

March 3, 2010 – Let it Ride

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Due to some pressing family matters, this report has been somewhat delayed and abbreviated. Also, I'm a bit behind in my email, particularly in answering some good questions recently submitted. I plan to attend to them, publicly or privately. Don't be shy about asking again, if you have not heard from me. The squeaky wheel does get the grease often.

The good news is that the silver price action appears to be unfolding according to plan (he said as he looked over his shoulder). Subscribers should be fully positioned, with even option purchases looking promising. The sell-off of roughly \$4 into Feb 5 looks to be just as I surmised, namely, a gung-ho manipulated smash to the downside by the commercials intent upon causing as much long technical fund and other speculative selling as possible. This time, the dealers were able to buy 24,000 contracts (120 million ounces) net of COMEX silver into the bottom of the sell-off.

Now the analysis should be focused on how much dealer selling is occurring on the subsequent \$2.50 rally from the low (as of this writing). Certainly, we've seen some deterioration from the "locked and loaded" market structure to which I have recently referred. This is inevitable, as it is the rhythm of the market. The measure now is how much technical fund buying and dealer selling is taking place on the current rally. My sense (and hope) is not too much deterioration has occurred in silver so far. Perhaps more deterioration has occurred in COMEX gold, and that is somewhat of a concern, but silver still looks ready to rock and roll to the upside.

As I indicated recently, the real key to the coming rally, which we are now witnessing in silver, will be the behavior of the biggest silver short, JPMorgan. After having covered a decent chunk of their short position on the recent price smash, will they revert to additional short selling on the rally, as they do usually? This is the only price question that matters at this time. If JPM aggressively adds to their short position, it will probably indicate that they intend to continue to manipulate the price of silver (and gold). But if JPM refrains from aggressive additional silver short selling, then the price will fly. To me, it's very cut and dry.

This coming Friday's release of the weekly Commitment of Trader Report, along with the monthly Bank Participation Report should provide us with important clues to the answer of the key question. The Bank Participation Report should show a significant decline in the short position of the big US banks over the past month. Hopefully, the COT will show that commercial selling this week has come principally from the smaller commercials, the raptors, who were selling out recently acquired long positions, and not from the four largest shorts increasing their short position. Raptor selling is of no concern to me at this point; the key is if JPMorgan is selling. That is what will determine the nature of the current rally.

Based upon volume, price action and daily open interest changes over the past week, I am highly encouraged by what has developed recently in silver. It looks and feels somewhat "different" from previous bullish set-ups, which inevitably end in an orgy of new commercial short selling. Hopefully, the price action and continuing data flow will confirm this as the days and weeks unfold. Volatility will persist, but for now it is sit tight and let it ride.

Ted Butler

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