April 20, 2015 – Another Piece in the Puzzle

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While the price action since last week's Â?Surest Trade/Silver Melt-Up?Â? is encouraging, it is still too early to know if this is the big move in which silver soars upward on an absolute basis and relative to gold. As painful as it will be if this recent liftoff gets squashed yet again, it still appears to me that the move must be treated as if it were the big one.

However, there appears to be little question that the silver mining equities have already melted up, with many doubling, tripling and more over the past two or three months. This is the strongest the silver mining company shares have performed in my memory. Admittedly, these shares were truly beaten down into early January as a result of silver's grinding five year price decline, so a sharp snap back wasn't completely unexpected. (I'm hesitant to label it as a five year bear market in silver since that implies there was something free market about it, as opposed to what it really was Â? a deliberate downward manipulation by JPMorgan).

Despite the deeply oversold condition of the silver mining equities into the New Year, the extent of the rally has been astounding given the underlying metal's lackluster performance (up until the past week or so). While silver mining investors are tickled pink with the outstanding performance, there has been a surreal nature about the rally, as the actual profits to be made at the price the metal has achieved so far doesn't seem in line with the shares' performance. To demonstrate what I'm talking about, a silver mining company, SilverCrest, issued a statement today saying it couldn't explain why its shares were so strong.

http://finance.yahoo.com/news/silvercrest-addresses-current-share-price-172800387.html

I'm not suggesting silver won't soar in the future (to put it mildly), I'm just pointing out that the mining share performance has greatly outdistanced metal price performance to date and I've uncovered no definitive answer as to why that is so. That is, until a conversation I had over the weekend with Jim Cook, president of Investment Rarities, Inc. (IRI). In the interest of full disclosure, I have written and consulted for IRI for more than 15 years and speak with Cook daily.

As a long time investor in silver mining shares and a firm believer in my take on the silver market, Cook asked me a question that I hadn't thought about before and that quite frankly threw me for a loop. He asked me if perhaps JPMorgan, or someone close to the bank, was the big buyer of the silver mining companies. It took only an instant for me to conclude he was correct. Even if JPM stayed below the 5% share ownership reporting limit of the Securities and Exchange Commission, or set up dummy proxy accounts to own even more than that, the explanation for the astounding share performance became clear. It was, quite literally, another piece of the silver puzzle. As always, if anyone has a more plausible explanation for why silver mining shares have soared relative to the price of the metal, please send it my way.

Most amazing, Cook's observation fit in perfectly with all my previous contentions about the silver manipulation and JPMorgan. I've made no secret that JPMorgan came to be the dominant and controlling force in the silver market as a result of its acquisition of Bear Stearns in 2008 and was the prime COMEX silver manipulator from that day forward. This was the basis for the five year investigation by the CFTC in which the agency wimped out in the end. I further uncovered that JPMorgan began to use its manipulative control of silver to begin to accumulate metal in 2011 and has succeeded in acquiring as many as 500 million oz, including 100 million Silver Eagles bought on the sly from the US Mint. Every step of the way, I openly labelled JPMorgan and the COMEX as the market crooks I believe them to be, sending them my allegations.

I have maintained that JPMorgan had acquired its hoard of silver in order to make the financial score of the ages. The accumulation of massive amounts of shares of silver mining companies fits the financial score premise like a glove. So convinced am I that JPMorgan or one of its affiliates is behind the buying of the silver mining shares, just as the bank was behind the buying of physical silver (after making sure the price of silver was artificially depressed) that I have lodged a formal complaint with the SEC. I don't have any high expectations that the SEC will go after JPM any more than the CFTC has done over the years, but this is the first time JPM has trodden into SEC jurisdiction in a silver related matter.

It certainly makes financial sense for JPMorgan to acquire as many shares of silver mining companies before the price of silver explodes as it has done so only after manipulating silver prices lower. Even more than that, it suggests that the timing of the liftoff in silver prices may be much closer as a result the share buying. There has been an aggression in the buying of these shares that hints that something may occur soon. Clearly, no one would bid up the prices of the shares in the very near term so aggressively if it was thought the metal would move up much later.

If one were in complete control of the price of silver and looking for a major financial score, as I allege is JPMorgan, there would be a logical (if criminal) sequence to be followed. One wouldn't run the price of the metal up prematurely, before acquiring as large of a position as possible. And one wouldn't put the cart before the horse and buy the appropriate silver investment vehicles out of order. You wouldn't buy shares or call options or OTC derivatives long before you finished buying all the physical silver possible Â? you would buy such vehicles only after you had assembled as large a physical silver position as you could. That's what is so potentially exciting about the share acquisition.

