

Weekly Review<?xml:namespace prefix = o ns  
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It was another down week for gold and silver, one of the steepest this year. Gold dropped \$61 (3.7%) and silver fell \$1.40 (4.6%), pushing the gold/silver ratio out to 54.7 to 1, both the highest point and where we started the year. It doesn't feel like it, but both gold and silver are still up in price for the year to date, although only by the slimmest of margins. The recent nature of the underperformance of silver relative to gold just strengthens my conviction that silver will outperform going forward.

The big development this week to me was the rotten price performance in gold and silver versus the dramatic improvement in the market structure of each as indicated in the new Commitment of Traders Report (COT). In addition, there was an important potential development in the surprise report of big derivatives losses for JPMorgan which I'll comment on after the usual review. One thing that I hope everyone realizes is that we have not declined in gold or silver prices for any reason other than to enable the commercial controllers on the COMEX the opportunity to buy as many gold and silver contracts as possible. The data indicate that these commercials are doing just that, in spades.

In watching the daily price action I have been muttering many things to myself,

not the least of which has been the phrase, "slicing the salami." That's the term Izzy and I have used to each other over the years to describe one of the commercials' favorite tricks against the technical funds. It involves the deliberate setting of a series of new price lows to lure the technical speculators into selling (both long liquidation and new short selling). Nothing encourages technical selling more than the establishment of a series of new price lows (or buying into new price highs). It's like waving a red flag in front of a bull. Once this process is complete, you are invariably left with an important price bottom. I haven't talked with Izzy lately (he's travelling and still mourning the loss of his beloved Gabriella last year), but I'm sure he would agree that the commercials sliced the salami recently in silver and gold like never before.

The turnover or movement of metal into and leaving out from the COMEX-approved silver warehouses continued frantic this week, as total silver inventories fell 1.4 million oz to 140.6 million oz. This turnover is still my prime indicator of physical tightness in the wholesale silver market. There was a one-day withdrawal this week from the big silver ETF, SLV, of almost 4 million oz. I lean towards this being plain-vanilla investor liquidation given the series of recent price lows; but it is possible that the silver was needed elsewhere more urgently. In any event, it is a good portent of higher silver prices to come, either as a sign of investor capitulation or of more physical tightness than widely perceived.

Sales of US Silver Eagles remain dormant, but I do hear of increased silver retail demand by larger retail buyers, attracted to the low prices. In many important measurements, both relative to other assets and in absolute terms, silver looks cheap. That's not something I've been able to say much over the past couple of years. As always, retail demand doesn't impact the silver price on a near term basis.

The new short position report on stocks indicated an increase in the short position of SLV of 1.5 million shares/oz, to just less than 12.8 million shares in total, as of April 30. While somewhat disappointed, I'm not overly alarmed by the increase as we are still down more than 50% from the levels of mid-January and almost 70% from the peak last year. At around 4% of total shares outstanding, we are down substantially from the 12% level last year. A much larger increase in the short position of the big gold ETF, GLD, brought the percentage of shares held short there to a slightly higher level of shares outstanding than in the SLV, for the first time in my memory. This makes it difficult to rant about the SLV short position at this time. Besides, the two-week increase of the SLV short position by 1.5 million oz pales next to the one-week change in the commercial net short position of almost 30 million oz on the COMEX. Truth is, it still looks like a magnificent accomplishment to have prompted BlackRock to get the SLV short position reduced so much, at a time when there has been little else to celebrate.

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

The changes in this week's COT report for gold and silver were spectacular, as they should have been given the price action. If you have to endure the financial pain from the endless slicing of the salami, the reward should be a commensurate improvement in the market structure. While I can't say I'm surprised at this week's COT readings, I am also relieved because last week's strange movements by the silver raptors still have me scratching my head. And it goes without saying that given the dramatic price weakness since the cut-off on Tuesday, that were the COT to be calculated as of Friday's close, there would be further significant improvement in both gold and silver.

In gold, the commercial total net short position declined by 26,500 contracts to a new multi-year low of 151,400 contracts. You have to go back to early 2009 and sub \$900 gold to find a lower total commercial net short position. The big 4 covered 12,000 contracts this week and you would have to go back to 2007 and sub \$700 gold to find a lower big 4 net short position than currently (101,000 contracts). The big 5 thru 8 traders bought back almost 3000 contracts and the gold raptors (the smaller commercials away from the big 8) bought back more than 11,000 contracts, completely eliminating their net short position, a rare occurrence this year. The commercial collusion lives on. The net result of the price beating gold has taken is a spectacularly bullish COT structure. Since the top in gold prices of \$1785 on Feb 28, the commercials have bought back an astounding 100,000 net contracts, or ten million ounces worth \$16 billion in

notional terms. The structure may get more bullish, but that is hard for me to imagine.

