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

On back to back explosive Fridays, the price of gold and silver surged for the week again, with gold gaining $43 (2.5%) and silver up $2 (6.3%). As a result of silver's outperformance relative to gold, the gold/silver ratio tightened in almost two full points to 51.5 to 1.  While silver has outperformed gold impressively over the past three weeks, the ratio is still within the broad trading range of the past year. As such, all the facts still indicate that the long term still favors silver, in my opinion.

In little more than 15 trading days, the price of gold has rocketed almost $140 (9%) and silver has jumped $6 (22%). This is the steepest rally since the sharp jump that both took at the start of this year, following the pronounced downturn in prices over the last quarter of 2011. You'll remember that the strong two-month rally at the start of this year, which took gold $225 and silver $10 higher into Feb 29, was a result of an extremely bullish COT set up into the end of the year, exactly the same COT set up as existed prior to this current rally. The rally at the start of the year ended abruptly after a massive deterioration in the COT structure. Guess what? We've just experienced a remarkably similar deterioration (or increase in the total commercial net short position in COMEX futures) on this rally. Does that mean we are destined to end this move in the same manner as the earlier move (and sell-off and wipe out all the gains)? Not necessarily, but if prices soon get smashed, you won't have far to go to figure out why.

My point is that the most reasonable explanation behind this move up in gold and silver has to do with a massive restructuring of COMEX paper contract positions. Generally speaking, we get large rallies when the COT structure is bullish and large sell-offs when the structure is no longer bullish. That's why I study the COTs. Over the past three weeks, more than 100 million ounces of silver and more than 7.5 million ounces of gold were bought by speculators and sold by other speculators (called commercials). These amounts, even though they are paper contracts, dwarf the amounts produced in the real world of mining, where only 30 million oz of silver and 3 million gold oz were produced over the same time. Very few of the paper ounces on the COMEX these past three weeks were transacted by mining companies or commercial users; instead, the paper trade was largely by hedge funds on the buy side with commercial banks on the sell side. I'll come back to this theme after the usual weekly format.

Conditions in the wholesale physical silver market continue to flash signs of tightness. My most important indicator, movement into and out from the COMEX-approved silver warehouses, maintained the recent multi-million oz high turnover, as total inventories rose by 400,000 oz to 141.4 million oz. I still maintain that looking at the total levels of silver ounces in these warehouses is meaningless if one doesn't focus on the turnover. And the message from the rapid turnover is still an almost hand to mouth supply/demand situation. Because this COMEX warehouse movement is unique to silver and suggests a potential physical supply problem, it garners my attention. Such a physical problem could bust this market to the upside, despite manipulative short selling by JPMorgan. (Additionally, the COMEX copper situation in the Sep contract suddenly appears tight based upon very light month to date deliveries).

After Wednesday's article in which I commented about the unusual withdrawal of 5 million oz from the big silver ETF, SLV, when there should have been big additions, there was a 3 million ounce deposit that day, but no additional silver deposits since then. Based upon my usual calculations, I still maintain that many millions more ounces are "owed" to the Trust and that only augments the physical tightness argument. To get even more specific, I think it is JPMorgan who owes the silver to the Trust, although, unfortunately, there is no hard data available to prove or disprove my allegation.

Sales of Silver Eagles are off to a decent start for the month and are, as has been seen this year, well ahead of sales of Gold Eagles on any historical basis. But I still maintain that it looks like retail demand is not what has driven gold and silver prices recently. Any physical silver tightness is coming from the wholesale side of demand, not retail. While off the pace of the past couple of years, sales of Silver Eagles year to date are still the fourth best full year in the

26 year history of the program, with almost 4 months remaining. Not too shabby.

I'd like to add another reason to switch to silver from gold that occurred to me after thinking about the recently announced offering by the Sprott organization for their gold bullion security. Sprott announced a $340 million placement which amounts to around 200,000 oz of gold at current prices. I know Eric Sprott is one of the highest profile silver proponents around and this was an offering for a gold-specific security (normal full disclosure  Sprott is a subscriber). I know Sprott favors silver. But I couldn't help thinking that $340 million equals 200,000 oz of gold, which just happens to be the amount of new gold produced by all the world's mines for one day. That same $340 million would buy 10 million oz of silver which is the equivalent of 5 days of world silver mine production. My question to you is simple  what do you think is a better value, one day's world production of gold, or 5 days' worth of world silver production? I promise, I'm not trying to trick you.

