Weekly Review<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

While intra-day price volatility has been high, the weekly closing prices for gold and silver remained relatively subdued, with gold finishing $22 (1.5%) lower and silver ending 25 cents (1%) lower. The silver/gold price ratio tightened in a bit to 60.7 to 1, still at the upper end of the ratio over the past year or longer. It's somewhat notable anytime silver performs better than gold to the downside, but assigning great importance to price performance in price manipulated markets is generally not logical. What still seems logical to me is to expect silver to outperform gold in the future for a myriad of hard facts.

A number of subscribers sent along an article highlighting an extremely bearish take on silver that cautioned that the market was □plagued□ with a 4000 ton surplus. I suppose words have meaning; but numbers and hard facts, at least to me, have greater meaning. The 4000 ton silver surplus equals the 10 million oz per month amount I have highlighted as what is left over from total silver production after total fabrication demand is subtracted. These 10 million silver ounces per month must be absorbed by the world's investors for silver prices to move higher. I don't accept that constitutes a plague □ it's merely an amount of silver that can be translated into dollar terms; in this case less than $240 million per month.

You may recall that this lies at the heart of my buy silver/sell gold mantra, as the 5 million oz of gold that must be absorbed by the world's gold investors comes to more than $7.2 billion per month, or 30 times the dollar amount necessary in silver. Recently, even the most bullish gold enthusiast must recognize investors have not been buying sufficient quantities of gold to maintain the price. Analysts (including me) use descriptive terms to get across a point. So let me ask you □ if buying $240 million worth of silver is a plague, what word should be used to describe the $7.2 billion that must be purchased each month in gold? Also, one might consider that industrial users may panic one day in silver (as I contend), but that is not possible in gold, since there are so few gold industrial users. This is all to say nothing of the fact that most governments own big quantities of gold that could be sold, while no government has silver to sell. That's some plague, I tell you, worse than the Black Death itself.

Conditions in the wholesale physical silver market remain tight, as I've written every week for two years straight. Movement within the COMEX-approved silver warehouses reached more than 3 million oz in and out, with total inventories dropping a scant 100,000 oz to 165.5 million oz. The most recent report from the US Mint, early in the week, indicated that sales of Silver Eagles were pegged at what has been maximum production of near 130,000 coins a day. I don't see any let-up in demand for Silver Eagles (or for □junk□ coins). The biggest complaint from retail dealers seems to be not getting enough silver in the forms that customers are demanding. Whether this is a precursor for demand for the all-important form of 1000 oz bars, of course, remains the key question.

The latest short figures for stocks was disappointing in that the short position in the two big metal ETFs, SLV for silver and GLD for gold, increased. In the SLV, the short position increased, as of April 30, by 3.4 million shares (ounces) to more than 11.7 million shares. I can't prove it, but it seems to me that this points to an unavailability of metal.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99 Since the short position is still less than a third of what it was at the peak of more than 36 million shares, it would be premature to start raising a ruckus over it. Additionally, at less than 3.4% of total SLV shares outstanding, we are down even further from the peak of 12% of shares outstanding at the peak. However, we must monitor the short position going forward.

Regular readers should remember my basic gripe about shares shorted in SLV and GLD being that real metal is not backing the shorted shares, in violation of the intent of the prospectus. They will also remember the effort to get the sponsor of SLV, BlackRock, to crack down on those shorting the shares. At this point, it still appears those efforts were productive. I have also wondered aloud on many occasions why gold commentators don't petition the sponsor of GLD, State Street, to complain about the short position in GLD. (Since I don't own shares in GLD, I never petitioned State Street). The latest short figures for GLD (just type in GLD in the above link) reinforce my wonder why gold enthusiasts tolerate the short position in this security.

The short position in GLD jumped by more than 4 million shares to more than 28.2 million shares, the highest level in my memory. This represents roughly 2.8 million ounces of gold and, much more importantly, is the equivalent of 8% of total GLD shares outstanding (349.6 million shares). Quite simply, there is no metal backing to the owners of 28.2 million shares of GLD. That's outrageous and is fraudulent, in my opinion. Why gold proponents tolerate this is beyond my understanding.

One of the things that I believe may have convinced BlackRock to crack down on shorting in SLV was me raising the point (first made by my Swiss money manager subscriber) that shorted shares cheat the sponsor out of management fees, as shorted shares don't pay management fees. In the case of GLD, my back of the envelope calculations indicate that State Street is being shortchanged by $15 million annually in management fees on the shorted shares. I'm not going to do it, but gold enthusiasts should go after State Street on this issue.

