

## March 30, 2013 – Weekly Review

### Weekly Review

In a holiday-shortened trading week, the price of gold and silver fell; gold by \$11 (0.7%) and silver by 40 cents (1.4%) at the close of business on Thursday. This was also the close of the first quarter and silver had the dubious distinction of ending the quarter at the lowest closing price year to date. As a result of silver's relative underperformance to gold, the silver/gold ratio widened out to nearly 56.5 to 1, putting silver at the very top of the trading range of the ratio since last August (but still within the year and a half trading range bounded by 60 and 48 to 1). In simple terms, the price of silver is now cheaper relative to gold and, in my eyes, at a bargain level for funds switched from selling gold (or outright silver purchase).

Since I know that the poor recent price performance is of a concern to silver investors, it would be foolish to ignore it. There should be no question that the price showing for silver is at odds with what is occurring in the real world of silver fundamentals. I think it instructive to review the first quarter for the documentable evidence of a disconnect between the price and the actual silver facts.

In a quarter that saw silver fall nearly \$2 (6%) from the year-end close, the US Mint sold more Silver Eagles (14 million+) than in any quarter in the program's 27 year existence. Recent reports have indicated additional retail tightness and delays in other forms of silver popular with investors. The metal holdings of the big silver ETF, SLV, increased by 20 million oz, despite some hefty single day withdrawals which suggest stealth buying by a Mr. Big. There is not one single data point which indicates any net investment sale of physical silver. (In contrast, the holdings of gold in the big gold ETF, GLD, registered a liquidation of 4 million oz or 10% of that trust's total holdings on gold's near \$60 (4%) quarterly price decline). We even witnessed during the first quarter, the largest reduction (finally) in the manipulative short position of SLV of nearly 10 million shares/oz. If retail and wholesale investment demand for physical silver was strong across the board and there was no let up in industrial demand for silver or any evidence of increased supply, then why the heck would prices fall and not rise instead? You don't have to go far to get the answer.

By far, the standout price feature for first quarter in silver was the reduction in the total commercial net short position on the COMEX from the high point of Feb 5. I'll discuss the changes in this week's Commitment of Traders Report (COT) in a moment, but from the peak on Feb 5 thru Tuesday's cut-off, 29,000 net contracts were bought by the commercials. This is the equivalent of 145 million oz of silver and is clearly a towering amount compared to any amount of silver produced or consumed within the quarter. Yes, these are paper transactions, but they are so excessive in size as to overwhelm the free market forces emanating from the real world of supply and demand. Simply put, the commercials on the COMEX colluded and rigged silver prices lower during the quarter to trick the tech funds into selling. Both the good and bad news is that the commercials succeeded in their quest.

On Wednesday, there was a rare day of zero movement in the COMEX-approved silver warehouses. Adding in the other no movement day of the week due to yesterday's holiday closing of the COMEX, turnover cooled off a bit to the 1.5 million oz level as total COMEX silver inventories rose less than 100,000 oz to 164.2 million oz. What a difference two years can make. It may be hard to grasp, but no movement days were the norm for daily COMEX inventory until early 2011. That's when we began the frantic silver turnover which persists to this day. I continue to equate the rapid physical turnover in COMEX inventories as a prime indicator of physical tightness that is lacking in gold or any other traded metal and will be attentive to any constructive explanations to the contrary.

A long term subscriber beseeched me this week to remind everyone that I should be more circumspect in even referring to the silver in the COMEX warehouses as "inventory." In the classic sense of that word, stockpiles of industrial metals are normally thought of as potential supply to the market and as inventory. Of course, Barry is correct that silver stockpiles are not really inventories automatically available to industrial users. That's because silver, as an important precious metal, is held by a diverse group of investors and it is this group of investors who will determine when it may be available for sale, regardless of what non-owners may think.

Therefore, it would be a serious miscalculation to look at COMEX silver inventories or holdings in the SLV or other silver ETFs as inventory readily available to industrial consumers or other investors. The data above indicate there is significant net additional buying of physical silver and absolutely no indication that silver investors are liquidating actual metal. Maybe one can infer aluminum or zinc inventories might be available for purchase at close to current prices; but it would be a mistake to assume the same in silver. What we'd all love to know, of course, is the amount of silver that is visible that is actually available for sale near current prices. I personally believe that very little of the silver we can see is actually available for sale from the data and other observations, but neither I nor anyone else can be certain. Please just be certain about this: COMEX or ETF silver inventories are very different from the classic definition and understanding of the word. Just because we can see it, doesn't mean we can buy it.

