

May 2, 2012 - A Year Later

A Year Later □ What I Learned <?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

We're at the one year anniversary of a rotten event; the one week take down of silver which began with the dramatic \$6 Sunday night price smash of May 1, 2011. It's hard not to vividly recall the silver price sell-off of a year ago without a painful tally of equity suddenly vaporized. As it turned out, the week-long price smash was not the only 31%+ plunge silver investors would have to endure in 2011; as a 35% three-day price smash waited in the wings for late September. Silver has always been known for great volatility at times, but these two big sell-offs in 2011 are instructive in many ways. Like many other unfortunate anniversaries, what matters most in the long run is what we learn from them.

We ended the year 2011 with the highest average yearly price in history (\$35.12); a truly remarkable and satisfying result for anyone steadfastly bullish on silver for years. Had we not run over the \$40 mark at all during 2011, we would have still achieved the highest yearly average in silver's price history, but we would have avoided the brutal takedown from near \$50 a year ago. Of course, that is like saying if my mother was Queen Elizabeth, then I'd be Prince Charles. My point is that if we never made it over \$40, we wouldn't have to measure how far we fell from the top. Even if an investor didn't buy any silver over \$40, it is still human nature to count all losses from the previous price

May 2, 2012 - A Year Later

peak, even for the buy and hold long term investor who bought at much lower prices. We know that it's impossible, yet we all want to buy at the low and sell at the high.

What I think I learned from the past year was more a confirmation of previously held beliefs, with a new factor or two thrown in for good measure. I can say that even unanticipated developments fit nicely into the evolving total story. For example, the amount of silver that was redeemed from the big silver ETF, SLV, of more than 50 million ounces as a result of the May forced price smash was surprising, but also explained how the big COMEX commercials got lucky. Only now do I think I can appreciate what really took place a year ago, with the benefit of hindsight helping to put things in perspective.

The price of silver began to climb in earnest in the late summer of 2010 from about the \$18 level to roughly the \$31 level by the end of the year as physical silver began to grow tighter. My basis for the physical tightness explanation is that there was no net speculative buying in futures contracts on the COMEX for that period. In fact, the net speculative long/commercial short position declined by almost 25% from the mid-September through year end 2010. Almost 99 times out of 100, it is COMEX positioning that drives the price of silver. So if it wasn't speculative buying on the COMEX that was driving the price, by process of elimination, it had to be something else. That something else was demand for physical, as evidenced in the collective 100 million oz growth in various silver

May 2, 2012 - A Year Later

ETFs (like SLV, PSLV, SIVR, etc) over that time period.

After correcting to \$27 in late January 2011, the price of silver surged to \$49 in three months to the end of April. Once again, after some gyrations in the COT structure, the total net commercial short position was lower by the end of April, proving that it wasn't buying by speculators on the COMEX that drove prices to historic highs; it was continued physical buying in ETFs and elsewhere and commercial short covering into the highs. The changes in the COT structure prove that the COMEX commercials on the short side were in a bind and were clearly panicking into the end of April. It was not a speculative bubble in any true sense of the word. I do admit that a good chunk of the buying in the silver ETFs was obviously momentum buying on rising prices and that was the metal that was subsequently liquidated on the May 2011 price smash. But it would be a stretch to call that a bubble. In retrospect, it was a shortage of silver, more than anything else that drove prices to the highs.

Had the big COMEX commercials not collusively banded together, starting on the evening of May 1 and continuing to this day, to manipulatively rig prices lower we would be looking down at \$50 silver, instead of looking up to that price now. There's no real way of telling how high we may have gone had the physical silver shortage into April 2011 jumped the fire break and spread to the world's industrial users. Such a development would have created a situation where the fire would need to burn itself out by prices moving irrationally higher.

May 2, 2012 - A Year Later

I don't know if the commercials knew on May 1 that they would be able to trip off the metal liquidation in SLV and the subsequent liquidation in COMEX contracts, but I am inclined to think that their backs were up against the wall and it could have gone the other way. Let's face it □ if the commercials were in such total control, they never would have let silver have gotten to such extremes with them so close to being overrun to the upside. The commercials miscalculated from \$18 on up and only got lucky on their desperate last-gasp sell-off a year ago.

