November 19, 2011 – Weekly Review/Financial Terrorism

Weekly Review

The price of gold and, especially silver, sold off sharply this week, with most of the damage coming on Thursday. For the week, gold was off $64 (3.6%), while silver was off $2.30 (6.6%). The numbers would have been worse for silver were it not for some snapback on Friday. As a result of silver's steep underperformance this week, the gold/silver ratio widened out to almost 53.5 to 1, near the top end of where this ratio has traded year to date. This means silver is cheaper relative to gold and on a value basis this is an opportune time for gold-heavy investors to switch gold holdings into silver.

As always, my suggestion to switch from gold to silver and to buy silver with fresh cash is intended on a metal for metal switch or on a money on the barrel basis. In other words, no borrowing and no leverage. Yes, I understand the silver price action looks punk. I also understand that silver investor sentiment is weak, with countless stories suggesting a silver price smash dead ahead. But I also understand that in any investment the best time to buy is when things look rotten. The alternative is to wait until things look and feel better. Of course, that usually means buying at much higher prices, when confidence is restored and everyone is feeling fine.

As long as the facts point to an undervaluation in silver, both on an absolute basis and relative to gold, those facts will override sentiment on a long term basis. Sentiment can change a lot easier than facts can change. It doesn't seem that way in the midst of brutal price takedowns, but history has shown that the best time to buy silver is after it has been smashed in price. This applies to many investments, but none more so than silver, given its manipulated price state. As always, it's vital to view the facts objectively.

That gold has been performing better than silver is, paradoxically, one of the best arguments for silver. At current prices, the dollar value of the world's three billion ounces of gold bullion is more than $5 trillion, which towers over the value of the one billion oz of silver bullion ($32 billion) by almost 160 times. Yet this fact is largely unknown and vastly unappreciated. It takes roughly $7 billion monthly in new investment to absorb newly produced gold (above jewelry and other fabrication) and less than $400 million monthly to absorb all the net new silver available for investment. Even though silver investment demand has been lackluster recently, due to current rotten investor sentiment, that sentiment can turn on a dime. As a silver bull, a strong gold price is one of the strongest arguments for sharply higher silver prices. Given overall world financial conditions, it is very easy to imagine continued strong gold prices.

The current weak silver investor sentiment, brought about by the weak price action, is reflected in recent weak retail demand statistics. Data from the US Mint indicate that November may be the weakest month for sales of Silver Eagles in recent years, although 2011 is already in the record books as the best year ever for Silver Eagle sales. Just to keep things in perspective, as weak as very recent Silver Eagle sales have been, they still tower over sales of Gold Eagles. This highlights that retail demand in general is not a short term driver of price, otherwise gold prices wouldn't be as strong as they are presently. The low price of silver, low premiums and current easy availability of Silver Eagles suggests to me that this is an opportune time to pick up Silver Eagles. Maybe I'll ask my good friend and silver mentor, Izzy Friedman, to write another piece on why Silver Eagles are maybe the best form of silver to hold. The last time he did so, US Mint production capacity was maxed out for years.

Movements, or turnover, in COMEX silver warehouse stocks have remained frantic on balance. This turnover is still a prime indicator to me for wholesale tightness. As a result of Thursday's massive decline in price, we did see a reduction of 2.2 million ounces in the big silver ETF, SLV. Given the sharp price drop, this looked like plain vanilla investor liquidation and quite normal to me. I'm also hopeful that the silver price sell-off may result in a reduction in the outrageously large and manipulative short position in SLV, although the very next short report (due in a week) may not reflect that, as the cut-off for that report was Nov 15, just before the latest price swoon.

Over the past year or so, SLV as well as all other silver ETFs have roughly unchanged inventory levels, which given the extreme price volatility over that time, looks constructive to me. My take is that the price volatility has caused a pause in new buying by silver investors, but not to the point of them becoming big net sellers. It looks to me that the wild price fluctuations have turned silver investors into strong holders and that when price action invariably improves, aggressive new buying will emerge. I am particularly encouraged that holdings in the big gold ETF, GLD, have risen recently despite volatile gold price action and reports of selling by the biggest GLD investor, John Paulson. Retail investors may not be plowing into gold, but larger investors seem to be doing so. Again, strong physical demand for gold will, sooner or later, likely translate into strong silver physical demand. One of these days, some big gold investors are going to discover silver and try to invest in silver in a big way. When they do, the fact that there is such a small amount of silver available for investment will cause a price mess to the upside, just like trying to put ten pounds of flour into a two pound bag.

This week's Commitment of Traders Report (COT) was somewhat uneventful in that the big price and volume drama came well after the Tuesday cut-off. In fact, the continued MF Global disaster and mess has undoubtedly impacted the COT reports for the past two weeks, as the CFTC readily admits on the COT web page. For instance, some of you may have noticed the unusually large changes in the non-reporting category for gold and silver over the past two weeks. For that reason, it may be wise to read both weeks as one. In doing so, my original guess two weeks ago that the gold total commercial short position may have increased by 20,000 to 30,000 contracts becomes more accurate, as the two week increase comes in at 22,000 contracts or so and not the 14,500 increase of the single prior week.

