August 21, 2013 – Business as Usual?

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Following the increase in JPMorgan's short position in COMEX silver futures contracts in the latest COT report (and the expected further increase in Friday's release); it's hard not to conclude that we are embarking on the usual manipulative path. You know – the crooks at JPM sell as many COMEX silver contracts and shares of SLV short to satisfy buying demand until that demand becomes satisfied and prices eventually roll over (prompted by HFT dirty tricks to the downside). JPMorgan has deployed this textbook scam for more than five years, ever since the bank took over Bear Stearns and the concentrated short positions in silver (and gold) that the failed investment bank held.

Certainly, I won't minimize the possibility that JPMorgan will rig silver prices lower in the same old manner, as I have been empathizing that the key factor to watch on the next silver rally was whether JPM added silver shorts or not. We've all seen this movie enough times so that it's easy to guess at how it ends. Of course, since we are early in the process of the developing rally, we could and should run higher from here. The problem with being early in the process is that still doesn't immunize us from sudden price smack downs in the interim.

But there enough differences in the current circumstances to guess that there might be a different outcome this time. (Yes, I realize that I did just say that this time it might be different). What differences? Well for one thing, we've never had a circumstance where JPMorgan has been long COMEX gold futures enough to constitute the bank holding a corner on the market; at the same time they hold a short corner in COMEX silver. The long gold corner by JPMorgan is no minor thing; it's the sole reason we have run 200 dollars from the bottom six weeks ago. And despite JPMorgan having started to sell off some of its gold corner on the rally, there is still plenty to go potentially (although the precise short term road map is unknowable).

Attached to JPMorgan's unprecedented current long gold and short silver market corners is another development that no one has ever witnessed Â? the bank seems to be under assault by the US Government. Not a recent week has gone by where JPMorgan has not come under new legal assault from various regulatory agencies. Increasingly, the focus of the regulatory assault has involved JPMorgan's commodity operations, from base metal warehousing to energy market manipulation.

There is good reason for that commodity regulatory focus; as I had described in Â?Market Dominance,Â? JPMorgan doesn't just trade in commodities, their modus operandi is to dominate and control markets. This is about as far removed as one can get from the thrust of basic US antitrust and anti-monopoly policy. I think the realization by JPMorgan that its basic method of operation in commodities is incompatible with the spirit of US antitrust law is the reason the bank has put its commodity business up for sale.

The real question is why now? Why is the US Government finally moving against JPMorgan? After all, JPMorgan has been controlling and dominating markets for years. As I had recently speculated, I think the answer is due to the recent appointment of the new US Treasury Secretary, Jack Lew, because the timeline between him coming into office and the push against JPMorgan is so tight. That's why I took special notice of Monday's closed-door meeting at the White House between the President, Mr. Lew and the heads of the primary financial regulators, including the Federal Reserve, the SEC and the CFTC.

Much has been written about this meeting and all of it (including mine) is speculation, because it was a closed meeting. We do know the agenda was reported to center on the President urging quicker enactment of Dodd-Frank, the landmark financial regulatory law passed three years ago. I know there are many different opinions on financial regulatory reform, but I'm going to cut to the chase for what impacts silver and gold. All that matters are position limits and the Volker Rule. Establish and enforce legitimate position limits and market corners and concentrated positions become impossible. Further, establish a realistic Volker Rule and JPMorgan gets booted out of the business of manipulating silver and gold prices for good. Heck, position limits or the Volcker Rule would eliminate the current market corners by JPMorgan separately; together they would do so without question.

That's why JPMorgan has been so aggressive in fighting position limits and the Volker Rule; as either would end their control of silver and gold. Position limits have been derailed by court action sponsored by JPM; the Volker Rule has been derailed by intense lobbying efforts by the bank. Let's face it Â? had legitimate position limits or the Volker Rule been in place, as was intended by Dodd-Frank three years ago, I would not be writing about silver and gold market corners in the present tense.

That's what's so intriguing about the recent government regulatory assault against JPMorgan; it suggests a push back against JPMorgan not only for dominating markets, but also against JPMorgan's up until now dominance of the government itself. My sense is that Treasury Secretary Lew realized that something was needed to break JPMorgan's stranglehold on the markets and on government policy and going against the bank on a wide number of fronts was the only effective remedy. JPMorgan has become so powerful that only a full-frontal assault by US Government regulators may be the only means possible of wresting market control from the bank. Left to the momentum of the past few years, JPMorgan would have continued to prevail and position limits and the Volker Rule, to say nothing about Dodd-Frank as a whole, would remain stuck in a ditch.

Let me be clear Â? this is all speculation on my part and perhaps the increasing regulatory actions against JPMorgan are random and unrelated to Monday's meeting. And I am fully aware that many consider the US Government to be partners with JPMorgan in the manipulation of silver and gold. When it comes to silver, I have harbored those thoughts myself because the CFTC has stood by and done nothing about the increasingly obvious silver manipulation for years, if not decades. That said, there is a potential very special twist in the current mix. That special twist is JPMorgan's recent long corner on the COMEX gold futures market.

