

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

The price of gold and silver fell this week for the first time in a couple of months. Gold was down \$26 (1.5%), while silver fell a full dollar (2.9%) for the week. As a result of gold's better relative performance, the silver/gold ratio widened out almost a full point to almost 52.5 to 1. In the long run, I believe we will look back at the times when one could exchange one ounce of gold for 50 or more ounces of silver as the good old days of opportunity. That said, as usual, I'm not so sure about the short run.

Despite this week's decline, over the past two months gold is up \$150 (almost 10%), while silver is ahead \$6 (22%). These are notable enough price movements in a fairly short time frame as to warrant an explanation. As an analyst, I am looking for the most logical and obvious explanation for the price increases in gold and silver in mechanical terms. I am less interested in what's being said about why prices rose and more interested in the mechanics of who and what was behind the buying and selling in gold and silver. In other words, I pay less attention to things like QE3, politics, or the news of the day and more attention to the verifiable data of buying and selling in gold and silver. By doing so, one can quickly eliminate some explanations and focus on more appropriate ones.

For instance, there is no data to suggest that the two month price gains were caused by a surge of retail buying of gold or silver coins. US Mint sales of bullion coins were and are decent, but hardly at the center of the price gains. Buying of gold and silver ETFs was much more of a mechanical factor in the price rise, particularly in gold, where some three million ounces (\$5 billion) were purchased; but ETF buying alone appears inadequate to fully explain the price gains. As usually is the case and by the greater weight of the evidence, the prime mechanical explanation for the two month price rally in gold and silver was net positioning on the COMEX, where speculators bought and commercials sold more than 12.5 million ounces of paper gold contracts and 220 million ounces of paper silver contracts. In gold, COMEX positioning was more than four times greater than ETF buying and in silver COMEX positioning was an astounding twenty-five times greater than ETF buying. An objective observer would have to conclude that the price gains in gold over the past two months were mostly due to COMEX positioning and in silver that was overwhelming the case. Having established that COMEX positioning was the prime catalyst for the rally (as was predicted by the previous "spectacularly bullish" set up); it is logical to expect COMEX positioning to be responsible for future price movement. More on that in a moment.

Turnover or movement into and out from the COMEX silver warehouses exploded this week to highest levels in my memory. Some 5 million or more

ounces were put into and taken from the various warehouses approved by the COMEX, as total inventories fell 1.4 million ounces to 141.9 million ounces. There appears to be no let up in the frantic COMEX silver inventory turnover which began about a year and a half ago. I still maintain that the rapid rate of silver warehouse movement is indicative of a tight physical wholesale market, perhaps bordering on hand to mouth supply conditions. Such conditions may be a precursor to a full blown shortage, the one sure cure for the ongoing price manipulation.

There weren't any surprises in this week's Commitment of Traders Report (COT). Prices were lower for the reporting week by as much as a dollar in silver and \$20 in gold, so it was no shock that the headline number of total commercial net shorts declined slightly for the first time in 8 weeks. The emphasis is on slight declines.

In gold, the total commercial net short position declined by 2300 contracts to 267,000 contracts, still a very large number more associated with price tops than bottoms. The only standout feature under the hood was that the gold raptors accounted for all the reduction, as they bought back another 3500 contracts of a still-large 37,400 contract net short position. This is the fourth week in a row that the gold raptors (the smaller commercials apart from the big 8) bought back short positions at losses. This is a rare occurrence, last seen on the climb to the all-time gold price highs of a year ago. As was the case back

then, the big 4 and 8 largest commercial shorts sold enough additional contracts short to contain the price and, in effect, rescue the gold raptors from further losses (so far).

It is at times like this, when coordinated and concentrated selling can clearly be identified, that manipulation is most apparent. Without the surge in short selling by the big 4 over the past month or so, the gold raptors would have been in big trouble and would have bought back many more of their gold shorts than they did. But a short covering panic by the gold raptors was not something in the interest of the biggest gold shorts and the big guys made sure the gold price rally didn't get out of hand. That's the story to date and what these big gold shorts do next will determine the future gold price. I would remind you that the price of any world commodity should not be set by a few traders on a regulated commodities exchange, according to US commodity law.

