

Weekly Review

We can dismiss any thought of a developing pattern of Friday rallies, as yesterday's plunge in gold and silver and most other commodities is already being referred to as Black Friday. As a result of heavy futures trading, prices crashed during what is usually a quiet holiday period; with gold falling \$35 (2.9%) for the week and silver ending lower by a full dollar (6.1%). As a result of silver's steeper percentage decline, the silver/gold price ratio widened out to 75.5 to 1, the cheapest silver has been relative to gold in more than five years.

I'll get into it later, but the price plunge in silver does not negate in any way the bullish set up I wrote of on the eve of the plunge; as only a price rally of some magnitude could radically alter the current market structure in COMEX futures. I know it must sound like very small consolation, but the high-volume selloff actually enhances the unusual bullish setup. If there is one constant to be taken from every silver selloff for decades it is that the biggest commercials on the COMEX are always buyers and not sellers. After all, the big commercials wouldn't rig prices lower in order to sell. The data for yesterday will not be available until next Friday's COT report.

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Because the Thanksgiving holiday period is always such a slow business time in the US, there was little activity in physical metals dealings, wholesale and retail. That there was such frantic volume and price volatility in precious metals and copper underscores a consistent theme of mine that has become increasingly more obvious □ prices are set on the futures market and not in the actual world of supply and demand. Besides being strictly against the intent of commodity law, this illegal market perversion has now reached the point of threatening global financial stability.

Even though it has become almost expected that silver will perform the worst in any commodity sell-off (because it is the most manipulated market ever), the catalyst for this price plunge was, of course, crude oil which collapsed on OPEC's failure to cut production. There is no direct connection between silver (or other COMEX metals) and crude oil, other than to serve as a convenient cover story for a price rig, but it is the plunge in crude oil at the heart of potential world financial instability. Where it has become, regrettably, commonplace for silver to plunge in price without proportion to developments in actual supply and demand, it is not such a common occurrence in crude oil.

Because the price of silver is so low and because there is so little of it in the world, it is hard for me to imagine silver becoming a threat to world financial

stability. Heck, there's only around \$15 billion worth of world silver in industry standard form and that same dollar amount in total world annual production (mine plus recycling). To demonstrate what a piddling dollar amount (and investment give-away bargain) that silver represents, please consider this – a one dollar change in the price of crude oil in terms of world annual production ($\$1 \times 90$ million barrels daily production $\times 365$ days) equals almost \$33 billion or double the dollar value of annual world total silver production or world silver inventories.

Now, please consider that on Friday's close, crude oil closed at \$66 per barrel, down roughly \$40 or almost 40% from its price five months ago. Using the same simple formula given for a one dollar move above, the \$40 drop in oil has erased more than \$1.3 trillion off of the annualized world crude oil production proceeds and consumption costs. For oil consumers, this is a savings bonanza of historic proportions and is being widely proclaimed as such. But it is the reciprocal loss of equivalent revenue to the world's crude oil producers, both countries and companies alike, that threatens financial stability.

Whereas the cost savings gain to world oil consumers equals (to the dollar) the loss of income by energy producers, the problem is that there are much fewer producers of crude oil than there are consumers. As is the case with all

commodities, consumers outnumber producers by a factor of 1000 or 10,000 to 1, or more. It's a fairly straightforward calculation – simply divide the number of commodity producers into the world's 7 billion+ total population. So while the cost savings gain balances exactly with the revenue loss, because the producer ranks are so concentrated, the gains are diverse while the losses are super-concentrated. Therein lies the risk to world financial stability.

The dramatic decline in crude oil prices must fall disproportionately on the countries and companies that produce oil. Some countries, like Venezuela and Nigeria, were in perilous financial condition before the recent price collapse and now it will take a miracle for them not to descend into widespread civil disorder. Oil producing companies of all types and sizes have just experienced a shocking decline in expected revenues that is bound to impact their core operations. The high-cost and debt driven fracking producers in the US look particularly vulnerable.

While cheers are raised for the collective savings of the many, it is the distress of the relative few which points to potential instability. OPEC's failure to reach an accord (yet) is not a new event in the cartel's history, but it has occurred amid some different circumstances this time. For example, the price plunge places great financial stress on Russia amid already escalating tensions

unrelated to oil.

Back in June, no one was predicting a 40% plunge in the price of oil and no one can predict the full extent of how this plunge will fully play out. One thing that can be said about price volatility and unexpected events is a tendency for it to create more volatility and unexpected occurrences. Volatility tends to beget more volatility; often resulting in widespread instability.

