# October 15, 2011 – Weekly Review/Meeting Preview

## Weekly Review

Both gold and silver rose in price for the second week in a row. Gold climbed by $40 an ounce (2.4%), while silver rose by a dollar (3.2%). As a result of silver's slight outperformance, the gold/silver price ratio fell a tad to just under 52.5 to 1, still near the widest ratio year to date favoring gold. Gold is now ahead by more than 18% since the start of the year, while silver is up 4% or so. Based upon all the facts available, this still appears an opportune time to switch from gold to silver. For those with fresh cash available for investment, the first choice should be silver over gold according to those same available facts.

For sure, silver has not felt like it has outperformed gold over the past two weeks. That's because silver has been subject to almost daily beat downs above and beyond any interim declines in gold or any other commodity. That's not accidental, in my opinion. Just like the stunning 30% recent price smash (the second of the year), there seems to be a concerted effort to make investors gun shy and uncertain about silver's future investment prospects. What better way to instill doubt than by regularly ripping the rug out from silver prices? It's not hard to come up with a list of candidates behind the effort to make silver look punk or their motive. As for who is behind the attempts to discredit silver via rotten price action, just round up the usual bunch of commercial suspects, led by JPMorgan. As far as a motive, that's even clearer Â? in order to get spooked silver longs, especially those on margin, to sell and then to not even think about buying again. One major tool in the intentional attempt to make silver look bad is High Frequency Trading (HFT), the mindless and economically unjustified trading practice infecting many markets. But only in silver is the price-depressing effort taken to such obvious extremes.

Most disturbing of all of this deliberate day to day manhandling of the silver price is that it is occurring under to constant watch of the regulators, both the criminal enterprise also known as the CME Group and the federal watchdog, the CFTC. Only they seem to be oblivious to what many can see with their own eyes. The regulators' failure to perform their most basic mission should not, however, dissuade investors from owning silver. There has been a consistent effort by the commercials for more than a decade or two to discourage outside investors from buying silver. Despite this discouragement, owning silver has been among the very best of investments to own. Instead of fretting about the rotten daily price action, focus on why anyone would go to such lengths to make any investment look bad. The only plausible answer is because the commercials don't want you to buy silver so that they can buy it in your place. That has been the long term message from COT data. I wish we could snap our fingers and cause JPMorgan and the CME to cease and desist from their manipulative activities, but the most effective remedy is to do the opposite of what they intend you to do. Look to the real facts surrounding silver and not to the false flag agenda of the crooked COMEX commercials.

Conditions in the silver wholesale physical market continue to signal tightness. There was some cooling off in the reported sales of Silver Eagles from the US Mint this week, although it is too soon to determine if demand has slackened. Other possibilities include the Mint having exhausted any surplus of previously produced Silver Eagles or whether it may be having problems securing the new blanks required to produce the coins in sufficient quantity. A press release by the Perth Mint this week indicated record silver coin sales and recurring difficulties in getting enough blanks for their silver coinage programs. The Perth Mint indicated it would use more than 10 million ounces of silver in their coinage program this year. Combined with the US Mint (40+ million oz) and the Royal Mint of Canada (25 million oz), these three mints alone will consume more than 10% of the entire world's mined silver this year, an unprecedented amount.

A subscriber and money manager wrote to me this week indicating he now understood my point in discussing the unusual and extreme turnover in the COMEX silver warehouse inventories that I discuss incessantly. What dawned on him and what he suggested I might try to convey to you is that the frantic movement in and out of inventories has nothing directly traceable to delivery notices or futures market activity. This strictly involves the massive physical movement into and out from the COMEX-approved warehouses and not the usual paper trading games for which the COMEX is infamous. This is strictly a silver physical phenomenon that involves truckloads of metal coming in and out; it has not been occurring in any other NYMEX/COMEX metal (gold, copper, platinum and palladium). I know I have not been able to fully explain the significance of the physical silver movement and that failure rests solely with me. I ask you to think what other reason, aside from extreme tightness, could account for this physical turnover.

