September 24, 2011 – Weekly Review/Perfect Crime

Weekly Review

In perhaps the most volatile commodities week in memory, the price of gold and, especially silver, got crushed. Gold fell by $155 (8.5%), the largest weekly decline that I can recall, while silver fell a shocking $9.70 (24%), rivaling the epic decline of early May. Silver's entire gain for the year to date was wiped out, with almost all of the loss occurring on Thursday and Friday. Gold is still up more than 16% for the year, although that might feel like small consolation to gold investors this week. As a result of silver's stunning price collapse, the gold/silver ratio blew out by 9 full points to 53.5 to 1, the worst relative reading for silver in a year.

Unless someone was trading the ratio on margin (never advised) this is an incredible opportunity to switch gold into silver and to purchase silver on a long term basis, as I'll expound upon as we go on. Likewise, this week's price decline in many commodities brought home the lesson against trading anything on margin more forcefully than any sermon from me or anyone else on the perils of such leveraged trading. Please don't take that in any bad or scolding sense, as my heart goes out to those caught in the maelstrom of what is clearly a provable major manipulative event.

There is much to cover this week and I plan to address some of the central issues that many of you have asked about, namely, what the heck just happened and where do we go from here? Because of the variety of issues to discuss and my intent to address them all, this week's review might take on a somewhat disjointed presentation. I'll try not to linger too long on any one matter and if I fail to address something important to you, please get back to me.

The week's decline in certain commodities was truly epic. While nearly all commodities fell for the week, it was more than curious that the biggest declines seemed to come in the commodities traded on the NYMEX/COMEX, owned and operated by the CME Group, which I have previously identified as a criminal enterprise. In addition to gold and silver, other CME Group commodities that fell the most this week were crude oil (off 9%), platinum (off 10.7%), palladium (off 13.2%) and copper (off 15.6%). My first observation is that there was an underlying connection between all these declines, which I'll explore in a moment. My second is that, true to form, whenever there is a general commodity price decline, silver always falls the most. In fact, I think it is safe to say that silver is generally expected to always fall the most, due to simple historical experience. But if you step back and try to rationalize why silver always declines the most, you are hard-pressed to offer a cogent reason. (By the way, when I say you, I am also directing this to the regulators). It's not a simple case that silver is a small market that it is so volatile. While smaller than copper, gold or crude oil, silver is larger than platinum and palladium and a host of other smaller markets that aren't as volatile as silver. Size is not why silver always falls the most.

And why is it that silver never climbs as much in a day or week as it falls? In a true free market, one would expect equal volatility to the upside as to the downside, especially in a market that has climbed many-fold in price over the years. I would submit that this price pattern alone should be enough to alert any objective observer that something about silver is not free. That's because silver is the opposite of a free market and instead is manipulated. You don't have to go any further than to observe that the concentrated short position held by JPMorgan is behind the price manipulation in silver. The only question is how long the regulators can pretend to ignore it. Recent price action only increases the pressure on the CFTC to man up and do the right thing.

There are common denominators behind the price fall in commodities this week, even on non-CME Group markets. One denominator is that in every market there exists a central matchup of forces opposed to one another, namely, speculative technical traders against the combined forces of the commercials (generally large banks). The speculators are mostly hedge and technical funds, but also include smaller individual traders. A second common denominator is that as groups, both sides generally act in unison. On price declines, especially the declines seen this week, the speculators sold and the commercials bought as groups. This may lead some to conclude that the speculators were to blame for the big price declines because it was them doing the selling, not the commercials. I understand that but I ask you to think beyond that simple observation and ask about motivations and intent. How is it that the commercials, as a group, always buy on sharp sell-offs in gold, silver and other commodities? Is it just skill and good luck that the commercials always buy on every sharp silver (and other commodity) price decline? Not hardly.

The Perfect Crime

While most of you already know or believe that the silver market is manipulated, I'd like to demonstrate in a new way how that manipulation works. This applies to most of the markets run by the criminal CME Group. The impression that most observers have had of this two-day price collapse in many CME commodities is that leveraged speculators on the long side all sold at once. That's partially true, but misses the point. Further, that these speculators have sold (they have) and driven the price lower is then taken by many as a sign that the fundamental supply/demand situation has automatically changed. Not so fast.

