

Reconciling Prices<?xml:namespace prefix = o ns =
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Every day, whether we like it or not, most of us are confronted with daily gold and silver price movements that cry out for explanation. Sometimes, like is the case currently, the daily price movements are sharp and almost impossible to explain. It's one thing to predict or expect price volatility; yet another to fully grasp what's behind the sudden price changes. Lately, silver has been up or down 50 cents or more almost every day and there has been excessive daily volatility in gold and copper, also traded on the COMEX. This year has been among the most volatile years for silver and gold prices in memory, so even if you stick to a long term approach, the price volatility cries out for explanation.

It is natural to seek out the cause of the price volatility, but any explanation must address both the short term volatility and the volatility for the past months and years as well. By process of elimination, we can rule out the random economic and political events that transpire daily, as one can't assign strong or weak economic or investment flow data to daily price changes without getting tied up in knots. Real supply and demand factors certainly influence and determine prices in the very long run, but have little influence in the shorter term. The only explanation that can reconcile silver and gold price changes both daily and for the past months and years is the gold and silver pricing mechanism itself □ the COMEX.

The reason I dwell on the price mechanics of the COMEX as the main cause of volatility and the actual level of prices is because, after 30 years of close study, no other explanation even comes close. It's impossible to attribute price movements to the daily flow of world news or economic developments. It has nothing to do with China's economy being strong one day and weak the next. I would welcome any legitimate explanation that eliminated the COMEX as the center of gold and silver price movement, but none ever appear. It would be nice if silver and gold prices were set in a free market manner and were influenced by the flow of transparent supply/demand data (as it's supposed to be), but that's not the case. To understand gold and silver prices and volatility, one must focus on the COMEX, for everything from High Frequency Trading to the COTs and the role of JPMorgan.

Someday, the COMEX won't determine gold and silver price levels and volatility, but not today. I'll continue to complain about price manipulation and the current gold and silver market corners held by JPMorgan because they are against commodity law and I feel required to do so; but my main message is about reconciliation □ coming to grips with the COMEX's affect on silver and gold. I've given up on predicting short term price movements (aside from previously disclosed speculative call option bets on silver). Instead, the issue at hand is reconciling long term silver holdings with the fact that the COMEX will dictate prices until it doesn't.

Pardon the repetition, but the \$500 gold and \$14 silver price declines in the first half were mainly due to price rigging by JPMorgan on the COMEX. JPM made about \$2 billion on their short gold market corner, plus \$1 billion more on their short corner on COMEX silver. The price rigging did have consequences, from massive liquidation of gold ETF holdings to massive buying in India, China and elsewhere. It's important to keep the proper sequence and cause and effect in mind. The liquidation in gold ETFs and the Indian/Asian buying came as a result of JPMorgan's price rigging to the downside on the COMEX during the first half. No one would argue that millions of Indians or Chinese rigged prices lower so that they could buy at discount prices and JPMorgan just happened to be a beneficiary of the decline. One was a clear consequence of the other.

The important point is that the price rigging and volatility on the COMEX has consequences. The most pertinent consequence for the long term silver investor is that the price rigging this year took prices below the cost of production for many primary silver miners. Aside from the obvious and unwelcome markdown in one's investment holdings, the move in price below the cost of production was the most important silver price development in quite some time. There's just not that much silver in the world, particularly in dollar terms, for there to be a substantial decline in mine production on an extended basis. Therefore, it is no surprise that the price of silver snapped back from the lows of the past couple of months. And while I can't guarantee that silver prices

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won't sell off again, the law of supply and demand would seem to guarantee that prices won't stay at or below the cost of production for long.

To my mind, the price of silver was not overvalued at over \$30 earlier in the year. In retrospect, the only real negative was that JPMorgan was short 35,000 contracts (175 million oz) in COMEX silver futures (Feb 5) and short 75,000 gold contracts (7.5 million oz on Dec 4). Subsequently, JPM rigged prices lower and rang the cash register for \$3 billion and ended up with a sharply reduced silver short market corner and a long market corner in COMEX gold of as much as 8.5 million oz or 25% of the total net open interest. From the price lows, JPMorgan has expanded its silver short market corner and trimmed its gold market corner, netting an additional \$300 million in manipulative profits.

Yes, it is infuriating that JPMorgan's COMEX market corners are being ignored by the CFTC, which won't comment on my allegations of price manipulation for fear of wider discussion. (Who pushed the mute button on Commissioner Chilton?) But that's a separate issue from being aware of what's behind silver and gold price levels and volatility. Just like it's better to have loved and lost, than never to have loved at all; I think it's better to be aware of the level of JPMorgan's criminal market actions, than not. Who would benefit by being blissfully unaware of what the crooks at JPMorgan were up to? Besides, it's possible for the allegations against JPMorgan to become known to entities willing to take the bank on. While I'm tired of waiting for that to occur, it is still possible.

Even on days like today, of a sharp price smash, I think it better to know the likely cause of sell-off than to shrug it off as inexplicable. Most likely, the sell-off today involves the fleecing of leveraged speculators who bought on the price jump on Monday and Tuesday. The crooks at JPMorgan work around the clock, sometimes patiently positioning for weeks and months, sometimes cashing in on much shorter time frames. I certainly didn't predict the rally on Monday and Tuesday or the sell-off today; but I know the explanation has to be close to what I've outlined and that no actual free market supply/demand fundamentals played a role.

