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

Still reverberating from the prior week's epic price decline, both gold and silver posted further losses for the week. Gold fell by $33 (2%) and silver fell by $1 (3.2%) by week's end. As a result of silver's underperformance, the gold/silver price ration widened out slightly to just over 54 to 1, settling down a bit following last week's extreme blow-out in the ratio. By all measures I follow, this is a particularly opportune time to switch from gold to silver for long term investors. This is intended, as always, on a fully paid for metal to metal switch, as anyone attempting to trade the ratio on a leveraged or margin basis is engaging in a speculative venture not advised by me.

There are two distinct, but related, messages I will attempt to convey today. The first is that silver has become much more of a compelling value because of the sharp price decline and improvements in the market structure. The second message is that the price decline and improvements in market structure were clearly manipulative and illegal. These are not new messages from me, but recent events have brought such clarity that I amazed by those who still don't see it. Let me first review the week in my customary fashion.

The physical world of silver still remains tight. COMEX warehouse movements still continue at what are historically frantic amounts. Although these movements attract scant attention elsewhere, I still believe they are an important indicator of physical tightness on the wholesale level. After the surprising surge of 7 million oz in deposits into the big silver ETF, SLV, earlier in the week, withdrawals the last couple of days have trimmed the net deposits to close to 4 million ounces for the week. Still, I find it extraordinary that on such a large price decline as witnessed over the past ten trading days, that there was not a very large net decline in metal holdings in the Trust. As was seen in this week's COT report, there was unquestioned liquidation by regular SLV investors in response to the epic price decline. The only plausible explanation, perhaps the only possible explanation, was that the big short sellers in shares of SLV used the deliberate price smash to buy back a big chunk of their shorted shares. We'll have to wait a week and a half until the new short figures are released that encompasses the price decline, but I'd be willing to bet that we'll show a big decline, on the order of 10 million shares or more. There should be little doubt that the big short sellers in SLV are one and the same as the big silver shorts on the COMEX. Talk about collusion.

The silver price smash had the expected impact on sales of Silver Eagles from the US Mint that I speculated on in the last two articles, only more than I guessed. Up until the silver price crash, Silver Eagle sales for the month of September were on a pace that promised that the month would record the lowest amount sold of any month this year. Instead, the stunning drop in price resulted in, effectively, the highest monthly total for Silver Eagles in the history of the 25 year-old program. At almost 4.5 million Silver Eagles sold for the month, this exceeds on an adjusted basis, the 6.4 million sold in January, since much of January's total was stolen from the December 2010 sales. By adding December and January totals together and then dividing by 2, it can be seen that September sales were larger in real terms.

More telling may be this observation that Silver Eagle sales in September were greater than total annual sales for the full year in 1996, 1997 and 1998, and comparable to full year totals of a few other years. This would seem to reaffirm my point that the epic and intentional price decline of near 30% in silver that was orchestrated on the COMEX would and did have a profound and unintended impact elsewhere. Further, while Silver Eagle sales for September were at the highest effective monthly rate in history, sales of the companion Gold Eagles from the Mint were unremarkable for the month, as 5 other months this year alone recorded higher gold sales. Going back through history, an almost uncountable number of months were greater than September's sales of Gold Eagles. This demonstrable demand for silver versus gold on a pure apples to apples comparison is supportive of my switch from gold to silver thesis. http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2011

While expected, the changes indicated in this week's Commitment of Traders

Report (COT) were no less stunning for both silver and gold. During a reporting week that featured as much as a $13 price decline (33%) at its extreme, the total commercial net short position in COMEX silver was reduced by a shocking 16,400 contracts or more than 40% from the prior week. This puts the total commercial net short position at levels not seen since the fall of 2008, when silver traded below $9. Therefore, in COT terms, silver is priced as if it were at $9 level back in 2008. Just as a reminder of what I felt about silver back then, here's an article which suggested that I felt it was a sure thing.
http://www.investmentrarities.com/ted_butler_comentary/11-18-08.html

Two of the three categories of commercials I track on the COMEX were responsible for the 16,400 contract (82 million oz) reduction. The big 4 (JPMorgan) bought back 6400 contracts and the raptors bought 10,500 in new longs, raising their net long position to 16,200 contracts, the largest net long position they've held since March 2010. The big 5 thru 8 sold 500 more short.

Importantly, the big 4 (JPMorgan) now holds their smallest net silver short position (less than 32,000 contracts) as far as my records go back (to 2005. Thanks, Turner). I would estimate that JPMorgan, alone, now holds 16,000 contracts or so net short, their smallest net short position ever, or at least since acquiring Bear Stearns' concentrated short position in March 2008. Next week's Bank Participation Report should help further clarify the amount. The two-week reduction in the commercial total net short position totaled 21,000 contracts, confirming and exceeding the 100 million oz reduction I predicted on Wednesday. In a moment, I'll describe (again) how this came about and what this may mean for the future price of silver.

