

November 7, 2012 – Many Positives, One Negative

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I wish it were as easy to predict the short term direction that prices would move as it was to predict that price volatility would increase. Alas, it is not. This is particularly true when silver and gold prices are completely dominated by paper trading forces on the COMEX, as is the case currently. It is human nature to assign fundamental supply/demand considerations as being behind sharp moves up and down. But real supply and demand factors just don't change quickly enough to explain the rapid changes in price direction on a day to day basis. Therefore, it is important to put short term price volatility into perspective. For me, that means trying to filter it out and concentrating instead on the medium and longer term. Don't get me wrong – I do try to comprehend why sharp short term price moves occur; I've just about stopped trying to predict the very short term.

I'm still concerned about the current Commitment of Traders (COT) structure and the possibility that technical funds may still be flushed from long paper positions on the COMEX. That's the only negative price factor, as I see it. I'll come back to that later, but let me mention some new factors for silver that appear bullish to me. I can't necessarily call the resolution of the presidential election bullish or bearish, but I'm sure glad it's over. I'm also glad I don't have to start over with a new CFTC and attempt to spoon feed them the obvious particulars of why silver is manipulated. Chairman Gensler and Commissioner Chilton may continue to disappoint in ending the silver manipulation, but at least I know they are aware of it. I'm more encouraged that we will have a new Treasury Secretary soon and that may result in the end to any deal made with JPMorgan when they took over Bear Stearns' concentrated short position in 2008. Nothing may change, but if a change is in the cards, it could come soon.

The disappointing earnings reports this week from two leading US silver miners, Coeur d'Alene and Hecla Mining were constructive towards silver itself. It suggests to me, at least for these companies, that the true cost of silver production is \$30 an oz or more. While there is no guarantee that prices can't fall below the cost of production, whenever precious metals prices are near true production costs those prices are generally not over-inflated in historical terms. I do admit to being surprised that these silver miners are not reporting large profits at current silver prices after surviving the years (decades) of ultra-low silver prices. In general, miners only expand production when experiencing high profit margins. That does not appear to be the case currently and suggests no rush to expand silver production.

I received two letters this week from a reader that were sent to him by his congressman more than ten years ago. The reader had written to his congressman about the exhaustion of the Defense Logistics Stockpile of silver that served as the source of metal for the US Mint's Silver Eagle bullion program up until that time. I had been writing at that time that the exhaustion of the silver stockpile would be a profoundly bullish factor in silver. Silver was slightly under \$5 at the time (June 2002). These weren't typical form letters to a constituent, but a detailed and personal response on a level I hadn't seen before (The congressman was Bob Stump, a Republican from Arizona).

I consider the letters to be historically significant and appreciate the reader thinking of sending them to me. In the old days (before email and the Internet), I amassed quite a collection of correspondence with fancy letterheads from senators and representatives, governors and high regulatory officials in my writing to them about the silver manipulation from the mid-1980's on. My favorite was the letterhead from the Joint Chief of Staff (about the depletion of silver from the Defense Logistics Agency). I especially appreciate the touching sentiment expressed by the reader in a hand-written note on the back of one of the letters. He wrote – "Thought you might like these for your files. I am 87, my wife is 88 and we are getting ready to meet the Saints." Quite poignant and a lesson to us all about the inevitability of getting older.

The reason I bring this to your attention is that the letters got me to thinking. Congressman Stump wrote that the Silver Eagle bullion program had just hit the 100 million oz mark after 15 years of the program that started in 1986. That was an average of 6.7 million oz a year. Over the next ten years, through this year, sales of Silver Eagles totaled more than 200 million oz in additional sales, or more than 20 million oz annually. Over the last five years, sales of Silver Eagles have averaged over 30 million oz annually. This is absolutely stupendous growth.