The changes in this week's Commitment of Traders Report (COT) were largely expected, but still alarming. In gold, the headline number (the total commercial net short position) increased by 15,800 contracts to 219,400 contracts. This is the highest level of commercial gold shorts since Feb 28, the very top of the first gold rally of the year.

By commercial category, it was all big 4 selling accounting for the 15,800 increase, as the 5 thru 8 and gold raptors didn't change their positions much. I have the impression that the big 4 is adding to shorts because the gold raptors may have used up their short selling capacity and only the big 4 have the ability to add new shorts. In this sense, the gold market this reporting week resembles the situation in silver, where only one big seller is adding to shorts. That's about as manipulative as it gets. It also means that the gold raptors may desperately need the assistance of concentrated and manipulative selling by the big 4 to bail themselves out. That's one problem with having the price of gold and silver set by paper trading speculation on the COMEX; it encourages gamesmanship and creates unforeseen risks. What happens if the normal rig job to the downside can't be arranged and the price-riggers have miscalculated?

The bottom line is that the gold COT structure is no longer spectacularly bullish as it was not too long ago and can no longer be considered anything but bearish; maybe not extremely bearish, but bearish enough to label it as such. But this is also a very dangerous time for the gold shorts, particularly the raptors. That's because when someone is holding extremely large positions, the possibility of error is high. The gold raptors are the potential weak link and if they are not bailed out by the big 4, they are the most likely to panic to the upside, like they did a year ago.

In silver, the total commercial net short position surged by another 6300 contracts to 44,900 contracts. This is also (like in gold) the highest commercial net short position since Feb 28; the tippy-top of the first rally of the year. As such, no one should be spending the open silver profits of the past three weeks. I'm not saying those profits will disappear; but I'm also not saying they won't. Fact is, I don't know and neither does anyone else. I'm not getting out, but I'm not spending any profits either.

By category, the silver raptors sold out about 1000 of their long contracts, reducing their net long position to 5400 contracts. The 5 thru 8 largest shorts added about 700 short contracts. That leaves the big 4 (read JPMorgan) as the big short seller again, adding almost 4700 contracts to a big 4 net short position that now totals 42,185 contracts. This is even larger than what the big 4 held short on Feb 28 and you have to go back to April 2011 to find a larger big 4 concentrated net short position. That this stinks to high heaven is elementary. Yesterday, I calculated from the Bank Participation Report that JPMorgan had added 2000 contracts to their manipulative short silver position. After, the new COT data, I must revise that up by another 2000 contracts and conclude that JPMorgan's net short position to be at 26,000 contracts or 130 million oz. at the Tuesday cut-off. You have to go back to November 2010 to find a larger JPMorgan silver short position.

It still appears to me that JPMorgan has been largely the only commercial short seller on the recent silver rally, as most of the commercial silver selling has been by the raptors liquidating longs. From July 3, JPM has added 12,000 contracts (60 million oz), increasing their net short position by 85% to 26,000 contracts. I admit that the raw numbers can sometimes cause eyes to glaze over, so let me try to approach it differently.

It may be more instructive to look at this in terms of market share (which is the real issue here). If you remove the 25,468 spread contracts in the disaggregated futures COT report that leaves 94,036 contracts of true net open interest in the COMEX silver futures market. That means that JPMorgan's 26,000 contract short position is 27.6% of the entire COMEX silver market. That's just a number, but oh what a number it is. It is such a large and unnatural share of an active major futures market that it can't help but dominate and control the price. A futures market like silver has thousands of participants and for one entity to hold more than a quarter of the entire market is monopolistic on its face.

I don't know of any major futures market where one entity so dominates the scene like JPMorgan does in silver. Not Cargill in corn or Exxon in oil or any example you can think of. Please keep in mind  this is a US bank, not the world leader in silver production and consumption; JPM hardly belongs to be in silver in the first place, to say nothing of the bank dominating silver. Who the heck died and left them in charge of the silver market?

It has become so extreme that if you take JPMorgan out of the silver equation, the rest of the market looks fairly balanced. By removing JPMorgan's 26,000 contract short position, the rest of the big short players seem pretty much evenly matched up with the big long players. In other words, ex-JPM, the remaining 4 and 8 largest traders on both the long and short sides are of similar size and price influence. That's how it should be in a market free from dominance and control. But when JPMorgan is added to the silver equation, it shifts control to the short side. I don't know of any major market (more than 50,000 contract open interest) where one firm so dominates the market like JPMorgan does in silver. That's flat-out wrong. Another way of describing JPM's share of the market is that if it didn't exist, I wouldn't begin to be able to make a claim of manipulation.

