

Weekly Review

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For the second consecutive week, the price of gold and silver fell; gold by \$36 (2%) and silver by \$1.40 (4.2%). As a result of silver's relative underperformance, the silver/gold ratio widened out to more than 53.5 to 1. This is the cheapest silver has been compared to gold in almost two months. While the current amount of silver ounces one can receive in exchange for one ounce of gold represents a solid long term opportunity, I am still unsure on a short time frame.

My big takeaway on this week's action is that the recently dormant price volatility has emerged from its temporary nap. I have been attempting to convey recently how the previously stable price action belied an extreme COT paper structure that needed to be resolved. I was unsure if the extended commercial net short position in COMEX gold and silver would be resolved to the upside or downside; but I knew the situation was alarming and dangerous. It still is. I also knew an upside resolution would require some assistance from the physical market, particularly in silver. That assistance didn't materialize over the past two weeks.

I received some interesting comments from readers this week about my

continued reliance on the COTs. Additionally, there were some interesting public comments about the worthiness of a Commitment of Traders Report analysis. I'll comment on this after reviewing the week's usual events.

Conditions in the wholesale silver market continue to suggest tightness. My principal indicator, turnover in the COMEX-approved silver warehouses, was about as frantic as the previous week. Some 5 million oz were moved into and out from the warehouses, with total inventories climbing by 600,000 oz to just over 142.5 million oz. I am becoming more convinced, as I indicated previously, that it might be impossible for this metal in motion to cease moving. While we are, obviously, not quite at the level of tightness that could be termed a shortage, the continuous turnover in the COMEX silver warehouses suggests we are closer to a shortage than many believe. As a reminder, COMEX inventories, as well as ETF holdings are considered inventories in the sense that the silver is visible and recorded; but in no sense should these inventories be construed as readily available. All this metal is owned by someone, largely long term investors, and only these owners will determine how much is available at any particular price. It would be a mistake to assume that just because we can see this metal that it is available to the market. Try to keep that in mind when the term inventory is used.

I haven't mentioned Silver Eagle sales from the US Mint much recently, but they keep plodding along at the average levels for the year to date, namely, near 2.8

million oz per month. Trying to keep things in the proper perspective, annual sales of Silver Eagles this year are running 3 to 6 times the annual levels for sales in the majority of the years in the 26 year history of the Mint's bullion coin program. Prior to 2008, Silver Eagle sales averaged 5 to 10 million oz annually, not the 30+ million oz since then. Also, we are still on track to record the highest number of Silver Eagle sales relative to Gold Eagle sales in program history in the current year.

This week's changes in the Commitment of Traders Report (COT) indicated a sizable reduction in the headline number for gold and no change in silver. In gold, the total commercial net short position declined by 19,600 contracts, to 247,400 contracts, the lowest level in four weeks. The price of gold did decline by more than \$30 during the reporting week, trading below the 20 day moving average, so some reduction in the commercial short position was expected.

By commercial category, the big 4 took the lead in buying back 14,000 of their short contracts. Once again, the gold raptors (the smaller commercials apart from the 8 largest traders) bought back 6600 of their short contracts, reducing the raptors' net short position to 30,800 contracts, the lowest level since August 14. This is the 5th straight week that the raptors bought back gold short positions at a loss, a rare collective miscalculation by this segment of traders. When the COMEX gold liquidation is complete, my guess is that the gold raptors will be much more cautious in selling short on the subsequent gold price rally,

whenever that commences. Undoubtedly, there was further commercial short covering on Friday's price weakness.

In silver, the total commercial net short position was virtually unchanged at 57,100 contracts, despite reporting week price declines of as much as \$1.30. The silver raptors sold another 1000 contracts of a net long position now at 2400 contracts, the lowest level in a year. The big 4 bought back 500 contracts, reducing slightly their concentrated short position to 49,775 contracts (248.9 million oz). I'd still peg JPMorgan's concentrated short position at 33,000 contracts, still 32.5% of the net open interest (minus spreads). I am aware of no higher level of concentration and manipulation in any other major futures market in history (other than in silver).

