August 4, 2021 – The What and Why of Concentration

It occurs to me (actually I was recently asked directly) that I may need to more fully explain the term I use more often than most â?? concentration. Of course, Iâ??m referring specifically to the concentration on the short side of COMEX silver futures that I allege is at the core of the price suppression that has existed for nearly four decades.

A simple definition of concentration is a large market share held by only one or a few participants operating in concert. The question of concentration is of utmost importance to the functioning of free markets and a more familiar term for market concentration is monopoly â?? which lies at the heart of antitrust law. Sometimes monopolies canâ??t be avoided â?? in the case of public utilities for instance â?? but in those cases, strong oversight and regulation are the order of the day. So, hereâ??s a suggestion â?? whenever I use the term concentration, substitute the word monopoly or cartel.

Think of the four or less traders on the short side of COMEX silver as a monopoly or cartel whose existence is solely dependent on keeping the price of silver contained â?? much like OPEC or the DeBeers diamond cartel seeks to elevate the price of oil or diamonds. The only difference is that OPEC and DeBeers are outside the reach of the Justice Department, whereas the COMEX silver cartel is within the DOJâ??s jurisdiction. I wrote about this two decades ago.

https://www.gold-eagle.com/article/comex-silver-cartel

One of the keys to a monopolyâ??s continued existence is the willingness of the cartelâ??s controlling members to operate in concert. In the COMEX silver monopoly, this can be seen in the big shorts never breaking ranks and buying back short positions on higher prices â?? only buying after prices have fallen. Â This is completely borne out in COT reports going back 40 years and is the basis for how most judge the reports themselves.

Turning to commodities regulation, it is well-known that concentration must be closely monitored as price manipulation can only exist when a concentrated position exists. Thatâ??s why the CFTC, the federal commodities regulator, monitors and reports on the concentration in every commodity, both on the long and short side in every long form Commitments of Traders (COT) report.

The concentration data are reported for the 4 and 8 largest traders weekly, but the information is given as a percent of total open interest, requiring a simple but necessary additional step to convert the data to number of contracts (which may explain why so few speak of the concentrated short position in silver â?? perhaps they are unaware of the necessary extra step to calculate the data). Certainly, the CFTC is aware of the importance of monitoring the concentration data in every commodity â?? which is why it compiles and publishes the data.

The problem is that the Commission, while it complies and publishes concentration data, apparently doesnâ??t know what to do when concentration becomes so large as to indicate price manipulation â?? as is the case with the concentrated short position in COMEX silver futures. If you substitute the word concentration with the word monopoly, it may be easier to see the artificial downward pressure exerted on silver prices, namely, that the 4 and 8 largest traders on the short side of COMEX silver futures (mostly just the 4 largest traders) have a monopoly on and vested interest in lower silver prices. This is a price monopoly that has existed for nearly 40 years or how long the short side concentration has existed.

Itâ??s not a case that the percentage of total open interest of the big shortsâ?? holdings in COMEX silver futures is out of line with the percentages held short in other commodities or even when you convert the percentages into actual contracts because neither observation will reveal anything untoward â?? the short concentration in silver will look similar to other commodities. One final step is required to see the whole picture â?? the number of contracts held by the concentrated short sellers in all commodities must then be converted into real world terms and compared to total world production and consumption. This is the essence of the chart I presented last Wednesday and is regularly presented on the Internet. The concentrated short position in COMEX silver futures is and has been higher than the equivalent positions in any commodity, most often by staggering amounts.

In the most recent COT report, for positions held as of July 27, the concentrated short position of the 4 largest traders actually exceeded the total commercial net short position, something that has happened on past occasions. What this means is if the 4 biggest shorts didnâ??t hold the excessively large short position they did hold â?? there would be no net commercial short position at all. I can assure you that if the concentrated and monopolistic short position of the 4 largest traders in COMEX silver didnâ??t exist, the price of silver would be significantly higher than it is currently. Thatâ??s because the only way of encouraging other and more numerous traders to agree to short silver and replace the monopolistic shorts would be much higher prices.

I believe I know why the Commission hasnâ??t acted against the concentrated short position in silver over the decades I have petitioned it to do so. At first, going back 30 or more years ago, it maintained on multiple occasions that the final step of converting the concentrated short position into equivalent real-world amounts was something â??it didnâ??t doâ?• and that was that. More recently (a few months ago), it no longer offered that response, instead implying it had referred my concerns to its Divisions of Market Oversight and Enforcement for consideration. Interestingly, since the Commissionâ??s response, there has been a notable reduction in the concentrated short position to multi-year low levels.

Prior to the recent response (May 3) from the Commission, it had maintained for so long that there was no real issue with the concentrated short position in COMEX silver futures that it had backed itself into a corner as far as ever changing its stance. For it to come out now and acknowledge that there is something definitely wrong with silver consistently having the largest concentrated short position of any commodity in real-world terms would have invited an avalanche of criticism for having missed it for so long â?? even after being alerted on many occasions. After all, no one particularly enjoys having to fess up to a mess up, particularly when the mess up is oneâ??s primary mission and responsibility. No one should expect the CFTC to ever acknowledge the silver price manipulation that has existed on the COMEX for decades because it has too much to lose. The best to hope for is for the agency to privately recognize the short side monopoly and for it to work behind the scenes to fix it â?? and there are signs that may be occurring.

