

Weekly Review<?xml:namespace prefix =

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After a decent start to the week, the price of gold and silver fell for the last four days of the week, culminating in a sharp Friday sell-off. For the week, gold ended \$38 (2.9%) lower, while silver finished 40 cents (1.8%) lower. Gold ended at a three month low, less than \$100 above the low for the year at the end of June and down 23% from year end. Silver is about \$3 off its low in late June and down almost 29% for the year.

As a result of silver's relative outperformance compared to gold this week, the silver/gold ratio tightened in almost a full point to just above 59.5 to 1, still within medium term trading ranges. In fact, to give you a sense of the tight trading range, we are nestled between the 50 day and 200 day moving average for the silver/gold ratio. I'm not mentioning this for any potential technical significance it might have on future movement for the ratio, but merely to point out a clear example of the tight trading range.

I'm learning more not to rely on feelings derived from short term price action in the ratio or overall prices, as those feelings are just that and are not based upon substantive data or reasoning. Don't get me wrong □ I get feelings all the time about the short term that either pan out or flop with remarkable consistency.

The trick is to rely on the long term which better encompasses data and logic, although that's hard to do when you watch prices in real time, especially the price changes we are currently experiencing.

One observation that I don't think I have mentioned before is the remarkable consistency between gold and silver prices on a tick-by-tick basis. Sure, one or the other will move more on a relative basis, but more than 99% of the time, gold and silver prices move in lockstep in terms of price direction and second-by-second time frames. I think that this largely proves the incredible control over price that has been achieved by the HFT computer traders on the COMEX. Please think about this for a moment □ silver and gold are similar in some important ways, but are also very different in other important ways. Silver is largely an industrially consumed commodity, gold is not. Production can overlap somewhat, but there are important differences in where and how each metal is produced. Certainly, investors (in the West) have behaved very differently this year in selling 34% of the gold held in the big gold ETF, GLD, while adding a few percent to the holdings in SLV, the big silver ETF.

With all these differences, then why the heck are gold and silver joined at the hip 99% of the time in price at the COMEX? There is no good or legitimate reason and that's my point exactly. The only possible explanation is hardly legitimate □ the HFT computer cowboys and the big gold and silver price manipulator, JPMorgan, are dictating prices down to the millisecond. This

identical and simultaneous price behavior between gold and silver is just another manifestation of the absolute and illegitimate price control by the COMEX. And just as this price control dominates short term prices, it also accounts for the long term suppression of prices. Silver prices did not fall below the cost of production because the miners produced too much metal; prices fell below production costs because of price engineering on the COMEX.

It is said that good medicine treats not just the symptoms of disease, but the disease itself. That's something that keeps coming to mind when I read the various commentaries that accompany the increasingly obvious price takedowns in gold and silver; such as yesterday's 8:40 AM (NY Time) price smash on the COMEX. In a matter of seconds and minutes, gold prices fell by \$20 and silver by 50 cents. Most observers know this is not normal, but the commentaries usually only discuss the symptoms of the take downs, not the cause.

Invariably, the commentaries focus in on the number of contracts sold in a short period of time, as logic dictates that the selling is solely responsible for the sell-off. Of course, since it is impossible to determine the identity of the sellers, attention then turns to speculation as to who might have sold, which is unproductive □ similar to treating the symptoms only and not the disease. The disease is that COMEX gold and silver prices are controlled and manipulated and the symptoms are the sudden sell-offs.

So, instead of asking who the big sellers were, ask who were the big buyers and start dealing with the real disease. The amazing reality is that we know who the big buyers are in advance, as confirmed by Commitments of Traders Report (COT) data over the years (not, obviously, for the past two weeks of government shutdown). Every COT report has always indicated that the commercials are always the big buyers on every big sell-off in COMEX gold and silver and the sellers are always the technical funds and other speculators. Always.

