October 8, 2011 – Weekly Review

Weekly Review

Amid continued daily price volatility, both gold and silver managed to rise somewhat following four weeks of price declines. Gold added $15 (0.9%), while silver added $1.25 (4.2%) for the week. As a result of silver's outperformance this week, the gold/silver ratio also tightened a bit for the first time in weeks to almost 52.5 to 1. Year to date, gold is up over 15%, while silver is basically flat. On a longer term basis, silver has generally outperformed gold, despite the recent manipulative shellacking in price.

As I suggested in the mid-week review, short term changes in the gold/silver ratio is not the prime factor behind my persistent suggestion to switch from gold to silver. Rather, I would ask you to focus on the reality of relative money flows and total market capitalizations in each. At current prices and respective world bullion inventories, the dollar amount of all the gold bullion in the world is more than 160 times greater than the dollar value of all the worlds silver bullion. Considering the actual amount of how much new gold and silver are available for purchase each month compared to actual investment flows, it appears a near certainty that silver will appreciate sharply relative to gold over time. The recent obvious intentional takedown in silver has provided those in position to switch from gold to silver a particularly good opportunity to do so currently.

Tight conditions in the wholesale physical silver market seem firmly in place. While total levels of COMEX warehouse inventories remain fairly static, the daily turnover in these inventories continues at a frantic pace. I know I seem alone in making a big deal out of the movement in and out of these inventories and not the total level, but I remain convinced this is the important inventory issue to focus on. These movements scream tightness to me. As silver prices have stabilized somewhat, so have the flows into and out from the big silver ETF, SLV. This seems normal to me and suggests the bulk of any big liquidation is behind us. I do await the next release of the short sale data this week (still expecting a significant decline), but considering the dramatic changes in the COTs, any reduction in the short position in SLV might be anti-climactic.

Something not anti-climactic is the pace of sales for Silver Eagles from the US Mint. Although an increase in sales was expected in the wake of the stunning decline in price, the actual numbers from the Mint are noteworthy. Please recall that through the third week of September, Silver Eagle sales were lackluster and on a pace to record the slowest monthly total of the year. Then the deliberate smash in price on the COMEX occurred and the magic of the law of supply and demand took hold. As a result of the sudden 30%+ takedown in price, Silver Eagle sales abruptly turned around and torrid sales in the final week of September turned that month into, effectively, the largest in the 25 year history of the American Eagle bullion coin program. The sales surge continues, with sales during the first week of October being the largest one-week total in my memory. Already, total year to date sales of Silver Eagles have surpassed the full year total for last year, which was the previous high water mark. And we still have more than two and a half months left in the year.

To the US Mint's credit, it has appeared to have ramped up production capacity over the past few months, although my sense is that despite that capacity increase, the Mint will continue to sell out all they can produce at or near current prices. Away from the absolute numbers of silver coins the Mint is producing and selling, the relative amount of Silver Eagles being sold is by far the highest relative to Gold Eagles in history. This is an objective measurement to monitor relative investment flows of silver versus gold and is strongly supportive of my switch to silver from gold premise.
http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2011

The changes in this week's Commitment of Traders Report (COT) were constructive in both gold and silver, with the silver changes nothing short of stunning. The same was true with the monthly Bank Participation Report, which was released on Thursday. As a result of extreme reductions in the total commercial net short silver position over the past few weeks, a number of historical records were established.

The total commercial net short position in COMEX silver futures was reduced by 5300 contracts this week to just under 19,000 contracts. This is the lowest total commercial net short position since 2003, when silver was priced in the four dollar range. Basically, the big 4 (JPMorgan) bought back 1900 short contracts and the raptors added almost 3900 contracts to a net long position that now amounts to just over 20,000 contracts, the largest raptor net long position since early 2010. The big 5 thru 8 added almost 500 new shorts. As a result of this week's reduction and the reduction for the month, JPMorgan now sits with its lowest COMEX silver net short position since acquiring Bear Stearns' big concentrated short position in early 2008. I'd estimate JPMorgan's concentrated short position at less than the 16,000 contracts I had estimated previously, maybe down to the 14,000 contract level. (I'll discuss this more in a moment).

Over the past month, directly attributed to the deliberate 30% price smash, the commercials have reduced their net short position by a stunning 25,000 contracts, the equivalent of 125 million ounces. This is in line with the 150 million oz total reduction I estimated recently when factoring in other markets (SLV, etc.). To achieve such an historic reduction in the total commercial net short position, the reciprocal speculative net long positions were also reduced to historically low levels. The net long position in the managed money component of the disaggregated report was at the lowest level since the CFTC has reported those figures. Amazingly, the net long position of the non-reporting traders was the lowest it has been in my 30 years of studying the COTs. Clearly, the leveraged long speculators, both large and small, served as the cannon fodder for the commercials' collusive and successful activities. While it is always possible for there to be additional liquidation amid further manipulation to the downside, it is important to remember that you can't get blood from a stone. Given the extremely low level of speculative long positions remaining, it is hard for me to imagine further bloodletting.

