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

What had been a fairly flat trading week changed abruptly on Friday as gold and silver prices exploded that day to finish at new multi-month highs. For the week, gold finished $22 (1.3%) higher, while silver jumped $1.15 (3.8%). As a result of silver's outperformance relative to gold, the gold/silver ratio tightened in to under 53.5 to 1, the best relative reading for silver since late April. In my opinion, silver is still massively undervalued compared to gold on a long term basis, but whether that translates into better short term silver performance is outside my predictive abilities (as always).

It wasn't just the size of the price move on Friday that was notable, as volume increased dramatically on the COMEX and in the big gold and silver ETFs, GLD and SLV. I know much has been attributed to comments from the Fed chairman yesterday, but it was still a summer Friday before a three-day holiday and the volume and pricing did stand out. Although we had quieted down this week volatility-wise before Friday, my sense is that we are on the cusp of increased volatility.

Conditions in the wholesale silver market still appear tight based upon the warehouse movement indicator. The turnover in COMEX-approved silver warehouses maintained the now-usual high rate, as total inventories rose more than 1 million oz to just under 141 million oz. I'm still convinced that for purposes of indicating tightness in supply, the turnover matters more than whether total inventories are rising or falling. Also suggesting tightness is the lack of deposits into the big silver ETF, SLV, following recent strong price and volume gains, as I reported on in Wednesday's report. In fact, there was another withdrawal of metal after that article. Friday's very heavy volume in SLV (the highest in 5 months) most likely means that millions more silver ounces are now owed to the Trust. Interestingly, Friday was also the cut-off for the short position report on stocks, but the data won't be released until Sep 12. Lastly, the relative few numbers of contracts delivered in the first two days of the Sep COMEX futures contract versus the rather large relative amount of open interest remaining in that contract also suggests tight physical conditions.

Sales of Silver Eagles picked up for the month, but I was somewhat disappointed that the 2.87 million oz total didn't break the 3 million oz mark after such a strong initial start for August. I had speculated previously that the strong initial sales of Silver Eagles in August may have been due to a single big buyer, as overall retail demand seemed soft a month ago. Continuing to speculate, I sense that the big buyer may have stepped back on the recent price rise, just as retail demand perked up. I admit to looking too closely at the data, but one thing that is obvious is that this year demand for Silver Eagles compared to sales of Gold Eagles has never been stronger. That's another indicator pointing towards a tightening of the gold/silver ratio and the wisdom of switching gold positions to silver.

Based upon big price increases for the reporting week, it was expected that there would be sizable increases in the headline total net commercial short positions in this week's Commitment of Traders Report (COT) for both gold and silver. There were no surprises in that regard. In gold, the total commercial net short position grew by a very sizable 32,400 contracts to 203,600 contracts. This is the largest total net commercial net short position since Feb 28. Ominously, that proved to be a top in gold (and silver) from which gold fell more than $250. Does that mean we face the same outcome this time? Not necessarily, but neither can a sell-off be ruled out.

By commercial category, it was the typical three musketeer collusive routine in gold in which all three commercial categories added to short positions. The big 4 added 15,000 short contracts, the 5 thru 8 added 2000 and the raptors (the smaller commercials apart from the big 8) added 15,000 contracts, pushing the raptor net short position to an all time high of near 52,000 contracts. While I hate to rely on preliminary open interest data, since it is subject to wide revision, the preliminary data for yesterday's very high COMEX volume indicates another big surge in gold total open interest. The unmistakable conclusion is that all the commercials added to gold shorts on Friday. In for a penny, in for a pound.

The price of gold has rallied more than $100 since the COT of July 24, with the total commercial net short position increasing by 67,000 contracts, with the gold raptors accounting for more than 60,000 contracts of the total net increase. The buyers were a variety of speculators, both buying back previous short contracts and establishing new long positions. As I have indicated recently, it is possible for the gold commercials, particularly the raptors, to get caught in a short squeeze as occurred last August. It is also possible for the collusive commercials to pull the plug on prices as they have done continuously in the past. If the gold price rise has been due mainly to COMEX activity (as I suspect) that would give the upper hand to the commercials, although prices could still rise further short term. I admit to not having a strong sense of physical gold flows.