One big reason the silver mining shares have responded so strongly in price to whoever is buying them (and it doesn't look like plain vanilla retail or institutional buying) is that there is relatively little short selling when it comes to common stock shares, whereas in futures and derivatives, there has to be a short for every long. What this means is that aggressive buying in shares can't be blunted by short sales, as is the case in COMEX silver futures (or any derivatives market). On its face, this means that it is easier to manipulate derivatives markets and goes a long way to explaining how silver could be manipulated for as long as I allege.

It still amazes me that as more come to grasp the fact that silver has been manipulated in price (and that JPMorgan has been doing the manipulating), the dyed-in-the-wool manipulation deniers continue to double down in their denials. I just read a piece saying there was a zero chance that the COMEX could ever default. I haven't been advocating that the COMEX is about to default and would probably agree that such a default wasn't close at hand, but what set me back was the reasoning in the article. It seems the author's claim that no default was possible because everyone knows that the exchange could declare a cash settlement whenever it wanted. A forced cash settlement in lieu of making physical delivery as required in the contract is a contract default. So the author was saying that there can never be a default because the exchange can default whenever it wants. Huh?

Yesterday's price surge in gold and silver (on the COT cutoff date) came on extraordinarily large volume, which had to feature technical fund buying and commercial selling. Still, I am unsure what to predict for this Friday's report. In the case of gold, the first two days of the reporting week (last Wednesday and Thursday) featured decent technical fund selling and a slight downward penetration of gold's 50 day moving average; only to be followed by yesterday's surge. Complicating matters is that total open interest hardly changed over the reporting week and prices finished only a few dollars lower in the end. It smells like a wash, but I'm just not sure.

In silver, we got no big downdraft in prices earlier in the reporting week (as was the case in gold) and yesterday's price surge left us 75 cents higher on the week. Total open interest did grow by around 10,000 contracts for the reporting week, highly suggestive of big technical fund buying and commercial selling (although open interest only grew by less than 1000 contracts on yesterday's trading Â? quite unusual) The key, however, is what JPMorgan was up to. Did JPM add aggressively to its silver shorts? I wouldn't know how to judge that until I see the new report. Knowing the key question is not the same as knowing the answer.

But there is a strangeness about silver's price performance, as well the recent matters concerning the mining shares. Could it be that JPMorgan has finally decided to lift its boot off of silver's throat? No issue is more important to silver. The good news is that we should soon get the answer Â? the bad news being probably not today.

A number of other potentially important issues have been raised recently, including the Deutsche Bank settlement and the filing of additional lawsuits in Canada, as well as the start of trading of a new gold contract in China. There are any number of triggers that could potentially cause gold, but particularly silver, to ignite to the upside. I wouldn't know how to pinpoint in advance what the specific trigger would be to set silver off, so I don't spend much time contemplating the potential triggers. What I find much more important is that the stage is set for silver to explode because it has so clearly been manipulated in price on the COMEX. It is the setup that matters, not so much the triggering event.

Because it has lasted for decades, the concentrated short position in COMEX silver has come to be considered normal. Nothing could be further from the truth. It is the concentrated short position that embodies the explosive setup for silver. No other commodity, not even gold, has as outrageous a concentrated short position as exists in COMEX silver.

As of the latest COT report (it's probably much higher now), eight large and very crooked traders hold a net short position of more than 82,000 contracts, or more than 410 million ounces, an average of 50 million ounces each. That's about half the entire world annual mine production of silver about a third of all the silver bullion in existence. Not one of those eight traders is a legitimate producer or miner; all are mostly speculating banks. But it's even much worse than that.

I would guess that half of the 410 million ounces held short by eight traders are held by just two entities, the very crooked JPMorgan and most likely the Bank of Nova Scotia. This is the essence of the silver manipulation Â? the most concentrated short position of all commodities. Simply put, if this concentrated short position didn't exist, no manipulation would be possible. Free markets are about widely diffused positions held by many different traders; monopolies and manipulated markets are characterized by concentrated positions. Silver must be considered the most manipulated market of all because it has the most concentrated position of any market. How else do you think I could get away with calling JPMorgan and the COMEX (CME Group) crooked?

The best news is that as more attention is generated on the silver manipulation by lawsuits against the London Fix or the new exchanges in China, it is inevitable that the most important issue in silver – the concentrated short position on the COMEX – will come into focus. Of that I am certain. I am also certain that JPMorgan knows this better than anyone and intends to prepare and to cut bait before it is forced to do so. That's why it has bought so much physical silver and, now, silver mining shares. Even if they jolt it to the downside one more time, the die is cast to the upside. I am only unsure about a temporary selloff, as the coming big move up is dead solid certain.

Ted Butler

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Silver – \$17.12 (50 day moving average – \$15.48)

Gold – \$1252 (50 day moving average – \$1236)

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