Weekly Review<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

Against the continuing backdrop of the drama of the bankruptcy a major commodities brokerage, gold rose about $11 for the week (0.6%), while silver fell $1.15 (3.3%). Please remember that the prior week recorded an out-sized silver gain of $4 or 12.7%. As a result of silver's underperformance, the gold/silver ratio widened out to almost 51.5 to 1. I won't spend time on it today, but any relative weakness of silver compared to gold represents a great opportunity to switch gold positions into silver. Neither will I spend extra time on the usual weekly review format so that I can get to important new developments since Wednesday's article.

COMEX silver warehouse turnover has returned to frantic after cooling slightly the week before. Total silver inventories on the COMEX have climbed to near a one-year high of almost 108.4 million ounces. I continue to believe that it is the turnover in silver inventories, more than the absolute level, that matters most. As COMXE inventory movement heated up this week, SLV movements remained fairly stable. Also, the big Swiss silver ETF, ZKB, apparently misreported a previous big decline of 6 million ounces and holdings there have remained stable as well.

US Mint sales of Silver Eagles do look to have cooled off this week, although Silver Eagle sales are still beating the pants off God Eagle sales by the widest margin in Mint history. Reports from the retail front indicate that demand has cooled in general recently. I will monitor this going forward, but I have always contended that retail demand for silver is important on a cumulative long-term basis and not as a short-term price influence. There have been times when silver retail demand has been through the roof, only to see silver wholesale prices drop sharply. On a near term basis, particularly now, other factors exert more pricing influence.

There were no unusual surprises in this week's Commitment of Traders Report (COT) or in the companion Bank Participation Report. In fact, both reports seemed to confirm my speculation in Wednesday's article on MF Global that significant long liquidation may have occurred in silver as a result of that company's bankruptcy filing. I was of the opinion in last Saturday's review that thru Friday a week ago, there was further deterioration, or an increase in the total net commercial short position, on the strong run up in price last week thru Friday. Then came the sudden MF Global bankruptcy and significant forced long liquidation occurred on Monday and Tuesday of this week, right into the Tuesday cut-off of both reports. Had there been no big sell-off on Monday and Tuesday, especially in silver, the numbers would have been much worse. It looks like JPMorgan was able to cover a good number of short silver contracts on Monday and Tuesday.

In gold, the commercial net short position increased by 14,300 contracts, to 182,400 contracts. Undoubtedly, the increase would have been much greater had there been no sell-off on Monday and Tuesday. The gold raptors (the smaller commercials apart from the 8 largest traders) accounted for most of the selling (almost 12,000 contracts), which reduced their net long position to 5600 contracts. The big 4 and big 8 sold short about a thousand contracts each.

We have rallied more than $150 in the price of gold over the past few weeks, ever since the gold COT structure turned spectacularly bullish. I would contend that changes in the market structure in paper contract holdings on the COMEX were almost solely responsible for the price rise, as speculators bought and commercials sold. Same as always. While there has been additional commercial selling since the new Tuesday cut-off, as gold closed above all the moving averages, including the important 50 day moving average, the COT structure in gold has not turned decisively bearish. In fact, on an historical basis, the COT market structure in gold is still bullish, although obviously not as spectacularly bullish as formerly. From a COT-perspective only, gold still has room to run on the upside, although it is also now ripe for sell-offs, having just risen strongly. Sorry to talk out of both sides of my mouth but price volatility still appears to rule the day.

In silver, there was a small reduction in the total commercial net short position of some 700 contracts, with no standout feature in raptor or big 4 or big 8 holdings. Had there been no big sell-off this past Monday and Tuesday, the commercial net short position would have surely increased. The standout feature was that JPMorgan was able to buy back all the shorts (and then some) they put on Wednesday to Friday of the prior week when silver prices rose strongly after the cut-off of the previous COT. Bottom line is that JPMorgan is now holding 16,000 contracts net short on the COMEX. That's down from the 17,000 to 18,000 contracts they held and that reduction is due to JPM opportunistically picking up contracts from MF Global clients forced to liquidate. The silver COT is still spectacularly bullish and the open question remains if JPMorgan will manipulatively sell additional contracts short on silver price rallies.

There have been recent reports that the CME Group has effectively increased margins across the board by raising the maintenance margin rate to equal full initial margin rates. Previously, some leeway was given in that maintenance margins were lower than full initial margin rates. Many have concluded that this will automatically translate into a selling bloodbath on Monday, especially in silver. I would never doubt the manipulators' ability to cause sudden sell-offs in the price of silver, as that would contradict everything I had ever written. But an across the board effective increase in margin requirements would apply to all parties, both the longs and the shorts, and would not appear to mechanically result in a sell-off or rally. There already has been massive liquidation in silver, as evidenced by the COT structure. Can there be more? Sure. After all, this goes to the heart of my allegations of manipulation in silver. Is significant additional liquidation guaranteed as a result of the CME margin increase? No.