In silver, there was also a spectacular reduction of more than 5800 contracts in the total commercial net short position, to 17,900 contracts. The big 4 (read JPMorgan) bought back 2200 contracts and the raptors returned to the buy side in purchasing 3200 contracts, increasing their net long position to 16,800 contracts. Were it not for the extreme COT readings of this past December, silver would be at decade or longer bullish extremes in the total commercial net short position. Given the action since the Tuesday cut-off, we may be there now. We are already at 30 year extremes (as far as I go back in studying the COTs) in terms of having the lowest net long position by non-reporting traders (the little guys). A closer look at the disaggregated report indicates the commercials were successful in their salami slicing of luring in new managed money technical shorts to the levels seen in December and we may be above those levels now in extrapolating from the Tuesday cut off.

It appears to me that JPMorgan reduced their concentrated short position to 12,000 contracts at the cut-off and may be down to 10,000 contracts if Friday was the cut-off. If my calculations are accurate, that means that JPMorgan has reduced their net short position by 14,000 contracts from the 24,000 contracts they held at the end of February; a truly remarkable (and crooked) accomplishment. Since that time, the commercials as a whole have bought back

the entire 30,000 contracts that they sold from late December to Feb 28 on the \$10 rise in silver prices. JPMorgan accounted for just about half of that total commercial buying and now holds the smallest silver short position since they took over Bear Stearns in 2008.

When expressed in ounces, the commercial buying is even more impressive. The commercials, as a group, sold the equivalent of 150 million net ounces of silver on the COMEX from late Dec to Feb 28 and have now bought back the entire 150 million ounces on the sell-off they rigged and engineered thru Friday. Combined, that's 300 million ounces of silver, far and above any amount transacted elsewhere throughout the world in that time. Considering the quantities of real silver produced, consumed and invested or disinvested in the past 5 months throughout the world, only a fool (or a regulator) would conclude that the commercial positioning on the COMEX was not setting the price. Or that the enormous changes in commercial holdings did not violate the spirit and intent of commodity law.

The key question now is if JPMorgan will quit while it is ahead and choose not to manipulate the price of silver in the future by increasing its short position on the next silver price rally. As you know, that's always my bet, given all the facts. Perhaps the very recent news of JPMorgan's big derivatives loss of \$2 billion in credit default swaps might influence the outcome this time around.

I'm sure you've read about JPMorgan's derivatives disaster, so I won't detail it here. Normally, I try to avoid talking about what everyone else is discussing, as who needs to subscribe to a service that says the same as everyone else? But since I've written about JPMorgan's role in the silver manipulation in just about every article I've written these past few years, neither can I not comment now. So let me do so in terms intended to be unconventional, starting with some general comments, but focusing on how the news may relate to silver. As always, I will send this article to the CEO of JPMorgan, Jamie Dimon, although I have no idea whether he or anyone at JPM will read it. I just know I email everything I write about JPMorgan to him and nothing is ever returned as undeliverable.

On Wednesday, I highlighted JPMorgan as being the big silver crook in an article that you overwhelmingly approved me making public. I'm not looking to get sued; I'm just trying to put an end to a crime in progress. Late Thursday, news broke of the big loss at JPMorgan. I must admit that I did get a flutter in my heart at the first newsbreak of derivatives losses, thinking it might be silver related, before it quickly dawned on me that silver had been falling sharply and JPM was buying back their shorts aggressively and profitably. But I still think there may be a silver connection.

Just like is true in silver, the news at JPMorgan is intertwined with all the important financial issues of the day, like Dodd-Frank, the Volcker rule and general financial common sense. Ever-increasing profits and revenue are required to justify the many tens of millions of dollars the leaders of JPMorgan and other banks pay themselves annually. Squeezed for sources for such profits and revenue, JPMorgan and others must turn to trading massive quantities of derivatives of all types. The problem is that there is much risk in these derivatives for banks with deposits guaranteed by government insurance and the regulators have attempted to push back (with questionable results to date).

The sudden loss for JPMorgan may (and should) advance government restrictions on banks trading derivatives. This comes at a time when JPMorgan is acknowledged as the king pin of derivatives, holding a dominant share in every segment available, including silver and gold derivatives. The total notional size of the derivatives market is said to be close to \$600 trillion and JPMorgan holds perhaps the single biggest market share. Up until now, JPMorgan has been considered the master of this derivatives universe. Suddenly its mastery has come under question. If JPM can openly admit to totally screwing up and losing \$2 billion in six weeks in just one of the very many thousands of pieces of derivatives it holds, who can say what additional losing positions may be uncovered with increased scrutiny or if other derivatives traders decide to test JPM? Even JPMorgan may not know. This is not a prediction of a much bigger derivatives unwinding, just an acknowledgment that the risk of that may have



suddenly increased with the stumble by the king pin. In no way would any such derivatives unwinding be negative to silver or gold. The disturbing thing is that JPMorgan's derivatives loss has nothing to do with the ongoing problems in Europe and is a completely new worry. So far, not much has been written along these lines.

