

Weekly Review<?xml:namespace prefix = o  
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For the third week in a row, gold and silver prices finished close to unchanged, following four successive weeks of strong gains. Gold was up about \$6 for the week, while silver finished about a dime lower; pushing the silver/gold ratio up to a bit over 51.5 to 1. Long term, I still expect silver to vastly outperform gold, but I continue to plead ignorance in the short term direction of both flat prices and the ratio.

Gold and silver prices have been basically flat over the past few weeks, although the conditions beneath the surface are so extreme that I toyed with the idea of calling this a special weekly review. The COT structure, particularly in silver, is the condition that has become most extreme. After reviewing the latest report, the only words that came to mind were "alarming" and "dangerous." Truth be told, I'm not quite sure if the danger is for a sharp sell-off or a genuine price explosion or perhaps both. Let me run through the normal weekly format quickly.

Tight physical conditions in wholesale silver are still present in COMEX warehouse turnover, as total inventories rose 1.1 million oz, to 143.1 million oz. There was no big movement in SLV holdings the past two days, after frantic in

and out for the week before that. It still feels like the big silver ETF is owed some metal, but a lot did come in already. Silver Eagles sales are off to a good start in October, especially relative to Gold Eagle sales, but the US Mint's reporting has appeared somewhat erratic. The latest jump in sales is suggestive of a big buyer as opposed to broad retail demand, but I admit to looking way too closely. Putting things into a broader perspective, at 30 million+ oz of annual silver demand, I'm hard-pressed to identify a bigger single user of silver in the world than the US Mint.

[http://www.usmint.gov/mint\\_programs/american\\_eagles/?action=sales&year=2012](http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2012)

I don't mean to minimize the physical side of silver, as that will be the final determinant to price; but this week the Commitment of Traders Report takes center stage. The total commercial net short position (the headline number) increased in both gold and silver, not unexpectedly, as prices hit new highs during the reporting week on active trading volume.

In gold, the total commercial net short position increased by 6900 contracts to 269,300 contracts, the highest level since the all-time price highs for gold in August 2011. Not to bring up bad memories, but gold did then fall from near \$1900 to near \$1600 shortly thereafter, solely on COT considerations. Strictly in COT terms, we are similarly positioned now for what happened in gold back then.

By commercial category, the big 4 and big 5 thru 8 added to their short positions, while the gold raptors bought back. The big 4 added over 5000 shorts and the 5 thru 8 added almost 7000 short contracts. The big story here is that the gold raptors bought back another 5000 contracts at a loss, for the third time in as many weeks. My speculation that the smaller gold commercials had overextended themselves now looks more correct. What also looks correct is that the largest 8 gold commercial shorts basically bailed the raptors out. Had not the big 8 come in to aggressively add shorts, the gold raptors would have likely panicked much more than they did. The gold raptors still hold a large net short position of nearly 41,000 contracts, so they are not in the clear. Without additional intercession by the big 8, the raptors would likely be in big trouble. But the data suggest the big 8 will continue to rescue the gold raptors because not to do so would be contrary to the big 8's interest.

From the COT of Aug 14, the total commercial net short position grew by 125,000 contracts, the equivalent of 12.5 million gold oz, on the price rally of nearly \$200, as speculators bought the same amount. This is one of the largest buildups of speculative longs/commercial shorts in COMEX gold in history in such a short time frame as seven weeks. Yes, there has been some impressive gold ETF buying over the past two months of 2 or 3 million oz that has contributed to the rise in the gold price. And yes, there is a big difference between paper contracts and physical gold buying. But I would contend COMEX

positioning has been the biggest driver of the gold price (same in silver). As such, it is hard not to be concerned about the current gold COT structure. It wasn't that long ago that the gold COT structure was extremely bullish. But that was before 125,000 contracts of commercial shorts were added.

So what was it that was so alarming and dangerous about the new Commitment of Traders Report (COT) in silver? In a word □ JPMorgan. Once again, JPMorgan added aggressively to their already grotesquely concentrated silver short position. The total commercial net short position grew by 6200 contracts to 57,800 contracts, the highest since April 2011. By category, the raptors sold around 1000 contracts of a net long position now down to 4100 contracts. For a change, the 5 thru 8 added 1000 short contracts. But once again, the standout seller was the big 4 (read JPMorgan) which added 4200 contracts to a concentrated short position now the largest in two years, at 51,612 contracts (over 258 million oz).

I don't know which is more stunning, the increase in the commercial short silver position over the past two and a half months or the degree of concentration it has resulted in. I don't recall a faster commercial short increase. Since the COT of July 24, the total commercial net short position has increased by more than 42,000 contracts, or the equivalent of 210 million oz. Over that same 10 weeks, the world mined around 140 million real oz. I am aware of no big increase in silver miner hedging by any single company, to say nothing of every miner in

the world suddenly hedging. My point is that the stark increase in COMEX commercial selling appears unrelated to anything in the real world of silver; same as it ever was.

Of the 42,000 net commercial contracts sold over the past 10 weeks, about half were sales of long positions held by the raptors, not additional short sales. The other half was new short selling. The interesting thing is that virtually all the 21,000 contracts that were sold short since July 24 were sold by the big 4. That's easy enough to prove, as on July 24, the big 4 were net short 30,050 contracts and now they are short the above mentioned 51,612 contracts. I contend that JPMorgan accounted for 20,000 contracts of the 21,500 contracts sold short by the big 4, but let's set that aside for a moment and focus on the big 4 as a whole.