The changes in this week's Commitment of Traders Report (COT) were basically non-existent in silver, but constructive again in gold. In short, the market structure in each remained strongly bullish on any reasonable historical comparison.

In gold, the commercials reduced their total net short position by a further 7800 contracts to 87,700 contracts. This is another new low-water mark extending back to late 2008 for the commercial shorts, with a corresponding low-water mark for the non-commercials on the long side. This is what makes the market structure strongly bullish.

By commercial category, it was once again a raptor affair, as the commercials apart from the big 8 did all the buying, adding 9300 contracts to a record net long position that now totals an astounding 47,200 contracts. If I was somewhat unsure if last week's big jump in the gold raptors long position was the largest on record, this week's increase eliminated any doubt. The big 4 added 2500 short contracts, but their net short position is still very low on an historical basis.

Over the last three reporting weeks, on a total commercial net short position that has declined by 54,000 contracts, the raptors accounted for almost 46,000 contracts of that decline. There should be no question that the reason for the big gold price smash, particularly the big two-day price smash, was to enable the commercials to do this record buying. While the regulators and exchange officials dither and hardly bother to look concerned, the commercials have executed a market crime so flawlessly that it would garner compliments were it not illegal at its core. The only questions remaining are when will the gold raptors ring the cash register and by how much? Yes, I suppose the gold raptors could sucker even more speculative selling in on still lower prices, but when you are already at historical position extremes, the incremental amounts would appear limited.

In silver, it was as close to unchanged as is practical, as the total commercial net short position increased by 200 contracts to 14,400 contracts. Likewise, the changes by commercial categories are not worth listing (see last week's review), although the non-reportable category (small traders) net long position did slip a further 1200 contracts to another new all-time low reading of 800 contracts. I remember, in years past, when the small traders were net long in COMEX silver by more than 40,000 contracts, so this reading seems unbelievable to me. And unbelievably bullish. Can it get more bullish on lower prices? Perhaps by a bit and I think that may have been the case since the cut-off of this report, particularly on Friday's early price weakness.

Along with the release of the companion monthly Bank Participation Report, it looks like JPMorgan is still net short 18,000 COMEX silver futures (90 million oz). If you recall, this is the level of short positions that JPMorgan held going into the big two-day price smash. I had originally anticipated that JPM covered ferociously into the silver price smash, maybe even eliminating that concentrated short position for the very first time. Even though there were obvious delays in the proper reporting in the COT report by the CFTC in the aftermath of the price plunge (never acknowledged by the agency), it is clear now that JPMorgan did not reduce its concentrated silver short position at all. This is the most significant market consideration at this time.

That JPMorgan did not reduce its COMEX silver short position raises the question as to whether that was voluntary or if they were incapable of doing so. Time will tell, but one thing it does is raise the importance of what the bank will do on the next silver price rally. Let's face it ever other category in COMEX gold and silver is historically positioned for a strong price rally. Even JPMorgan is holding a reduced enough silver short position conducive for a price rally based upon previous readings. If we do get that rally (as I expect), what will JPMorgan do then? Will they add to silver shorts as they have done on the past two big rallies in silver, or will they stand aside and allow the price of silver to fly (as they did into April 2011)? JPMorgan is as crooked in silver as a June day is long and this next silver rally will demonstrate that no matter what it does. But it is rare when one can pinpoint criminality beforehand.

A quick mention on copper, although please don't take this as any type of investment advice. The price has fully recovered from the smash and is back at the 50 day moving average on Friday's close. There has been some slight reduction in the record commercial net long position in the current COT (and probably more since the cut-off). Therefore, the commercials are in a position to really put it to the speculative shorts, should they so choose. Whether the commercials will go for the throat (and really let prices rip to the upside) remains to be seen, but the commercials could if they want to. There's nothing scientific about this, but I get the sense that we may get a preview of what the commercials intend in gold and silver by what they do in copper.

Finally, there's no question that silver has acted poorer price-wise than gold and other commodities these past few weeks and months. This naturally creates doubts about future performance. This is why one must strive for the facts. Based upon any objective measurement, silver is better positioned for an upside move than any other commodity, especially gold. Along those lines, here's a great question from a subscriber that I would imagine is on the minds of many. Certainly, it's something I think about constantly.

Hi Ted,

After reading what you wrote today, I took a step back and wondered, why the heck would anyone, myself included, knowingly invest/speculate in silver, knowing all of the negative issues about which you write. I've done pretty well with equities, bonds and gold (mainly in the past), simply by doing what I would do if I were shopping in a supermarket: I try to buy what's on sale if the quality is good; if I want something special I'll buy it if it's fairly priced. This philosophy has served me pretty well and I'm not a greedy guy, so that helps. That being said, I invest to make money.

