

Weekly Review

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It was another volatile and exciting week for silver, with the price closing at a new 30 year high. This stood in stark contrast to the price action in most other commodities, including gold, which finished the week on the downside. For the week, silver shrugged off early weakness to roar back, finishing up around \$1.25 an ounce, while gold finished about \$15 lower. This put the gold/silver ratio below 50 to 1, a new multi-year mark. Soon, I anticipate silver will be setting multi-decade extremes against gold. It's still not too late to switch from gold to silver if you are looking for the best investment returns.

Volume remained extremely high, although slightly off the prior week's historic pace in both COMEX futures and shares of SLV, the big silver ETF. Here's an observation which may initially throw you off. I've noticed growing daily volatility in silver, even on a minute to minute, or shorter, time-basis. This implies a loss of actual liquidity. This has occurred even as volume has grown, leading me to conclude something that will sound strange at first. My observation is that we are witnessing sharply increasing volume at the very same time we are witnessing a loss of liquidity in silver. I know that sounds like a contradiction, but I have an explanation. Most of the increase in trading volume is as a result of rapid electronic day trading (high-frequency trading), which has been present in many other markets. These electronic traders can

establish and then liquidate positions in minutes or even seconds. They are the ultimate day traders. As such, I don't believe they provide true liquidity to the market, just the illusion of liquidity. Perhaps 99% of the current trading volume on the COMEX and in SLV may be traced to this rapid electronic trading. At this time, I don't have any strong feelings on the economic merits of such frantic in and out trading, as it's something beyond my approach to silver. I'm just offering an explanation for my "weird" observation that volume is way up, while true liquidity is actually down.

This rapid electronic trading has nothing to do with what's truly important in silver, like developments in the real physical silver markets. Here, the recent trends remain in force. More silver has been added to the SLV, as recently as yesterday, pushing the amount of silver held by the trust to a new record of 347.7 million ounces. I'm still convinced that the trust's sponsor, BlackRock, is insisting that short sellers of SLV shares make deposits of metal sooner, rather than later. For that, they deserve a tip of the hat. COMEX silver warehouse inventories hovered around the 108 million ounce market, but with notable turnover, something that signals tightness. On the retail front, Silver Eagle sales from the US Mint continue to blow the doors off previous records and especially when compared to Gold Eagle sales. I know this pleases my friend and mentor, Izzy Friedman, who I consider the Godfather of Silver Eagles. On the physical side, silver is hitting on all cylinders.

The latest Commitment of Traders Report (COT) came in as close to my expectations as possible. No, the CFTCF hasn't been leaking the report to me. The COT did indicate the decline in the total net commercial short position to six month lows, as anticipated. For the reporting week, the total commercial net silver short position declined by 4,800 to less than 46,000 contracts. The raptors (the commercial traders apart from the big 8) accounted for most of the buying, but the big 4 (JPMorgan) did manage to reduce their short position by almost 1,900 contracts to the lowest level since the end of August. The commercials were able to buy the almost 5,000 net contracts for the week courtesy of the technical funds which sold those contracts.

There is little doubt now that the technical funds subjectively overrode their usual mechanical trading guidelines in this silver rally. Here's a truly remarkable statistic. Gleaned from the disaggregated COT managed money category, from the end of September (silver at less than \$22) to the latest COT, the tech funds have liquidated more than 26,000 net contracts of silver. As I indicated in Wednesday's article, the special set up I wrote about basically centered on a presumed lack of future selling by the tech funds on lower prices, simply because they had already sold. I feel more confident in my premise after this latest COT. The action since the cut-off on Tuesday suggests no increase in the commercial net short position, but potential further short covering by JPMorgan on the late rally. According to my COT analysis, the silver market is still locked and loaded to the upside and about to kick butt.

There was another CFTC public hearing yesterday, although I did miss some of it. From what I did watch, I'd like to offer some observations. First, there was no detailed discussion on position limits, even though the deadline is drawing very close. Chairman Gensler did indicate that the issue was to be discussed in December. I do have two other observations. I was very much impressed with the level of knowledge and effort by all the commissioners and staff on the very important matters with which they are wrestling. I know there are still some strong differences of opinion among the commissioners on many issues, but the level of professionalism displayed was impressive indeed. All are to be commended. Lastly, I was further impressed with Gensler's statement about his passion for market transparency to benefit the American people. But, of course, that wasn't a particular surprise for me.

In the feast or famine department, from no interviews in a while, there are now multiple available. In addition to yesterday's written sneak preview with Jim Cook, there are two audio interviews available. I did an interview with subscriber and all-around great guy, Dr. Dave Janda, on his radio show last Sunday. Dr. J's interview can be found on the now (hopefully) functioning audio section on the subscriber page. In addition, I'm enclosing the link to an audio interview I did with Chris Martenson on Tuesday, November 16.

<http://www.chrismartenson.com/blog/chris-interviews-ted-butler-end-silver-price-manipulation/48215>

November 20, 2010 - Weekly Review

Ted Butler

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Silver - \$27.35

Gold - \$1355