Yes, a good number of leveraged speculators on the long side have sold and the price did collapse. But the key here is in the sequence of events. It's not that prices have collapsed because these speculators sold; it's more that the price first collapsed and then these speculators sold. In fact, this is an integral component and proof that the price of silver is manipulated. The big commercial shorts, led by JPMorgan know, better than anyone, that large numbers of leveraged speculators on the COMEX are motivated by price action alone. These technical traders buy when prices move higher and sell when prices move lower; it's simply what they do. The commercial crooks on the COMEX know they can get these technical traders to sell if the crooks can artificially lower prices enough. Every once in a while, the crooks pull out all the stops and dramatically engineer the price lower to really flush out the technical longs. That's what we have just witnessed.

What's wrong with this sequence is everything. There were no legitimate changes in supply and demand that caused the leveraged speculators to suddenly sell. These technical speculators don't even look at world supply/demand fundamentals; to them everything that you need to know is already reflected in the price. That is their market template and belief; price alone reveals everything and tells you what future trends will be based on current price action. Why they buy on the way up and sell on the way down is because of the belief that price accurately reflects the sum total of all fundamentals. I admit that there is certain logic to that market approach on the surface, but it also contains an unspoken assumption, namely that the market and price must be free. Therein lies the fallacy of this approach in silver Â? in a manipulated market, the price is not free, but is determined by actions of a few powerful market participants who adjust the price to suit their needs. That's what we just witnessed.

In many ways, this silver manipulation takes on the aura of the perfect crime. Precisely because the commercials always buy on sharp price declines, they can always say to the regulators and others who may suspect manipulation, Â?why are you suspecting us for the big price decline? We were buyers. Go look to those selling for why prices went down.Â? It's an argument that sounds legitimate if you stop right there (which the regulators invariably do). This may explain why the silver manipulation has lasted so long, as this is an argument which seems to make sense at first. But if you take one more step and grasp why the speculators were selling, the picture changes radically. If it turns out, as I allege and is easy to prove, that the commercials rigged prices lower first (through a variety of dirty market tricks) in order to induce the speculators into selling, then the Â?don't blame us because we were buyingÂ? excuse is revealed as the true manipulative tool that it is. It's all in the sequence of events, i.e., the selling by speculators only came in after prices were artificially rigged lower. That's the distinction you must grasp to understand that this silver manipulation is close to being the perfect crime.

Let me jump to my usual weekly recap before coming to some of the questions you've asked. Conditions in the physical silver market did not reflect the carnage in the price decline. COMEX warehouse movement continued at a frenzied rate, where truckloads of metal move in and out, almost daily. This is still unique to silver, as there has been no indication of frantic turnover in any other exchange warehouse metal (gold, copper, platinum and palladium). I can only conclude tightness exists in the wholesale silver market. US Mint sales of Silver Eagles picked up noticeably from what was starting to look like a bit of the doldrums in retail demand. As of Friday, we seem to be back to the 100,000 oz a day maximum capacity run rate http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2011

A report earlier in the week indicated that the Canadian Royal Mint expects to sell 25 million ounces of mostly Silver Maple Leafs this year. Between just the US Mint and the Canadian Royal Mint, some 65 million ounces of silver coins will be sold this year, or almost 9% of world mine production, the highest percentage ever. After this week's sharp takedown, retail demand is likely to surge in reaction to the Blue Light 25% off special discount in price.

The big silver ETF, SLV, reported a 2 million oz withdrawal earlier in the week, but based upon the massive increase in share volume Thursday and Friday, I would be shocked if we don't soon witness further withdrawals on the order of 10 million oz. in the days ahead. This should bring us back close to the washed-out level of holdings of 306 million ounces following the big 60 million oz withdrawal after the big May price smash. If that occurs, I would conclude all the 60 million ounces as being back in strong hands. One thing I would also expect is a sharp reduction in the reported short position in SLV shares; not in the very next short sale report due any day, as that report will be as of Sep 15 and won't include any short covering that took place Thursday and Friday. We'll have to wait at least two weeks to get the short sale data for Sep 30. My bet is, just like the short covering and commercial buying taking place in COMEX contracts, the manipulative shorts took full advantage of the self-created sell-off to buy back shorted shares in SLV. If I'm close to being accurate, this will have further improved the market structure and is supportive of higher prices to come.