In silver, the headline total commercial net short position declined by a scant 800 contracts, to 57,000 contracts. This was the first weekly reduction in the headline number since July 10. The total commercial net short position is 43,000 contracts (215 million oz) larger since then. The raptors sold out 700 more contracts of a long position now down to 3400 contracts and the big 4 bought back 1300 contracts, leaving their net short position at just over 50,000 contracts. Four traders on the COMEX are net short 250 million ounces of silver, or more than 33% of world mine production. Not one of these traders is a silver

producer, nor involved in any legitimate hedging activity. The only reason behind these short sales is to contain the price of silver in the hopes of tripping off a sharp sell-off in which to cover as many short contracts as possible.

JPMorgan's concentrated net short position now looks to be 33,000 contracts (165 million oz), still 32% of the entire net open interest in COMEX silver futures (minus spreads). Combined with the recently revealed foreign bank short, the two now hold 43,000 contracts net short, or a 42% share of the entire COMEX. Even though I am typing these numbers, they are other-worldly in regulatory terms. Or should be. The whole thrust of US commodity law, like overall US anti-trust policy, is to prevent a level of monopoly now present in COMEX silver (and gold) on the short side. Yet neither the federal regulator, the CFTC, nor the self regulator, the CME, can address this matter directly. The same goes for JPMorgan.

Last week, I wrote about the [“alarming”] and [“dangerous”] structure created in COMEX gold and silver as a result of the extreme level of concentration on the short side. That remains in effect until the COT structure is resolved one way or another. The timing of the resolution is minor and secondary to the extent and price direction of the resolution. Sometimes a COT structure is resolved before the next COT report is issued. Sometimes, it can take months to resolve. The important point is that the passage of time alone matters little. Once the market structure reaches an extreme level (like now), it is only a matter of time before

the resolution is reached.

It is also important to be cognoscente of the entities who will actually be doing the resolving. On the one hand are the collusive commercials, led by the prime silver manipulator, JPMorgan, looking to rig prices lower so that all the commercials can buy on lower prices. On the other hand are the technical funds and other speculators who have bought paper contracts in the hope of profit from higher prices. These paper buyers are not to be confused with long term gold and silver investors. These paper traders are not interested in holding physical metal positions or in taking actual delivery of gold or silver. They operate with high leverage, meaning only a small percentage of the total value of the paper positions is ever deposited. These paper traders buy as prices are climbing and sell as prices fall. For the majority of these traders, it makes no difference to them if they are trading paper silver or gold, or cocoa or wheat; it's all just a paper speculation. Because these paper traders react to price movement and not supply/demand considerations, they are usually easy prey for the collusive commercials. Big waterfall price declines are almost always the result when the technical paper traders get over-extended to the long side; hence my current feelings of alarm and danger. Truth be told, these technical paper traders are no big ally to long term investors and do, in fact, enable the commercials to manipulate prices in the first place. In a perfect world, these technical paper traders would also be restricted in their price influence, although not to the same extent as the commercials.

While it is almost always the case that the resolution of an extremely large commercial net short position is to the downside, complicating matters, at least in silver, is the possibility of a physical shortage of material. We saw the beginnings of that in April 2011, until the orchestrated price smash of May 1 took place. A physical silver shortage has the potential of turning the tables on the commercials and should such a shortage occur, the large commercial paper short position would become a serious liability to JPMorgan and a danger to the orderly functioning of the market. This is where the CFTC is most negligent; the current extreme concentration on the short side should have never been allowed to come into existence. Because there is no way of timing a physical silver shortage, there is no way of knowing in which price direction lays the resolution in the current extreme short concentration.

JPMorgan was both in and behind the news this week. Yesterday it reported record quarterly earnings of \$5.7 billion. Earlier in the week, JPM's CEO, Jamie Dimon, commented that the Federal Reserve-arranged takeover of Bear Stearns in 2008 was more a favor to the Fed than to JPM. This jibes with my take of the acquisition, as I can't imagine someone as sharp as Mr. Dimon voluntarily seeking out ownership of the concentrated silver and gold short positions of Bear Stearns. But I'm also of the opinion that regardless of who was doing whom a favor, any US Government involvement in the takeover should not include permission to manipulate the price of silver indefinitely. Mr. Dimon has

a reputation of commenting on matters involving the bank directly and I would be interested to know if he thinks that JPMorgan is entitled to manipulate the price of silver forever due to any favor in acquiring Bear Stearns.

