

Weekly Review<?xml:namespace prefix = o ns =
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As has been the case for much of the past 3 months, the price of gold and silver finished lower for the week. Gold was down by \$18 (1.1%), while silver was lower by 15 cents (0.5%). As a result of silver's slight relative outperformance this week, the gold/silver ratio tightened in a bit to 55.2 to 1. Despite the sharp drop from the top on Feb 28, both gold and silver prices are still slightly positive year to date. In absorbing the daily news flow, it's a wonder that gold and silver have not performed better recently. (Manipulation put aside, if that is at all possible).

In reading the paper and listening to world financial developments, I get a feeling that I'm living in some type of "twilight zone" where people react in ways that are the opposite of how they normally act. Yesterday, the front page of the NY Times had a lengthy article on developing bank runs in Greece and Spain. Today that paper reports (again on the front page) how the Spanish government is pumping \$24 billion into one large bank. Throw in the levels of private and government debt and worldwide economic conditions and I don't recall a time of greater financial fragility than what we are experiencing presently.

Yes, I'm a supply/demand guy with an interest in market structure and not a gloom and doomer, but I'm having trouble grasping the muted reaction in the precious metals to how close we seem to be to outright panic in Europe and elsewhere. My sense is that the overt COMEX manipulation over the past three months explains the poor price action in gold and silver and if we do see more signs of bank runs, there will be a delayed reactive move to the safety of precious metals by at least some nervous depositors. I'm certainly not hoping for that; I'm just noting that the recent news has rarely been more disconcerting than it has been in all my years (and I'm no spring chicken). Especially considering the COT set up; we don't need any bank runs for a significant rally in gold and silver. And while I think I have been pounding the table for silver over gold, in no way would I expect gold not to rally. It's just that all things considered, silver should do much better.

Conditions in the wholesale silver physical market still appear tight based upon COMEX warehouse movements. Not every week do we set turnover records, but there always seem to be much greater in and out movements than ever was evident beyond a year ago. This week was no exception as there were close to 2 million ounces brought in and taken out, as total inventories rose by 200,000 oz to just over 141.9 million ounces. The most plausible explanation for this physical churning is a tight supply/demand situation. There was some slight additional amounts of silver (500,000 oz) deposited into the big silver ETF, SLV, the past few days, but the real story is how little investor liquidations and metal

withdrawals have occurred in the recent price weakness. This suggests that the holders are strong and looking towards the long term. This is true across other silver ETFs and for gold ETFs as well.

The new short position report for stocks was disappointing in that the short position increased in shares of SLV, by 1.4 million shares/oz, to a total of just under 14.2 million shares. It still bothers me that a hard metal ETF would have a short position of almost 4.5% of shares outstanding, but we are still down substantially in the short position of SLV from previous levels. It also bothers me that we have increased the short position in SLV by almost 5 million shares from the recent low-water mark; but compared to the bigger picture of a commercial total net short position reduction of 150 million oz on the COMEX over the same time, proper perspective is required. I also want to reserve further judgment on the short position in SLV until the next short report in a couple of weeks. There was a big deposit of 4.6 million ounces that came in after the cut-off of this report (May 15) that I think might be related to a short position reduction. I'm certainly not going to abandon my concern about shorting in SLV (or GLD), as it is a signature issue for me. If the short position in SLV continues to grow, I will try to stir up the hornets' nest of BlackRock and their expensive lawyers, but I'd be lying if I said I was looking forward to doing so.

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

After a period of weak retail demand and sluggish sales of Silver Eagles from

the US Mint, the sharp drop in prices has revved up demand as I recently suggested. We're still off the blistering pace of the past couple of years, but May looks on track to be the second best month for sales of Silver Eagles for 2012. Gold Eagle sales have also picked up, but not quite as much as silver. As always, retail demand plays an important role in determining silver prices on a cumulative and long term basis and not so much in the short term.