Before going any further about last year's developments, let me say that if I am close to being accurate, this is a situation that can and will flare up again. This is the main thing I learned - we did actually come to the wall in almost running out of available physical silver in April 2011. Only the most blatant and deliberate price smash in history prevented what would have been a price conflagration of epic proportions. But the key to me is that the intentional price smash just bought time and did not permanently fix the situation. Please don't think I am dismissing the rotten price action of the past year lightly. I know it has been painful on a financial and emotional basis; so painful that no net silver has been bought in the silver ETFs for more than a year, for the first time in six years. This is also a major factor in the □luck□ that has favored the COMEX commercial crooks. Not having to contend with grassroots silver investment buying has enabled the commercials to control prices more effectively.

May 2, 2012 - A Year Later

But the important point is that this all appears as a temporary respite for the manipulators. After the initial liquidation of 50 million ounces from the SLV after the May 2011 takedown, total silver ETF holdings have stabilized at near record levels. Given that the real silver story has not changed, it is only a matter of time before new investment buying emerges. Then, we will again approach the wall. I can't help but think that this inevitable coming silver crunch is known to the COMEX commercials and may be what is behind their drive to reduce silver short positions.

The other things I learned in the past year were confirmations of previously held convictions. Let's face it □ after decades of studying a subject, you shouldn't be forming completely new opinions on a regular basis. Still, my basic premise that the silver market is manipulated is pretty outrageous in itself and it is no less remarkable that multiple confirmations of that premise appear increasingly at every turn. What confirmations? Let's start with the rotten anniversary in discussion.

Never has a world commodity plunged 30% or 35% in a matter of days with no obvious change in production or consumption. Never is a long time, but in silver such a plunge happened twice. The price plunges in silver leave no other plausible explanation other than manipulation (on the COMEX). It is clear that the big commercials are rigging prices on the COMEX and that can be seen in the sequence between price declines and trading volume. As I've explained

May 2, 2012 - A Year Later

before, the prices first plunge on the commercial rigging and then the volume comes in afterwards, due to the price smack downs. The sellers weren't interested in selling until after the price collapses; then due to technical signals or fear of further losses, the sellers sell into commercial buying. The commercials know this routine better than anyone and that gives them the motive along with the means and opportunity to manipulate prices.

Another confirmation of this sequence of events and of the manipulation itself is the collusive nature of the commercial activity. Always the commercials buy as a group on the big price declines (and sell on rallies). Buying after they push prices lower is their payoff and sole reason for rigging prices lower. The uniform commercial buying on every big down day in silver cannot be explained in other than in terms of collusion. We saw this collusive commercial pattern more in 2011 than in any prior year and it is intensifying into the present. Lately, it seems every day we wake up to silver prices being bush-wacked by the commercials, even though the COT data invariably proves the commercials were the big buyers on the sell-offs. The only conclusion is that the commercial activity is collusive and manipulative and that they are gaming the market to an extent never witnessed before.

Of course, while the events of a year ago through today only strengthen my conviction that silver is manipulated in price, I must say I am deeply surprised and disappointed with the regulators at the CFTC, particularly Chairman

May 2, 2012 - A Year Later

Gensler and Commissioner Chilton. I would not think that the blatant price declines that occurred in silver last year amid all the attendant evidence of manipulation could be ignored by the Commission. Yet that is exactly what has occurred. I didn't think that this could happen in America.

If corn or cattle or oil prices were to rise or fall 35% in a matter of days due to no observable drastic change in production or consumption and with the commercial collusion and market concentration that exists in silver, the CFTC would not be silent. If it happened in any other commodity, there would be round the clock congressional hearings and accusations of manipulation. Yet in silver, the Commission has been silent and complicit. Worse, the obvious manipulation in silver continues while a formal investigation by the Enforcement Division plods on, now in its fourth year. The crooks are robbing the bank again while the police are still there investigating the previous robbery. It's the double standard that applies to silver that is so infuriating. Commodity law is not given to selective enforcement; the law is the law for everything and everyone. There was no exception for silver given when CFTC officials swore their oath of office to uphold the law and protect the public; it's time for them to stop pretending that there was such an exception.