In gold, the total net short position was reduced by almost 31,000 contracts during a reporting week that recorded as much as a $275 decline at the extreme price lows. The raptors (the smaller commercials apart from the big 8) accounted for roughly 20,000 of the total, with the big 4 and 5 thru 8 divvying up the balance. Over the past three weeks, the total commercial net short gold position has declined by 61,000 contracts, with the raptors responsible for an incredible 58,000 of the total.

From the recent high point in the total commercial net short position in COMEX gold futures of over 287,600 contracts on August 2, that position has been reduced by 121,000 contracts (12.1 million oz) to the current reading of 166,700 contracts. This is the lowest total commercial net short position in more than two years, back to when gold was priced at less than $1000 an ounce. Since August 2, the commercials first covered to the upside (unexpected) and then to the downside in price (expected). Over that time, the price of gold first rose by $300 and then fell by that same amount. During this almost two month period of time, there was little notable net change in the reported holdings in gold ETFs or other documentable holdings. The most significant and verifiable net change in world gold holdings occurred on the COMEX, to the tune of the

12.1 million ounces just described. In a nutshell, the net change in the COMEX commercial net short position was what drove the price; nothing else visible in the world of gold drove the price. As a reminder, just like in silver, the COMEX futures market is clearly setting the price. This is in stark contrast to commodity law, which holds that futures trading should discover, not set the price. It further suggests that the CME Group, owner of the COMEX, is every bit the criminal enterprise I allege it to be.

The current COT set up is spectacularly bullish for both silver and gold. That doesn't mean the COT set-ups can't get even more bullish on lower prices (and may have already considering changes since the cut-off); but it is rare that both gold and silver would be as favorably positioned for eventual higher prices than they are currently. That's the good news. The bad news is how we came to be so favorably positioned in each.

As I have been commenting on continuously, these extremely favorable COT readings didn't come to be by accident or happenstance. It had nothing to do with legitimate changes in world supply or demand for silver or gold. There was a clear and intentional driver that created this set up. That driver was the collusive action of the commercials to rig prices sharply and suddenly lower in order to force gold and silver investors and leveraged speculators to dump their positions so that the collusive commercials could buy. The key here is in the sequence of events. Silver investors and speculators didn't sell and that was what caused prices to drop. Prices dropped first (due to crooked commercial price-rigging) and then the investors sold. This is the perfect crime I wrote about. How anyone who studies the data could fail to see this is beyond my understanding.

It is impossible for a world commodity to suddenly drop 30% in value with no obvious corresponding radical change in actual world supply and demand. So impossible, that it has never occurred in market history. Yet the apparently impossible has occurred in silver this year; not once, but twice (last week and the first week of May). How can this be; how can what I claim is impossible have occurred twice this year in silver? The qualifier, of course, is that a 30% drop with no supply/demand justification is impossible in a free market. In a manipulated market, anything is possible. And in a market, like silver, which featured an unprecedented concentrated short position by JPMorgan, I suppose two 30% price declines would be considered normal.

Let me kick it up a notch here. Just in way of background, I make a consistent case that JPMorgan has and is manipulating the silver market by virtue of its extremely concentrated short position and clearly collusive activities with other commercials. The only reason that others point to JPMorgan is because I first identified them and cleared the way. I'm not in the habit of speaking behind anyone's back, so I have been careful to send every article in which I have identified JPMorgan as the prime silver manipulator to the CEO of the bank, Mr.

Jamie Dimon (to two email addresses given to me by the bank itself). Since I mention JPMorgan in just about every article I've written over the past several years that means I have sent Mr. Dimon hundreds of my articles. I have never heard from him or anyone at the bank, but neither have I ever had an email returned as undelivered. I can't say he has read them, but I have sent them. Same with the CFTC and the CME. I admit to being somewhat surprised that I could make such serious charges of wrongdoing about and to such large organizations with no rebuttal or challenge. (At first, I thought they would bite my head off).

Recently, Mr. Dimon has been in the news for reportedly complaining that certain prospective international bank regulations were "anti-American" in regards to how they might impact JPMorgan. The expression, the pot calling the kettle black, came to my mind. This seems to me to be the ultimate in hypocrisy. Where Mr. Dimon considers proposed banking capital requirements to be anti-American, I would suggest he reconsider his definition of the term. One of the most American of ideals is the concept of a level playing field. Our society is driven by fairness; from sporting competitions to academic activities to overall business competition and how government operates. Above all, we expect to compete on a level playing field. No one condones cheating or uncompetitive and underhanded behavior. Yet that is precisely what JPMorgan has been involved in with their crooked activities in the silver market. It's curious how Dimon can label activities (which appear reasonable to me) as anti-

American when it may crimp profits at JPMorgan, yet he can remain oblivious to the actual crime in progress that the silver manipulation represents. Increasingly, it seems to me that organizations like JPMorgan exist to unfairly take advantage of others.

