

September 4, 2010 – Weekly Review

Weekly Review

It was another good week price-wise for silver and gold, with silver up around 75 cents, or almost 4%, with gold up around \$9, or a bit under 1%. At almost \$19.90 per ounce, silver closed at its highest level in two and a half years. That was back in March 2008, when Bear Stearns imploded and JPMorgan took over its concentrated silver (and gold) short position, the largest such concentrated short position in history. Remarkably, that extreme concentrated silver short position remains largely intact to this day, in spite of widespread knowledge that it is inherently manipulative.

In visible physical metal movements, the big silver ETF, SLV, added 3 million ounces, or the amount I wrote that it was owed in my last weekly review, as a result of buying the week before. New buying of SLV shares yesterday and Thursday, suggest to me another 3 million ounces or so is now further owed to the trust. That there is some delay in depositing this metal points to tightness in the wholesale silver market. There was a somewhat unusual 300,000 oz withdrawal from the big gold ETF, GLD, but there are too many possible explanations to form a firm conclusion to its meaning. Final US Mint statistics for sales of silver and gold Eagle bullion coins for August indicated some cooling off in the blistering pace of sales for the year. Interestingly, sales for silver Eagles this past month were the highest, relative to gold Eagles, in a couple of years.

COMEX silver warehouse stocks fluctuated around unchanged, but with good turnover, also suggestive of tightness in wholesale supplies. The delivery pattern for the first week of the September silver contract was somewhat notable in the small number of contracts issued and the relative large number of contracts remaining to be delivered at this stage (over 1700 contracts, or 8.5 million ounces). This is also supportive of the physical tightness thesis. I also can't help but notice that the biggest stopper (taker) of silver deliveries so far this month is JPMorgan for their proprietary trading account. This is in sharp contrast to the pattern in the last few big silver delivery months, where JPMorgan was a standout issuer (giver) of silver deliveries. This pattern is obviously subject to reversal, but when the biggest silver short goes from putting out deliveries to taking them, something may be up.

The Commitment of Traders report for the week ended Tuesday, August 31, can hardly be called constructive on its face. There were large increases in the headline number, the total net commercial short position, in both COMEX silver and gold futures. The total net commercial short position increased by 8500 contracts in silver, or the equivalent of 42.5 million ounces, to almost 300 million ounces. This represents a 16%+ increase in the commercial net short position on less than a 6% increase in price in the Tuesday to Tuesday reporting week. More on this in a moment.

In gold, the total COMEX commercial net short position grew by more than 20,000 contracts, or the equivalent of 2 million ounces, to almost 285,000 contracts, or 28.5 million ounces. Thus, the gold commercial net short position increased by 7.5% in the reporting week, versus a 1.5% increase in price in the reporting week. The COMEX gold commercial net short position has now grown by 70,000 contracts (7 million ounces) since July 20, on a roughly \$75 increase in the price. We are only 25,000 contracts or so from the highest ever commercial net short levels. Strictly in COT terms, the gold rally is long in tooth. In terms of my subjective bullish percentage readings, gold is no better than 50%, meaning the price could move by some large amount, \$50 or more, in either direction.

The most fascinating aspect to the deterioration in the gold COTs is that the entire change since July 20 (and then some) is due to raptor, rather than big 4 or big 8 position changes. In other words, the 4 and 8 largest gold traders did not increase their net short positions at all on the big rally. In fact, both categories of big concentrated gold traders reduced their short positions in that time. The smaller gold commercials accounted for all the selling as the technical funds bought. Please keep in mind that this was not predominantly short selling by the gold raptors (the smaller reporting commercials), but mostly liquidation of long positions they held at the price bottom. This big gold raptor long position back on July 20, was a main reason I had labeled the gold COT structure as 90% bullish back then. Now, however, the gold raptors are net short by 12,000 contracts and that bullish structure is no longer intact. It doesn't mean gold prices can't go higher; it just means the super-bullish COT structure no longer exists.

In silver, the raptors accounted, as expected, for 5000 of this week's 8500 contract net deterioration. Please remember that this raptor selling was long liquidation, not new short selling. As a result, the raptors now hold a net long position of around 5000 contracts, their smallest long silver holding in two years. This can be looked at two ways. One, it could prove negative for the silver price as the raptors will do their collusive best to cause the price of silver to decline so that they can buy and add to their long holdings. Conversely, in the event that silver prices continue to climb, the raptors have relatively few remaining long contracts to sell and would turn net short to sell additional contracts. Selling big quantities of silver contracts short is something they might not wish to do, and if the raptors refrain from selling short, the price could fly.