The facts show that JPMorgan has been buying silver (and gold) on the COMEX with a determination rarely witnessed before. I'm ecstatic they have done so because it greatly improves the outlook for higher prices to come, but I hate the way they did it by manipulating prices so blatantly. I can't help but think that there may be a connection between JPM's aggressive silver buying and their sudden loss in credit default derivatives. For one thing, the timeline is about the same. I had been thinking something was up behind the scenes in silver anyway and perhaps it was the JPM derivatives debacle.

Direct connection or not, it does not appear reasonable to me that JPM's derivatives loss would encourage them to continue to manipulate the price of silver. For sure, JPMorgan will be under increased scrutiny by the regulators and politicians in the immediate period ahead and this would suggest good behavior on their part. I don't consider continued manipulation of silver to qualify as good behavior. In addition, JPM's stumble may serve to strengthen the spine of the regulators in dealing with them, now that JPMorgan has revealed it can screw up badly. Lord knows, the regulators could use such spine-strengthening. I know

it's repetitive, but the single most important consideration in the future price of silver is whether JPM adds to shorts on the next rally. From every angle of analysis of this JPMorgan derivatives development, I can't see how this won't discourage new shorting by them.

I had planned on rehashing the great shame the regulators had brought to themselves by refusing to confront the increasingly obvious silver manipulation. It's hard to believe, but in many ways, despite great efforts to re-regulate the markets through Dodd-Frank and the Volcker rule, the regulation of the silver market has been the worst ever. Over the past year, we've witnessed the biggest manipulative silver sell-offs ever, more HFT transgressions in silver and less in other markets and have had to endure the continued lies that the CFTC is investigating silver conscientiously. I had planned to indicate my disgust of wimpy and self-serving officials, especially after the brutal price beatings. But a few hours before I wrote this, I got an interesting note from a subscriber that had some pretty neat words of wisdom from someone who's obviously been around the block a time or two. I won't change a word.

Dear Ted,

You're a brave guy and a good writer. You're already all in with the JPM thing so not much to lose by going forward.

There couldn't be a better time to go public against JPM's shenanigans. The current 2 billion dollar loss scandal at JPM has put them in the news big time.

The press is craving for new revelations on JPM and that's 80% of the battle.

I play commodities like I play poker and the recent events in the news on JPM have revealed a “big tell” on JPM's weakness. It's not the CTFC and Government regulations that bother JPM. JPM's weakness is their relationship with the financial markets especially their risk taking and losses, and their relationship with shareholders and depositors.

A press release entitle “JPM's risk taking nothing new” and explaining how huge a short position JPM has maintained in metals for the recent past and how you estimate those positions were losing billions a year ago will be grist for the mill for the financial press. It will strike at JPM's weakness while they are vulnerable and perhaps make them change their behavior out of self interest for their reputation.

A little about me. I've been in the silver commodities for 40 years. I bought my first contract at \$1.30. I've always been amazed by the big silver drops in short periods (when Bear Sterns was in charge) now I understand what was going on. While 90% of small speculators are losers in commodities, I and my trusty crystal ball were winners over 40 years. But now I realize I've been swindled out of millions of lost profits because of concentration, manipulation and collusion.

As I said before I play commodities like I played poker in Brooklyn (I didn't have a crystal ball in Brooklyn).

In poker I would;

- Never play in a crooked game
- Never play where the house favored one group of players over another.
- Never play when one player had 10,000% the money on the table that other players had.
- Never play when certain players were working together in the game.
- Never play when the house wouldn't guarantee the chips were good.
- Never play where there was a possibility of being robbed.
- Never play where I was specifically targeted to lose by a group of players.

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So now after 40 years I realize that every one of my poker rules for playing are being violated in the commodity markets. I used to carry 50 - 100 contracts across the spectrum, mostly in the metals but ever since Oct 31 (yes I had 3 accounts at MFG) I've reduced my exposures. I now have no contracts - zero 0 and I won't be playing again until I get back my MFG money - which was out and out stolen, and might not play even then.

I've lost all confidence in the CFTC, CME, SEC, SIPA, and the Justice Dept, the Bankruptcy courts, the big banks, the financial press and even the FBI.

Sincerely,

LS a subscriber

Feel free to use this note.

If ever it's true that no pain means no gain, then the recent pain in silver and gold may mean much gain ahead. This is a crooked and manipulated market that has the potential to suddenly go straight. That would make the market go straight up. The improvement in the market structure has been monumental, as may also be the potential for JPMorgan to remove itself from further manipulation.