

May 28, 2011 – Weekly Review

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Silver broke a three week price decline by climbing a strong \$2.90 (8.3%). Still suffering from the manipulative takedown in the first week of May, silver is down more than 22% from its end of April high of \$49, but up that same percentage from the beginning of the year. Needless to say, silver is not only up big over every reasonable time period over the past ten years, it is also head and shoulders above the performance of virtually every other comparable investment asset. It's just that everyone (me included) have the very human habit of measuring from the most recent price peak. None of us can resist calculating how much we "lost" from any top, no matter how temporary that top may prove. The bigger the drop, the greater the "losses." As I said, it's just human nature.

Gold turned in a great performance for the week, climbing more than \$24 (1.6%) and closing at its second highest weekly close in history. As a result of silver's outperformance for the week, the gold/silver ratio tightened in to a three week low of around 40.5 to 1. I believe I have been the chief pounder on the table urging gold heavy investors to switch to silver and I am convinced that the underlying facts point to continued massive outperformance by silver over gold. That said, I confess to not having a clue as to which way the ratio will move in the very short term. My advice still remains not paying too much attention to short term considerations and making a gold to silver switch under plans to hold on a long term basis.

In the physical world of silver, tightness still appears to be the order of the day. Turnover in COMEX warehouse inventories still appears intense and the most plausible explanation points to the bulk of inventories residing in the COMEX inventories not being available at current prices. This unavailability necessitates the movement of new silver inventories in to accommodate demands for movement out (and not vice versa). Retail demand for silver continues strong, with premiums for US Silver Eagles, for example, remaining at record high levels (in terms of dollars per coin). I continue to hear reports that Silver Eagles are difficult to come by in quantity.

However, the big news in the physical silver world continues to be the out-movements from the big silver ETF, SLV. Since the high-water mark in SLV metal holdings of 366 million ounces near the end of April, the holdings have declined by more than 46 million ounces, principally as a result of the manipulative 30% takedown in price. I think the general consensus is that this reduction in metal holdings in the SLV indicates a lack of demand for silver. I still reject that consensus and feel that the correct conclusion is that these 46 million ounces were stolen from the former owners by the short silver crooks who orchestrated the sell-off. The good news (if a theft can ever have a good side) is that this silver is now firmly in the strongest hands possible and should not be coming back to the market except at extremely high prices.

I also have come to a stronger conclusion that BlackRock, the sponsor of the Trust and the largest money manager in the world, may be in the camp of the bad players in silver. While I never fully expected them to respond to me (they haven't), I did expect BlackRock to address the fraudulent and manipulative short position in shares of SLV. The latest short interest figures indicate that BlackRock hasn't done a thing to remedy a clear violation of the spirit of the prospectus of the SLV. The latest figures (as of May 16) indicate that 29 million shares remain short or roughly 9% of all the shares outstanding. These shorted shares have no metal backing and BlackRock is looking the other way, while pocketing millions in fees while working against the interest of shareholders. While I feel that BlackRock should be liable for its role in aiding and abetting the recent takedown, as an analyst I conclude the short position holds bullish implications for the price of silver and SLV. Yes, I am still a shareholder and holder of SLV call options because of my analytical conclusions, but I also relish the fact that BlackRock may someday be held accountable for its reckless disregard to SLV shareholders. And I am sending this to Laurence Fink, the CEO of BlackRock.

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

This week's Commitment of Traders Report (COT) held few surprises. In silver, the total commercial net short position expanded by a minor 1000 contracts, but remained at multi-year low (bullish) readings. The increase was not alarming, considering the price did rally by \$2.50 in the reporting week. The only possible concern was that all of the increase came in the big 4 category, as the raptors and the 5 thru 8 categories remained unchanged.

As I'll discuss in a moment, the behavior of the big 4 COMEX shorts on the next silver price rally will determine the nature of that rally, so their behavior will be monitored closely. But I will say this in advance — if the big 4 (JPMorgan) dramatically increase their short position on the next silver rally, I will have no choice but to conclude that the CFTC has crossed the line from being merely incompetent and unresponsive in their handling of the silver manipulation to being clearly in cahoots with the silver crooks. I know many of you feel that way already, but this will be the litmus test for me.