I'm still of a mind that the downward oil price spiral had its origin in the derivatives market and that has now jumped the fire break and has destabilized the actual world oil scene. Certainly, the derivatives' tail appeared to be wagging the actual market dog in many commodities yesterday besides oil, including COMEX silver, gold and copper. As a result of yesterday's almost across the board price collapse, many are quick to proclaim that actual supply gluts have suddenly materialized in commodities mostly unrelated to each other, like oil, silver and copper. But such proclamations don't appear in conformance with actual supply demand realities, particularly in silver.

For one thing, where oil has plunged dramatically over the past 5 months,

silver's price plunge is much more advanced in terms of price and time. In silver, we're already at the equivalent of \$40 crude oil or less in more ways than not. The COMEX commercial crooks, led by JPMorgan, have already succeeded in rigging silver prices far lower than any reasonable previous expectation. Having already fallen by almost \$35 from the top 3.5 years ago, the room to fall further is limited, unless the COMEX crooks can introduce a silver price below zero.

Ironically, the futures market induced instability in crude oil prices and prospects should normally be expected to enhance the investment appeal for silver as one of the few assets (along with gold) offering a safe haven in a world seemingly becoming unhinged. That's not to say these COMEX commercial crooks won't continue to rig prices lower in the very short run, but no one knows if they will be successful. The one thing you can count on is that yesterday's price plunge didn't catch JPMorgan or the other big banks by surprise since they were its principle architects and they were the main buyers.

The physical turnover of metal coming into or being removed from the COMEX-approved silver warehouses cooled slightly this week as only a bit more than 3 million oz were moved, as total inventories slipped to another multi-month low of 177 million oz, down 600,000 oz for the week. But seeing as it was a holiday

shortened week with rotten weather conditions to boot, the week's movement came close to the average 4.5 million oz turnover. Total COMEX silver inventories have changed little this year and the standout feature remains the extraordinary turnover, despite this fact largely remaining unreported on.

Sales of Silver Eagles from the US Mint finished November strongly and the Mint is still struggling to keep up with demand, despite producing at maximum capacity. Reports from reliable sources continue to suggest that demand is not broadly based retail demand, leaving concentrated buying as the most plausible alternative. Sales of Gold Eagles have picked up, but with one month to go in the year, I am still amazed that the pace of Silver Eagle sales relative to sales of Gold Eagles has remained at 82 to 1, by far the strongest relative sales pace in the nearly three decade history of the program. Last year, relative sales of Silver Eagles hit the highest level ever at 50 Silver Eagles sold for every one oz of Gold Eagles sold; this year relative sales of Silver Eagles exploded by more than 60% over the previous year's record. I don't know how such figures can't be termed astounding or that a single big buyer wasn't behind the silver sales surge.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

It remains to be seen if yesterday's high volume selloff in shares of SLV, the big silver ETF, will result in any liquidation of metal holdings or if the sell-off was used by short sellers to buy back previously shorted shares. Along with the relative disparity of Silver Eagle sales compared to sales of Gold Eagles, the disparity between the metal holdings in the big gold ETF, GLD, and the holdings in SLV continue to amaze. The holdings in GLD slid to another new low not seen since late 2008, while the holdings in SLV remain close to the all-time highs and nearly 150 million oz above the levels of late 2008.

Some might suggest that relative sales of Silver Eagles and holdings in SLV are so much stronger than their gold counterparts because silver is so much cheaper than gold and that's hard to argue with; but I would add a slightly different twist. It seems to me that these relative measures of comparison has more to do with the deliberate effort of JPMorgan to manipulate silver prices lower on the COMEX for the express intent of acquiring as much physical silver as possible through any means available. The alternative explanation, I suppose, is that the physical silver fell magically into JPMorgan's lap.

Back to crude oil. Friday's price close is not the end of what will develop in crude oil, but only the beginning. I had thought that the big oil producers in OPEC and Russia might understand the need for a production cutback before a

freefall in price forced economic desperation on the oil producers, but I was clearly wrong. Since it has been some time since production cuts were needed to restore prices, I suppose the producers need to relearn the lessons of oil economics first hand. From the time crude oil was first discovered and produced in economic quantities, there has been some limit to production in force, from the days of Standard Oil, the Seven Sisters and the Texas Railroad Commission to OPEC,

Crude oil is just not a commodity that can function in an orderly price pattern and be in a true free market without some type of regulation and control on production. Most crude oil is produced and consumed almost immediately. That's because there is relatively little unused storage capacity, as storing oil in storage facilities or on ships is expensive and requires long lead times for expansion. If production is inadequate to meet demand, prices can soar; if production is unconstrained and slightly greater than demand, prices can collapse.

