

Weekly Review

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The losses continued for the third week in gold and for the fourth week in silver, but at a moderating rate. Gold finished \$3 lower for the week, while silver ended 15 cents lower. Such minor price declines for the week might sometimes equate to subdued volatility, but that wasn't the case this week, as prices rocketed up and crashed downward intraday almost every day. I believe there was an intent to that daily price volatility that was not related to legitimate supply/demand factors (he said with a straight face). The slight relative weakness in silver compared to gold widened the silver/gold ratio out a bit to just over 55 to 1.

Silver's price did hit multi-month lows early Friday, while gold did not. Looking at what's been happening in the physical world of metals, the price weakness in silver makes no sense; or at least no legitimate sense. There has not been the slightest indication that physical silver is being sold by investors, as is the case in gold. If anything, the signs of physical silver investment demand are clear in the continued record Silver Eagle sales and big inflows into the big silver ETF, SLV. Since year end, SLV has added more than 18 million oz, while the big gold ETF, GLD, has lost 3 million oz or more than \$5 billion worth of metal on the same rough decline in price. I think the liquidations in GLD are a direct result of the gold price manipulation on the COMEX in that the gold withdrawals came

after prices were first rigged lower on the COMEX. The remarkable thing is that we didn't get any liquidation in SLV and instead witnessed big deposits in the face of a bigger price decline.

I think this is related to my premise of relative investment money flows in gold and silver which vastly favor silver for the long run. Because there is so little money tied up in silver compared to gold that means there is very little money that can come out of silver. I would have been impressed if the holdings in SLV had remained unchanged in the current sell-off and if Silver Eagle sales had been steady, instead of at a record rate, especially considering the outflows from GLD. No one knows what relative physical investment demand for gold and silver will be in the future, but there can be no doubt as to what transpired over the past two months. There should also be no doubt that because aggressive investor liquidation of physical silver did not occur, something else had to cause the price decline. Perhaps the only entity remaining that won't admit that COMEX trading accounted for all of silver's price decline is the federal commodities regulator, the CFTC.

Turnover, or movement of metal into and out from the silver warehouses approved by the COMEX remained active, as total inventories rose 2.6 million oz to a new record (post 1993) of 163.4 million oz. The grand total of all visible world inventories of 1000 oz bars hit a new record of 860 million oz this week. I still expect all these inventories (essentially COMEX and the world's silver ETFs)

to continue to grow at a rate of around 10 million oz a month as investors continue to buy silver. If you cringe every time silver inventories increase (because it seems bearish), I would suggest stop looking at the data. That's because silver inventory growth is more an indicator of growing investment demand than it is anything else.

Mid-week, there was a one million share (oz) increase in the short position report for SLV, to 8.3 million shares, following the epic 10 million share reduction in the previous report.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Considering the changes in the short position in SLV over the past couple of years and the fact that the short position is down almost 80% from the peak of nearly 37 million shares, it is no longer an important factor for me. Of course, any large increase must be dealt with, but we all have enough things to worry about without obsessing about problems that may not come. For the time being, the short position in SLV is not the problem it once was.

Silver Eagle sales from the US Mint continued white-hot as it appeared that the Mint sold all it was capable of producing for February at a daily run-rate of just over 120,000 coins a day (seven day week). More Silver Eagles were sold in the first two months of this year than in any other Jan-Feb period in the 27 years of the program.

http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2

013 It would appear that the buyers of these coins do not believe the phony price signals emanating from the COMEX. Extending this observation to the inflows into the SLV, at some point physical silver buyers will expose and break the COMEX's crooked grip on price.

Once again, the changes in this week's Commitment of Traders Report (COT) were instructive. I continue to read and hear commentary that big traders fib in their reporting of positions for the COT. I reject that for the reasons I outlined last week, namely, that too many counterparty traders would also have to lie and that the COT paints a clear picture of concentration on the short side of silver. Who would lie about their positions to make themselves look worse?

In gold, the total commercial short position increased by a modest 5500 contracts to 137,600 contracts, still at the lower (and bullish) end of readings over the past couple of years. In last week's review I had anticipated that the gold commercials further reduced their net short position as a result of extreme price weakness thru Friday a week ago. I still believe that to have been the case, but the very high volume and sharp gold price increase on Monday and Tuesday was most likely due to technical fund short covering and commercial selling. This week's report bears that out.

By commercial category, the only group of gold traders that sold were the

raptors (the smaller commercials apart from the big 8), which sold out 7700 contracts of a long position only established a week before and reducing that net long position to 4700 contracts. The big 4 and the 5 thru 8 group of commercial traders continued to buy back short positions. There were some very large moves to the upside into the Tuesday cut-off and the raptors are generally quick to take sizable gains on recently acquired positions, looking then to rig prices lower to re-buy what they had sold. The counterparty tech funds can be very accommodating when price volatility surges. Since prices weakened noticeably after the Tuesday cut-off, it would appear the gold COT market structure became much more bullish (thru Friday, anyway).

In silver, the total commercial short position declined a very significant 7100 contracts, to 30,900 contracts. This is the lowest total commercial short position in silver since mid-August. Over the last three reporting weeks, the total commercial net short position in COMEX silver has declined by 21,000 contracts or the equivalent of 105 million oz. Try to put that into perspective. The world mined less than 45 million oz during that time, recycled an additional 15 million oz and consumed that 60 million oz of total silver production. Investors added 15 million oz to holdings (SLV and COMEX alone) over the past three weeks and the price dropped by \$4 or 12%. How in the world could the commercials on the COMEX buy 105 million paper oz on a 12% decline in price with the background I just described in a market that wasn't manipulated? I'm not kidding ☐ if anyone has a legitimate explanation, please drop me a line.