The changes in this week's COT were welcomed, if not completely expected. Prices for gold and silver had a slight downward bias during the reporting week, but not excessively so. Still, we witnessed improvements, or reductions in the total net commercial short positions for both silver and gold. As usual, there was a good amount of interesting data under the hood.

In gold, the commercials on the COMEX reduced their total net short position by 4000 contracts to 158,500 contracts. This is still nearer the lower and more bullish readings for the gold headline number over the past year, although still up from the very recent low readings of a few weeks ago. By category, the gold raptors (the smaller commercials apart from the big 8) did most of the buying and then some, by buying back more than 8000 short contracts. This reduced the raptor net short position to 14,500. The big 4 added more than 5000 contracts short, while the big 5 thru 8 bought back 1000 short contracts. I don't suspect too much change in the gold COT structure in the two trading days since the Tuesday cut-off at this point.

In silver, there was a greater proportional relative decline in the total commercial net short position of 2400 contracts, to a total of 24,000 contracts. This is yet another new low in the headline number going back to last summer. By category, it was largely a raptor affair as these smaller commercials bought 1800 contracts, increasing their net long position to a new record of 28,300 contracts. This new raptor record net long position indicated they have the capacity to exceed prior peak levels. In a twist, the 5 thru 8 largest traders also bought back 1000 short contracts, leaving the big 4 (read JPMorgan) as having sold additional shorts to the tune of almost 500 contracts.

I would now calculate (after messing up in last week's review) JPMorgan's net short position to be 23,000 contracts as of the cut-off. While down 12,000 contracts from their large short of 35,000 contracts on Feb 5, simple math shows that JPMorgan held 96% of the total commercial short position of 24,000 contracts in the latest COT report. I doubt such an extreme measure of concentration has ever occurred in any other regulated futures market. On this measure alone, it is safe to conclude that JPMorgan has manipulated the silver price, as there would be virtually no commercial short position in COMEX silver without this crooked bank. That the CFTC and the CME Group can sit by and allow such an unnatural concentration to exist shows how inept and corrupt the regulators have become. (Previously, I labeled them as either inept or corrupt).

Other revelations under the hood of the silver COT report were that, in addition to the record raptor net long position, the counterparty technical funds now hold a record large gross short position and a record low net long position (all in the managed money category of the long-form disaggregated COT report). In other words, the raptors have never been this net long in COMEX silver futures and the tech funds never less so (in addition to holding a record gross short position). Simply put, the commercials have succeeded massively in snookering the tech funds to sell out long positions and add short positions once again. Before I get into what this portends for the future price of silver, let me address a question from a long term subscriber that I know is on many minds.

The question from Larry was how can the technical funds continue to allow themselves to be tricked by the commercials? I know this baffles many, even though I have tried to explain this previously. As way of some background, I do have some hands-on experience with technical funds, having marketed a variety of them to clients when I was a commodity broker at Drexel Burnham in the late 1970's to early 1980's. I found then and still believe today that the technical funds were systemic and disciplined in their approach and diversified over a large number of markets; meaning they only committed a small percentage of assets to any one market. Invariably, they all used a technical trading approach, most often based upon moving averages. Few, if any, relied upon fundamental analysis as it is too hard to be precisely objective by studying supply and demand compared to buying on price-only formulae.

Most technical funds rely on the investment rule of cutting losses short and letting profits run and don't mind getting chewed up in any one market as long as enough big winners sustain overall performance. For instance, losses in silver may have been offset by gains elsewhere, like in currencies or stock index futures. Since the technical funds don't look at the underlying fundamentals of any market and because repeated losses in any one market are overlooked in the quest for overall investment performance, they are completely unaware of the allegations of a silver manipulation. Moreover, the technical funds won't even entertain the notion that silver is manipulated and that they are the patsies because to do so threatens their whole reason for existence. No one wants to hear they have been cheated for years on end and do something about it, if that admission includes great shame at being bamboozled and radically changing a business operation. At least that has been my experience in trying to alert the tech funds over the years. That said if anyone wants to call on me in future attempts to wake up the tech funds, you can count me in. But my experience has been they don't even want to hear it.

