

## Weekly Review

In a week where both finished lower, silver was again weaker than gold. Gold finished \$21 (1.3%) lower for the week, while silver declined a full dollar (3.2%). As a result of silver's underperformance, the gold/silver ratio widened out to just over 54 to 1, about where we ended 2011. Surprisingly (based upon feelings alone), silver is still slightly ahead of gold for the year and both are still positive from the year end. Of course, in the measurements of performance from last year's high points, silver looks horrid. That's one of the problems with measuring from any extreme high point. I'll have some comments on gold and silver later in this report, from a somewhat different perspective.

Remarkably, at least to me, the frantic turnover in metal coming into and out from the COMEX silver warehouses continued this week. In fact, it was one of the most active weeks in memory, even though total inventories remained largely unchanged at 142 million ounces. I can't help but be fascinated by the continued high movements of COMEX silver inventories over the past year. I keep searching for a more plausible explanation than it means tight wholesale physical conditions, but I have been unable to find that explanation. Increasingly, I have the suspicion that some large entity or entities may be acquiring silver in a determined fashion. I can't prove it, but the movements suggest it. Yesterday's 1.5 million oz deposit in the big silver ETF, SLV, leaves it ahead almost a million ounces net deposited for the week. This is very much in

contrast to expectations of net withdrawals for the week, given the weak price action and adds to my suspicions of major accumulation.

Sales of Silver Eagles from the US Mint continue weak, as does silver retail demand overall. One encouraging sign are anecdotal indications that some larger retail silver demand orders may be surfacing. I find this encouraging because such orders have indicated in the past that overall demand may surface on better price action. Please keep in mind that retail silver demand is very much different than wholesale demand at times and that retail demand is not the prime driver of overall price.

The changes in this week's Commitment of Traders Report (COT) for gold were spot on according to expectations, but surprising for silver. There were no big surprises, however, in the companion monthly Bank Participation Reports for either gold or silver. Both reports were as of Tuesday, May 1. I'll cover gold first.

Since we had traded up through the 20 day moving average in gold for much of the reporting week, the 10,800 contract increase in the total commercial net short position to 178,000 contracts was fully expected. All three categories of commercials added to their short positions, with the big 4 adding the most, at 6000 contracts. The next 5 thru 8 big gold traders added more than 3000 short contracts, with the gold raptors adding the balance. Despite the increase in the

big 4's short position and in the total commercial net short position, gold is still configured bullishly in COT terms. I would expect that the price weakness since the Tuesday cut-off has resulted in the gold COT structure being strengthened by commercial short covering. COT-wise, gold is still good to go to the upside, although the silver COT structure is more bullish on a longer term historic basis.

The first surprise in the silver COT report was that the total commercial net short position actually increased, by 1400 contracts to a still-historically low 23,700 contracts. It wasn't so much the number of contracts the commercial short position increased by, but the fact that it increased at all considering the rotten price action in silver during the reporting week. We are still 22,000 contracts (110 million oz) lower in the total commercial net short position from the Feb 28 price high of \$37, so a 1400 contract weekly increase is not a particularly big deal and supports the suggestion that the speculators may be fully-washed out. Still, it makes you scratch your head when you get an increase where a decrease was anticipated.

However, the big surprise in silver was in the composition of the change among two of the commercial categories. Whereas the big 4 (read JPMorgan) reduced their net short position as much or more than anticipated, the raptors (the smaller commercials apart from the big 4 and the big 5 thru 8) sold 4700 contracts from their net long position, reducing that net long position to 13,600 contracts. I don't recall the raptors ever selling like this into a notable price

decline. It could be that there was some type of reporting error, but an analyst has to take the data as it comes. If there is some type of adjustment in the next COT, I'll deal with it then; for now, I'll consider the numbers as being accurate as reported.

The big 4 (read JPMorgan) reduced its net short position by 3500 contracts, one of the largest weekly reductions ever. As a result, the listed percentage of total open interest held net short by the big 4 was, at 26.3%, the lowest in many years, even lower than the extreme lows seen this past December. In terms of the number of contracts held net short by the big 4, while not the lowest number ever, at 29,157 contracts, it is one of the three smallest short positions on record. In simple but accurate terms, the recent takedowns in the price of silver were designed and executed to get this concentrated short position reduced.