It should be obvious that the commercials, acting collusively and with deadly intent, rigged prices lower to force speculators to sell. That these crooked commercials have succeeded in their deliberate manipulation of the silver price should also be obvious. Ever since I started writing about the COTs in silver and gold some years ago, I have noticed that quite a few other analysts and commentators have taken up study of this data series, most often without attribution for who or what directed them to do so originally. Attribution aside, it amazes me that anyone could report on the stunning COT changes recently in silver (and gold) without acknowledging the deliberate and manipulative intent of the commercials behind the changes. To me, it comes down to a question of basic honesty. There are two aspects to the stunning reduction in the commercial net short position. It's one thing to report the changes; but quite another to avoid discussion on how these changes came about. Let me say it bluntly Â? anyone reporting on the dramatic changes in the silver (and gold) COTs without admitting how these changes came about is less than honest. It is one thing to conveniently forget where you may have learned something, but quite another to intentionally overlook an obvious manipulation, simply because admitting it would be at odds with a previous non-manipulation stance.

In gold, the commercials reduced their net short position by a further 1900 contracts to just under 165,000 contracts. This is still the lowest level in a couple of years and leaves gold, along with silver, in a spectacularly bullish structure. Since the changes in gold this week were minor, I'll skip a detailed analysis of the week's changes. Bottom line is that as far as the COT structure alone in concerned, gold is good to go, as is silver

As I was contemplating the changes in the COT and Bank Participation Reports, I received an email from a subscriber that mirrored exactly what I was thinking. This is one of my greatest joys, as it reminds me how fully readers may get my message and analysis. Rob asked me, effectively, if the giant reduction in JPMorgan's concentrated short position didn't eliminate the possibility of a large short covering price rally. Rob asked a great question. To remind you, I have written in the past of my three critical factors to come in silver; a short covering rally, a continued investment boom to the point of perhaps creating a silver price bubble, and a shortage and an eventual industrial user buying panic. I still believe all three will come into play and that, in fact, the recent outsized takedown in price will actually enflame the coming investment boom and bubble and the inevitable silver user inventory buying panic and physical shortage. That's based upon human nature and the law of supply and demand.

But what about a short covering panic, now that JPMorgan has closed out so much of its short position on the intentional rig to the downside? Not being one to argue with reality, I fully concede that it does not appear likely that JPMorgan holds a sufficiently large short position to put them in danger of panicking to the upside now. If anything, they just panicked to the downside. As such, I agree and concede any short covering by JPMorgan will not take silver to the stars. I think there is a good chance that JPMorgan could drive silver higher soon, if and as they move to buy from the raptors at higher prices, but probably not in a panicky manner like they did near $50 back in April.

What I think JPMorgan's sharply reduced silver short position will mean is that my good friend and silver mentor, Izzy Friedman's, pet theory of the Full Pants Down is unlikely to unfold. You may remember Izzy's theory, how a silver shortage would likely catch everyone, including the masters of the universe, completely unprepared, forcing them to buy in a panic to the upside. There is no question that there would have been a decidedly full measure of comeuppance in such an outcome, but JPMorgan's successful short covering on lower prices virtually eliminates them as having their pants pulled fully down. While I would have preferred Izzy's scenario, it now looks more likely that my own long held theory stands a greater chance of unfolding. I have always held that there was likely to be a sell-off to end all sell-offs immediately before the real lift-off in prices, in which the commercials shorts bought big to the downside and then refused to sell short as prices began to climb. This lack of new commercial shorting would create a void or vacuum to the upside, allowing silver prices to reach historic levels. Of course, it is too soon to determine which scenario, if any, will actually unfold, but mine appears more likely at this point.

And just because JPMorgan has succeeded in manipulatively reducing their own short position, there still remain other paper shorts (not the raptors right now) both currently and prospectively still capable of getting caught on the short side. While I am conceding that JPM closed out to the downside, the key question is whether they will ever return as the big silver short in the future. If they don't, then the short side may have lost its big protector on future silver rallies. This is what I was thinking when Rob emailed me. Yes, JPMorgan may have covered most of its short silver position, but rather than that being the obvious detriment to an overall short covering rally, it might actually be a benefit on future price rallies. It comes down to whether JPM will ever stick its head back into the lion's mouth again, after successfully removing it before it was bitten off. Let me explain why I think we may have seen the last of JPMorgan selling silver aggressively short ever again (Yes, I know ever is a very long time).

I don't think the timing of this silver price smash and JPMorgan's blatant role in it was happenstance or coincidence. The matter of position limits looms directly ahead, with a CFTC public meeting set for October 18. Considering the glare of publicity on the Commission's delay and inability to reach a voting consensus, I believe this is a firm date and unlikely to be further delayed. Last week's postponement of the Senate meeting by the Permanent Sub-Committee on Investigations to accommodate the CFTC's Oct 18 meeting virtually assures there will be no further delay. At this point, even a failed vote by the Commission on position limits looks preferable to another delay. It seems to me highly logical that JPMorgan and the other commercial crooks on the COMEX recognize the position limit landscape will be changed after this meeting and that was what prompted the timing of the big intentional takedown. If so, the odds of JPMorgan going short big in the future are nil.

