

In Search of the Bottom<?xml:namespace prefix = o ns =  
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I can't call it unique, nor can I claim to be unfamiliar with the present circumstance of silver and gold price weakness. I didn't predict it, but that doesn't mean I can't see what caused it. The fact that the situation is so familiar makes it depressing in many ways; yet understanding what will occur at some point is encouraging. Of course, I'm speaking of the bottom in the price of silver and gold that is being established.

I believe that the most plausible and verifiable explanation is usually the correct explanation. Since the top of silver prices on Feb 28 at \$37, the \$10 price decline (so far) has allowed the commercials on the COMEX to buy back and reduce their total net short position by 30,000 contracts (150 million ounces), as speculators sold that same net amount. The biggest commercial silver short, JPMorgan, bought back almost half that amount. In gold, the commercials bought back 100,000 net contracts (10 million oz) on the \$150 price decline from the top on Feb 28.

Not only are these figures verified by CFTC COT data, the amounts of metal represented in the COMEX maneuvering since Feb 28 dwarf any other verifiable gold and silver ownership changes throughout the world. In fact, the world's

holdings in gold and silver ETFs (the largest privately held stores of metal) have been quite stable over the past six months or more. Therefore, the most obvious and plausible and verifiable explanation for the price decline has to be COMEX maneuvering. The next obvious question is who was doing the maneuvering; the commercials or the speculators? Since it is unthinkable that independent speculators would collude for the purpose of losing money, it is clear that the commercials were doing the maneuvering. This is old stuff, of course, but I repeat it because it is important to understand how any market works.

The COMEX commercials have been quite ruthless and successful in driving prices lower to induce speculative selling. This is verified by the changes in the COT report, which indicate historical bullish extremes in commercial holdings, particularly in silver. These bullish extremes have been achieved for a purpose, as no one would resort to such blatant price manipulation for no good reason. Silver may be a small market that the regulators would prefer to ignore, but manipulation is the most serious market crime possible. The most plausible explanation for why the commercials have recently manipulated the price of silver so egregiously is because they expect higher prices soon. The commercials have been the sole buyers on the price decline and they wouldn't buy if they thought silver and gold prices would be permanently lower.

This most recent sell-off has resulted in a swirl of emotions, even for those (like

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me) who try to never underestimate the treachery of the commercial crooks. A reader reminded me of a long-held premise of mine, namely, the prediction that we would experience the mother of all sell-offs prior to the big move up. I can't tell you the exact low price print, but this sell-off does qualify to me as the final clean out. I base that not so much on price, but on the COT structure. While I never would draw a line and say that the commercials couldn't cross it; I must say that I am surprised about how far they've gone this time, especially JPMorgan.

Another reader asked me if I had faith that the data depicted in the COT report was accurate, given a general belief that Government data is held suspect in many quarters. My response was that, up until now, I thought the COT data have been extremely accurate, in that the data prove and explain the allegations of manipulation I have raised. I explained that I have asked myself a million times why don't they just lie in these reports and not make it so easy for me to prove the silver manipulation. That's goes double when you factor in the widely-held belief that the government is somehow involved in the metals manipulation. How hard would it be for them to fudge the numbers so the case can't be made? Of course, in asking myself why they hadn't lied, I am sensitive that they might do so in the future. All I can say is that I will report immediately if I sense the reports are no longer accurate.

Finally, another reader asked if after the final clean-out, would there be

sufficient buying by tech funds and other speculators after this latest beating? That's also a question I have asked myself often in the past. This answer is more technical. There is a certain amount of buying already baked into the cake on the next rally, whenever that occurs. Certain buying will come from those tech funds that went short on this price decline, specifically, the shorts in the managed money category of the disaggregated report on silver. In last week's COT, that category had increased its short position to the levels achieved in late December. I would expect the new report to show a further increase this week. On higher prices, there should be a minimum of 10,000 contracts bought back by these tech fund shorts, maybe more.

In addition, there is room for at least 15,000 additional COMEX contracts to be bought by tech funds and non-reportable traders going long on higher prices and as much as 25,000 contracts to be bought if we achieve the COT structure in place on Feb 28. I conclude that in total at least 25,000 net contracts and perhaps 35,000 contracts will be attempted to be purchased by tech funds and other speculators at some point on higher silver prices. The question is how will the commercials respond to this baked-in buying? The raptors may have 15,000 to 20,000 contracts to sell from their net long position, but that still leaves a potential mismatch of as much as 15,000 contracts of selling to come from the other commercials.

