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

For a week that started (on Sunday evening) on a decidedly weak tone, prices for gold and silver managed to come back and finish to the plus side, if only marginally in silver. Gold finished $26 (1.9%) higher, while silver gained a scant 10 cents. Considering silver was down $2 (10%) in early Sunday evening Globex (COMEX) dealings, the 10 cent gain for the week must be put in perspective. As a result of gold's relative outperformance, the silver/gold ratio widened out to almost 62 to 1.

Since all the indicators that I look at are strongly bullish for gold, you won't find me surprised or disappointed by any price strength in gold. And since I know that silver is the most manipulated market in the world, I am also not surprised when silver lags gold. Gold can easily pop hundreds of dollars as the market is currently configured, but I still feel silver will outpace any gold gains in the end. Here's one added bonus for those contemplating a switch from gold to silver; as a result of the recent brutal takedown in gold and silver prices, worries about the adverse tax consequences of selling profitable gold positions has, obviously, been lessened. Anyone who bought gold in the past two years has no gains or capital gains taxes to be paid. Hey, when God only gives you lemons, you best make lemonade.

Almost without saying, the frantic turnover or movement of metal into and out from the COMEX-approved silver warehouses continued unabated. This week, the turnover exceeded 4 million oz as the total COMEX holdings increased by 2.7 million oz to 166.7 million oz. That's a high level not seen in more than a decade, but as I'll try to show later, the total level of inventories is inconsequential at this point. Also as always, the movement is more important than total levels.

As expected in last week's review, there were additional withdrawals from the big silver ETF, SLV, of more than 7.3 million ounces since that review, to go along with the continued declines in the holdings of the big gold ETF, GLD. Somewhat surprisingly, the SLV withdrawals were early in the week and where I thought there would be further withdrawals as a result of the phenomenal trading volumes on Monday, holdings stabilized into week's end. Therefore, it would not surprise me to see further withdrawals from SLV, but I'm more unsure at this point than anything else. All told, some 13 million ounces of silver have "come out" of the SLV in the past week or two, bringing us back to the levels that prevailed at year end. In contrast, the holdings in GLD are down more than 10.7 million ounces or 25% of the levels at year end.

One thing that I am sure of is that the metal coming out of the gold and silver

ETFs and the metal that has come out of the COMEX gold warehouses hasn't just disappeared into the vapors. The metal still exists and is owned by someone and the most logical explanation is that ownership has changed from weak hands to strong hands. I'll expand more on this in a bit.

On the subject of the ETFs, the new short interest for stocks was reported last night and indicated slight increases in the short positions for SLV and GLD, for positions as of May 15. The short position for SLV increased by almost 700,000 shares (oz), to just over 12.4 million shares. At around 3.7% of total shares outstanding, the short position is still well below previous peaks of 36 million shares and more than 12% of shares outstanding. There shouldn't be any short interest in hard metal ETFs, but we need to keep things in perspective. The increase in GLD was only 130,000 shares (13,000 oz), but the total of 28.3 million shares short may be a record and makes up almost 8.4% of total shares outstanding, a much more troubling amount.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

I could be mistaken, but based upon the developments in the COT structure these past few months, my sense is that it is not the usual commercial bad guys (JPMorgan) holding the majority of the short positions in SLV or GLD. These commercials have been the documented buyers on the COMEX, with speculative entities the clear sellers and short sellers. I'll put some total numbers on this later, but my thinking is that the same types of noncommercial sellers are the big short sellers in the ETFs. In other words, I don't sense the ETF short selling is because the actual metal can't be secured; it's more a case of momentum type piling on by speculators following the price lower. If I'm correct, this should prove to be additional fuel for the coming bull move.

Silver Eagle sales from the US Mint still seem to be constrained by a lack of sufficient blank supply, but we'll know a lot more by next week when the month ends. I don't sense retail demand is white hot, but overall premiums are persistently high on many forms of silver, including junk coins. In any event, retail demand is not the short term driver of the price of silver.

The changes in this week's Commitment of Traders Report (COT) didn't come close to my published expectations of reductions in the total commercial net short positions of gold (20,000 contracts) and silver (5000 contracts). Instead, gold was virtually unchanged and silver only down 1300 contracts, despite intra reporting week losses of $90 in gold and more than $3 in silver. I'm inclined to think this is a rerun of my wide miss in mid-April which was eventually corrected (in gold, at least) in the next COT report (without acknowledgement by the CFTC). This report was a mistake or there is little additional blood to squeeze from the stone. But I'll analyze the report as if it were correct.