There were no big surprises in the latest Commitment of Traders Report (COT), which featured slight improvements or reductions in the total commercial net short positions for gold and silver. New price lows were established on one day during the reporting week, but prices managed to finish slightly higher on the Tuesday cut-off date. I don't detect much change in the market structure for gold or silver since the cut-off.

In gold, the total commercial net short position was reduced by 3300 contracts to 135,600 contracts, another multi-year low. For a change, the four largest commercial shorts increased their short position by 4000 contracts, while the gold raptors (the smaller commercials apart from the big 8) increased their net long position by 6300 contracts to 11,700 contracts, the highest since year end. The 5 thru 8 largest commercial shorts bought back 1000 contracts. Despite the increase in the big 4 short position, we are still at extremely bullish COT readings in gold. Enhancing the bullishness of the gold COT structure was an increase in the gross short positions of speculators in the managed money

category (disaggregated report) and in the non-reporting category. These are the types of short holders most prone to rush to buy back on higher prices, as compared to the commercial shorts that rarely run to cover on higher prices

In silver, there was a slight reduction of almost 700 contracts in the total commercial net short position, to 15,200 contracts. This puts us near the December lows on this headline number, but it is important to recognize that December's readings were the most bullish extremes in a decade. The extreme reading in December did lead to the \$10 rally through Feb 28. By category, the big 4 (read JPMorgan) didn't do much in adding 200 contracts to what is a very low short position. The silver raptors did add a sizable 2600 contracts to their net long position, largely on the selling of 1700 contracts by the 5 thru 8 largest shorts. The silver raptors now hold a chunky net long position of 20,400 contracts, near levels where important silver rallies have commenced in the past. Undoubtedly, the raptors' net long position would be even bigger now if not for the fishy sale of 4700 contracts some weeks back, when JPMorgan bought back 3500 contracts. That had all the earmarks of an illegal, prearranged and uncompetitive transaction, but I doubt the regulators at the CFTC would recognize it, even if it bit them in the butt.

Digger deeper into the silver report, we finally got the increase in the gross short position in the managed money category of the disaggregated report that I was expecting and hoping for. At over 14,300 contracts gross short, the

technical funds now hold a gross short position 2000 contracts larger than they held at the extremes of December (up 1800 contracts this week). These are the traders the collusive commercials were trying to lure onto the short side of the market on all the salami slicing observed recently. These are the traders who are the first to rush to buy back short contracts on higher prices. Whenever those higher prices materialize, these technical shorts can buy with almost no regard to what price they must pay to close out those shorts.

At the price highs of Feb 28, this category of traders held a gross short position of only 2600 contracts, suggesting a potential of nearly 12,000 contracts of built-in buying power by this segment of traders alone on higher prices. This is potential buying power separate and distinct from other speculative traders looking to get long or add to long positions. As I indicated previously, it is easy to calculate upwards of 25,000 to 35,000 contracts of total speculative buying on the next upswing in prices, including the built-in short covering by those traders in the managed money category. The raptors can provide 15,000 to 20,000 contracts for sale on higher prices, but without new short selling by JPMorgan, there is a potential mismatch of buys to sells. That's what puts JPMorgan in the spotlight.

I would calculate JPMorgan as holding 11,000 to 12,000 silver contracts net short on the COMEX currently. This is the lowest net short position that JPMorgan has held since taking over Bear Stearns in 2008. While JPMorgan and

the other collusive commercials on the COMEX are crooked beyond description, the low level of current silver short holdings by JPM does raise the possibility that they will not add on the next rally. Several subscribers have indicated they expect JPMorgan to add shorts, as they always have and those subscribers may turn out to have been correct. Time will tell, but the question will only be known after silver prices rally, not before. In that sense, there is no harm and no foul in waiting to see, especially since we have no other choice. Certainly, there are new factors at play that suggest that JPMorgan may quit manipulating the price of silver.