JPMorgan's concentrated net short silver position on the COMEX, based upon this week's COT and Bank Participation reports, appears to be in the 14,000 to 15,000 contract range I predicted mid week. Given the new price lows achieved since the cut-off, JPMorgan may be below these levels now and close to the 13,000 contract extreme low of December. I can't call this a surprise in any way; but I am dumbfounded by the raptor selling on the lower prices of the reporting week. The selling of raptor long positions (at what appear to be losses) is a first and I can offer no explanation (other than some type of

reporting error). It's somewhat ironic that JPMorgan buying from the raptors was always one of my special pet theories, but that was expected by me only on sharply higher prices, not lower prices. Maybe I'll come to understand this situation better in the fullness of time, but for now it serves no purpose to obsess on it. It's certainly not a negative development because, if true, it indicates less selling pressure from the raptors. It's just that I'm less inclined to count as a bullish development every unexpected occurrence that comes along, as that amounts to cheerleading and not analysis.

The key question, of course, is still what will JPMorgan do on the next silver rally? Our personal guesses aside, it's wise to consider the possibility that JPMorgan will not add aggressively to its short position on rising silver prices. That's because such a development should spell the end to the silver manipulation. It gets repetitive, but manipulation and concentration go hand in hand; you can't have one without the other. The question was always when and how the manipulation and concentrated short position would end. Would it end with a physical shortage while the concentrated short position was full (Izzy's Full Pants Down theory) or would it come after the concentrated position had been whittled down and the big short didn't add again? Since JPMorgan has successfully reduced its short position to historically low levels currently, it is in a better position to consider voluntarily exiting the silver short position permanently. It's important to consider this possibility because it would have a profound impact on price.

Perhaps it is no accident that JPMorgan has aggressively reduced its short position recently. Perhaps JPM is reducing it because of some outside force, like a developing shortage (which it would see first) or some pending regulatory development. I haven't talked about it much lately, but the issue of position limits is not dead. We are closer to the ultimate resolution of this issue than ever before in terms of time elapsed, despite a rigorous legal challenge by surrogates from JPM and the CME. Also, we are closer to resolution to the Volcker rule than ever before, according to published reports.

Not for a minute do I think Dodd-Frank or the Volcker rule was undertaken with silver in mind. If anything, it had to do with oil. But there is no way that the regulators could enact rules calling for a level playing field without that impacting silver. Legitimate speculative position limits and no proprietary trading by the banks would impact silver many times more than any other commodity. That's because legitimate position limits would destroy the concentration in silver and the Volcker rule would doubly impact silver because JPMorgan is a bank and shouldn't be speculating and manipulating silver in the first place.

It is not inconceivable that JPMorgan sees that position limits are inevitable and that some form of the Volcker rule is near enactment. Even after the recent

reduction in its short position, JPMorgan still has a ways to go before it falls under the proposed position limit formula, which at current levels of open interest comes to around 4700 contracts. If that proposed position limit formula is coming in the relative near future, it would be unlikely that JPMorgan would add to its short position and may still move to buy back more, even as prices rally. This could and should have an explosive impact on silver prices.

While I still consider what JPMorgan does on the next rally to be the key issue in silver, I'd like to offer a few comments away from the COTs in regards to silver and gold. As most long time readers may be aware, I'm not a gold or silver bug in the normal sense of the word. By that I mean I look at each metal through the prism of the sum total of my personal experiences and not in how many others look at gold and silver. My experiences have mostly amounted to exposure to the futures markets that started some 40 years ago. I'm not in any camp that holds that gold or silver is money or that either is the perfect insurance for whatever lies ahead. I understand and respect those sentiments and don't deny that they are or will be true; it's just not in my background or in my core beliefs. I'm a commodities analyst with a specific background in futures, no more or less. If I wasn't there is no way I would have uncovered the silver manipulation.