In gold, with no change in the total commercial net short position of 84,100 contracts, there was some movement by commercial category. The gold raptors (the smaller commercials apart from the big 8) sold 2000 of their net long position, reducing that position to a still-large 40,800 contracts, the third highest level on record. The big 4 bought back 1300 short contracts, with the big 5 thru 8 buying back 700. The big 4 now hold the smallest net short position in many years, always a bullish sign. I mentioned last week the unusual development of the concentrated net long position of the four largest COMEX traders being larger than the big 4's net short position for the first time in memory. This week, despite an unchanged total commercial net short position, the concentrated long position increased by a further 1800 contracts. I would be very surprised if JPMorgan was not the big long gold holder on the COMEX. Needles to say, I would consider this bullish for the price of gold.

Also very constructive in the gold COT was the increase in the gross short position in the managed money category of the disaggregated report by almost 3600 contracts to 76,730 contracts, another new record. I would have thought it would be more, but this does represent big potential buying down the road.

In silver, the total commercial net short position declined by 1300 contracts to 11,900 contracts. While I was expecting a bigger reduction, it was enough to push us to the lowest total commercial net short position since 2001, as I indicated last week. By commercial category, it was primarily a raptor affair once again, as the smaller commercials increased their net long position by 1300 contracts to another new record of 36,400 contracts. The big 4 (read JPMorgan) added less than 300 short contracts and the 5 thru 8 bought back the same amount. As was the case in gold, the gross short position of the tech funds (managed money category) grew by more than 1600 contracts, although not to a record. Still, at some point these contracts must be bought back.

JPMorgan's concentrated net short position in COMEX silver seems to be stuck at 18,500 contracts, although I sense the bank has, effectively, covered this short position in a variety of other markets and vehicles. Still, the position stands out as JPMorgan holds a net short position that is 150% larger than the total commercial net short position. Other interesting comparisons are that the raptors are net long an amount double what JPMorgan is short and the raptors are net long what the four largest commercials are net short. I make these comparisons to highlight, despite the smallest total commercial net short position in COMEX silver in 12 years, the overwhelming concentration and resultant price influence that JPMorgan and the big four hold on this market. It's no wonder JPM has had to cover this short position elsewhere, as there appears to be little room to do so on the COMEX.

There's one new observation I'd like to make before getting into the real message of this review. I've noticed a marked increase in commentary about a COMEX delivery default, particularly in light of the withdrawal of millions of ounces of gold from the COMEX warehouses. That may turn out to be the case, but in one sense, with the commercials having reduced total net short positions to record low levels in gold and silver (and with JPMorgan likely long COMEX gold), the dynamics for a delivery default have changed, at least to my mind.

I have contemplated a delivery default in COMEX silver for decades, but the premise of a default was always basically as a last ditch desperation measure by the commercials who were trapped on the short side and were unable to deliver. In that case, the insider commercials would call on the exchange and the CFTC to shut the exchange down so as to avoid delivery (or the buying back of contracts). Since the commercials are so relatively light on the short side currently, the need to default has largely dissipated. It now appears that the speculators are short more than usual and if these speculators are as unable to deliver as I imagine, I can see the commercials holding the speculators' feet to the fire and insisting the COMEX remain open.

This has been a rotten two years for gold and silver investors, the worst in more than a decade. The last few months have been truly horrid pricewise. But there is one way that it could have been a lot worse, at least to my mind. If we had endured the price manipulative beating to the downside with no improvement in the COT structure, I may have thrown in the towel. While I try to avoid short term price predictions, I have consistently held that the COTs would always explain a major market move. In fact, the only two things I think and write about are supply and demand and the COT structure. So, if we had declined like we did in silver and gold pricewise and there was no improvement in the COT, I would, quite literally, be at wit's end. Fortunately, that has not been the case. Of course, I'm disgusted at what has transpired, particularly with the complicity of the CFTC in the ongoing manipulation, but at least I think I understand it.

What we have witnessed over the past six months has been nothing short of extraordinary, both bad and good. The bad part is the unnecessary financial pain and suffering endured by silver and gold investors, as well as the overall loss of confidence in the market regulators. The good part is what I think it portends for the future. Both bad and good is what the commercial crooks have been able to achieve. Expressed in the actual numbers that can be documented, what's on the scoreboard is almost impossible to believe. Let me go through the numbers for gold and silver.

From the COT report of November 11, 2012, the total commercial net short position in COMEX gold futures have declined by 175,000 contracts on a price decline of $400. That's the equivalent of 17.5 million gold ounces that the commercials bought and the speculators sold. I would identify the big 4 and the raptors as doing all the heavy lifting. In addition, since year end some 12 million gold oz have come out of the world's gold ETFs (mostly GLD) and another 3.5 million oz have come out of the COMEX gold warehouses. These are figures easy to verify.