This week's Commitment of Traders Report (COT) made for good reading, but is already overshadowed by the prospective improvement on Thursday and Friday, which occurred after the Tuesday cut-off. In the now-old current reports, the total net commercial short position declined in both gold and silver. As always, this bodes well for eventual higher prices. The raptors (the smaller commercials apart from the big 8) played a dominant role in the current report in both markets.

In silver, the commercial total net short position was reduced by a not insignificant 4700 contracts, during a reporting week of minor, but consistent price drops. The raptors bought 3100 contracts, increasing their net long position to 5700 contracts, the most they have been net long since July 5. The big 4 (read JPMorgan) bought back more than 1300 contracts, with the 5 thru 8 buying the balance of some 300 contracts. The total commercial net short position was the lowest since August 16, at 40,700 contracts, in the current report and is undoubtedly much lower now as a result of the super high volume price takedown on Thursday and Friday.

In gold, there was also a significant reduction in the total commercial net short position of 12,800 contracts, reducing that position to its lowest level since February. In this report, the gold raptors accounted for all the buying, having bought almost 16,000 contracts, with the big 4 selling an additional 5000 contracts short. In the process, the gold raptors (generally the most aggressive commercial traders) actually swung to a net long position of 7000 contracts, the first time they have been net long since July 5 (just before gold prices took off).

But the real COT story is what occurred on Thursday and Friday. My guess is that silver improved by a further 10,000 contracts and gold by as much as 20,000 to 30,000 contracts, based upon the volume and violence of the sell-off. If I'm close to correct, this would put us at or near to the best COT readings in years in both gold and silver. This should come as no surprise in that this was the reason for the dramatic price declines, namely, so the crooked commercials could buy as many contracts as possible. It is not a coincidence that the commercial bought so heavily on this price decline, nor was it just good luck or skillful trading. As I described above, this was cause and effect.

I have been writing a lot recently about the unprecedented commercial buying on the recent move up in gold and the resultant loss of liquidity. Because of that loss of true liquidity, I have been also predicting further volatility. I tried to point out that, despite the unusual commercial buying to the upside in gold, the commercials were still net short and would be looking to rig prices lower (although there was no assurance they would succeed). I think I wrote several times that nothing would surprise me in gold. It is now clear that the commercials did succeed in rigging prices lower and they have now bought back significant numbers of contracts.

In silver, I was prepared for some decline in price, especially if the commercials succeeded in driving gold prices lower. But I never fully anticipated the extent of the decline we have experienced. These crooks never cease to amaze me with how blatant a sell-off they can arrange, even after observing them for 30 years. I thought they more than out did themselves with what they accomplished in May. Well, they just did it again. One quick observation is that the events of May and this week would seem to make for a much better case of manipulation than what occurred in 2008, on which the class-action lawsuit against JPMorgan is based.

A subscriber correctly asked what good are the COTs if they can't predict such dramatic sell-offs as occurred in silver in May or this week, or the dramatic price declines in other commodities this week? Wouldn't I be better served by analyzing the market in technical terms with charts and trying to predict short term movements? These are good questions and food for thought. My conclusion is still that I can't predict short term price action, certainly with any thought that I would tell people when to buy and sell. The COTs are a tool for explaining what has taken place and what will likely unfold on a longer term basis. I think I would be on a fool's errand if I attempted to get anyone to trade the market short term. If I, or anyone, had strong conviction about short term movements, the opportunities for capitalizing on them would lead me to trade full time for a living, instead of analyzing on a longer term basis.

It is true, however, that I have been characterizing the COT structure in gold and silver as mostly bullish recently, although warning of great volatility. That's just the way it is in COT analysis. You can have a bullish structure and still not only not move higher, but actually witness dramatic sell-offs. In that case, the COT structure gets even more bullish. That's where I think we are now Â? really bullish in COT terms for both gold and silver. Does that mean we can't go temporarily lower in price and get even more bullish? Of course, we could go lower and get more bullish. But COT analysis is akin to horse shoes and hand grenades, you are not striving for pinpoint accuracy, but just to come close enough.

