

April 16, 2014 – The Only Possible Answer

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Recently, a new phenomenon has emerged in the world of precious metals. Questions about price and market structure often have just one plausible, or even possible, answer. Increasingly, the only explanation to too many questions is price manipulation on the COMEX. I know this is a recurring theme of mine, but what's different from the past is that now the COMEX manipulation explanation has gone from being merely a credible alternative answer to the sole logical explanation. I'll touch on a couple of those questions today.

For starters is the recent price action including the sharp decline yesterday in virtually every important metal traded on the COMEX/NYMEX, including gold, silver, copper, platinum and palladium. Not only did all these metals decline in unison, it was the sharpest combined drop of the year. All these metals are different from each other in more respects than they are similar, including their production/consumption and inventory profiles. About the only thing they have in common is that they are all actively traded on the COMEX/NYMEX (run by the CME Group). Please think about that for a moment. Many differences, one similarity and identical price action.

Obviously, a reasonable person would conclude that the one thing that all five metals had in common was likely to be at the core of why all declined sharply in price. I know that a variety of reasons were given for yesterday's decline, from reports gold demand was weakening in China, to increased or decreased tensions in Ukraine, inflation/deflation expectations, etc., but there was no common theme to explain why all five metals suddenly declined.

As regular readers know, it is not just the fact that all five metals are traded on the COMEX/NYMEX; it is in how each are traded that most reasonably explains why all five declined sharply yesterday. The pricing in each is determined by the same technical fund/commercial paper trading tango that I harp on continuously in COMEX silver and gold. The price of all five metals went sharply lower yesterday as a direct result of the commercials (led by JPMorgan) rigging prices lower in order to induce technical fund selling (so that the commercials could buy). This is the essence of the price control that the commercials possess. I know it seems counterintuitive and difficult for many to grasp, but on the big down days like yesterday, the commercials were not the big sellers, but were the big buyers. In fact, the sole reason for the big price decline was for the purpose of allowing the commercials the opportunity to buy.

The problem with the paper contract tango between the technical funds and the commercials on the COMEX/NYMEX is that it is artificially setting prices for important commodities with no regard for real world supply/demand factors. This artificial price setting has created distortions and questions that can't easily be answered in legitimate terms. For example, on Saturday I remarked on one such distortion — that the concentrated net short position of the 8 largest traders in COMEX silver had grown to its highest level (before yesterday's sell-off) in three and a half years, even though prices were much closer to the lows of this time period.

The question that emerges is what could be the economic legitimacy of such a large and concentrated short position at such a low price? Please remember that concentration goes hand in hand with manipulation — you can't have one without the other. CFTC data show that the concentrated short position in COMEX silver is higher than when silver was at \$30 or \$40 or higher. Is it not reasonable to ask why such a large silver short position exists now?

The only legitimate explanation would be if bona fide producers (miners) were hedging (short selling) like crazy. Yet the evidence is that silver miners are not hedging, at least not the ones that must publicly report earnings. Just this morning, the CEO of silver miner First Majestic, Keith Neumeyer, in announcing an expansion of a hedge on lead, stated emphatically that — we have no intention of ever hedging silver. — <http://finance.yahoo.com/news/first-majestic-announces-us-30m-155700010.html>

Perhaps the big concentrated COMEX silver shorts have tricked some foreign producers into going short silver, but legitimate hedging doesn't allow for locking in low prices on the sell side. So if you remove legitimate hedging as the reason behind the record (for the past 3.5 years) concentrated short position in COMEX silver, what are you left with for an explanation? The only possible answer is that the short position exists for the capping of price. In no uncertain terms, that is manipulation. Since this is a question that I have asked in personal conversations with no answer (other than pure manipulation), let me asked it openly. If anyone can legitimately explain why such a concentrated short position exists at such a low price, please let me hear from you.

Since the CFTC is reporting the concentrated short position (based upon CME input), it would be fitting and proper for the regulators to explain its legitimacy. But the CFTC and CME and JPMorgan have shut down any legitimate debate on metals price manipulation and this goes a long way to explaining why all three are held in such low regard by so many.

Let me introduce and ask some new questions regarding all three institutions related to this issue. Some years back, in seeking to portray the unusual and legitimately inexplicable concentrated short position in COMEX silver, I began to compare this silver short position to other commodities in terms of relative production. In other words, while I can state that the concentrated short position in COMEX silver is the highest in 3.5 years, I suppose that wouldn't be saying much if the concentrated short positions in other commodities were similar.

In order to eliminate the possibility that giant concentrated short positions were common in the world of commodities, I sought to compare the short positions in terms of the annual production of all commodities. By doing so, one could compare the concentrated short positions on a true relative basis. A friend and master chartist from Australia, Nick Laird (sharelynx.com), put the CFTC data in the COT reports into graph form, which you've undoubtedly come across (perhaps in Ed Steer's daily letter). It is a graph that tells a compelling story.