One thing that supports the notion that COMEX trading is crooked trading is how gold and silver prices jump or fall sharply on any given day, only to then remain in a tight trading range the rest of the day as contracts change hands. It looks patently phony to me as what could possibly explain such sudden price jumps and falls only to remain stuck in price thereafter, other than JPMorgan and the commercials setting up and profiting from the technical trading funds? It's a pattern that defies a legitimate explanation.

I know it is disconcerting to rationalize the apparent regulatory neglect to what amounts to one continuous crime in progress, but this is certainly not new. One of the facts of life for silver and gold investors is that government regulators

seem to sanction the ongoing price manipulation in their refusal to uphold the rule of law. This is unique to silver and gold, while other markets (stock, bond and real estate) have government support behind them. Once again, it is better being aware of this bias than not, in my opinion.

If there weren't strong headwinds and forces aligned against higher silver prices, there wouldn't be the investment homerun potential present either. After the horrific mark down in prices this year, especially to below the cost of production, the potential is better than ever, despite the desires of JPMorgan and the complicity of the regulators. Actually, since JPMorgan still holds a long market corner in COMEX gold, it would appear the bank would desire higher gold prices at some point. In the interim, however, if JPM wants lower prices on any given day (in order to buy more), chances are high that prices will be lower. These are the facts of life.

What long term silver investors should focus on is the current compelling undervaluation created by JPMorgan's COMEX silver manipulation. The severe price beating of the first half is unlikely to be repeated any time soon. As it stands, even after a five dollar rebound from the lows, silver prices are still close to the average levels of the second quarter which devastated silver mining company earnings. I've given up on expecting the mining community to stand up to JPMorgan and the COMEX manipulation, as would be expected by any industry inflicted with intentional uneconomic pricing. But the cost of

production is an element no industry can ignore indefinitely and sooner or later either prices will rise or production will be slashed.

I still believe the key in silver is physical tightness and developing shortage. In a physical silver shortage, what JPMorgan or the CFTC may or may not do becomes almost meaningless. Therefore, I am alert to potential signs of physical silver tightness. I was surprised by yesterday's 2 million oz withdrawal from the big silver ETF, SLV, since I have calculated that the trust may be owed as many as 10 million oz. While it's possible the silver was removed, not due to plain-vanilla investor liquidation, but because the metal was needed more urgently elsewhere, I'm not sure of either. The next stock short report may help explain the discrepancy in my calculations, but I freely admit to perhaps miscalculating.

Since the recent price run up in COMEX gold and silver featured no new long positioning by the technical funds (only short covering), I suppose it is possible that the high volume in SLV on the recent price jump did not involve the normal new investment buying usually present in past rallies. Certainly, domestic retail demand for physical gold and silver has remained weak on the price rally (apart from whoever is the big buyer of Silver Eagles). But please remember that retail demand is not a near term price driver. In any event, even if there is no big quantity of metal owed to the SLV, that's different from what demand may be in the future. The facts still point to an overall tight supply situation in physical

silver that sudden investment demand could overwhelm.

While waiting to see when the silver investment demand might unfold, it is important to always keep the amount of silver availability in perspective. There is no better way to gain a perspective on silver availability than by comparing it to its big brother, gold. The world's 5 billion ounces of gold is worth \$7 trillion at current prices. On a per capita basis for the world's 7 billion inhabitants, that breaks down to there being \$1000 worth of gold for every man, woman and child in the world. Even when you double the quantity of silver over the one billion ounces I claim exists in true bullion form, two billion ounces of silver is worth less than \$50 billion, or about \$7 for each world inhabitant. Stated differently, there exist about three-quarters of an ounce of gold per capita and about one quarter of an ounce of silver. Plus, silver is a vital industrial material and investment asset, whereas gold is almost exclusively held for investment/jewelry purposes.

Not many world citizens can afford the \$1000 required to purchase the per capita amount of three-quarters of an oz of gold in above ground inventories; while many billions more could afford the \$7 required to match the one-quarter of an ounce of silver above ground per capita. Sure, there used to be more silver ounces in the world than there were gold ounces in the past, but that's not the case after a century of silver industrial consumption.

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I'm not suggesting that all the world's citizens are going to make a mass move to buy silver. That's impossible because there isn't enough silver available to allow for even the start of a mass accumulation. But considering how little silver exists, particularly in dollar terms, it seems impossible that, sooner or later, some larger entities won't try to accumulate as much silver as they can. As and when that silver investment buying takes hold, the available silver will no longer be available and industrial users will be forced to scramble to build inventories.

We should get some important clues in this week's release of the Commitments of Traders and Bank Participation Reports as to the market structure. Even if there is deterioration, any increase in the total commercial net short positions in silver and gold as of yesterday's cut-off should be neutralized by today's sell-off. Price volatility is sure to continue, as long as JPMorgan can rig prices, but the market is not structured for a deep and extended price decline □ just these aggravating in-your-face blatant price smashes.

While sharp down days always stink (unless you're buying), no one day should be allowed to distort long term perspective. As it stands, we are largely unchanged in price on the week so far. More important to one's sanity and longer term financial health is to reconcile the reasons behind the short and long term price movements. No, I'm not crazy □ JPMorgan is a crooked bank

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dominating and controlling the price of silver and gold and the CFTC is complicit in the crooked dealings on the COMEX. But that's different from what must happen in the future when the physical facts overcome the manipulation.

Ted Butler

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Silver - \$23.45

Gold - \$1390