This week's Commitment of Traders Report (COT) was somewhat anti-climactic after the historic changes of the previous few weeks. In a reporting week that featured price rallies, the total net commercial short position increased in both gold (by 3700 contracts) and silver (by 1900 contracts). In both markets it was the raptors (the smaller commercials apart from the eight largest traders) selling out long positions that accounted for the net increase, not new commercial shorting. There was nothing unusual about the buying that permitted the raptors to sell. As such, a detailed review of this week's report would be overkill. JPMorgan did not buy big, although I still think this could come at any time. Bottom line is that the COT set up in both gold and silver is still spectacularly bullish as are physical market conditions in silver. I know the price action feels rotten in silver, but true market analysis is not dependent upon how an analyst may feel, but on actual facts.

## Position Limits Meeting Preview

On this Tuesday, Oct 18, at 9:30 AM Eastern time, the CFTC will hold a public meeting to discuss and vote on proposed final rules on speculative position limits in those physical commodities not currently covered by limits, essentially the metals and energies. I would urge you to watch live if you are able or the recording of the meeting which will be available the day after. Generally, the link for the webcast will go active about 30 minutes before the meeting starts. http://www.cftc.gov/PressRoom/PressReleases/pr6124-11

When it comes to the issue of position limits, this meeting is a very big deal. It will be the final meeting of a process that began two and a half years ago, when Gary Gensler was first sworn in as chairman of the agency. As many of you know, I have an intense personal interest in position limits, as I have petitioned both regulators, the COMEX and the CFTC, to institute legitimate position limits in silver of 1500 contracts for more than 20 years, as a way of eliminating and preventing manipulation. My reasons for 1500 contracts were based upon world production and consumption, individual producer and consumer levels, ability to deliver considerations and the limits relative to all other commodities, including gold. I don't hide or apologize for my involvement and I am most appreciative for the thousands of you who have come to recognize the importance of this matter and have taken the time on multiple occasions to voice your concerns to the Commission. Thank you for helping to shine the light of transparency on this issue.

But make no mistake Â? this final CFTC meeting has not come to be because of you and me and silver. We are at an important mile marker of culmination due to Chairman Gensler, with important contributions from Commissioner Bart Chilton. Without Gensler, there would have been no meeting on Tuesday. I'm not going to make a melancholy stroll down memory lane, but I would ask you to simply acknowledge what's been put on the scoreboard to date. Gensler hit the road running on commodity regulatory, with a specific emphasis on transparency and ending fraud abuse and manipulation in our markets. He went out his way to single out the dangers of market concentration and the need for legitimate position limits to combat that concentration. In the summer of 2009, be began a series of public hearings on position limits, the first public hearings in agency history, to gather industryÂ?s views on the issue. This was before Dodd-Frank came into existence. When presented with opportunity, Gensler made an important mark on the Act itself. He said and did so many right things from the get go that it converted me from being the CFTC's harshest critic to calling Gensler the best chairman in history.  Look at it from my point of view. Out of the blue came someone in a position to do something about it who was saying what I had been writing about for decades, saying the exact same thing. How could I not praise him to the heavens? Heck, he was either heaven-sent or this was sickest extreme of someone really messing with my head. I am disappointed that Gensler hasn't cracked down on the blatant manipulation in silver, but at least he has not strayed from getting position limits enacted. I don't believe his main thought is on silver position limits, but it is on position limits in general. By the way, to check of Gensler's public and consistent message on position limits, just go the speech archives on the CFTC web site.

Let's not delude ourselves; the movement towards position limits had its origins in the great crude oil and grain price run up and crash in 2008. The mandate from elected officials at that time was to rein in commodity speculators on the long side. No one was the least bit concerned with reining in speculators who may be excessively speculating on the short side and artificially depressing prices. There was no worry about low commodity prices; just high commodity prices. But commodity law and regulations can't discriminate, as much as politicians might like. What's good for the goose is good for the gander. Standards for excessive speculation and concentration can't be arbitrarily assigned to only one side of the market; position limits must apply to both the long and the short sides or no side at all. Using this opportunity for change, I detailed how silver was being manipulated due to a short side concentration and pointed the finger at JPMorgan and the CME Group.