On May 16, a judge heard oral arguments from JPMorgan to dismiss the class-action lawsuit filed against them for manipulating silver in 2008. (While I'm not involved in the lawsuit, it clearly follows my story line of manipulation). The argument advanced by JPM's lawyers is that the outsized silver short positions could have been a hedge and as such, that would preclude manipulation. The judge will decide in due course. This is very similar to the fantasy that JPMorgan has tried to spread in their current credit derivatives debacle, namely, that the transactions in question were simply hedges and not propriety trading. This is clever, but deceitful on JPMorgan's part. It's all about parsing words to evade the truth.

JPMorgan's common defense against the silver manipulation lawsuit and in their current derivatives disaster is twisting the truth. In other words, lying. That goes

to the heart of most troubles in the world; no one tells the truth. JPMorgan was no more hedging in silver or in their credit derivatives than were what blew up AIG, Bear Stearns, Lehman Brothers or Enron. None were hedging. Yet we are forced to endure the charade that all were doing something legitimate, until after they blew up. That's because to admit the truth could be devastating. So everyone lies and pretends.

The problem for JPMorgan is that the big profits required to pay the outsized salaries and bonuses of management are not available in normal banking lines of business. Therefore, JPM has been forced to reach into dangerous and speculative areas to generate profits, like speculating in silver and wacky credit derivatives. And when these gambles blow up, the parsing of terms begins. The simple question is why is a commercial bank backed by insured deposits speculating in silver or credit derivatives in the first place? Because JPMorgan and other financial entities have an army of lawyers and lobbyists at their command, the simple questions never get asked. Instead, the lawyers and lobbyists descend on the regulators to insure that the issues are muddied and deliberately made complicated. Like you, I would prefer simple questions and answers; sticking to the truth. Then again, we're not lobbyists.

That's why I'm particularly fed up with the regulators. I don't know if they have been intimidated or otherwise compromised, but they are not doing their jobs because they are also not speaking the truth. The CFTC won't even engage in a

truthful and open discussion about silver, even as more come to be convinced about the ongoing manipulation. There is no debate whether the corn or wheat or cattle market is manipulated. There is no evidence of concentration in oil or any other market; just silver. The regulators know that, but they pretend otherwise by their silence.

Worse, the refusal of the CFTC to address the real issues in silver are aiding and abetting the manipulators. The chief defense by the lawyers for JPMorgan in the silver manipulation class-action suit is the previous findings, in 2004 and 2008, by the Commission that all was well in silver, as well as the agency not completing the almost 4 year-old current investigation. The lawyers for JPMorgan say that if the company was doing anything wrong, the CFTC would say so. Sadly, it is an effective defense, but only because the CFTC is not being truthful. I tried to prove that the 2008 report was a lie because it omitted the key fact that the largest short, Bear Stearns, was in serious trouble when it was acquired by JPMorgan. Had not the CFTC lied and kept secret that the biggest silver short couldn't abide by the terms of its silver short contracts, the price would have soared well beyond \$50 in early 2008. Instead, the agency lied and issued a report to hide the matter. It will be outrageous if officials don't end up in jail over this.

The good news is that the Bear Stearns cover up, along with the CFTC refusing to address the blatant silver price take downs of the past year, are only

temporary set backs on the long silver journey. I expect that the duplicity by the agency will blow up in its face, either by public dissent or the realities of the physical market. I hope to demonstrate in the near future just where we stand in silver in terms of the physical realities, because the story is quite exciting. In the interim, it does no harm to keep pressure on the regulators and elected officials to end the scam of a regulatory agency that refuses to regulate. To that end, I did take the suggestion of a good number of subscribers to make an abbreviated version of my last article public in the hopes of forcing the agency to do its job. Obviously, they need to be reminded that the oath of office they swore to uphold was to protect the public and not the profits of JPMorgan or the CME Group. <http://www.silverseek.com/commentary/illegalities>

Ted Butler

May 26, 2012

Silver – \$28.50

Gold – \$1573