In silver, the total commercial net short position increased by a sizable 6100 contracts to 38,500 contracts, also like in gold, the highest level since Feb 28. The price of silver fell more than $10 from that top. Anyone who doesn't see the connection (and manipulation) between COMEX positioning and prices doesn't want to see. As I described last week, the big increase in the total net commercial short position in silver didn't come from a big increase in new commercial short selling (like it did in gold). The silver raptors sold out almost 5400 contracts of their net long position which mathematically increases the total commercial net short position. The raptors are now net long 6400 contracts as of the Tuesday cut-off. That's the lowest raptor net long position since you guessed it Feb 28. I would imagine they may have sold out more on Friday's rally, although there is quite a stark difference between the raptor still long net position in silver versus the raptor record net short position in gold. If you don't mind following collusive commercial crooks, the raptors also seem to be recommended silver in the gold/silver ratio switch.

The big 4 in silver (read JPMorgan) appear to have added only 700 contracts in the reporting week, to 37,500 contracts. I'd peg JPMorgan's concentrated net short position to be 22,000 contracts (110 million oz). Although the increase this week was modest, it appears that JPM was the only commercial to add to short positions, as has been the case for weeks. I know it gets repetitive, but there can be no greater proof of manipulation than having only one entity adding shorts or establishing longs in any market. If the net new short seller is also the largest existing concentrated short, as is JPMorgan in COMEX silver, regulatory lights should flash and sirens sounded. I know, I know, there are new rules to be promulgated and meetings to attend and speeches to give who has time to bust up a blatant manipulation?

One aspect to this week's modest increase in JPMorgan's short position is that it might explain why silver jumped even more in price this reporting week, than it did in previous reporting weeks when JPMorgan was adding to shorts more aggressively. I may be overly sensitive to what JPMorgan does in silver, but the fact remains that silver jumped more in price just as they lightened up on adding many more shorts. Obviously, it would be instructive to know what JPM was doing on Friday's big jump in price. Yes, I'm still convinced that what JPMorgan does will determine the price of silver. I look hard to find evidence that it is not JPMorgan most influencing (and manipulating) the price of silver; but I don't seem to find it.

Where do we go from here? Same answer short term, I don't know. Long term, silver much higher. But I still know what I'm going to do, namely, sit tight with all silver positions. I don't see us sitting at current levels for long and that's another way of saying that price volatility will undoubtedly increase. The commercials have made a big recent bet that they will be able to turn gold and silver prices down, but in doing so they may have exposed themselves to a short squeeze. I'm reminded of my friend and silver mentor, Izzy Friedman's, theory of the collusive commercials being caught with a full short position (the Full Pant's Down). I don't think he imagined it to occur in gold, but I suppose it is possible. Izzy based his premise on a physical shortage ultimately breaking the back of even the strongest silver short. A physical silver shortage will always have the ultimate final word for price. Should a silver shortage develop, as it should and must at some point, take all the charts and COTs and overbought technical readings and fortress balance sheets and throw them all out the window as only the shortage will matter. Until then, manipulative games will matter, but only up until the point of shortage. Izzy always insisted that the big commercial shorts would be as blindsided by the shortage as the rest of us.

Just as I know what I will be doing with silver positions in the short term (sitting with them), I also know what I intend to do if the commercial crooks smash the price again (hopefully, I may have more on that soon). In the interim, I'd like to include here a piece I just did for Investment Rarities which is somewhat promotional in nature.