In addition, this silver short position of JPMorgan, even though it has been manipulatively reduced, has not been a profitable overall venture in recent years. If anything, JPMorgan and the other COMEX crooks are all about mo' money; they don't do a thing without a profit motive. Being short silver is not and has not been a road to profits. JPMorgan has a zillion other ways to cheat people and make money; they don't need to mess with silver.

Lastly, this silver short position has been a public relations disaster for JPMorgan. The popular media has never picked up on it, but it is common and widespread knowledge on the Internet that JPMorgan has been the big silver short crook. I take credit for being the soul behind that common knowledge and you have my word that I send my two articles each week, in which I clearly label JPM as being that big crook, to the CEO of JPMorgan, Jamie Dimon. I am still amazed how JPM and the CME Group remain silent in the face of such serious accusations, but it convinces me that my allegations are accurate. Eliminating this constant criticism would seem to be reason enough for why JPMorgan would get the heck out of silver and never return.

In summary, while Rob's point about JPMorgan no longer being in position to cover frantically to the upside is valid, I am convinced it still may be for the better. In retrospect, it now appears likely they never would have covered in a panic (other than in April), so it's just as well that they did so at intentionally lower prices. Certainly, the sharply lower prices only enhance the prospects for a physical shortage and an eventual user buying panic.

On a related matter and in regards to another reader question, the loss of speculative long positions on the COMEX may be thought to be negative to future price advances. I don't think so. Yes, COMEX participation is way off, but that's not necessarily bad. As I wrote in the Great Silver Transition (Dec 8, 2010 in the archives), the loss of influence by the COMEX is not to be feared. In fact, the total demise of the COMEX itself would be the best thing possible for higher prices. That's because the COMEX has been the chief mechanism by which the silver manipulation has been continued. More specifically, the ability of the COMEX commercial crooks to go short in unlimited quantities and the ability of these crooks to game the leveraged longs are the precise mechanisms behind the silver manipulation. Therefore, any restriction in COMEX speculative activity would diminish the commercial crooks' ability to rig prices. The sooner the world transitions from a paper market pricing mechanism to a physical market mechanism (intended by commodity law) the better.

To be consistent, the COT structure (which I characterize as extremely bullish in silver and gold) is based upon the defective paper mechanism on the COMEX which I just derided. I don't make the rules; I just try to understand what's going on. The COMEX has been the prime silver price determinant for decades. It never should have been that way, but it appears to be fading. That is good news, as is the current structure. The only bad news is how we arrived at the current structure. I doubt we will ever see such a manipulative takedown again; or a more shameful lack of reaction by the regulators.

In closing, where we are is good; how we got here is bad. Looming large on the horizon is the Oct 18 meeting on position limits. I plan on giving more of a detailed preview, but a key feature will be if any mention will be made of the thousands of public comments requesting the implementation of a 1500 contract position limit in silver. I'm pretty sure reference to these public comments will be noted in the Federal Register published shortly after a proposal is voted on and passed, assuming position limits are ever passed. But I will be curious to see if the matter of 1500 contracts as a silver position limit is mentioned during the meeting itself. The reason for my curiosity is that I have never heard any legitimate debate, either for or against, on the merit of 1500 contracts as the correct level for silver on an all months combined basis. This is similar to the silence on the part of JPMorgan and the CME Group to repeated accusations of wrongdoing and illegality. You would think by now, so close to the meeting itself and with ample time for study and discussion, there would have been some open debate by now. I would contend that 1500 contracts (7.5 million oz.) is such a perfect level for silver that it renders debate unnecessary. But hey, that's just me and my suggested level speaking.

I want to thank all of you who wrote (again) to the Commissioners about the crooked goings on in silver and the agency's shameful non-response. I firmly believe that your petitions are making a difference. Several of you have even forwarded to me replies you received from Commissioner Chilton, in which he referred to a public speech he gave Thursday that contained strong words on the need for position limits. http://www.cftc.gov/PressRoom/SpeechesTestimony/opachilton-54

As always, Commissioner Chilton is to be commended for his open communications with members of the public. I wish all public servants were as accessible as Chilton. Perhaps he might break the ice on the silence heretofore in effect on the merits of a 1500 contract position limit in silver. I would hope, sooner or later, someone at a high level would specifically discuss what thousands of members of the public thought was important enough to officially comment on. With the vote on position limits soon approaching isn't it time to get specific? If you are so inclined, you might ask Commissioner Chilton where he stands on the specific level of limits in silver. I'm sure by now; he must have a strong opinion.

Ted Butler

October 8, 2011

Silver – $31.25

Gold – $1640

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