In gold, the total commercial net short position increased by a bit over 10,000 contracts, but still remained at reasonably low (bullish) readings on a recent historical basis. The gold raptors (the smaller commercials apart from the big 8) accounted for all the selling and then some, taking profits in a reporting week when gold climbed by more than \$35. All in all, the gold raptors sold almost 14,000 contracts, reducing their net long position to about one thousand contracts. Interestingly, the big 4 gold shorts actually reduced their net short position by 3,000 contracts and now hold their lowest net short position (under 150,000 contracts or 15 million ounces) since September 2009 when gold traded near \$950. The bottom line is that there is still room for gold to move higher according to COT metrics.

As a follow up to last week's comments about the other metals, the set up in copper, platinum and palladium (in addition to gold and silver) still looks promising from a COT perspective. Platinum and palladium crossed over their 50 day moving averages this week, joining gold which had remained over this level. Only silver and copper remain below their 50 day moving averages (\$39.19 and \$4.22 respectively). As a reminder, since the technical traders don't generally buy and hold long positions for items trading below the 50 day moving average, there is usually a smaller chance of large sell-offs due to them selling. COT warning flags only fly when the tech funds and other speculators are holding excessively large long positions. That is certainly not the case currently in any of the metals.

It is not primarily the behavior of the technical funds that will determine the nature of the next silver rally, as and when the 50 day moving average is penetrated to the upside. The prime determinant will be how the big COMEX silver shorts behave — will they add to their short positions or not? I can tell you that someday silver, like any item, must and will cross its 50 day moving average. That's a guarantee. I just can't tell you which day. (As a holder of call options, I am a certified member of the holy church of make it happen today or tomorrow.)

Whenever the time of crossing the moving average occurs, there will be some buying by speculators and tech funds to get long or cover shorts. The question is where the selling comes from to balance that almost certain buying. Some will come from the raptors, the smaller commercials that are net long (currently 8,200 contracts). But the raptors may not be able to sell enough, without going heavily net short, to keep the price from rallying sharply (say to new highs). Usually, this is where the big 4 and 8 step in to contain prices. This is the hallmark of the decades-old manipulation – collusive concentrated shorting, applied exactly at the right time. But this scam is getting old and well known. As such, it's reasonable to contemplate what might happen if the big shorts didn't add enough manipulative short positions.

Many have asked me about how long the big crooks can keep this silver manipulation scam going, especially since they just shook so much silver from the SLV and so many contracts from the COMEX. Others have asked me how I think the price will behave from here, namely up slowly or very quickly. These are fair questions and ones we will be able to answer only in time. But I can pinpoint what to look for to learn the answers. It comes down to whether the big shorts increase their position. If the big 4 and 8 increase their short position on the next rally, the price of silver will be contained. It may be contained at prices higher than most would imagine, but contained nevertheless. If the big 4 and 8 don't increase their net short position on the next silver rally, the price won't be contained. In that case, the price should be higher than all would imagine.

What I think it comes down to is a clear indication of how the silver manipulation will be resolved. There must come a time when the big concentrated shorts don't increase their short positions, if not because of regulatory pressure, then surely because of a physical shortage. Maybe some combination of each. As time evolves, the resolution draws closer on each pressure point. Unless I'm reading it all wrong (always a possibility) there is a singular moment of truth ahead based upon whether the big shorts add or not.

It's absolutely amazing to me not just how far we have come on this silver journey, but how much more of the journey remains, both in terms of price and events. Most amazing of all is what we have learned along the way and what we will surely learn in the future. We are going to learn a lot about the CFTC and commodity regulation and the rule of law dead ahead from how the big COMEX silver shorts behave. Like all of us, the CFTC now has enough evidence and experience to know the obvious Â? that any increase in the concentrated silver short position is pure manipulation. If the agency doesn't seek to prevent this increase, they will have continued in their failure to protect the public.

Many thanks to all who have contacted elected officials about the crooked takedown in the silver price and the regulators' failure to protect the public. I think it will do much good. I may not have mentioned it specifically, but the main objective is not that lofty. All we need is for the Commission to openly address the issues in silver, like position limits and the concentrated short position. There is no question that, on the merits, there should be a position limit of 1500 contracts in silver and that the concentrated short position has been and is manipulative to the price of silver. By being silent on these matters, the Commission has frustrated the law and the will of the public. Someone, anyone, from Congress can force them to speak up. I think that may be enough. If not, it will be a great start. Thanks again.

In summary, all the facts suggest silver is not structured for a prolonged and serious price decline. The only real question is how the coming rally plays out. Tell me what the big 4 and 8 do, and I'll tell you what the rally looks like. For long term silver investors, it matters little. The risk/reward equation is fine.

Ted Butler

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Silver – \$37.95

Gold – \$1536

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