the regulators brought under selective control in the stock market. I think every regulator at the CFTC needs to be replaced.

An old silver market acquaintance contacted me this week to suggest I take a different course. Having been in silver since close to $4, he was quick to thank me for my early advice to buy silver. But he suggested I lay off playing up the manipulation angle as much as I do, as just the mere mention of the word scares people off. I think he has a point, but pretending the silver manipulation does not exist is not something I can do. I'm sorry the word manipulation may unnerve newcomers, but it seems to me that what I must do is emphasize instead the tremendous profit potential inherent in silver because it has been manipulated. There are two kinds of price manipulation, one to the upside and one to the downside. The upside version is much more prevalent throughout history and folks should be naturally wary about buying into such a manipulation, as prices can suddenly collapse the moment the manipulation ends. In silver, however, the manipulation is to the downside, meaning that when this manipulation ends, prices will skyrocket. I follow the real fundamentals in silver as close as or closer than anyone and I am convinced those fundamental will bring about much higher prices. But in my heart of hearts, it is the coming end to the silver manipulation that is the most bullish factor of all.

Ted Butler

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Silver – $32.60

Gold – $1660

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