Friday's price decline took silver below the important 50 day moving average for the first time in months. I say important in the sense that many technical traders and funds hold this moving average and others to be important to their technical trading. That is, these technical traders buy and sell as prices penetrate moving averages; buying as prices break above the moving averages and selling as prices break below the moving averages. This is the rhythm of markets and of price trends and changes. It is not why long term investors buy and sell, but many technical traders abide rigidly by such signals and their actions do dictate prices on a short term basis.

This leads to the subscriber questions about the COTs that I received this week, as well as public commentary questioning the validity of using the COTs in analysis. Basically, a number of subscribers suggested that I look at other things in my analysis of silver and gold, away from the COTs; things like the reports of heavy silver buying in London and the day to day chatter on the Internet. It's not that I don't read the daily chatter, as I try to read everything silver related I can lay my eyes on. And it's not that I don't find the chatter to be fun and gossipy and hopeful in the message of imminently exploding prices and commercial signal failures. It's just that the breathless reports are unverifiable and mostly made up. That's not my brand of analysis. Further, a public report called the COTs "nonsense" and a "crook." I thought it might be instructive to review why I have studied the COTs for more than 30 years and intend to continue to do so.

One of the most sought after data points in analyzing any investment is the age- old search for who is buying or has bought and who is selling or has sold. Who wouldn't be interested in who holds or has sold any market? In stocks, at least on the long side, there are public reporting requirements for anyone holding 5% or 10% or more of any publicly-traded security. In commodity futures the CFTC publishes the data on who is long and who is short each market in the weekly Commitment of Traders Report. They do so by category of trader alone and not by identifying individual traders by name. (As an aside, I

only know that JPMorgan is the big silver short because the size of their position is so egregiously large and by separate CFTC correspondence).

Each week, the CFTC publishes incredibly detailed statistics showing a complete breakdown on the long and short side of every regulated commodity. The report is free and available to all, although I am aware of no requirement that it must be studied by all. If someone chooses not to study the COTs, that's fine. In fact, it's better than fine, as the fewer who do study the COTs make it better for those who do study the data. I understand that the data look incomprehensible at first glance and that it takes much time before a message starts to emerge. As I indicated, I've been doing it for 30 years, but for me it was trial and error in a vacuum; having someone explain the report should shorten the learning process, if the intent to learn is genuine.

The very best thing about the COTs is that once you tune into them properly, a pattern of repetition emerges. Even though traders aren't identified by name (JPMorgan excepted), certain categories of traders seem to behave in predictable ways. Technical traders buy on the way up (as moving averages are penetrated) and sell on the way down (as moving averages are penetrated). That's what technical traders do. Likewise, the counter parties to the technical traders, the commercials, also behave repetitively. Whereas the technical traders buy on the way up and sell on the way down, the commercials do the opposite. It's just that the commercials undertake their role of counter party to

the technical traders so collusively and in such a concentrated manner in silver that it is easy for me to allege manipulation and get the CFTC to investigate continuously. After all, how can they argue with their own data?

The notion that the data in the COTs might be incorrect or unreliable is laughable, as this is the very data showing an outrageous concentration by JPMorgan and others. The surest and easiest way for the CFTC to make the allegations of a manipulation in silver go away would be for the COTs to no longer indicate a concentration on the short side. It would shut me up instantly. That it hasn't is proof positive that the data are accurate. If the CFTC were completely corrupt, they would have doctored the reports long before now.

I'm not trying to "sell" you the concept of the COTs as a legitimate analytical tool. I'm not interested in telling you to listen to me because I have been doing this for a long time. That's nonsense; you should accept or reject a premise on its own merits or lack thereof. If something makes sense to you, then adopt it. If not, find something that does make sense. Remember, we are talking about investing hard-earned money that only you are responsible for. (Don't follow leaders, watch your parking meters). As for the suggestions that the COTs don't show the entire commercial position and only the COMEX portion, it doesn't matter because it is the COMEX portion that is setting prices.