Just to keep it in proper perspective, the high point in sales of Gold Eagles came in 1999, when Y2K fears pushed sales of Gold Eagles to over 2 million oz. In 1999, the amount of money spent on Gold Eagles was more than 13 times the amount of money spent on Silver Eagles. This year, more Silver Eagles will be sold relative to Gold Eagles than in any other year in history, with the same amount of dollars being spent on each. Compared to 1999, sales of Gold Eagles this year will be down more than 60% in terms of ounces, while more than 350% more Silver Eagles will be sold this year versus 1999. I make these comparisons not to reflect negatively on gold, but to demonstrate that investors have collectively rushed to silver. I don't see why this silver rush should end, given all the facts. Please take some time to review current and historical sales of Gold and Silver Eagle sales

http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2012

Try as I may, I just have trouble uncovering anything super-negative about the long term prospects for the price of silver. I know of no obvious supply or demand factors that suggest sharply lower silver prices in the long term. I know of no obvious big supply of silver about to hit the market, or of any serious threats to undermine industrial or investment demand. If anything, the real prospects for silver have rarely looked better than they do now. Yet despite this favorable outlook based upon the real market facts, there is a genuine risk of lower silver prices in the short term. As always, the sole negative is JPMorgan and their manipulative grip on the price of silver. If JPMorgan were removed from silver, the price would be over \$100 as I write this. Because of this, I can't help but regard JPMorgan as crooked when it comes to silver. To this day, I am amazed how such statements can continue to be met with silence from JPM.

Yesterday, I received a message from a long-term subscriber asking me about my allegations against JPMorgan. George K asked me if I could explain in simple terms why JPMorgan would be doing this, as my detailed technical explanations were a bit over his head. I admit that I can get too technical at times in analyzing the COT report and I am sure very few readers understand completely everything I write. Further, I've never seen any other public commentator independently point to JPMorgan's concentrated short position as the single most important factor in the price of silver. Most times, I doubt the CFTC can interpret its own data correctly, to say nothing of other analysts. I can't abandon my detailed approach on the public data because I am convinced that is what has prevented me from being sued by JPMorgan; but that also doesn't mean I can't speak in simple terms.

Let me speak in those simple terms. JPMorgan is stuck in silver, in my opinion. They bought a pig in a poke when they bought Bear Stearns in 2008 and took over the manipulation of the silver price. Armed with US Government financial assistance that probably included a promise of immunity against being charged with manipulating the price of silver, JPMorgan plunged headlong and willingly into that manipulation. Armed with virtually unlimited capital and regulatory carte blanche from the government, JPMorgan set out to dominate the paper silver market, just as Drexel Burnham, AIG and Bear Stearns did before that. Because the counter party technical funds could be bamboozled into and out of the market by the rigging of prices, JPMorgan came to own the silver market. But they became too clever for their own good. JPMorgan became such a dominant force in silver that the tables became reversed and it is unclear if whether silver now owns JPM. That may sound extreme, but let's look at the facts.

There is an unusual concentration on the short side of COMEX silver. So unusual is this concentration that the CFTC, when faced with hundreds of complaints about the concentration began a formal investigation more than four years ago, unresolved to this day. In response to requests from lawmakers back then, the CFTC (inadvertently) identified JPMorgan as the biggest silver short. Since then, it has been easy for me to calculate JPMorgan's continuing concentrated position. Even though it is perhaps the most aggressive and litigious of all financial firms, JPM has remained silent to continuous allegations that it is behaving illegally in silver. That silence has only help spread the growing awareness of JPMorgan as being the big silver crook.

No one reading this has ever witnessed a giant financial organization ignoring allegations that they are breaking the law. That includes me and I admit that it seems other worldly to me that I am the one making the allegations, as that was never the plan. But that doesn't change the fact that whatever JPMorgan does will determine the price of silver. JPMorgan recently added 100 million oz in paper shorts because no other combination of traders was willing to do so. If JPM hadn't sold short such large quantities of paper contracts, silver prices would have exploded, threatening to expose that silver had been previously manipulated in price. Having added such a manipulative short position, JPMorgan must now somehow rig prices lower to force the technical longs to sell so that JPM can buy back its manipulative shorts. When you get to the extreme position that JPMorgan holds in silver, you are damned if you do and damned if you don't. I hope this is simple enough.

Since I'm convinced that JPMorgan is the big silver crook, I am also convinced that more pressure must be brought to bear against them. Sooner or later, this is a circumstance that must be resolved; it is not a situation that can continue indefinitely. I am sorry, but I don't and can't know if JPMorgan will succeed in smashing silver prices lower one last time or if the silver manipulation will blow up in their face to the upside. I do know that either circumstance can be traced to what JPM does or doesn't do. Long term, these crooks will be flushed from the silver market, but the short term is unknowable. Silver is going a lot higher in the long term as the JPMorgan manipulation comes to an end; but these crooks are not powerless in the short run. I know this gets repetitive, but then again, how can the truth ever get repetitive?

Ted Butler

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Silver – \$31.85

Gold – \$1720

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