What we are trying to guess at this point is when the last speculator has sold. I think we're close to that, or will be very soon. We are now so far below all the moving averages in many commodities, like silver, copper, platinum, and palladium, that it is highly unlikely that new speculative short selling will materialize on lower prices. That's because there is no logical or low-risk price points to place stop-loss protection for new short positions other than the moving averages. For instance, the 50 day moving average in silver is still slightly over $40. Technical fund traders don't initiate new short positions in silver at $31, with a $9 risk. That's not a compelling risk/reward equation. Therefore, the only speculative selling from here on lower prices is long liquidation. After the liquidation I think we've witnessed, there can't be many long speculators left to liquidate.

Even the just-announced CME margin increases for gold, silver and copper after the close on Friday may not matter much except possibly in the very short term. OK, he initial margin requirement for a silver contract increased from $21,600 to just under $25,000, but please keep this in perspective. A silver contract had declined almost $50,000 in value over the last two days, necessitating holders to deposit that amount in under-margined accounts. Putting up an additional $3400 in margin may force some leveraged hangers on to throw in the towel, but not to the extent the impact of the multiple silver margin increases had back in early May. I don't trust the CME as far as I could throw them, but if under-margined traders are still alive in silver, I suppose this increase will quickly force them out. This doesn't promise to be a long drawn out price decline at this point.

The real question is what the certain coming silver price rally looks like after the last long speculator capitulates. Will it be long and drawn out or dramatic to the upside? I think it could be explosive based upon all factors present. To the long term investor, it doesn't really matter much. Once you buy, who cares if we go up slowly and surely or we explode forthwith? The real concern is how much we may go lower. Based upon the washed-out structure of the market, I don't think we go dramatically lower in price, but even if we do, that sell-off is likely to prove short lived. These new lower prices are likely to stimulate investment demand, as has been suggested in recent Mint figures and anecdotal reports on the retail front. Anyone wishing to side step the recent $10 decline is obviously too late at this point. Anyone fortunate enough to have done so, is now concerned with when to get back in, and correctly so, in my opinion.

A received a number of reader questions as to whether the sudden price plunge signaled a long term structural change in world economic growth and, specifically, in silver industrial and investment demand. I'm honored to be asked, but I am not qualified to answer as I am not a certified macro-economist. A man's got to know his limitations and I try to be the best silver analyst possible; I know I am not an expert on everything. My sense is that few truly know precisely what will unfold in the world economy ahead and those who do are not widely offering their opinion. I sense that not much has changed at this point in the world, although it is possible that we have some financial accident. If we do experience that unfortunate event, it still appears probable that silver should perform better than other investment alternatives.

What I am most certain of is that we didn't just decline in price so dramatically due to any legitimate world economic events. We declined so dramatically due to a manipulation on the COMEX, same as ever. The good news is that more are becoming aware of that manipulation than at any time in the past. It's good news because it gets increasingly more difficult for the CME and JPMorgan to continue this scam as more outsiders become aware of it. It is also good news that it is increasingly apparent that the CFTC is negligent in terminating this ongoing silver crime. It's good news because the questions have become more specific as time has progressed and it has become more glaring that the CFTC has been non-responsive. I am convinced that Chairman Gensler and Commissioner Chilton, at the very least, are keenly aware of the problem of concentration and dominance on the short side of silver. They know that they have not addressed this issue to the public's satisfaction and that cannot last much longer. That's why it's imperative that you continue to petition them. What's the alternative? Do you want me to suggest armed resistance or incite illegal behavior? A new thought did occur to me about apologizing for their failure to act to date to foreign readers, as an American embarrassed that a US regulatory institution could fail to perform their prime mission. Mostly I feel outrage, but the feelings of embarrassment about the CFTC towards foreigners are there as well.

The bottom line is that this latest takedown was so over the top as to be almost unbelievable. It was bad for existing silver holders temporarily but very good for prospective buyers in the bargain it created. Rather than curse the darkness, light a candle instead and buy some silver. And give the regulators a piece of your mind. They should stop spending so much time on writing new rules so as not to let it prevent them enforcing the existing laws governing manipulation. And please remember that the commercial crooks are buying hand over fist and that no one buys anything unless they expect the price to go higher.

Ted Butler

Date Created
2011/09/24