In fact, this is the reason for studying the COTs. Knowing that the commercials always buy on big sell-offs, the COT is used to determine when the commercials have bought enough to constitute a bottom in price (or a top when the commercials are maximum short). Let's face it □ it is not possible for it to be accidental or coincidental that the commercials always buy on big sell-offs; such consistency is the equivalent of intent and collusion.

Of course, there are sellers on the big down days, but the disease of manipulation and price control dictates that those sellers are being tricked into selling by the buyers, who merely step away in unison and lower their bids. To focus on the sellers is to miss the point completely by looking at the symptoms; the commercial buyers represent the disease.

Turnover, or movement into and out from the COMEX-approved silver warehouses remained active this week, as it has for most of the past two and a half years. More than three million ounces entered and left the COMEX warehouses this week, as total inventories fell 900,000 oz to 165.5 million oz. I know I mention each week how this active turnover is unique to COMEX silver and how I feel this is an indication of tightness in the wholesale physical silver market. Let me try to highlight this premise in a new way.

A three to four million oz gross turnover weekly is the equivalent of 150 to 200 million oz annually, or 15% to 20% of total world production (mine plus recycling) and total world silver demand and total world inventory of silver in 1000 oz bar form. That such a large percentage of the world's silver production, consumption and inventory is being moved into and out from the COMEX is astounding. Obviously, most of the world's silver production and consumption occurs in areas where it would be impossible to be funneled in and out of the COMEX, so that, in effect, increases the true percent of COMEX silver being turned over relative to the world. Thus, the turnover is even more astounding and indicative of silver tightness.

The change in holdings in the big precious metals ETFs (exchange traded funds) were instructive this week. In GLD, the big gold ETF, there were continued

heavy withdrawals this week, as investor liquidation has not let up, despite my expectations. From year end, GLD has shed 14.7 million ounces of gold or 34% of its holdings, the largest liquidation in the fund's nine year history. There were two large withdrawals in SLV this week, totaling nearly 4 million oz, but holdings in the big silver ETF are still up 15 million oz for the year. It appeared to me that the first withdrawal in SLV of 2 million oz earlier in the week wasn't due to investor liquidation, but because the metal was needed more urgently elsewhere. Yesterday's withdrawals in SLV and GLD look to be from investor liquidation.

There was no big surprise in the short interest report for SLV or GLD mid-week, as the changes weren't large. The short position in SLV grew by 900,000 oz to 16.6 million shares (oz) or 4.7% of total shares outstanding. This is down from peak levels of 12% two years ago. In GLD, the short position fell by 3.2 million shares, to 22 million shares (one share = one-tenth oz), or 7.4% of total shares outstanding.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

For the second consecutive week there was no COT report due to the continued government shutdown. But there are some things that can be said about the structure of the market with a high degree of certainty. Since we have remained below the 50 day moving average in gold and prices have mostly moved lower

since the cut-off of the last COT report on Sep 24, we can deduce that the commercials have been net buyers and the tech funds and other speculators have been net sellers. It's almost the same in silver, except the price bumped over the 50 day moving average for two of the fourteen trading days thru yesterday.

Included in the time since the last COT was some pretty big and high volume down days, like yesterday. These are the days which represent the manipulation the most as described above. We only have these big down days so that the commercials can buy at distressed prices. So the question is how much commercial buying has occurred versus how much more lies ahead?

In the back of the envelope world of informed guesswork, I would estimate that as of yesterday (not the normal Tuesday cut-off), the commercial total net short position in COMEX gold to be 50,000 contracts, down from 71,500 on Sep 24. I'd further peg JPMorgan's long market corner in COMEX gold to be 75,000 contracts. In COMEX silver, I'd guess the total commercial net short position to be 15,000 contracts, down from 19,600 contracts in the Sep 24 COT, with JPM's net short corner to be 11,000 contracts or less, about the lowest the ban has been net short in 5.5 years.