If my speculation that the government's frontal assault against JPMorgan is intentional and not random is correct, then the government has just been handed a brand new opportunity to go after the bank for cornering the COMEX gold market. There are no extenuating circumstances here, as there were five years ago, when the US Government asked JPMorgan to take over Bear Stearns and then stood back as JPMorgan toyed with the gold and silver markets. I see no evidence that JPMorgan was asked to bomb the gold (and silver) market this year by the USG and flip a short corner on the COMEX gold market into a long corner. Everything I look at tells me JPMorgan did this all on its own for its own profit motivations.

Certainly, JPMorgan's corner on the COMEX gold market is recent, having only been created over the past few months as described on these pages. The gold market corner is so new that it hasn't made it to hardly anyone's radar screen. This means that the regulators are not behind the curve time-wise (yet) and can't be accused of dawdling (as is the case in silver). To me, this adds a special dimension to the government's arsenal if they are looking (as they should be) in cutting JPMorgan down to size. That's not just a personal feeling on my part; the whole point of too big to fail is cutting the big banks down to a size that doesn't jeopardize the financial system. Ending JPMorgan's control and dominance of gold and silver meshes with that perfectly.

But I will be the first to admit that if the regulators continue to ignore JPMorgan's corner on the COMEX gold market, my speculation, most likely, will have been incorrect. That's why it's called speculation; it's an educated guess about the future based upon the known facts. There's not the slightest doubt that JPMorgan has a corner on the COMEX gold futures market (the most important gold market in the world), but it is something else to predict exactly what the regulators will do about it. One thing completely off my personal worry list is that the regulators or anyone else will come forward to prove that my allegations of a gold market corner are unfounded in fact. That's because it is the regulator's own data upon which the allegations are based. A 15% to 25% (or more) share of any decent size regulated futures market by one entity is the definition of a market corner. This is different from whether the regulators will do anything about a documented market corner. Time will tell.

A quick update on some issues regularly followed here. Sales of Silver Eagles from the US Mint continue at full allocation as has been the case this year, but sales of Gold Eagles have trailed off. As a result, the ratio of Silver Eagle to Gold Eagle sales has never been greater than it has so far for August at almost 500 Silver Eagles sold for every one Gold Eagle. That pace can't continue.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion
Even more amazing is that there are still few signs of wide domestic retail investor buying demand for Silver Eagles, despite the persistent rationing. This continues to point to there being a single big buyer of Silver Eagles; my bet being JPMorgan.

Through the time of this article, there have only been less than a million ounces deposited into the big silver ETF, SLV, this week following the price and trading volume surge last week. As I indicated on Saturday, I think the Trust is owed 10 million ounces or more as a result of last week's action. In addition to a probable big increase in the short position of SLV, it also points to tightness in the wholesale physical silver market (1000 oz bars). The single most plausible reason for the silver metal not being deposited into SLV is because it wasn't available. Even if it comes in after a further delay, that only accentuates the non-availability explanation. After all, a shortage is nothing more than current unavailability for a commodity.

The signs of physical tightness in silver on a wholesale basis, coupled with recent regulatory actions against JPMorgan have elevated the potential for an upside silver price event. The very recent development of a gold market corner by JPMorgan actually adds more spice to the silver set up than it does for gold, although it should turn out bullishly for gold as well. That's because JPMorgan will likely be looking to game the gold market higher as a result of it holding so many COMEX gold contracts, perhaps before the regulators move against the gold corner. The only way silver would not keep pace with an upside gold move would be if JPMorgan adds aggressively to its silver short position from here. Such an action by JPMorgan would leave them more exposed to regulatory push back than ever before. I know that the regulators may never move against JPMorgan in gold and silver, but I also know that the regulators are moving against the bank on many other fronts. In such an environment, that raises the odds of regulatory intervention in gold or silver.

I have held from the beginning that a physical shortage will blow the roof off the silver market at some point despite the desires of the manipulators. I have always had a contingency possibility for the roof rising in terms of regulatory intervention, although until recently that was more thin hope than anything else. Seeing what looks like a coordinated US Government attack on JPMorgan (and for good reason) and the indisputable evidence of a gold market corner by the bank, I confess to having my hopes for regulatory intervention increased.

The allegation that JPMorgan has cornered the COMEX gold futures market can't be more important. A commodity market corner is the most serious market crime possible and this one is a crime in progress to boot, demanding immediate action or denial. Since the allegation is based upon public data from the CFTC, any denial must be in accordance with that data. To date, no denial has been offered and I don't see how one may be forthcoming. Since the gold market corner is such a recent development, the regulators have a special opportunity to address it in a timely manner and avoid criticism for missing the most important event in the gold market in decades. Due to highly unique circumstances, regardless of how this plays out, I see silver as being the prime beneficiary in the end.

Ted Butler

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Silver – $23.25

Gold – $1375

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