In the past, JPMorgan has always answered the call to manipulate by selling

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whatever additional short contracts were necessary to keep the silver price in check. JPM was always the silver short seller of last resort. I don't think that raptor selling alone can satisfy the entire tech fund and other speculative buying that's already baked into the cake on higher prices. Plus, the raptors are in a position to hold out for much higher prices than normal before they do sell, should they decide. That's why I have attempted to pinpoint the role that JPMorgan will play on the next silver rally. I will be particularly alert to sudden changes in the COT that indicate some mysterious commercial selling not coming from JPMorgan, like occurred with the raptors a week or two ago. I don't trust these crooks one bit and hope to spot any new tricks.

I know it doesn't seem possible right at this moment, but we may be set up for another one of my long-held premises that has yet to occur. This is the one that holds that after a massive clean out (like now); the commercials (including the raptors) could easily choose to stand aside and not sell on the next rally until much higher prices are achieved. In that case a selling vacuum or void would be created and prices could rally sharply with very little actual buying or selling. Obviously, I can't guarantee that will occur, but the potential only exists at times like now with a low total commercial net short position. All the commercials need to do is put their hands in their pockets and not sell. With technical fund short covering and speculators looking to get long on higher prices, a lack of commercial selling would cause prices to explode.

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If you've been thinking that silver has been particularly weak against all other commodities, your thinking has been correct. That's no accident in my opinion, but instead as deliberate and intentional as is possible. There's a very good reason for why silver has been pressed lower everyday recently. The idea is to crush the price and demoralize as many as possible. Silver is at the center of the universe for a number of entities, like JPMorgan and the CME Group. Silver is very special in a number of ways. It is the only market where many thousands of citizens have consistently alleged manipulation to the CFTC. As a result, silver is under permanent investigation. There is no other commodity manipulation investigation underway according to public records. That means that the stakes in silver are enormous. People could (and should) go to jail because of the silver manipulation.

Whether any justice will ever be brought to silver is unknowable. It's hard not to conclude that the CFTC will continue to do nothing, to their great shame. No matter how blatant the sell-off or how clear the proof of manipulation, the agency dawdles. Considering that the silver manipulation has grown more obvious over the past three years, blame must be assigned first to Chairman Gensler because that's his entire watch and the buck stops with him. I don't know what deal JPMorgan received back when they took over Bear Stearns in 2008, but it never should have included the right to manipulate silver forever because that's illegal. It strikes me that JPMorgan plays this card constantly to keep the regulators at bay. Gensler should know better; he didn't make the deal

originally with JPM. The failure to act against the manipulation brings disgrace to the Commission's most important mission of protecting the public and preventing manipulation. About the only thing he and the agency could do to redeem themselves is to bring charges of manipulation against JPMorgan and the CME forthwith. If that doesn't come to pass, my sense is that he will regret not doing so until his dying days.

The recent troubles for JPMorgan may play into how they behave in silver going forward. It might be that the unusual buy back of most of their silver short position was because of the \$2 billion derivatives loss. If so, that might suggest no additional silver shorting ahead. Time will tell. I don't know how JPMorgan behaves across their many lines of businesses, but in silver they are crooked.

Of the billion ounces of silver bullion thought to exist in the world, very little of it changed hands over the past six months; probably less than 1% (10 million ounces or so). This is according to the changes in visible stocks of silver. The same thing goes for gold, where only a small fraction of 1% of the entire world's gold bullion, maybe a million ounces, changed hands in visible holdings. The big action (maybe the only real action) was on the COMEX where more than 150 million oz of silver and 10 million gold oz were transacted. The means that the pricing of silver and gold is set on the COMEX, against all intents of commodity futures law.

So powerful has been this COMEX price setting that it has resulted in the world being set on its head. The price setting has resulted in the strangest phenomenon. I'm a supply/demand and market structure guy. I was never one to suggest silver or gold for protection against inflation or as monetary insurance. I never argued with those who bought for that reason, but it wasn't my reason. Looking at the world, including real and potential bank runs in Europe and the possible restructuring of the Euro, I have never seen a time where the monetary attraction of precious metals was more obvious. If ever there was a time for some gold or silver monetary insurance, that time is surely now. Who in their right mind would dump gold or silver at a time like this? The answer is that very few are selling physical gold and silver, but paper gold and silver contracts are being dumped due to the commercial collusion and rigging of lower prices. In that light, the manipulation was never more obvious.

How low we may go is unknown by me, but the liquidation and new spec short selling looks to be near completion, at least by historical guidelines. I know what these crooks are doing and why; I just don't know how far they can take it, since they have taken it farther than I would have guessed already. Invoking my slicing the salami analogy, there's not much salami left in the slicer. This is a time to hold and a great time to buy. It's also a great time to rattle the regulators' cages and revisit with elected officials. You can find the addresses in the Knowing the Game article of last week.



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Ted Butler

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Silver - \$27

Gold - \$1535