I would make this point. If the increase in margin does result in a bloodbath of selling, then that selling can be directly traced to the actions of the CME Group. That would substantially confirm my take that the CME is basically a criminal enterprise and should have no role in any regulatory function, like setting margins or position limits. Finally, there was just issued a further communiqué from the CME apparently reversing the margin change. All this proves is that the CME is not qualified in regulatory matters. They are very much qualified in concocting manipulative trading schemes designed to increase their bottom line, but not in matters of customer protection and market integrity; as is any criminal enterprise.

The fall-out from the MF Global implosion continues. Tens of thousands of account holders still have no access to positions or funds. This is a debacle almost without precedent. In the past, account transfers were always accomplished before a bankruptcy filing was made. Not this time. As a result, it is unknown how much additional position liquidation is possible. I am on the record as to thinking that the peak in silver liquidation came on Monday and Tuesday, based upon market action and the current structure in the COT. I suppose we'll know soon enough. There is always more uncertainty in the short term than for the long term in silver. The obvious solution to that truism is to approach silver from a long term perspective with no leverage that a sudden sell-off would result in a loss of position. But away from that, some not so obvious lessons may have been given to the regulators at the CFTC about MF Global.

In a very real sense, the main lesson to the regulators is not to delay when a problem becomes visible. In the case of MF Global, the regulators simply ran out of time. Had there been more time or had the regulators acted sooner, most of the problems we are experiencing could have been avoided. Now it may be too late. Ironically, the CFTC was working on a rulemaking proposal that would have dealt with the risky financing at the heart of the problem at MF Global, but industry stalling tactics prevented the proposal from becoming reality. Now those causing the proposal from coming into effect are criticizing the Commission for not acting sooner. Particular criticism is being placed on Chairman Gensler, even though he was the main proponent for restricting the type of financing that proved to undermine MF Global. Calls are being made for him to recuse himself in the matter of MF Global because of a past relationship with Jon Corzine, former head of MFG. The calls for Gensler's recusal strike me as very political.

I'm still a fan of Gensler, even though I criticize him for stalling on silver. But I

think he needs some help. Just this week, in testimony before the US Senate's Permanent Sub-committee on Investigations regarding position limits, Gensler came across as tentative at times when he didn't need to be. By the way, I would highly recommend watching the hearing, if you have the time (3.5 hours). The first half consisted of an expert panel that concluded that High Frequency Trading (HFT) was every bit the market evil that I contend it is and that the biggest speculators in the markets were the big banks. Where Gensler came under pressure was in the opening statement of and under direct questioning from Senator Coburn, Republican from Oklahoma.
http://www.senate.gov/fplayers/jw57/urlMP4Player.cfm?fn=govtaff110311&st=1260&dur=12195

Senator Coburn asked repeatedly for the definition of excessive speculation and made a very big deal about how position limits would unnecessarily restrict legitimate hedgers and cause many speculative traders to flee our markets to foreign bourses. This is the standard claptrap from those opposed to position limits. The senator really hammered Gensler on this point and the chairman offered no satisfactory response. Excessive speculation is speculation that unduly influences prices, like JPMorgan's excessive speculation in silver. I also found myself repeatedly screaming at my computer screen, 99.9%, 99.9%, 99.9%. How Gensler should have responded is that the position limits recently passed by Commission vote would have no impact on 99.9% of all speculative market participants and no impact on any bona fide hedger. Let me use silver as an example. Say there are 5000 market participants in COMEX silver. I think the total number is much greater, but the lower the number, the more conservative. 99.9% of the silver traders, or 4995 out of 5000, would not be impacted by the position limits just voted on. And bona fide hedgers are always exempt anyway. This is true across all markets. To see Gensler fumble with this was disheartening. There is much important work to do and time should not be wasted on silly matters, like debating whether position limits will drive traders off shore. The 0.1% of traders that position limits might drive from our markets are precisely the manipulators who should be forced out.

But there are signs that perhaps the Commission may have learned the lesson of running out of time on important issues and then being blamed. Yesterday, the Commission issued a very unusual statement that the three year old silver investigation is ongoing. I say unusual because up until now, there was never any official statement from the Commission on this investigation, save for statements from Commissioner Chilton.
http://www.cftc.gov/PressRoom/PressReleases/silvermarketstatement

Also unusual was that Commissioner Chilton granted an in-depth interview on the silver investigation yesterday as well. I say unusual because Chilton had previously indicated that he would say something on the matter if the Commission didn't. Instead, we got both a formal Commission statement and Chilton speaking out.

http://www.kingworldnews.com/kingworldnews/Broadcast/Entries/2011/11/5_Bart_Chilton.html

What does this all mean? First, three years is a long time for an investigation and many have forgotten (or never knew originally) why and how the silver investigation began. So let me address that. Contrary to reports that the origins of this investigation had anything to do with the CFTC open hearings in March 2010 or any evidence uncovered at that time, the timeline is clear. This investigation started in September 2008, even before Gensler came on board in May 2009. Therefore, any suggestion that the investigation was due to the 2010 meeting is preposterous and a misrepresentation on the surface.

