March 19, 2011 – Weekly Review

Weekly Review

Despite a spirited rally on Friday, the price of silver finished lower by 60 cents, snapping a seven week up move. Gold rallied on Friday to finish the week up about a dollar. As a result, the gold/silver ratio widened back a bit to just over 40 to 1, still close to 27 year extremes favoring silver. The real measurement for a very volatile week, however, was how much both silver and gold retraced losses from earlier in the week. Gold finished better than $35 higher than the price lows on Tuesday, with silver up more than $1.60 from the deliberate takedown rigged by the COMEX commercial crooks. While current market sentiment seems to have turned negative (more on this later), we are less than $25 away from new price highs in gold and around $1.50 shy of new highs in silver.

Maybe it was just me, but there was a surreal quality about the price action in the precious metals this week. While not the primary focus of my analysis, it seemed to me that the metals should have been rallying on the disturbing news from Japan earlier in the week and settling back as things appeared to calm down later in the week. Instead, the opposite occurred. I don't usually dwell on very short-term price moves, but I had difficulty in reconciling the price action with the news this week. The most plausible explanation that I can come up with is that the initial move down this week (as I indicated in Dirty Rotten Scoundrels) was as orchestrated as a London Philharmonic performance. The move down was an intentional and largely successful attempt by the COMEX commercials to induce speculative long liquidation, as I'll cover in the COT review momentarily.

Developments in the world of physical silver continued to point to tight conditions. Movements of metal into (mostly) and out from the COMEX-approved silver warehouses resumed with a vengeance starting last week and have continued. Once again, I interpret this frantic turnover as an indication that the 100+ million ounces already on deposit are not available to the market at current prices. Therefore, new material must be constantly brought in to satisfy ongoing demands for metal, including delivery on futures contracts. Despite a late-week infusion of more than 2 million ounces (which I had assumed was earmarked for futures delivery purposes), there still remains close to 900 contracts (4.5 million oz) open in the March contract with about a week and half to go before last delivery day. No, I don't buy these Internet stories of big cash premiums being paid to those wanting physical delivery. Nor do I anticipate a delivery default based upon the current set-up. The big takeaway here is that the growing Â?stickinessÂ? in COMEX deliveries is strongly suggestive of physical market tightness. If there's a more plausible interpretation, I have yet to hear it.

Likewise, the movements in and out of the big silver ETF, SLV, are also strongly suggestive of physical market tightness. Any withdrawals from the SLV do not appear related to plain-vanilla investor liquidation, but rather movements of metal to satisfy immediate needs elsewhere. Between the COMEX warehouses and the SLV, the two prime world sources for quickly securing physical silver in wholesale quantities, there seems to be an unusual turnover which conjures up images of someone plugging up holes developing in the silver demand dyke. Such images are not consistent with a market being in a comfortable supply situation.

While I envision that the silver in the SLV and the COMEX warehouses will be available for future demand, it will only be available at prices acceptable to those who own that silver. Always remember that physical market conditions are the final arbiter on the price of silver.

This week's Commitment of Traders Report (COT) came in close to expectations in silver and gold, in that the total commercial net short position in each was reduced on the big sell-off into the Tuesday cut-off. Same as it ever was. This is something at the heart of how the gold and silver (and other) markets work. While I can't tell you beforehand when a deliberate price takedown will take place, I can always tell you why it took place, namely, because a small group of commercial entities (mostly banks and financial institutions) rigged the market lower through a variety of dirty tricks to their benefit. Additionally, we can also measure the degree of success the commercial price riggers achieve in any price takedown, thanks to timely government data in the COT. Yes, it is surreal that the same government agency that provides the timely data, the CFTC, also is governed by clear rules that hold that the very activity on which they are reporting is illegal. So surreal, that between the odd price reaction to the news this week and the CFTC consistently verifying, yet ignoring, that price manipulation is occurring, I feel like I am living in a Salvador Dali painting.

This week, the commercials reduced their total silver net short position by 1900 contracts. I thought there may have been more of a reduction, given the price drop of $1.80 over the reporting week, but it may have been understated by an unusual increase in the net long non-reportable category. The reduction in the total commercial net short position was due to raptor buying of around 2400 contracts. The big 4 (JPMorgan) reduced their short position by about 700 contracts and the 5 thru 8 increased their shorts by 1300 contracts. The total commercial short reduction could have been bigger, but perhaps that was as many silver apples as the crooks could shake from the tree on this go-around. In any event, this is the lowest commercial net short position in a month for silver.

The gold COT changes were more dramatic. In a reporting week where the price declined by more than $30 and below the psychologically-important $1400 level, the commercials were able to reduce their total net short position by more than 27,000 contracts. As was the case in silver, it was the gold raptors that accounted for the bulk of the short covering, with the big 4 gold shorts holding unchanged, at a continued low level for them. This is also the lowest level of the total commercial gold net short position in a month.

This relative low level of gold commercial net shorts is encouraging, as is the fact that we bounced hard off the extreme price lows this week in gold and silver. This is suggestive that the liquidation may be complete, as new significant speculative long liquidation would likely only occur if new price lows were hit. The further we get away from those recent price lows, the less likely liquidation can occur. Additionally, the impressive clean-out in gold raises the possibility of a sharp rally, as commercials have better positioned themselves, as a group, for such a rally.