An additional confirmation is the role of the CME Group and JPMorgan in the silver manipulation. For years, I have been a harsh critic of the CME, labeling them a "criminal enterprise" for how they protect their insiders at the expense

May 2, 2012 - A Year Later

of the public. The rotten anniversary at hand confirmed my take to be correct. Not only was it the HFT mechanism encouraged by the CME that was behind both silver price smashes last year, the CME greased the skids in the May 1 takedown by the "timely" piling on of margin increases which could only pressure longs to liquidate. Away from silver, the CME's role in the MF Global collapse should leave no doubt that this organization has no legitimate place in regulating anything. The only thing I can add about JPMorgan is that nothing about the last year detracts from them being the prime silver manipulator.

Yesterday was the cut-off for both the weekly COT and monthly Bank Participation Reports. I mentioned in the weekly review, that I would comment further today on what we might expect in both reports. Since gold has performed better than silver recently and has managed to trade above its 20 day moving average for the last 4 days of the reporting week, it is likely that the gold market structure has deteriorated somewhat and the total net commercial short position has increased. Volumes haven't been high, so hopefully any increase in the commercial short position won't be excessive.

In silver, the price action has been so poor that every day the phrase "the beatings will continue until morale improves" plays in my mind. Taken with everything discussed above, I'm left with the impression that the commercials are deliberately making silver look so bad in order to extract every last drop of blood from the speculative selling stone. At least the beatings are keeping the

May 2, 2012 - A Year Later

price below the moving averages, so this week's reports should indicate a further reduction in the total net commercial short position in silver. Given the motive behind the poor silver price action, my guess is that JPM has reduced its concentrated short position by a bunch.

I'm sensing that JPMorgan is now down to 14,000 contracts net short in COMEX silver futures. That's down from the 16,000 contracts at the last COT cut-off and down a whopping 5,000 contracts from the 19,000 contracts JPM was short in the last Bank Participation Report, as of April 3. There has been a noticeable determination on JPMorgan's part to get its silver short position down. Clearly, if there is intent behind the rotten price action, it is for JPMorgan to buy back as many of its silver shorts as possible. I'd rather the whole thing blow up in their crooked faces, but the next best thing is for them to cover as they have done.

It must be possible to be both infuriated and optimistic at the same time, because that is how I feel. Infuriated because the manipulative activity in silver is more blatant than ever; optimistic because that manipulative activity has resulted in a very low total commercial short position and a relatively low (but still too high) short position for JPMorgan. The real key, as always, is what JPMorgan does on the next silver rally.

Part of my optimism is based upon the growing awareness and anger displayed

May 2, 2012 - A Year Later

by more observers that the price of silver (and gold) is rigged and that JPMorgan is at the center of the silver manipulation. By my reckoning, those who believe that silver is manipulated in price make up a larger percentage of silver investors, particularly newer investors, than ever before. There is also a growing number of vocal silver manipulation advocates appearing on the Internet. Something's got to give at some point; either the rigging stops or the advocates just disappear. In my experience (and I've been there since day one), the manipulation advocates can't disappear if they are still growing in number. That makes it more likely that the price rigging will cease.

Notwithstanding the outcome of the law suits pending to derail position limits, I think it is possible that JPMorgan may not increase its short position this time around due to the inevitable resolution of the matter of position limits. At current levels of total open interest, the CFTC formula calls for no more than around 4700 contracts of silver. Even at JPMorgan's sharply reduced concentrated short position of 14,000 contracts, that is roughly 3 times more than the formula calls for. Of course, JPMorgan can hold more if the short position represents bona fide hedging transactions, but under the CFTC's proposed regulation, any exemption to position limits will be subject to strict scrutiny. In other words, JPMorgan will have to do more than just say the position is for clients, like they did on TV recently. Knowing this, JPMorgan just may be making a permanent exit that would preclude new shorts on the next rally. As always, we'll know in the fullness of time.

May 2, 2012 - A Year Later

It's hard to stay focused on the future when they are beating you in the present, but that's a condition that has been part of the silver experience since \$4. The only way I know to stay future-focused is to focus on the facts and not on the message being delivered by the rigging of current prices. That's easier said than done, but I know of no other way.

Ted Butler

May 2, 2012

Silver - \$30.65

Gold - \$1654