The Multiplier Effect

For more than ten years, I have remained committed to the idea that silver would outperform most other assets, including gold. For the most part, that has largely proven to be the case, despite sharp sell-offs in the price of silver along the way. Even after a number of unprecedented and deliberate price smashes over the past year and a half, silver still has recorded superior outperformance to just about every other investment asset. In simple terms, you would have made more money by investing in silver than almost anything else. Based upon all the facts as I see them, silver will likely generate better relative returns going forward and the sharp price setbacks enhance the profit outlook. What could be better than buying a proven long-term performer at a bargain price?

Today, I would like to explore one of the underappreciated characteristics about silver that contributes mightily to its investment appeal on a relative basis. It is fairly well known that silver has always been the cheapest of all the precious metals and because of that it is easier for silver to climb higher in percentage terms than its pricier sister metals, like gold, platinum or palladium to less well-known precious metals like rhodium and iridium. In terms of relative investment performance, the only thing that matters is percentage returns; every investor always wishes to hold the best percentage performer. Because silver is so much cheaper than any other precious metal that means that for the same amount of dollars, one can control many more ounces of silver than the others.

I know this may sound elementary, but the combination of a cheaper relative price and the inherent better percentage potential returns amounts to a multiplier effect in silver compared to any other precious metal. What I believe is underappreciated about silver is the power of this multiplier effect, especially when compared to gold. At current prices, an investor could purchase more than 50 ounces of silver for every one ounce of gold. Because that ratio of silver to gold ounces has largely been in place for the past ten years and even longer, the market has come to accept it as normal and something likely to persist. To the contrary, I would contend that being able to buy 50 times the number of ounces of silver for every ounce of gold will come to be viewed as an opportunity that could not last. Those that do seize the opportunity should be amply rewarded. In simple terms, if you were inclined to purchase gold or any other precious metal at this time, the multiplier effect unique to silver would suggest your investment dollars would be better served there.

There are a number of factors behind the advantage of the multiplier effect of being able to buy 50 times the amount silver compared to gold with the same amount of money. For one thing, there is not 50 times more silver available for investment than there is gold, as is suggested by the current price ratio. In fact, there is less silver available for investment than there is gold. That should sound impossible to you and would sound crazy, were it not for the relative prices that have prevailed for decades. Because the price of silver has been distorted so low relative to gold (and all other precious metals) for so long, our collective eyes have been deceived into believing that gold is much more rare than silver. In terms of the amount available of each for investment, silver is more rare than gold. Yes, I'm saying that our eyes are lying to us. But it is that lie that can make you a pile.

I'm not going to get into the reasons why silver is so depressed in price relative to gold and other assets because I write of the silver manipulation incessantly. But the manifestation of the manipulation is the abnormally low price of silver, seen most clearly when looked at in terms relative to gold. You would not be able to buy more than 50 times more silver than gold for the same amount of money unless silver were artificially depressed in price. Since all manipulations must end, when the silver manipulation ends also ended will be the chance to buy such excessive amounts of silver relative to gold. What's so great about all this is that it explains so much. Let's face it if I'm going to present such an extreme circumstance as silver being rarer in investment terms than gold but that the price of each reflects the opposite, then I better have a darn good reason to explain my extreme opinion. That silver is manipulated in price is perhaps the only reason possible to explain such an extreme undervaluation. Once you grasp that, the opportunity of acquiring more than 50 times more silver ounces than gold should come into focus.

Not only are there actually less silver ounces available for investment than exist in gold, there is also a lurking competitive silver buyer in the wings that does not exist for gold. Silver is widely used in numerous industrial applications; used in more applications than exist for any other metal. Gold, mainly due to its relative high price, is not consumed industrially anywhere near as much as silver. Over the past few decades, industrial consumers have intentionally allowed their inventories of everything dwindle down to near zero in our just in time manufacturing and delivery world. Therefore, the inventories of the silver industrial consumers are also near non-existent levels. At the first sign of delivery delays and shortage, the silver industrial consumers will join with the world's investors in rushing to acquire and stockpile silver. Since there can be no big industrial user panic-buying in gold (because it is not widely consumed industrially), only silver will feel the force of industrial user buying. This will exert upward pressure on the price of silver relative to gold and the days of buying 50 times more silver than gold for the same amount of dollars will be a distant memory. This will prove to be a windfall for those who bought silver when getting was good; like now.