The sharp improvement in the gold COTs is good for silver because I believe the collusive COMEX commercials regularly use either market to play off on the other. Sometimes they'll rig the silver market lower to trip off a decline in gold and vice versa. But once they have completely liquidated either market as much as they can, they run out of road. That may be where we are at now. Unless the commercial crooks can rig another dramatic sell-off in gold (below Tuesday's lows), they shouldn't be able to rig silver lower either. I don't see silver breaking down in price without the same occurring in gold. Of course, you can't underestimate these crooks, especially while the regulators look away. As always, if we do make new lows, you shouldn't have to guess why.

Also supportive of the bottom may be in thesis, is the observation that there was also a notable reduction in the commercial net short positions in some related markets. I don't usually mention them, but I detected big commercial short position reductions in platinum, palladium and copper, all traded on the NYMEX/COMEX. These three commodities were also smacked down hard into the Tuesday lows. The reductions brought the level of the commercial short position in each to multi-month lows. These commodities also bounced off the lows at the end of the week, once the forced liquidation was complete. Like gold and silver, these markets may be poised for a significant rally, based strictly on a COT basis. How is it possible, in a free market, that the commercials always find themselves big net buyers of any and every coordinated sharp price decline? It's as if this takedown in gold and silver was broader (and more collusive) in nature, raising the specter of more widespread manipulation. I'd suggest that the regulators look into this, but I'm afraid they can't keep up with past allegations, to say nothing of giving them something new to investigate.

Recently, I have noticed a chorus of commentators calling for a near-term sharp price decline in silver, both on an absolute basis and relative to gold. I don't recall a similar circumstance, except back when silver stayed below $5 for many years. The current situation is different, in that those bearish on silver in the short term are saying that they are very bullish for the long term. It's because the price of silver has run too far and too fast that they suggest extreme caution. First, it may turn out exactly as many predict, namely, that we get a sharp sell-off, followed by the resumption of a big uptrend. Prices can only go up or down (I'll leave out staying unchanged in this case), so one has a 50-50 percent chance of being right or wrong in any prediction. That's why it's important to evaluate anyone's opinion by examining the reasons being given for the prediction.

In the case of silver going lower in price and lower relative to gold (the gold/silver ratio widening out), the prime reason for such predictions appears to be that the price of silver is too high. That may prove to be the case, but it is somewhat subjective and difficult to quantify. A price that appears too high can go much higher still if the factors driving the item remain in force or intensify. Besides, silver has appeared too high in price to many, all the way up. While I find the current bearish opinion to be more widely-held, I remember hearing silver is too high at $10, $12, $16, $20, $25 and certainly $30. My point is that the decision to buy, or sell, or hold an investment should consider the price and all the factors around an item.

When someone says the price of silver (or anything) is too high, what they are really saying is that the price is too high relative to something. In this case, I believe what they are saying is that the price of silver is too high relative to the past price of silver. In this case, they are correct Â? the price of silver is high compared to the former price. But that is obvious and not necessarily the correct measurement. The correct measurement is in trying to determine if silver is too high relative to its future price. Since we don't know the future price of silver, we can't measure it like we can measure the past price. Therefore, we must try to look at the factors that will most likely shape the future price. That is the basis of analysis. What are those factors?

To me the factors in silver are physical supply/demand conditions, the market structure (as defined by the COT) and, because I believe the market is manipulated, how the manipulation evolves, including possible regulatory intervention. These factors can influence the market suddenly, but are long-term in nature and not given to short-term price predictions. All these factors in silver appear in force and are likely to intensify and influence the future price significantly higher. I believe that the future silver price is potentially high enough so as to make it too risky to sell long term positions for short-term price opinions.

I do agree that we could have a short-term price decline. But largely missing from the predictions of a price sell-off by many is the only reason we could have a sell-off. The only thing I see that can influence the price lower is another collusive commercial attack on the COMEX. But the true remedy to that is not in selling long term positions because of that possibility, but in holding and staying after the regulators and those perpetuating the crime in progress. We should strive to take as objective a view as possible when dealing with long-term investments.

Fears of a short term sell-off aside, the factors I look at suggest the odds favor higher, not lower prices. Those factors include a tight physical market promising to get tighter, a reasonable COT structure in both gold and silver, a bulls-eye target being placed on market riggers (JPM, the CME Group, et al), a market regulator on a slow but steady path to genuine reform and the likelihood that more will become aware of the real silver story in time. Making that point is this timely new article from across the pond http://www.citywire.co.uk/money/silver-manipulation-claims-spark-discord-at-us-watchdog/a479805?ref=citywire-money-investments-list

Silver can and will sell-off from time to time. Whether it does now is above my pay grade. I do know that the biggest mistake made in the remarkable silver bull market to date has been in selling too soon. I believe that will remain true for quite some time to come. Silver has always been about being a great long-term investment and the odds still suggest that hasn't changed.

Ted Butler

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Silver – $35.25

Gold – $1418

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