I can't help but interject here that this is about the best position JPMorgan has been in on their combined long gold/short silver corners for abandoning the precious metals manipulation for good. While I'm not holding my breath, there may be another factor suggesting this would be a good time for JPMorgan to end their evil ways in gold and silver. Like a phoenix, the CFTC seems poised to try to implement position limits once again after crashing and burning on the first go around a few years ago.

I'm not getting worked up about it this time, but legitimate position limits, fairly enforced, would end the market corners by JPMorgan in gold and silver in a heartbeat. In fact, the sole purpose for position limits is to prevent market corners. But, as we've seen before, there is a big difference between attempting and actually succeeding when it comes to implementing position limits. I do sense that Gary Gensler and Bart Chilton know this as well as anyone and that each will live the rest of their lives regretting not having instituted position limits, so you never know.

<http://www.reuters.com/article/2013/10/11/us-commodities-speculation-exclusive-idUSBRE99A0120131011>

Since there is no COT report to analyze, I thought I'd try something different this week. I don't get much, if any, private or public criticism, even though I make some strong and controversial statements. I think that's because I try to be very

careful about what I write, sticking to facts that I can document and reasoning that can be simply explained; but the truth is that I do crave some criticism primarily as a feedback mechanism that I'm not widely off course. As luck would have it (since there is no COT report), I got my wish yesterday with this criticism of me and the COT report in general. <http://truthingold.blogspot.com/>

While I found the personal criticism of me misstated, unprofessional and rude, that's beside the point and I have no interest in any tit for tat. But I would like to address the basic criticism by Dave in Denver that the COT reports are cooked and that no attention should be paid to them (although he doesn't say what should be looked at instead). Dave asserts that the COT reports are bogus because the CME Group recently put a disclaimer on their warehouse inventories for all commodities on that exchange, including gold and silver. I see it more as a typical big corporation's intent to disclaim liability about everything possible. Besides, COT data is completely different from exchange inventories, so I don't see the connection. While I'm not in position to guarantee the accuracy of the COT reports, I can say they have always seemed legitimate to me. I think a lot of that has to do with how the reports are compiled.

COT reports are published for every futures market in the US, not just CME markets. The data are derived from the mandatory large trader reporting system which requires that every trader that holds a large enough position to

report that position and any changes to the CFTC. Nowadays, this is all done by computer at the brokerage level with no input from the trader, but in the very old days, hand-written reports were mailed in daily or as often as required. There are severe penalties for filing incorrectly and the CFTC is fairly aggressive and adept at penalizing violators.

In COMEX silver, the cut-off for being a large reporting trader is 150 contracts and in gold, 200 contracts with different levels for every other futures market. There are not an endless number of large traders in every market, so the compilation of their positions is really not that difficult. For instance, in the latest COT report, there were 160 large reporting traders in COMEX silver and 282 in gold. There are many more smaller and non-reporting traders in each market and that non-reporting position is derived by subtracting the reported large positions from total open interest. It is important to point out that while the smaller traders outnumber the large traders, the combined positions of the smaller traders make up only 10% to 16% of total positions; meaning that the large traders make up 84% to 90% of the market in COMEX silver and gold. The COT report really drills into the large traders, as well it should.

Considering computerization and the requirement for large traders to report changes in positions, this is one of the easiest reports to compile. This is why the data is analyzed closely by market professionals in every exchange traded

market, as it is source data of the highest form in terms of accuracy and timeliness. The real problem is in understanding the report until one develops familiarity and comfort with studying the data. Sometimes it's easier to claim something is bogus and irrelevant instead of acknowledging unfamiliarity. Of course, no matter how familiar one may be with the report does not mean future prices can be predicted with certainty.