Since there were at least 36,600 spread contracts in the total open interest of 139,117 on the cut-off date that means there was a true net open interest of 102,500 contracts in COMEX silver futures. That means that the big 4 in COMEX silver now control more than 50% of the entire market (51,612 divided by 102,500). Four traders control half the market. That is a degree of concentration outside the bounds of any major futures market. It is impossible for that degree of control and concentration not to be manipulative, in and of itself. Remember, this is data from the CFTC. That the agency continues to publish such data and ignores the clear indication of concentration and manipulation is troubling. I

know that Chairman Gensler and Commissioner Chilton understand the meaning of such concentration and I am puzzled how they, above all others at the agency, continue to remain silent.

Worse, of the 51,612 short contracts held by the big 4, I am convinced that one entity, JPMorgan, controls around 34,000 contracts. By the same math (34,000 divided by 102,500), JPMorgan, alone, controls over 33% of the silver market. This is a degree of concentration and control only seen once before (yes, JPM in silver in December 2009). This degree of concentration would never be tolerated in any other market. Why the regulators would tolerate this is hard to conceive except in the most under-handed of conspiracies.

The facts are clear – the big 4 (through JPMorgan) sold short over 20,000 additional contracts (100 million oz) over the past 10 weeks. If you thought silver and gold prices were being capped over the past three weeks, you weren't imagining things. JPMorgan, by itself in my opinion, did the price capping. You don't have to be Einstein to know that silver prices would have been significantly higher (by \$20 or \$30) without JPMorgan's selling of 100 million paper ounces. In all my years, I have never seen a more blatant display of manipulation. It is truly alarming.

The worst part of this is the dangerous condition JPMorgan's actions have left

the silver (and gold) market in. We've all seen this movie enough times before to know the price rigging to the downside that usually results. With such an extreme short position JPMorgan and the other collusive commercials will be looking to rig a giant sell-off. Should we get that sell-off, absolutely no one should be surprised as we will go down in price solely because the commercials rigged it lower. As great as that risk may be, it is not the only possible dangerous outcome. JPMorgan, by virtue of their uneconomic and excessively concentrated short position, has also created the risk of a silver price explosion and in recklessly endangering the orderly functioning of the silver market.

This is the main problem with manipulative and controlling market share; something invariably occurs that causes the loss of control. This was supposed to be that great lesson learned from the financial crisis that Dodd-Frank was to address. According to the gospel preached by Chairman Gensler, we needed to avoid a replay of the concentrated credit default swap position held by AIG. Admittedly, silver is a much smaller market than credit default swaps, but the rule of law is not applied by size alone. Gensler, in allowing JPMorgan to replicate in silver what he promised to prevent from occurring because of AIG, has failed in his primary mission; Chilton as well.

The great danger to JPMorgan is that they are more exposed and vulnerable because of their bloated and crooked silver short position. It's not that someone bigger has to come along to challenge JPMorgan, because there aren't any

bigger than I can imagine. It's because of the nature of the trade that renders them potentially vulnerable. Someone buying paper futures contracts will not bring ruin to JPM, as they have already demonstrated over the past 10 weeks that they will sell as many more paper contracts as is necessary to cap the price. The danger to JPMorgan is that someone big will wise up and simply buy physical silver. If that someone comes along, JPMorgan will be in real trouble in a hurry. JPM can sell paper silver short with no limit; but real silver can only be sold if you already own it. If and when enough silver buyers come to realize that, JPM's manipulative control is over.

Therefore, there is real danger both to the downside and to the upside of disorderly markets. That's the problem with concentrated positions; they put the whole market at risk. Why the heck should innocent silver investors, producers and bystanders be subject to JPMorgan's manipulative activities? Why should an established market be subject to ruin because of one crooked player? And the fact that the biggest crooked player is a major US bank only increases the stench of this mess.

Also increasing the stench was the release yesterday of the new Bank Participation Report, which not only confirmed the massive increase by JPMorgan in its silver short position, but also included an interesting footnote about the change of classification of a trader mentioned here (and elsewhere) a couple of weeks ago. It seems a non-US bank has been included in the bank



data for the first time and this has resulted in a big increase in reported gold and silver short positions.

<http://www.cftc.gov/MarketReports/BankParticipationReports/index.htm>

Based upon the data as of Oct 2, it appears that both US banks and non-US banks account for the entire COMEX silver commercial net short position. In other words, not only is the COMEX silver short position concentrated and manipulative, it is held exclusively by banking entities. My quick take is that JPMorgan has a partner in the form of a foreign bank holding more than 10,000 contracts net short in silver. The odds that these banks are not colluding to control the price of silver are too remote to contemplate. In many ways, this new Bank Participation Report is every bit as revealing as the report from August 2008 that led to the four year old silver investigation. For one thing, JPMorgan's silver position in this report is much larger than in the 2008 report.

What to do about all this? The simple answer is to batten down the hatches. I know the next really big move in silver must be to the upside; but I am unsure of the next \$5 or more move. I am more convinced than ever that we will see \$100 or more in silver; but these crooked banks can do anything in the interim. As nervous as I may be about a sharp sell-off, I am still more nervous about missing the big move to come. At this rate, I will be a nervous wreck by the time we get to \$100. I guess no one promised it would be easy.

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I have not heard from anyone as a result of me writing to each board member at JPMorgan and it has been over a month. I guess I got a reply in the massive increase in JPM's short position. I suppose that's better than hearing from their lawyers. I am more amazed how a Gary Gensler-led CFTC can abandon important rule of law considerations and concern for the tens of thousands of fellow citizens who have been damaged by the ongoing silver manipulation. Now that JPMorgan has kicked the agency's butt in getting position limits overturned and thumbed their noses at the agency in greatly increasing their manipulative silver short position, then it's probably a good time for the CFTC to conclude that they found no wrongdoing in their four year silver investigation. Thanks guys for your great service to the nation. You should be proud. Yeah, I'm being sarcastic.

Ted Butler

October 6, 2012

Silver - \$34.50

Gold- \$1781