What struck me today after I read your letter is that investing/speculating in silver is crazy-making. You've been doing this for a long time, you've seen much more re: silver than I have. The playing field is so uneven that it seems crazy to get involved. I happen to be a little crazy, and I can stomach the non-realized losses.

Let me ask you a question: knowing what you know, given your experience… would you have speculated and continue to speculate in silver now? Maybe I seem wacko for asking, but it just seems that re: silver, it's much like watching paint dry.

Best,
Adam

Why, indeed, mess with silver if it is as crooked a market as I allege? Prices can be manipulated in two directions higher and lower. You and I would be crazy indeed if we chose to invest in a market that was manipulated higher. This is the most usual form of price manipulation and it would only be a matter of time before someone would get killed if he invested in a market whose price was at an artificial high level.

Since all the evidence points to silver being manipulated lower in price (the concentrated short position of JPMorgan), the price is at an artificial low level. Win, lose or draw, one could never be accused of being crazy for buying anything at an artificial low price level. So my first point is that no, Adam is not crazy for buying silver because it has been manipulated lower in price.

I sense what Adam is really asking is are we crazy to think that a manipulator as powerful as JPMorgan could be unsuccessful in manipulating silver indefinitely? This is a somewhat different question, but the answer is essentially the same, namely, it would be crazy to believe that JPMorgan can maintain such a manipulation indefinitely. For one thing, all commodity price manipulations throughout history have and must come to a sudden end. It is impossible to pinpoint the endings in advance, but that's beside the point.

What guarantees the silver manipulation's end is the law of supply and demand. At some undetermined point, an artificial low price of any commodity must increase physical demand relative to supply to the level that supply can't meet demand. That sounds good on paper and no one can argue with it; but there should also be some confirming indicators along the way which confirm the premise that silver has been priced at an artificial low level. This, in essence, is what sustains me.

I have been making the allegation that silver has been manipulated for more than 25 years. What are the mileposts along the way that I can point to that confirm the premise? For one thing, more observers than ever before accept the silver manipulation premise. (Although often times, gold enthusiasts adopt the silver arguments for gold when they don't really apply). Alone, that might not prove the manipulation exists, but it would be highly unlikely for such a premise to exist for such a long time and be believed by increasing numbers of observers if it were completely without substance. In fact, there's a somewhat ironic aspect to the growing number of silver manipulation observers that is downright funny. Whenever I release a public article on the manipulation, like The Worst Regulator Possible (due to subscriber requests), invariably I am criticized by some for being late to the party in not recognizing sooner that the regulators are no good. What's ironic is that none of those criticizing me could ever possibly know about the silver manipulation without me, directly or indirectly.

Other mileposts would have to be developments along the way in the silver market, in terms of price and events. I discovered the silver manipulation when the price was in the $4 to $5 area. I would contend that the massive price moves up and down since then confirm the argument for manipulation. In other words, if the price wasn't artificially depressed and manipulated, what else could have explained the subsequent unprecedented price moves? Free markets don't behave with the volatility witnessed in silver. Silver is the most volatile commodity pricewise because it is the most manipulated commodity. The supply/demand fundamentals in any industrial metal are 24/7/365 affairs; there's no seasonality as if the silver apple crop gets harvested once a year or suddenly fails. We've all become accustomed to the volatility in silver as if it's normal. But it isn't normal; it's just an additional proof for how crooked the market is.

Look at the things we take for granted in silver because we've become used to them, like periodic delays and shortages. Prior to the last few years, these delays and shortages were unheard of. These delays and shortages can only occur if the price was manipulated and flashing signs that the volcano was rumbling and about to go. Look at the professional approach I've taken in exposing the manipulation, by going directly and publicly to the parties involved the CFTC, JPMorgan and the CME. Look at their responses or lack of responses.

What Adam is asking is how to play it. Entities like JPMorgan are formidable and we must be careful when going up against them. But the truth of the matter is that we are not going up against JPMorgan; rather it is JPMorgan going up against the law of supply and demand. The best (and maybe only) way is by holding physical silver or its equivalent and waiting them out. No leverage. (I make an exception for call options, but that's personal). I'd say don't look at it day to day, but that's impossible because it's so darn interesting. Just don't let your daily interest overwhelm and interfere with a long term approach.

Ted Butler

May 11, 2013