The century-old remedy against the type of control that JPMorgan exerts in silver is position limits. I suppose that's why JPM got their industry stooges to file lawsuits against the enactment of position limits. Even though the wimps at the CFTC set silver position limits way too high at nearly 5000 contracts (and not the more justified 1500); JPMorgan's silver position  is now more than 5 times the level proposed by the Commission. This would not be tolerated in any other market; just the crooked silver market.

I've known that the silver market has been manipulated by concentrated commercial shorting since 1985, when I started complaining to the CFTC and the silver exchanges (COMEX and back then, the CBOT). I never imagined it could last this long. Then again, in 1985 I never imagined such a thing as the Internet or that I would be disseminating information about the silver manipulation on such a thing. It was not remotely possible for me to imagine I would be writing to and about the single entity responsible for the manipulation. I never imagined that I would be saying, essentially, the same thing in 2012 that I said in 1985.

More than anything else, I never imagined that so many would come to grasp the silver manipulation and JPMorgan's role in it. At the very apex of things that I could never imagine is the collective silence on the part of those alleged to be involved in the silver manipulation; from the inept regulators at the CFTC and the CME Group to JPMorgan. If you ever told me that I could make such a strong case for wrongdoing and illegal dealings and be met with silence from such important institutions, I could not believe you. Yet that is precisely the case. Unfortunately, because so many do see the ongoing crime in silver with no regulatory action or other explanation or response, a very serious erosion of civic trust develops in our elected and appointed officials. This is the worst possible outcome in a society governed by the rule of law. In particular, I hope Chairman Gensler and Commissioner Chilton appreciate the overall harm being done as a result of delay and silence on silver.

Increasingly, I am convinced that JPMorgan is trapped in the short silver position with no choice but to remain the dominant negative force on the short side. JPM appears destined to sell more silver contracts short, along with adding shorts in SLV and the regulators appear destined to failing to enforce the rule of law. I am hopeful that the board of directors at JPM might break the manipulative cycle, but the truth is that there is no easy or quiet way to remove JPMorgan from the silver equation. Had JPM not sold the 12,000 additional silver contracts short over the past two months, the price of silver would be much higher than $50 by now.

It has come down to this  JPMorgan determines the price of silver. It has since at least March 2008, when it acquired the manipulative and concentrated short position of Bear Stearns. If they keep adding short contracts, they may succeed again in causing prices to crash at some point. If JPM stops selling short, the price of silver will fly. If JPMorgan tries to buy back its short positions, the price rise will take your breath away. While I don't know how it will turn out short term, I think I know a dangerous market circumstance when it is as extreme as it is in silver presently. Preventing such extremely dangerous market situations from developing in the first place is the prime responsibility of both the CFTC and the CME. Yet both pretend to be oblivious to their own market data. The circle of responsibility has been widened with the inclusion of the JPMorgan board of directors and it will be interesting to see if the board joins the hear, see and speak no evil monkeys at the CFTC and the CME.

A friend suggested that I try to describe in writing what I relayed to him in a conversation. I told him I'd like to be a fly on the wall listening to the imaginary private interactions between JPM, the CFTC and the CME. Or maybe even the US Treasury Dept. I can just about hear the guy from the CFTC fretting to the guy at JPM (in my world, all the crooks are men, not women) about them increasing their silver short position again and how obvious it appears. The guy from JPM tells his CFTC counterpart that if they stop selling the price will soar and what does he suggest? The CFTC guy goes higher on the food chain and is told that if silver unravels to the upside everyone in government will look like fools at best and instructs him to contain the price as much as possible. This translates into a bigger JPM short position. This goes on until a price smash results or physical market conditions overwhelm even the strongest JPM short selling.

This is truly a rotten state of affairs. It has gone on too far and for too long. It is not sustainable, nor can the silence from the regulators and JPMorgan be maintained much longer. I can't tell you when it will end, but I can tell you that someday JPMorgan will not be able to maintain its dominance of the silver market. I just can't tell you if that dominance will end straight away or after one more engineered price rout. I still can't take the chance that it will not end forthwith and for that reason I'm sitting pat with all silver positions.

Ted Butler

September 8, 2012

Silver – $33.70

Gold – $1735