Regardless, this week the silver total commercial net short position increased by a further 1600 contracts, to 26,300 contracts. This is still a very low and spectacularly bullish historical COT reading for silver. You might ask how can you have a one day 7% decline in price when I proclaim the COT structure to be spectacularly bullish? My answer is that you must always remember that the silver market is manipulated and crooked, perhaps the most manipulated and crooked market in the world, including diamonds and cocaine. The commercial crooks can do anything they want on a short term basis.

Like last week's COT in silver, the raptors (the smaller commercials away from the 8 largest traders) accounted for all the selling, reducing their net long position to 13,000 contracts. Importantly, the big 4 category (read JPMorgan) hasn't changed much since the COT report of Oct 25, when there was an increase of 3000 contracts into that week. JPMorgan is still sitting with 16,000 contracts net short in my estimation, among the lowest COMEX short reading since they acquired Bear Stearns' big concentrated short position in 2008. My hunch is that while JPMorgan may have been able to reduce their short position on Thursday's manipulated takedown, it is more likely that the raptors were the initiators and beneficiaries of the price smash that day. While JPMorgan is the big enabler of the continued silver manipulation, the collusive raptors are usually responsible for the big price smashes.

In gold, there was an increase in the total commercial net short position of 7200 contracts for the week, to 204,163 contracts. As in silver, it was largely due to raptor selling. The difference was that the gold raptors did get net short last week and added to their net short position this week, which now totals near 10,000 contracts. Also as was the case in silver, the down turn after the cut-off was precipitated by the raptors who act collusively in each market, even as the regulators turn a blind eye to that collusion. No doubt there has been notable improvement in the COT structure in both silver and gold on the deliberate takedown. There may be more takedown possible in gold from a paper market perspective given that we are dancing on the 50 day moving average, although recent strong gold physical demand may argue against that. In silver, we are deep into the Â?getting blood from a stoneÂ? levels of potential liquidation and it is hard to imagine massive new liquidation given how depleted the speculative long side has become.

I'm planning an article (probably on Wednesday) talking about some new factors favoring silver on a longer term basis that's away from manipulation and the like, assuming no last minute developments. It's been some time since I've been able to discuss silver in non-manipulative terms.

Financial Terrorism

A subscriber sent me a note the other day, suggesting I read a new article which I have yet to review. But the word Â?terrorÂ? was contained in the title of the article and for some reason that word bounced around in my mind and got me to thinking. Then it hit me. While I talk incessantly about manipulation and concentration and deliberate takedowns in the price of silver and the regulatory failures to deal with those things; there's even a better word to describe what silver investors have been experiencing over the years, but particularly this year. That word is terrorism.

Terrorism is defined as the deliberate attempt to intimidate and instill fear in order to alter another's behavior. We've come to know terrorism by car and suicide bombings and violence in too many regions around the world. The civilized world seems to be in a constant state of war against those who would resort to terrorism and the US has found itself immersed in two foreign wars brought about by the fight against terrorism. But is terrorism confined to physical acts of violence? Can there not be terrorism of the financial variety?

What if an entity or small group set out to instill fear and to intimidate others in order to intimidate them into doing something against their wishes for strictly financial gain? No car bombs, no killings, and no actual violence in the name of religious, political or cultural differences: strictly for money. I admit that there is a big difference between the value of human life and financial gain or loss, but that difference aside, is terrorism for strictly financial purposes legitimate? I would think not.

It occurs to me that it is financial terrorism that best describes the behavior of the manipulators in the silver market. When a world commodity, like silver, declines 30% in a matter of days (twice this year), or when it declines 7% in a day (Thursday) for no good economic reason, it is natural to wonder why that occurred. When the only plausible explanation is that the sell-offs occurred as a deliberate attempt to scare innocent holders out of the market through fear and intimidation (of further loss), is that not financial terrorism?

As I've indicated previously, the key to these sudden and sharp silver sell-offs is in the sequence of events. In every single instance, it is never a case of investors suddenly deciding to sell and that collective selling action which precipitates the price decline. Rather, it is always the case of the price first being suddenly rigged lower (at the quietest of trading times) and investors then reacting to those lower prices and selling after the price has come down. Also, in every single instance, those who initiated the suddenly lower prices (the COMEX commercials), then reap the whirlwind of their financial terrorism by buying all the positions they were able to intimidate into being sold. Scare folks into selling so that the financial terrorists can then buy from those that had been terrorized.

This is a crooked, rotten racket that has been going on for decades in silver. The only difference is that it is not al Qaeda or some militant terrorist group at work, but a consortium of leading banks and firms financially terrorizing that segment of the public that has chosen to invest in silver. Instead of being organized by bin Laden, the silver terrorists are organized and protected by the CME Group. Instead of being fought by the organized might of the US Government and other world governments, the silver terrorists are coddled by the CFTC which can see nothing wrong with the investing public being terrorized. Maybe we need to petition Homeland Security to end the silver manipulation and terrorism.

I don't think I'm exaggerating to label what takes place on the COMEX as financial terrorism. Yes, I'm talking about money, not human life and physical violence, but it is terrorism nonetheless. And I, for one, am sick of it, as I am the non-response from the regulators. One thing I'm not sick of is what I think this means to the future investment performance for silver. For the commercial crooks on the COMEX to have to resort to this silver financial terrorism tells me that they are trying everything possible to scare folks away from silver by any means possible. By having to resort to such deplorable and illegal tactics, this should tell you how badly they want to buy silver and scare you from doing so. Don't let these bastards intimidate you.

Ted Butler

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Silver – $32.40

Gold – $1725

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