I think it appropriate to step back and look at this repetitive pattern that I claim is at the heart of the reason for paying attention to the COTs. I could go back to any time period imaginable, but let's stick to the past few months in gold and silver. On July 24, the COT indicated a total commercial net short position of 15,500 contracts in silver and 136,200 contracts in gold. These were at or near the lowest levels of 2012. At that time, silver was \$27 and gold was \$1580. Also at that time, I (as well as other COT mavens) had characterized the COT set up as spectacularly bullish in each market given the historically low speculative long/commercial short position.

At the subsequent peak in price in October of \$35.50 in silver and \$1790 in gold, the total commercial net short position grew to 57,800 contracts in silver and 269,300 contracts in gold. In other words, the speculative net long/commercial net short position had grown by 42,300 contracts in silver on the \$8.50 price increase and by 133,100 net contracts in gold on the \$210 rally in gold prices. In terms of ounce equivalents, the speculators bought and the commercials sold 211.5 million oz in silver and 13.3 million oz in gold in less than 3 months. These are simply enormous quantities of paper silver and gold to have changed hands in such a short time period.

Since there were no other verifiable data that indicated anything close to those quantities of silver and gold changing hands during that time, it is reasonable to assume that the large speculative buying on the COMEX is precisely what

caused the prices to climb. Besides, such speculative buying was expected to cause the price of silver and gold to rise at some point back in July; that it occurred only confirms the validity of the COTs. If anyone has any questions about this or if this isn't what I have represented to be the case over this time frame, please let me hear from you.

If the 211.5 million paper oz of silver and 13.3 million paper oz of gold purchased on the COMEX by speculators was the prime cause for the price rallies, where does this leave us now? As I have also tried to convey on the way up in price, the odds of a sell-off or a disorderly upside resolution grew more extreme. Recently, I used the words alarming and dangerous to describe the situation and called the price stability from mid-September to early October as not reflecting the extreme COT structure. Something had to give and still must. Either we got the usual technical fund long position liquidation on lower prices; or JPMorgan would be trapped on the short side. Since I'm not privy to any inside information, I must evaluate the coming certain resolution on public facts, including price action. The turndown in price, particularly on Friday when silver closed below the 50 day moving average, has shifted the odds to a normal downside resolution, where the commercials collusively withhold bids and force the liquidating technical funds to sell on the commercials' terms. It is still possible for a different resolution and long term silver investors have little choice but to ride it out, but the commercials look to be in control at this point. I wish it weren't so, but it is not up to my wishes.

If we get the resolution to the downside as appears likely at this point, many will cry manipulation. A sharp price drop will, of course, be manipulative, but the real manipulation has taken place all along as JPMorgan increased its concentrated short position beyond any legitimate level. At the core of the manipulation resides JPMorgan's concentrated short position. That the regulators have allowed this to occur and put so many investors at risk is shameful beyond description. I don't know how Gensler and Chilton look themselves in the mirror. Maybe the average investor has difficulty in fully comprehending the COTs, but not the agency itself.

The COTs fully explain, to the virtual exclusion of every other alternative explanation, why silver and gold prices rose over the past couple of months. If there's another explanation, I am unaware of what that might be. Suggestions that the COTs are nonsense are silly to me, but that is something everyone must decide for themselves. Try to make that determination in the most unemotional and factual manner possible. As for how much liquidation we may see if it plays out in the collusive commercials' favor, the answer is potentially a lot. You can't unwind months of accumulation in a couple of days or even weeks. That's what I was referring to when I said to batten down the hatches. Silver is still the best long term investment in my mind and if we do get the usual manipulative sell-off, I would treat it as the last of the manipulative sell-offs and maybe the last great opportunity for silver.

Twenty-five years ago, the stock market suffered its largest one day loss in history as computer jockeys attempted to implement the doomed strategy of portfolio insurance, which was nothing more than everyone trying to sell at the same time. I watched the whole concept of portfolio insurance develop and wondered if these guys were serious in what they intended to do and when the regulators would step in. The answer was that the practitioners were serious and the regulators were clueless. In many ways, the study of the COTs is very much related to portfolio insurance in 1987 in that sudden buying or selling can be the sole cause of price movement and it would appear that the regulators are still clueless to this fact.

Ted Butler

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Silver - \$32.10

Gold - \$1720