Whether my response is sufficient is one thing; but there can be no doubt that the tech funds have been the big seller since Feb 5 in COMEX silver futures. In fact, they have sold the 29,000 net silver contracts purchased by the commercials since then, as evidenced in the managed money category of the disaggregated COT report. Adding to tech fund selling, from Feb 5 thru Tuesday, there has been an additional 3500 net contracts sold in the non-reportable category. The two speculative categories that matter the most in COT analysis away from the commercials are managed money and non-reporting traders. Historically, these are the two categories the commercials are gunning for and which indicate important price bottoms and tops. That these two categories actually sold more (32,500 contracts) than the 29,000 net contracts the commercials bought indicates that other reporting speculators not relying on technical analysis also bought alongside the commercials. Without getting too terribly detailed, this is even more bullish, as such speculative buyers are unlikely to sell at lower price levels (just like the commercials).

I hope I have shown that the price action for silver in the first quarter has been contrary to the glaring evidence of increased physical investment demand. That set of circumstances points to price manipulation, apart from detailed analysis of the COMEX and JPMorgan, as increased demand, steady supply and lower prices is the opposite of what the law of supply and demand dictates. Certainly, if anyone has evidence of physical investment selling or an increase in physical silver supply, please let me hear from you. One other thing – the notion that large paper selling pressure lies behind the decline in price is somewhat misplaced. Sure, the tech funds have sold a mountain of paper silver contracts, but what actually happens is that the commercials first rig the prices lower and only then does the technical fund selling occur. Admittedly, this is a hard concept to grasp because we are all conditioned to accepting the concept that prices fall on selling pressure; but that is not the case in silver in terms of sequence. In COMEX silver (and gold), prices get moved and set first; then the actual buying and selling occurs. It's a subtlety that has enabled the manipulation to exist for as long as it has.

My sense is that the price weakness in silver since the cut-off has further reduced the total commercial net short position and has increased the net selling by the tech funds and non-reporting (small) traders. This makes the COT market structure and set up even more bullish. There is a finite limit to tech fund and speculative selling although that can only be measured after prices turn upward. Since we have set record extremes in silver raptor net longs and with reciprocal technical fund gross shorts, it is not possible to rule out slight new milestones. Further structural records from here must be accompanied with lower prices and new price stabs to the downside must still be considered possible.

I am still of the mind that we are close to a silver price bottom of some great significance and that the investment risk/reward ratio in silver has rarely been more attractive than it is currently. Whatever new price lows the commercials may rig in silver, it is important to recognize any imaginable price lower is vastly exceeded by the potential amount silver will move higher in price eventually. The essence of successful investment is to place funds into the thing least likely to lose money and most likely to show great gains. In this instance, silver is it.

It's important to recognize that all it will take for the technical fund shorts to begin buying in earnest will be for the price of silver to move higher. Therefore it's not too soon to contemplate what happens next. Currently, the big 50 day moving average has moved lower to just below \$30 (or where we began the year) and any move above that level, regardless of the reason for the move, will unleash tech fund and other speculative buying. No one can time that buying, but sooner or later the 50 day moving average will be violated, either by silver prices rising or the moving average falling or some combination thereof. I fully expect the raptors to sell much or all of their record high net long position (at a decent profit) in the coming silver price rally, but as has always been the case in the past, raptor selling alone will not be enough to satisfy all the technical fund buying likely to occur. Therefore, the only question that really matters is what will the crooks at JPMorgan do on the next silver rally? Will these low-lifers sell short additional quantities of COMEX silver contracts or will they refrain from capping the price this go around?

This is the question I asked back in December 2011 and during the summer of 2012. Each time, the answer was resounding as JPMorgan sold as many additional shorts as was required to cap the silver price. I would imagine most would expect the same outcome again as who's to stop these criminals, surely not the sad excuse we have as regulators. I can't argue that the CFTC or the CME will ever do the right thing in silver, but there is one thing that could persuade JPMorgan to stop manipulating the price of silver. That something is too strong of a demand for physical silver, the signs of which appear to emerge daily.

In retrospect, it was growing physical silver demand in late 2010 that prompted JPMorgan to refrain from selling short silver and which allowed the price to climb to near \$50 in a matter of six months or so. The crooks at JPMorgan will see that physical silver imbalance coming before just about anyone and that will be what causes them to cease adding new silver shorts. The great thing about all this is that we will be able to follow this in real time by observing price and the continued flow of verifiable data in CFTC reports.

Ted Butler

March 30, 2013

Silver – \$28.35

Gold – \$1598

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