Behind the news, JPMorgan made its presence felt in silver this week as well. Just after sponsoring the securities industry legal defeat of the imposition of position limits under Dodd-Frank, JPMorgan arranged for four Republican representatives to write to the CFTC to discourage any appeal by the Commission to the crushing legal defeat on position limits. At first, I was convinced that JPMorgan was only trying to get position limits temporarily postponed, as even the securities industry group involved in the case said it was behind the principle of position limits. But now it looks like the legal victory has led to further plans by JPM to prevent position limits in any form. Absolute power and all that.

In less than a month, it will be established who the next President of the United States will be. I avoid politics like the plague, as to do otherwise would automatically alienate about half the audience. (Besides, as one long term subscriber pointed out □ you're never going to change anyone's political mind anyway). But let me relate what this election may mean in terms of silver and position limits. If President Obama is re-elected, I would assume that the composition of the CFTC will remain the same and the path to position limits and full enactment of Dodd Frank will proceed along current lines, albeit with no

guarantee of success (given the opposition by JPM). If Gov Romney is elected, then automatically the composition of the CFTC (along with every other federal agency) will change. Since the chairmanship of each agency is determined by the political party of the President, a Romney victory will result in the almost immediate resignation of Gary Gensler as CFTC chair and the appointment on inauguration day of a Republican chairman or acting chairman. By law, three of the five members of every federal agency (a majority) must be of the same political party as the President.

I'm not handicapping the election and I am certainly not in any position to suggest how anyone might vote. My point is that it could very easily turn out soon to be the end of the tenure of Gary Gensler as chairman of the CFTC. If Gensler is displaced by the election, then it appears to me that legitimate position limits will not come into being any time soon (years). I have never figured out exactly why financial regulatory reform has evolved along such bitterly partisan political lines, but, as an analyst, it is easy to see that it has. Accordingly, since Gensler was the prime driver of the move to position limits, a removal of the driver is going to result in this wagon falling into the ditch. Seeing as I have promoted legitimate position limits in silver for more than 20 years, it breaks my heart to have come pretty close only to see it slip away. I can't help but wonder of what Gensler (and Commissioner Chilton) might be thinking. Chilton will probably stick around, but Gensler is history if a Republican wins.

I don't think Gensler has been duplicitous over the past three and a half years in pushing for position limits. I don't think his main concern is silver (as is mine), but I think he understands that allowing JPMorgan to continue to manipulate the price is an affront to us all. I think his hands have been tied by previous government guarantees to JPMorgan as a result of the Bear Stearns acquisition, but he also knows that it is wrong. I think that Gensler came in with the highest of intentions of public service and is smart beyond belief. He's certainly not in it for the money. I think he knows that we are near the end of the line in the silver manipulation and any opportunity he has of doing the right thing and preserving the legacy of a good reputation (maybe the most important thing of all) may be time-constrained. If he (or Chilton) doesn't speak up and be heard before it is obvious to all that silver had been manipulated, he runs the risk of the lasting legacy of colossal failure. Too many innocent people have been and could be hurt by the silver manipulation that those who were in position to do something about it and didn't will become ugly footnotes in history. If he is honest with himself, Gensler will see that JPMorgan has the upper hand unless he speaks up. Results to date indicate his options are limited.

The same uncertain short term outlook remains in effect. We have the ingredients in place for a sharp price move in either direction, with the crooks at JPMorgan looking to gun it to the downside at the risk of having it blow up in their face. That we have been here before is shameful.

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On a housekeeping note, we have had reports of email alerts of new articles not being sent. We are looking into it, but you don't have to wait for an alert to check for a new article. I do try to make sure new articles are posted around 3 PM EST on Wednesdays and Saturdays. But please let us know if your alerts aren't getting through in a timely manner.

Ted Butler

October 13, 2012

Silver - \$33.50

Gold - \$1756