That the issue of legitimate position limits is even being debated is odd, that it might actually be rejected is bizarre and twisted. The matter of position limits is such a bedrock issue in commodity regulation that those opposed to it have no legitimate grounds upon which to stand. Being against position limits is like openly calling for manipulation. Therefore any attempt to derail position limits must be from some peripheral angle, like it might inhibit true liquidity and drive trading overseas. Legitimate position limits would do neither. In fact, the fiercest open critic against position limits is the CME. What's so twisted about this is that the CME's original proposal is the guide for the CFTC's staff proposal that will be voted on this Tuesday. How the CME can first propose guidelines and then reject them is baffling. The only plausible explanation is that only after they thought about their own proposal did the CME realize it would be restricting the manipulative interests that run wild on their exchanges.

The staff's proposal calls for a formula based upon percentages of open interest. The actual formula calls for 10% of the first 25,000 contracts of open interest in any market and 2.5% of total open interest above 25,000. So, basically, each market starts with a 2500 contract position limit and adds on 2.5% of total open interest above that. In the case of silver, with current open interest at around 100,000 contracts, a position limit of approximately 4375 contracts would apply -2500 + 1875 (2.5% of 75,000). I have no problem with 2.5%, as that is not terribly far from my 1% formula. But starting with an automatic 2500 contracts distorts markets with smaller total open interests, like silver. In gold, for instance, with 430,000 contracts open interest, starting with 2500 contracts doesn't change the overall level of position limits much.
In a market like crude oil, with over one million contracts in total open interest, 10% of the first 25,000 hardly registers. In smaller markets like silver, it has a very big impact. I would have liked to have pointed this out to the CFTC, but was never given the opportunity. Just like I've never been given an opportunity to present any case regarding silver. I guess transparency and integrity have clearly defined limits when it inconveniences the likes of JPMorgan and the CME Group.

One thing the staff's formula does do to is demonstrate just how out of line the previous accountability levels were in silver relative to gold. Long time readers may recall that I had long pointed out how idiotic it was that the CME had the same 6000 contract accountability level for both gold and silver, even though gold was a vastly larger market in terms of volume and open interest. Now, the staff's formula shows that silver should have a much smaller position limit in gold. After years of denying there was anything wrong, the CME'S former arbitrary assignment of silver position limits should be shown to be groundless.

The likely proposed formula for position limits of around 4400 contracts in silver will still be too high in legitimate terms, but JPMorgan's short position of near 15,000 contracts is still way too large for the likely new proposed limit. It should give anyone pause to reflect on just how manipulative JPMorgan is to the silver market. At one point in the past two years JPMorgan had a short position in silver of over 40,000 contracts or more than 200 million ounces. Now it is down to roughly 75 million ounces, or 15,000 contracts, but that still is too large for the likely proposed position limits of near 4400 contracts.

So it comes down to what it has always come down to Â? the intent of the CFTC to enforce the law as it should be enforced. If the agency continues to look the other way and allows JPMorgan to pretend that its current short position is somehow a bona fide hedge, it won't make a difference what the limits may be. I know that many of you, for quite justifiable reasons, feel that the CFTC will never do anything to end the obvious silver manipulation. Unfortunately, you may turn out to be correct. But, I am intrigued by the whole exercise. Did the agency and Gensler go through a bitter partisan struggle to come to the verge of finalizing position limits with no intent of enforcing what was fought over? I don't think so. Additionally, the recent stunning and deliberate take down in price had the intended effect of allowing the commercials, including JPMorgan, to buy incredibly large quantities of silver contracts. I can't help but think that JPMorgan sensed that real position limits in silver were coming and it had to get as much buying done to reduce its short position pronto. That's the most plausible scenario to me. I shouldn't have to tell you that, if correct, that's a bullish scenario for silver prices.

Come Tuesday, we'll know a lot more. After the meeting and the subsequent record published in the Federal Register, we'll have another question answered. At every public CFTC meeting I have observed, every commissioner has remarked that he or she is very interested in hearing what the public will say in the public comments. Quite a few thousand of you respectfully requested that the limit be set at 1500 contracts in silver. It will be interesting to observe if any of the commissioners feel compelled to comment on your comments.

Ted Butler

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Silver – $32.25

Gold – $1680

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