A friend recently reminded me about something on which I know I have commented previously (thanks, Carl). One of the excuses given for the illegal commercial activities in the silver market is that everything the commercials do is excused because they are "hedging." What the data in the COT report prove is that the commercial activities of JPMorgan and the other crooked commercials on the COMEX is as far removed from being legitimate hedges as is possible. True hedgers don't rig prices so they can put on and take off futures positions rapidly. The recent activities in both gold and silver prove that the commercials are speculating pure and simple. And it is wrong to even call these commercial crooks speculators, as they are not even speculating. Because they are rigging prices, the correct term to describe them is what they are – manipulators.

The standout and fully expected result in the COTs is that leveraged long speculators were forcibly driven from the market because the commercials, led by JPMorgan, artificially set prices sharply lower for just that purpose. What specifically stood out to me the most was the amount of long liquidation in the non-reporting traders' category, aka, the little guys. Faced with sudden losses of

$50,000 to $60,000 per contract, it's no wonder that these small traders sold out or were sold out by their brokers as a result of the artificially depressed prices. This was the biggest single weekly liquidation in this category in history, as the small traders' net long position was cut by 50%. JPMorgan should be proud of itself for bringing so much pain and financial damage to the little guys. I suppose Mr. Dimon would consider his bank's activities as being patriotic and in the public's best interest and in keeping with an organization that hides behind FDIC insured deposit protection. He may, but I don't. Although I have always preached against holding leveraged positions in silver, my heart goes out to those who were victimized by JPMorgan, et al.

In the getting it all out department, I am most disappointed in how the federal commodity regulator, the CFTC, has conducted itself. More specifically, I am out of patience waiting for Chairman Gensler and Commissioner Chilton to say or do something about this crime in progress, particularly what transpired over the past week or so. In all honesty, I never had any expectations for the other three commissioners to ever do the right thing about the silver manipulation, based upon how they have dealt with related regulatory matters in the past. In my opinion, the three commissioners apart from Gensler and Chilton, are the reason there have been repeated delays in the final vote for position limits. And if there was a proposed Enforcement Division action against JPMorgan/CME Group for the silver manipulation that couldn't get Commission approval (as I have previously speculated), it was these three commissioners that likely gummed up the works.

But if I have low expectations for the other three commissioners, I had very high expectations for Gensler and Chilton. My formerly high expectations have been greatly diminished as a result of what has just occurred. I can't say I'm ready to push Gensler and Chilton under the bus (as I would with JPM and the CME), just that I am trying to push them into the spotlight to man up and do the right thing. Chilton has been exposed to the issue of the silver manipulation since shortly after he became a commissioner in 2007. In a three-part series of articles entitled, “The Cop on the Beat,” I tried to inform Commissioner Chilton of the silver crime in progress. This was before JPMorgan took over Bear Stearns and the subsequent May 2008 denial from the Commission that anything was amiss in silver. Here's the first part of the series and you can get the others in the archives
http://www.investmentrarities.com/ted_butler_comentary/11-13-07.html

By this time Commissioner Chilton should know the matter inside and out, as he has had four years of intensive on the job training. He had promised to publicly comment on the now three year old silver investigation by the end of September, but that self imposed deadline has come and gone. That he talks about temporary flash crashes in different commodities but won't fully comment on the two “impossible” 30% plunges in silver this year is inexplicable. Both to him and Chairman Gensler, I would suggest it is time to stop worrying about majority votes that will not come and to take matters into your own hands. You both command wide media attention and the slightest statement from your Bully Pulpit would send the crooks at JPMorgan and the CME scurrying like the true vermin that they are.

My greatest disappointment is with Chairman Gensler. Forget the lavish praise I bestowed on him shortly after he took office in 2009. That praise was fully deserved based upon what he said and proposed to do on matters ranging from concentration to position limits. I disregarded his background at Goldman Sachs and his role in a prior administration gutting derivatives regulation. The truth is that I still disregard those factors in judging any man. But Gensler is still the smartest guy in the room and he knows full well about the silver manipulation because he is so smart. He knows that world commodities don't suddenly fall 30% absent an obvious supply/demand explanation or through manipulation. He knows the matters concerning concentration and position limits better than I do. He may be privy to things we can't see, but there is no legitimate excuse for subverting the rule of law. Whereas Jamie Dimon wouldn't know the real definition of anti-American if it bit in the butt, Gensler knows the meaning of that term as well as we all do. That neither he or the Commission has had a single comment about the two separate 30% manipulative take downs in silver this year is shameful and a clear dereliction of duty. Hey, I'm not the prosecutor or the guy in charge; otherwise there would be people already in jail or on the way there.

Hopefully, I'm premature in my criticism of Gensler and Chilton and I will happy to publicly apologize when it becomes clear that I was wrong to praise them originally. In the interim, every day that passes with the Commission not standing up to the silver crooks is a slap in the face to the best of American values and traditions. Nothing could be more anti or un-American than letting criminals victimize innocent market participants in plain view of the law-enforcement officials that should and do know better.

I hope I have not downplayed the great position that has been created in silver. It's just that what created that great position was deplorable and illegal.

Ted Butler

October 1, 2011

Silver – $30

Gold – $1625