There is another factor in the extreme price disparity between silver and gold that bears mentioning. If silver is cheap compared to gold, then another way of saying that is gold is expensive compared to silver. For the past ten years, gold has climbed impressively in price. For all of that time, I've felt that gold was likely to go higher based upon many factors including leasing/forward selling and the same COMEX-price rigging games present in silver. Now that gold has climbed impressively in price over the past ten years and considering the 3 to 5 billion ounces of gold in existence, the total value of all that gold in now measured in the trillions of dollars; anywhere from $5 trillion to over $8 trillion. At the gold price low of $250 a bit over ten years ago, all the world's gold was valued between $750 billion to $1.25 trillion. So there has been a sharp increase in total gold value by many trillions of dollars. Every $100 higher in the price of gold adds as much as $500 billion to the total dollar value of the world's gold. These levels of gold valuation are comparable to the biggest markets, including important stock, bond and real estate markets. In comparison, the total value of the world's roughly one billion ounce of silver is in the low $30 billion area. In other words, silver's total dollar amount is the smallest fraction of what all the world' gold is worth.

I don't think trees can grow to the sky and I do think there are upward limits to the value of anything, including gold and silver. A record number of the world's inhabitants would currently have trouble affording one ounce of gold. Instead, more have turned to selling gold jewelry at the higher prices available over the past few years, particularly in North America and in Europe. Admittedly, this may be more related to personal economic distress than high gold prices alone, but cash for gold is a recent phenomenon made possible by gold's relatively high price. While silver has gained even more than gold in percentage terms, given its extremely low absolute and relative price, many times more potential purchasers can still afford silver and there has not been the widespread selling of silver jewelry and other items, like there has been in gold. Here too, I think this is another reflection of silver's extremely low valuation.

The bottom line is that the higher gold goes in price, the fewer the number of those who can afford it and the more that might be tempted to liquidate additional holdings. At some point, this will most likely occur in silver as well, but not when you can still buy 50 times more silver than gold for the same amount of dollars. Before silver can get truly overvalued on an absolute or relative basis, it must cease being undervalued. Then it can move to fairly valued. That's a long way price-wise from here.

The remarkable aspect to silver's absolute and relative extreme undervaluation is how so few investors are aware of the true circumstances, including almost all of the world's biggest investors. While there are many large investors in gold, they are almost completely absent in silver. My guess is that these large investors still believe their own lying eyes and accept that silver being priced less than 2% of the price of gold reflects a much greater gold rarity. Because these large investors have not yet made a move to silver, if and when they do, they will be joining forces with other investors and industrial buyers. Certainly, these large investors can't and won't sell silver before they buy it; so they can't now exert selling pressure, as they can in gold.

Finally, there has been increasing talk of some type of gold standard. Leaving out any discussion of whether this is likely or feasible, let me just comment that were a true gold standard to be established, that event would be price neutral for gold after enactment, as money would be officially gold and vice versa in some way. In essence, there would be little reason for holding gold if the dollar or any other currency were truly convertible into and backed by gold. But such an event would be profoundly bullish for silver, as silver would then become the new gold. Since there is less silver available for a silver standard than there is gold and no government owns any silver (especially compared to the many that do own gold), the establishment of a gold standard would set the price trajectory of silver skyward. Personally, I don't see a gold standard ahead, but if it comes, holding silver would be the best play.

If you are considering the purchase of precious metals at this time, silver is the one to buy. It is rarer than gold in investment quantities yet priced as if it were more than 50 times as plentiful. Considering the massive quantity of silver that can be bought for the same dollar amount as compared to gold, the biggest potential multiplier effect silver can have may be on one's financial health and wealth.

Ted Butler

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Silver – $31.70

Gold – $1692