I've said in the past that when it comes to gold, for instance, I am more of an agnostic than anything else. Same goes for the gold or silver standard or the question of what is money. I look at supply and demand and the COTs and

things like that. I hope to come close to concluding sometime in the future the correct price at which silver should be sold. I like to think (perhaps incorrectly) that makes me more objective because I'm looking at gold and silver as commodities. But I am not immune to looking at either in relation to what's going on in the world beyond strict commodity supply and demand.

If I have been surprised by the price performance of gold and silver over the past decade or longer, it's more a case of why hasn't silver climbed more, particularly relative to gold. I'm convinced the answer is that silver has been manipulated more and that silver will greatly outperform in the future. I guess another way of stating this is that I'm more surprised that gold has climbed as much as it has relative to silver given my supply/demand background. As you know, one of my core arguments for favoring silver over gold is that because there is so much more gold than silver bullion in the world, especially in terms of the relative dollar amounts of each, silver should climb faster and higher.

Because of this, it is particularly impressive to me just how much gold has climbed in price over the past decade. I know gold advocates suggest that gold is a small market when compared to much broader markets like stock or bond or real estate markets. While this is true, compared to silver, gold is a behemoth; measured in the terms of trillions of dollars while silver is measured in the tens of billions of dollars. But my point is different today, namely, that current conditions in the world may have converged to create the conditions

that render the gold market as suddenly very small. I hope I can put this in the right words.

There has been such an explosion of world debt in the last five or ten years, particularly among governments, that the gold market now looks tiny. Plus, we seem to be at a critical time in the level and disposition of all this world debt. The current macroeconomic debate centers on austerity or further government easing (more debt). I'll spare you my preference as it doesn't matter a whit in the final outcome, nor do I feel strongly as to what the best solution might be. I do know for certain that we should not be in this predicament in the first place and it's the devil's own choice now between belt-tightening or gunning the money presses. At this point, the total debt in the world has grown so large so as to defy description. The galloping level of US Government debt since the financial crisis absolutely numbs the mind. Most times, I just try to put it out of mind or being in the category of something out of my control, so why worry about it? It may be that, but I can see a certain set of circumstances where it could have a big upward impact on gold.

Mine may not be an original thought and if I could think of a specific source to credit, I would do so. With so many hundreds of billions and trillions of dollars of new and restructured debt being created, almost daily, there could come a time when a sufficient number of debt holders get nervous and conclude they need to step away from the bond market altogether. Since the bond market is

so frighteningly large and growing, even the smallest percentage of holders attempting to exit amounts to a very large amount of money looking for a sudden new home. There are not many choices in a bond panic to which to flee and gold would seem to be a logical refuge amid the narrow field of alternatives. In such a circumstance, the sudden money flow attempting to move into gold would impact that market greatly despite what I view as a market being already large. Next to bonds and world debt, gold is tiny.

For that reason alone, even a partial run from debt, could ignite gold to the upside. I've watched the gold market being revalued upward by trillions of dollars over the last decade with no world bond panic; what the heck would occur if bond holders did panic out of paper? While I'm not a gold bug or gold standard or gold money advocate, neither would I minimize what gold may do in a panic from bonds. Who knows, maybe that makes me a gold bug? Maybe you know where I'm going next.

If ever there was even a partial run from bonds to gold, no matter how extreme I think gold prices may react to the upside, I'm more convinced that the reaction would be more profound in silver. Here's where the market size issue would truly come into play. The combination that there are less ounces of silver bullion than gold bullion and those silver ounces are worth less than 2% of what gold ounces are currently worth sets the stage for a silver rally almost impossible to quantify. Throw in an industrial users panic and a short covering panic and your

head should start to hurt in trying to calculate the price of silver. Mine does.

Sure, I'm partial to silver over gold, but I think that's because I am a supply demand guy and schooled in futures. I'm not predicting a bond crisis that could lead to a panic into gold, but there are those that would say that's what we're seeing everyday in Europe and elsewhere now. I am saying that such a panic into gold would set off a much bigger panic into silver, given all the realities of the two markets.

Ted Butler

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Silver - \$30.30

Gold - \$1642