All told, some 33 million gold ounces, paper and physical, worth more than $50 billion have changed from weak to strong hands. These are the documentable amounts. If you believe, as many do, that the OTC, LBMA and swaps markets are much larger than the COMEX, the total amount of gold that has moved from weak hands to strong hands may be double that amount or more. Certainly there has been buying at the lower prices from India and China and elsewhere, but I would contend that the same commercials who dominate and control the market were the biggest buyers. I base this on the irrefutable evidence in the COT positioning and by process of elimination, namely, that if the commercials were the buyers on the COMEX, then they were also the buyers in the ETFs, OTC, LBMA and elsewhere. The whole reason we went lower in price was to enable the commercials to buy.

In silver, from the COT report of November 27, 2012 thru this week's report, the commercials (mostly JPMorgan and the raptors) bought 47,500 net contracts on a price decline of nearly $14. That's the equivalent of 237 million silver ounces. In addition, I would estimate close to 40 million physical silver ounces were bought and removed from the SLV to avoid SEC reporting requirements. That's a total of 275 million oz. If you believe that there are great quantities of silver transacted OTC and on the LBMA, it's easy to imagine 400 to 500 million oz of silver having changed from weak hands to strong hands over the past six months.

These are staggering amounts of gold and silver that dwarf any changes in real world gold or silver production or consumption. This is the main reason I focus on COMEX and ETF developments. While many spend time and great detail on changes in world silver mine production and consumption, it appears to me that the real story is in the COMEX and the ETFs. I'm talking about several hundreds of millions of silver ounces what do I care about a few million oz in mine production or in solar panel consumption? Yes, I pay attention to such things on a longer term basis, but it is the hundreds of millions of ounces changing hands that impacts price the most.

It occurred to me that in waiting for Mr. Big to show up in silver (or gold); I may have overlooked his arrival months ago. He didn't come with a loud rap on the front door one fine day; he's been coming everyday through the back window in the daily price takedowns and consistently improved COTs and ETF flows. What JPMorgan and the commercials have been able to achieve is remarkable and magnificent (if you overlook the illegality). These SOBs have pulled off an asset accumulation of the ages, accompanied all along with a bombardment of main stream media warnings to the public to get out of gold and silver. The only thing the MSM left out was that JPM and the commercials were buying everything the public was encouraged to sell. Add that to the perfect crime.

To be sure, I don't know how far JPMorgan and the other commercial crooks will go in trying to force more to sell by manipulating prices lower. I did always contemplate there would be the mother of all sell-offs before we took off to the upside in silver for real. Based upon the price action and the massive quantities of gold and silver that the commercials have been able to buy to date, it certainly seems to be the sell-off I long anticipated (and feared). In truth, I don't know what's more impressive, the price decline or the amounts of merchandise they caused to be sold. Another thing that surprised me was the level of utter corruption exhibited by the CFTC.

But none of this should detract from where I think we sit today. Because of the price rig job of the past six months and the actual quantities of gold and silver bought and sold, I believe we are better configured for a major move to the upside than ever before. Sure, these seem like rotten times for precious metals investors in many ways, but since when do major price bottoms make everyone feel content and confident? The whole idea behind analysis is to focus on the facts and not one's emotions. That's not to say this hasn't been emotionally draining for me.

The real question to me is still how we behave once we turn up. The commercials are in a position to extract an even bigger pound of flesh to the upside than they did on the downside. The actual mechanics of doing so are so simple as to be scary. Having accumulated such a small short/large long position all the commercials have to do to achieve highly explosive price gains is absolutely nothing. All the commercials have to do is sit on their hands or go on vacation or anything they want except sell. Without aggressive commercial selling on the eventual turn up, prices will fly. The commercials already did the heavy lifting in the form of rigging the market lower over the past six months, scaring the dickens out of investors and luring speculative short sellers into record positions. To achieve the score of a lifetime at this point all they have to do is keep their hands in their pockets and not sell.

I know that many believe that the commercials and, particularly JPMorgan, intend to suppress gold and silver prices indefinitely and will not allow explosively higher prices to occur. I can't guarantee that isn't the case, but I also know the set up has never been this good for a massive spike up in price. If JPMorgan starts to significantly increase its silver short position that will argue for the manipulation continuing and we'll have to deal with that accordingly. But the unusual set up allows for JPMorgan to end their manipulative ways and for the other commercials to cash in big time. That's an outcome that will be highly rewarding to silver (and gold) investors.

Ted Butler

May 25, 2013

Silver – $22.35

Gold – $1386