The most disappointing aspect to the current silver COT was the increase of 3200 contracts in the big 4 category. I had been expecting and hoping for no increase or a decrease, based upon JPMorgan buying back more of their big short position. It's possible that it was not JPMorgan increasing its short position, and instead it was the other 3 traders of the big 4 shorts. Since I still sense JPMorgan buying since the cut-off, this week's new COT and monthly Bank Participation reports will settle the matter. Even if it was JPMorgan actually increasing its silver short position in the current report, I'd like to suggest another explanation.

It's possible that the recent revelation that JPMorgan was abandoning commodities proprietary trading had developed more abruptly than I had imagined. In other words, it is possible the decision to end commodities trading for its own account occurred after the Tuesday COT cut-off, and JPMorgan's silver short position hadn't been reduced as much as I had been expecting. This would be more bullish to the price, if true, as bigger short covering may be ahead. Given all the actual bullish developments occurring in silver, I'm not trying to invent new ones, believe it or not. I still believe that JPMorgan exiting commodities proprietary trading means their big silver short position will be covered.

Just yesterday, it was revealed that Goldman Sachs had also decided to exit propriety trading, same as JPMorgan. While I hadn't detected Goldman as a big precious metals participant in many years, its decision to abandon propriety trading reinforces my belief that other banks that are trading metals will do the same, leaving the big concentrated silver short position weaker and more prone to panic on the upside.

I'd also like to mention the related point that all those who claimed that the big banks would escape unscathed in the new regulatory reform law may not know of what they spoke. After many millions of dollars in lobbying efforts to maintain the status quo, the sudden exit of JPMorgan and Goldman Sachs from propriety trading indicates those lobbying efforts were largely unsuccessful. And all the uninformed and downright stupid talk about CFTC Chairman Gary Gensler being a suck-up to and protector of the big bankers, and particularly Goldman Sachs, his former employer, were just that ? uninformed and stupid.

So, where do we stand on silver? We stand at a very critical juncture. There is only one potential negative factor present, among a wide variety of factors promising sharply higher prices. The only negative factor is the same and only negative factor ever present in the past 20 years ? the relative negative structure of the COTs, although more so in gold than in silver. It is possible for the very crooked and extremely collusive COMEX commercials to rig a sell-off to flush out the recently added tech fund long positions. This would require a roughly \$2 rig-job in silver to the downside in order to smash the 50 day moving average. It would be, if realized, as illegal and manipulative as is possible. It would also bring disgrace to the CFTC and prove that the CME Group, Inc. is running a crooked exchange. It would, should it occur, require you to lodge the strongest protest possible to the regulators. Such a sell-off would have nothing to do with real silver developments, and everything to do with corrupt trading practices on the COMEX.

The positive factors present in silver should overwhelm the one negative factor. At least, that is the way I feel it must be played. It is very easy for me to imagine the silver market breaking the yoke of manipulation momentarily. The tight wholesale physical market, the regulatory sea change underway and the acute vulnerability of the big commercial shorts add up to a potential price explosion of historic measure. The most prudent way of participating is by holding fully-paid for positions, with leverage reserved for previously mentioned call options. In other words, if the crooked commercial SOB's do rig another sell-off, you can't afford to get knocked out of positions prior to the coming historic lift-off, due to margin calls. This is the same basic posture I have tried to convey for the past year. With silver hitting new highs recently, it has not been bad advice.

I'm reminded, as I always am at times like these, of my silver mentor's funny-sounding phrase ? the full pants down. (Please see archive article from last Oct 8). Izzy's expectation that the real silver price explosion would catch the big commercial shorts most vulnerable just might ring true this time around. If it does prove true, it is hard for me to come up with the right words to describe the impact that commercial short covering would have on the price of silver at this time. I know these commercial crooks have always contained silver in the past, but when they fail, they have a habit of failing spectacularly. Just think of what happened when they failed to contain their ill-advised ventures into sub-prime mortgages and credit default swaps. Because of this make or break it recklessness on the part of the commercials, the actual risk/reward set up in silver has never been better. The commercial shorts have created a dangerous situation that may prove to be more dangerous to their own financial health than to yours. Just be sure you can ride out any temporary sell-off. This is not a time to be underexposed to the long side of silver.

Ted Butler

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Silver – \$19.85

Gold – \$1247

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