One thing I havenâ??t discussed at length in sometime is how and why the short side monopoly in COMEX silver came into existence when it did, which I date to 1983. This was a few years after the great silver price run up and collapse due the Hunt Bros. into 1980. Yes, the Hunts were guilty of manipulating silver prices higher, but the big shorts on the other side were no angels either and their victory over the Hunts encouraged them to continue their success and ability to crush silver prices on demand.

It was precisely because silver prices were so cheap going into 1982 (in the mid-single digits) that it finally attracted widespread buying demand following the great price runup and subsequent crash in 1980. At that time, there didnâ??t exist the wildly popular silver ETFs of today (SLV didnâ??t come into existence until 2006), so the most popular vehicle used by those seeking to buy silver was to buy COMEX futures contracts (there was also a popular Chicago Board of Trade silver futures contract at the time). With silver so cheap, $5 or thereabouts, many small retail traders took to buying silver futures contracts.

At the same time, the era of the technical funds was blossoming and these traders (which came to be the managed money traders of today), also mostly bought silver futures contracts when silver prices rose sufficiently and mostly avoided the short side. The net result of small trader and technical fund buying was that such buying needed selling, as there must be a short for every long in derivatives and vice versa. The only willing short sellers were banks and financial institutions who considered themselves to be â??market makersâ?•, providing the much-needed liquidity required for efficient markets and as such was considered a necessary function.

But like many â??goodâ?• and necessary functions provided by large banks and financial institutions, often such functions can be taken to excess. In the case of the selling short to the willing buyers of silver futures contracts, the large banks and financial institutions took it to extremes, with a monopoly of large short sellers coming to dominate that side of the market. These large short sellers also learned they could game the technical funds and many of the small buyers by rigging price lower at times to generate and induce selling by these traders so that the big concentrated shorts could buy back short positions at a profit â?? a practice that exists to this day, nearly 40 years later.

One hallmark of a monopoly, be it OPEC, DeBeers or the concentrated silver short sellers on the COMEX is that there has to be one top dog or ringleader. For OPEC, the top dog is Saudi Arabia, while in the COMEX silver cartel there have been a succession of top dogs, starting with J. Aron, on to Drexel Burnham Trading, then AIG Trading, on to Bear Stearns and then to JPMorgan. It is somewhat interesting that the three prior top dogs up until JPMorgan, all went bankrupt, although only in the case of Bear Stearns may it relate to being short silver (and gold). Since JPMorgan is no longer short in COMEX silver or gold, there has to be a new top dog on the short side, but Iâ??m not sure who that might be. Whomever it is, its days of continuing the monopolistic control of silver prices appear numbered, based upon the public record.

Therefore, the â??whyâ?• of the short silver monopoly, from everything I look at, was the long-term effort of large financial firms and banks to profit from taking the short side of silver. I know many insist the manipulation is the result of some deep government conspiracy, but it always looked purely greed-driven to me. While remarkably successful for nearly four decades, the monopoly seems on its last legs. I base this upon the abandonment of the top dog role by JPMorgan (after it loaded up on the physical side), the recent dismal performance of the current big shorts and the now-impossible to answer question of who would want to legitimately be massively short silver at this time and price. Plus, the recent pronounced short covering by the 4 and 8 largest silver shorts sets up the question like never before of will they go short on the next rally?

Perhaps the biggest reason for why I feel the jig may be up for the COMEX silver short monopoly is because of the dramatically changed nature of the market since 1983. Whereas back then the principle means of investing in silver was to buy futures contracts on the COMEX, there has been a radical change in the composition of the market to be much more physically based. The extremely popular Bullion Coin Program from the US Mint came into being in 1986 and since that time close to 600 million oz of silver have been converted into coins, along with hundreds of millions more of silver ounces in other popular world coin programs. Many hundreds of millions of additional silver ounces have been bought by investors in small bars and coins over the decades and recently.

There has been additional significant buying of physical silver as the result of deliveries against COMEX futures contracts, measured in the 200 million oz category since the mid-2000â??s. Â However, the biggest physical buying of silver has come courtesy of the silver ETFs, which largely came into existence in 2006, with the introduction of SLV. Together, with the buying of silver in the COMEX warehouses, some 1.6 billion oz of physical silver have been absorbed, an incredible 80% of all the silver in 1000 oz bar form in the world (with most being owned by interests related to JPMorgan).

It is this verifiable explosion of the buying of physical silver that the big short monopoly on the COMEX is fighting against. In essence, it is the 4 big shorts against the world. But the motive of the big shorts has also changed as radically as have the actual conditions of the silver market over the past four decades. Where the original and long-running motivation for the big silver shorts was to profit from their monopolistic control of the market, which was incredibly successful up until the last year or so, the motivation has changed.