The one certain use of the COT reports is to be able to decipher unusually high levels of market share and potential market corners. Although you'll never get the CFTC to admit that the COTs exist to identify and prevent market corners and not because the agency is doing some noble public good; you can be assured the real reason is to prevent market manipulation. And that's the great irony; the COT reports in COMEX gold and silver currently reveal manipulation and market corners by JPMorgan, but the agency refuses to acknowledge or deal with these market corners. I still contend that the reason why the CFTC won't bust JPMorgan in gold and silver is because they are afraid that the legal liability attaching to JPM as a result would undermine the financial system. But without the reports, I would not be able to finger JPMorgan in the first place (including the Bank Participation Reports).

One legitimate objection to me fingering JPMorgan as the silver and gold manipulator is that the COT and Bank Participation reports do not identify

traders by name due to legal restrictions against the CFTC for doing so. As I've explained in the past, the CFTC revealed JPMorgan as the big silver and gold short in correspondence to lawmakers in 2008 which explained that the data in the Bank Participation Report of August 2008 was due to the JPM/Bear Stearns takeover. But let me provide some additional proof that it is JPMorgan that is the prime manipulator.

A report that I've followed for years, but rarely write about is the quarterly report on US bank holdings of OTC derivatives. It is published by the Office of the Comptroller of the Currency (OCC) which is part of the Treasury Department and completely distinct from the CFTC. The reason I don't refer to this report regularly is because of the time lag. The just published new report covers the quarter ending in June making complaints about the three day delay in COT reports seem misplaced. But the main reason I don't write about this OCC derivatives report is because there is no net breakdown of positions. In other words, you can't tell whether a bank is net long or short, as the report only provides a total notional value or the total dollar worth of all derivatives contracts combined.

The one good thing that the OCC report gives is the identity of the players by name (the one thing the COT report doesn't give). So, by taking the best of both reports, some legitimate observations can be made. While the OCC report runs

for many pages, there is one simple table that contains all the data a gold or silver analyst would ever need. It is table number nine on gold and precious metals derivatives (scroll down about seven-eighths of the way)

<http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/dq213.pdf>

There is a wealth of information in table 9. For instance, this one simple table tells you that the US banks hold more than \$223 trillion in total derivatives, of which only \$28 billion, or one-tenth of one percent, are in the form of precious metals contracts. The table gives the names of the four largest banks, (JPM, Citibank, Goldman Sachs and Bank of America) which collectively hold around 92% of all the OTC derivatives held by US Banks (talk about too big to fail). Other information jumps out at you.

It can be seen that JPMorgan dominates OTC derivatives in gold other precious metals (mostly silver) holding more than 60% of all US bank holdings in gold and other precious metals. I don't think JPMorgan could hold such large and concentrated holdings in OTC precious metals derivatives and not hold similar concentrated positions in COMEX gold and silver. This is another confirmation that JPMorgan is the big precious metals manipulator.

One interesting finding in table 9 is that Goldman Sachs holds no OTC derivatives of any kind in gold or precious metals, thus making it virtually impossible for this bank to be the perpetrator/manipulator behind yesterday's sell-off, as was conveyed in several recent commentaries.

The bottom line on all this is that the closer I look, the more convinced I am that the data in the COT and Bank Participation reports is accurate, as it is supported by other independent government data releases. I suppose it might be easier to claim everything is bogus, but I'll leave that to others. If anyone has any questions about any of this, please let me hear from you and I'll send you some drivel (just kidding).

One last thing □ I've often worried aloud that the CFTC might mess with the COT data in gold and silver some day. But in thinking about and writing how the report is compiled, messing with the report in the future might be impossible. That's because there must be firm procedures in place for compiling the report and for anyone to mess with just one or two markets would be illegal and easy to detect.

I had intended to comment on the latest goings-on at JPMorgan, but the great news about the continuing legal problems at the bank is that they seem without

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end and I am sure there will be plenty to write about on that score in the near future. As a result of yesterday's action and that of the past two weeks, the market structure is more bullish in gold and silver. That doesn't mean we can't go lower, just that we shouldn't stay lower for long.

Ted Butler

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Silver - \$21.35

Gold - \$1273