The silver investigation that began in 2008, just like the previous silver investigations of 2004 and 2008, were started because of me and you. This is not that complicated. I wrote public articles alleging wrongdoing based upon the Commission's own data and asked you to contact them. That you wrote to the regulators, in great numbers, brought enough pressure to force them to investigate. Specifically, there is one article from September 2, 2008, in which I asked you to write to them, where I first speculated that JPMorgan was the big silver short by virtue of their takeover of Bear Stearns. As you may remember, a couple of months later the Commission confirmed this.
http://news.silverseek.com/TedButler/1220376924.php

If I hadn't written that article and others, there would have been no ongoing investigation. If you hadn't written to the Commission and to your elected officials in great numbers, there would have been no investigation. If Bart Chilton didn't press the Commission at that time to initiate a new investigation, there would have been no investigation. All those things did happen, of course, and that's why there is an ongoing investigation and there were statements issued yesterday.

Importantly, the central issue was and is concentration. I repeatedly asked the question □ how can one bank holding a short position equal to 25% or 30% of world production not be manipulative? No one has ever been able to answer that question in free market terms. I believe that's why the Commission began its investigation, namely, that they couldn't answer that question either. And please remember □ the Commission had just concluded its second major silver investigation in May 2008, only to start a third just a few months later. That's pretty extraordinary.

The origin of the investigation aside, what can be read into yesterday's statement and Chilton's interview? For one thing, it highlights the legitimacy of the allegations of a silver manipulation by virtue of a concentrated short position. I confess to being almost myopic on this issue, namely, concentration and manipulation going hand in hand. I didn't run around alleging a different conspiracy theory under every rock, just that the government's own data proved concentration and therefore manipulation in silver. Please remember that when Gary Gensler came into office, in May 2009, all he talked about thereafter was concentration and position limits as well.

However, one thing does bother me about the Commission's statement yesterday. It mentions this thorough investigation that is ongoing and how they have devoted much time and consideration to it. But what kind of investigation could be thorough if it never takes testimony from the person who actually instigated the investigation in the first place me? Look, I'm not posturing myself for anything; I'm just asking an obvious question.

On a positive note, here's what I'm most hopeful about. I'm hopeful that the CFTC has finally seen the light in the MF Global debacle and it recognizes that the CME and JPMorgan et al cannot be counted on to do the right thing, when it comes to regulation or customer protection. And if things do go wrong, how the CFTC will be the first to be blamed. Let's face it, it is the CME most to blame in the failure of MF Global. Instead of taking responsibility and quickly moving to protect customers and market integrity, the first thing out of their mouth was that customers could lose money and it wasn't the CME's responsibility to protect them. On the other hand, the CFTC was concerned with customer protection from the get go. The Commission may have come up short and ran out of time, but at least that was their prime concern. If anyone should be thrown under the bus, it should be the CME.

Having witnessed how incompetent and uncaring the CME has been, I am hopeful that the Commission has taken matters into its own hands regarding the silver manipulation. I am hopeful that the Commission realizes that just like they ran out of time with MF Global, they might also run out of time in ending the silver manipulation. If the silver market blows up before the Commission has taken action against the manipulators, the big money spin machine will turn this into a CFTC-caused problem, just like is occurring in MF Global. In that case, the real silver crooks, JPMorgan and the other collusive commercials on the COMEX (including the raptors), will dump it on the CFTC with the defense, no one told us we were doing anything wrong.

I just hope the Commission moves against these crooks soon. Will they? I can't know, but I keep thinking about yesterday's official statement and interview by Chilton. For silver investors, it is important to keep all this in the proper perspective. Silver is and has been manipulated to be much lower in price than it would be had no manipulation existed. That's the classic proof of manipulation, i.e., what would the price be if the concentrated position didn't exist? When, not if, the silver manipulation is terminated (by the Commission or free market forces), the price will adjust to a higher price level quickly. That's why it's important to maintain positions as timing is anyone's guess. Here's to hoping that the MF Global disaster served as a wake-up call to the Commission on the silver manipulation and that was the reason for the statement and interview.

Ted Butler

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Silver – $34.25

Gold – $1755