Now, it appears to me that the big silver short monopolists on the COMEX are fighting the inevitable coming rise in silver prices, not for profit, but from the fear of what a failure to contain prices would entail. An explosion in the price of silver, even with the recently reduced concentrated short position would involve the potential financial ruin for some of the big shorts â?? to say nothing of resultant legal fallout. Â And please donâ??t think I am minimizing in any way the power of the motivation of the fear of ruin. The big silver shorts were originally and for most of the past 40 years motivated by greed, but now the motivation is fear.

Today was the perfect example of this. Both silver and gold prices were sharply higher, with gold trading above all its key moving averages early on and with silver above one of its key moving averages â?? the perfect time for prices to run further and from a short sellerâ??s perspective, the opportunity to hold back and to sell short even more on higher prices. But instead, prices were suddenly sold off. Why? I would advance the notion that the big shorts, particularly in silver, were not as interested in selling short more contracts higher as they were concerned that the buying might get out of hand and be much harder to contain if it spread to new physical investment buying.

Iâ??m drawn to this conclusion because Iâ??ve yet to uncover a legitimate explanation for why anyone would be massively short silver at this point and time. I can come up with many reasons that are not legitimate, namely, in order to artificially contain and prevent a silver price rally, but none that are legitimate. Certainly, the CFTC, the COMEX or any of the big shorts are welcome to put forth their own legitimate explanations, but Iâ??m not holding my breath.

In a nutshell, the big short monopolists in COMEX silver are desperate to contain prices so as not to ignite the inevitable resurgence in physical silver buying that higher price would involve. I can see how they might succeed in the very short term, but not beyond that.

It seems to me that most, if not all the silver and gold contracts that were bought earlier in the day by managed money and other price-sensitive traders were liquidated on the selloff that the silver cartel arranged. Thus, the market structure didnâ??t change much as a result of todayâ??s price gyrations. Was I disappointed that we didnâ??t liftoff for good? Heck yeah, but after nearly 40 years of observing the crooked dealings on the COMEX, I canâ??t say I was particularly surprised. Nor will I be shocked and surprised the day we do lift off and donâ??t look back â?? although the best I can do in handicapping what day that will be is sooner rather than later.

As far as what to expect in Fridayâ??s COT report, gold and silver prices did rally sharply last Thursday, with gold up more than $35 from the Tuesday cutoff and trading above all its key moving averages and with an 18,000 contract increase in open interest. Prices fell back the next day and even after adjusting for deliveries, total open interest fell around 7000 contracts. I donâ??t think much occurred, position-change wise on Monday and Tuesday, so Iâ??d guess managed money buying and commercial selling of around 10,000 contracts in gold. Total open interest in gold was down around 15,000 contracts for the reporting week, but between deliveries and unusual (and uneconomic) spread creation and liquidation, total open interest considerations are muddy at this time.

In silver, I donâ??t think much positioning change occurred on Monday and Tuesday, so Iâ??m inclined to stick with the comments I made on Saturday, when I speculated that on the big rally last Thursday, when silver rallied more than one dollar from Tuesdayâ??s close, but did not penetrate even its closest of three key moving averages that the 4 big shorts may have bought from the smaller commercials (the raptors) who sold longs. Ironically, if this did occur, it wouldnâ??t result in a reduction in the total net commercial short position (the headline COT number) because any raptor selling would offset big 4 short covering resulting in no change in the total commercial net short position (all things being equal, which they never are).

Total open interest in silver did decline by around 4600 contracts over the reporting week, so positioning surprises may be in store, but the market structure in silver was such that massive improvement was unlikely â?? what with so many new bullish benchmarks having been set in last weekâ??s and recent reports.

At prices as of publication time, the 8 big COMEX gold and silver shorts enjoyed some small relief in their total losses since June 2019, having gained back around $100 million and reducing total losses to $10.6 billion. I would also stipulate that the commercials as a whole likely made several tens of millions of dollars today as a result of selling near the days highs and buying back those positions later in the day.

As if additional warnings were necessary, the DOJ announced it had achieved jury guilty verdicts against Ross Hansen and his vault manager in the governmentâ??s case against Northwest Territorial Mint for defrauding customers out of $25 million. The clear and compelling lesson is to never, ever store metal with the dealer it was purchased from â?? unless an independent third party is storing the metal and it is held completely in the ownerâ??s name (not comingled with or in the dealerâ??s name).

https://www.justice.gov/usao-wdwa/pr/former-president-and-ceo-now-bankrupt-precious-metals-firm-convicted-mail-and-wire

Finally, I neglected to post an audio interview I did with Palisades Radio on last Tuesdayâ??s price smash.

https://www.youtube.com/watch?v=1jUU94NZgOU

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August 4, 2021

Silver – $25.45Â Â (200 day ma – $25.93, 50 day ma – $26.53, 100 day ma – $26.35)

Gold – $1813Â Â Â Â Â (200 day ma – $1823, 50 day ma – $1829, 100 day ma – $1801)

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