The big story in silver was the breakdown by commercial category. The big 4 (read JPMorgan) bought back less than 1200 contracts, only reducing their net short position to 45,435 contracts. The silver raptors acquired 5700 additional long contracts, increasing their net long position to 25,000 contracts. There have been only a very few occasions in history when the raptors have held such a large net long position in silver. The largest raptor long position was 27,200 contracts last June, when the price of silver bottomed under \$27 and began an \$8 rally to \$35 in the fall. Before that, the only other time that the raptors had a net long position more than 25,000 contracts was back in Oct 2008, when they held 25,477 long contracts as silver had crashed below \$9. The raptors didn't fully liquidate that long position until silver hit over \$30 in early 2011. As a general rule, the raptors will hold a long position in silver until they can liquidate it at a profit; maybe not a big profit, but a profit nonetheless.

I would estimate JPMorgan's concentrated short position to be 27,500 contracts as of the cut-off. I had expected JPMorgan to have covered more in this report and the raptors not to have bought as much as they did. JPM may have set a record of sorts in that it holds nearly 90% of the total commercial short position of 30,900 contracts. In other words, without JPMorgan, there would be a total commercial net short position in COMEX silver of less than 3500 contracts and no one could begin to allege price manipulation. Instead, I don't believe there has ever been such a large concentrated position in history in which one trader

held virtually the entire net position of all the other commercials. In a very real sense, it is JPMorgan against the world of silver.

Needless to say, there is a stark contrast between the raptors' near record long position and JPMorgan's record short concentration relative to the total commercial net short position. It seems clear to me that this juxtaposition and its resolution is at the heart of how silver will behave price-wise from here. Since the tech funds have continued to plow onto the short side, we should be approaching the maximum number of how many tech fund shorts can be created from here (especially extrapolating since the cut-off) along with further speculative long liquidation. If the raptors continue to buy on lower prices (which appears likely considering how aggressive they have been so far), the question becomes how will JPMorgan cover the bulk of their short position?

JPMorgan still appears to be 15,000 contracts "too" short compared to their position at previous lows. Certainly, this makes them a danger to the market for engineering additional price declines, but it also makes the position dangerous to them and to the upside in price. Back in December 2011 and last summer, JPMorgan had managed to whittle their short position down to the 12 to 14,000 contract range. At 27,500 short contracts currently, it seems a long way, in price and in number of contracts, for JPMorgan to get there again. Please consider this – if the raptors continue to buy aggressively to the downside (something I fully expect and expected), it may not matter much if there is

additional tech fund selling ahead as far as JPM is concerned. Of the 21,000 net commercial contracts bought over the last three weeks, the raptors accounted for 12,500 and JPMorgan for no more than 8,000 contracts. The future may be unknown, but we know for certain that the raptors have been particularly aggressive on this manipulated downdraft.

Under the most extreme further liquidation in silver imaginable, it looks certain that JPMorgan will end this down price cycle with a larger net short position than ever before. Then what? What happens when we bottom in price (if we haven't already) and begin to move up? The last two times, JPMorgan emerged as the sole short seller in silver. If they do that again, it will likely be from a much higher short position to start with and much greater awareness that they are the known silver crooks. It makes you question those who insist that the commercials (including JPMorgan) will be heavily long when the big move starts to the upside. After all, JPMorgan has miles to go to get neutral on the COMEX and there are already commercials (the raptors) holding a significant and near record net long position. In order for there to be significant commercial buying ahead, there must also be significant counterparty technical fund selling. You never want to say never, but I don't see that magnitude of technical fund selling at this point. Therefore, stories about the commercials buying big from here (much more than they bought so far) appear to be just that □ unsubstantiated stories.

That's not to say these crooked commercials on the crooked COMEX don't have more dirty price tricks up their sleeves. And I don't distinguish much between the crooked raptors and crooked JPMorgan when it comes to silver (and gold) because the world would be a better place without their existence. The only good news is that they are competing against each other to buy as many silver contracts as possible. Because of this commercial buying competition, silver prices have been rigged lower more overtly than usual. I don't think I've observed so many sudden 50 cent+ smack downs in price than recently. If you are a silver investor, these deliberate price smashes are debilitating and painful. That's because they are designed to intimidate and force the sale of silver. If that isn't financial terrorism, I don't what is.

But the vicious price downdrafts created by the commercials so that they can buy also have the effect of creating and chewing through technical fund selling at a rapid rate. Twenty-one thousand net contracts in three weeks (more since the cut-off) is a rapid enough liquidation to suggest a climax to the selling in historical terms. Bear in mind that the whole intent to the recent silver (and gold) sell-off is for the purpose of generating a complete technical fund capitulation to the downside in which the commercials buy. My gripe is with those COT analysts who chronicle the extreme changes in market structure accurately but never venture into why these extreme changes occur so regularly. They'll portray the tech funds as dumb money and the commercials as smart money, but never venture into how the same process repeats itself

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endlessly. It's not just dumb and smart; a pattern this regular doesn't evolve by coincidence when the financial stakes are this large.

I wish I could pinpoint the precise low, but I can't. I can look at documented data and see that previous important price lows for silver and gold have coincided with the type of COT readings we see currently. I can look at verifiable data that indicate unusually strong physical silver investment demand on declining prices and no verifiable evidence to account for price weakness except crooked pricing games on the COMEX. I can see that JPMorgan is more short relative to the other commercials than ever before and I know this, among many other things, must be resolved at some point. When I consider everything I can possibly know about silver, I am convinced the downside is limited and of short time duration, while the upside lies far from here, either in time or price.

Ted Butler

March 2, 2013

Silver – \$28.55

Gold – \$1577