I still don't believe that Saudi Arabia engineered this price collapse, but now that derivatives trading triggered the price decline, the kingdom must play it out by not unilaterally cutting production; otherwise it will end up by significantly losing market share as it did 30 years ago. Playing it out means

getting other producers to agree to genuine production cuts or by bankrupting those producers outside practical voluntary production cuts (the North American frackers and oil sands producers). This process may take some time and great pain for the lesson of curtailed production to take hold and this is the process that undermines world financial stability.

In the end, however, crude oil production will come into line or at least the perspective of supply balance will return (since I don't think the world was vastly oversupplied with actual oil to start with). But what can be safely assumed is that the attention of every oil producing country and company in the world is now focused on the price of oil and what that price means to every one of them. In contrast, this is a lesson never learned by the countries and companies that produce silver, much to the detriment of the shareholders of those companies.

The difference between oil and silver producers is how they look at the price of their respective commodities. To oil producers, price is everything and they will do what is necessary to deal with it. To silver producers, it appears to me they are oblivious to price, even though it is the most important component to their bottom line. As I've written previously, if silver prices remain at current levels (forget moving lower) most primary silver miners will go out of business at

some point without any of them raising a peep about the price of their product being manipulated. That's a shame and a waste.

Also as I've written previously, the most important and responsible act the primary silver miners can take is to petition the regulators about the ongoing silver manipulation. This is the necessary first step from which much can be further accomplished. As an example of what could be enacted following a legitimate complaint to the regulators, how about this □ the potential legal recovery of billions of dollars from the deep-pocketed silver manipulators, including the crooks at JPMorgan, for years of artificially manipulated silver prices. This is a potential windfall for mining company shareholders that isn't even being contemplated by management currently.

I can't help but comment on something that is becoming increasingly apparent to me. Not a day goes by where I don't read of some new commentary or analysis or of a legal case involving allegations of manipulation in silver or gold or other markets by the big banks. It has become almost a daily occurrence as has the increasing recognition that the futures market is playing a price role never intended.

Sometimes the reasoning and specifics of the allegations are not what I would agree with, but that's besides my point which is that all these derivatives markets have become crooked. I first saw it in COMEX silver nearly 30 years ago and I am both amazed by how long it has taken to be recognized, but more by how pervasive the recognition has become. Who doesn't know by now that the CME Group and JPMorgan are the crook of crooks when it comes to commodities? Who doesn't know that the CFTC has looked the other way? It may not feel it after the last couple of days, but this affront to the rule of law becoming so widely appreciated means the silver price fixing scam is long of tooth and unsustainable.

Since there was no COT report yesterday, I'll probably have some comments after the report is published late Monday. I wasn't expecting much change in Monday's report, aside from perhaps some increase in technical fund buying and commercial selling since silver and gold prices advanced somewhat during the reporting week ended last Tuesday. But Monday's report is now largely irrelevant given the dramatic price volatility and high volume yesterday.

I would like to comment on the very large decline in total open interest as of the close of business on Tuesday, when gold open interest fell by roughly 50,000 contracts and silver by 10,000 contracts. These were very large declines for

what was a fairly quiet trading volume day away from heavy rollover trading volume as the big first notice of delivery for the December contracts arrived on Friday. Since there was a disproportionately large number of open spread positions in both COMEX gold futures (over 100,000 contracts) and COMEX silver (over 40,000), Monday's COT report should reflect the closeout of many of these spread positions. The bottom line is that this is not something important to the price of gold and silver, as spread positions are non-price directional in general.

Sunday's Swiss gold vote could have an impact on prices for Monday and just like the OPEC meeting, even though it shouldn't matter to silver, because silver is both the most manipulated market in the world and the most important to JPMorgan, nothing this crooked bank does would surprise me. I don't know if that means silver moves lower in the short term or not, but I do know that it is even better set up after the past two days than it was when I wrote of the setup on Wednesday. In a manipulated market, it is impossible to predict prices unless you are the manipulator, so it's not constructive to even try. But the manipulation still looks so close to being completed that the upside is all that should be contemplated.

Ted Butler

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Silver - \$15.45

Gold - \$1167