

December 11, 2013 – Big Surprise Coming?

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The Volcker Rule is now reality, although it will be some time (July 2015) before it becomes fully effective. Yesterday, all five US financial regulatory agencies approved the rule basically banning proprietary trading by financial institutions backed by government insured deposits. The question of the day is what does the enactment of the Volcker Rule have to do with gold and silver? The short answer, which I'll expound upon in a moment, is everything and nothing at all.

First, let's examine how the US Government came to pass a regulation that basically outlaws speculative trading by banks. Yes, the Volcker Rule was always a central feature of Dodd-Frank and was always as logical as drinking water when you are thirsty, but until early this year it stood little chance of being enacted in its current form due to the great political divide in Washington DC. The short answer is that the Volcker Rule was passed due to the efforts and will of one man – US Treasury Secretary Jack Lew.

I had previously opined that Mr. Lew was the impetus behind a marked change in US Government policy towards the big banks and especially JPMorgan, so I am not surprised that his influence has begun to be noticed. I'm not going to go over old ground today, but here is an absolutely great article on the Volcker Rule and Mr. Lew. The hidden message in the article is that had not Lew become Treasury Secretary in February, yesterday's approval of the Volcker Rule stood no chance of occurring. <http://dealbook.nytimes.com/2013/12/10/regulators-vote-to-approve-volcker-rule/>

The two key provisions in Dodd-Frank, as far as silver and gold are concerned, are the Volcker Rule and position limits, both now approved (although not yet implemented). No other commodities or markets stand to be influenced by these two provisions as do COMEX silver and gold. Therefore, it is easy to conclude that the Volcker Rule (and position limits) has everything to do with the manipulation in silver and gold and its enactment should end the manipulation. As I previously noted, if implemented properly, either one of these regulations would end the manipulation by JPMorgan. In fact, there is a bit of overkill with both provisions now being approved. That's because either regulation would force JPMorgan to cease its near six year manipulation of these two markets. And that just might be the direct result of the approval of the Volcker Rule and position limits, namely, a freeing of the price of silver and gold.

So where do I get off also suggesting that the Volcker Rule and position limits have nothing to do with silver and gold? That comes from practical observation over the past five years. I started writing about JPMorgan's stranglehold on silver and gold more than five years ago, pointing out the bank's extreme concentration on the short side of COMEX silver and gold which was responsible for artificially depressed prices. As a result, the CFTC initiated its third silver investigation in four years in 2008. No other commodity has had that many investigations.

Then along came the appointment of Gary Gensler as chairman of the CFTC in mid 2009. Gensler hit the road running, openly preaching the gospel of position limits to my shock and delight; in essence saying the same thing I petitioned the agency for the prior twenty years. As a result, I began referring to him as the greatest chairman in CFTC history. I was virtually alone in that opinion and have had ample time to reflect on my public proclamations. Here's the funny thing; I was right. Any objective reading of Gensler's accomplishments over his soon to end tenure indicate he has achieved more for the benefit of the American people and markets in general than all previous CFTC chairs combined (and I've had experience with almost all previous chairmen and women).

Wait a minute Â? what the heck am I saying? Gensler's the greatest chairman in history and yet the silver and gold manipulations persist to this day? That's exactly what I'm saying. Please hear me out. The agency has had many remarkable achievements these past five years and none of them have had anything to do with the silver and gold manipulations. While I was dead right about Gensler from the get go in my expectations of great regulatory accomplishment; I was dead wrong in thinking those accomplishments would apply to silver and gold. That's why I say the Volcker Rule and position limits have nothing to do gold and silver. How can I possibly reconcile these disparate thoughts?

The only possible reconciliation can be that the US Government views silver and gold as being different from other regulated markets. I had always assumed that the law is the law and would apply to all markets evenly. That was wrong. (As they say, to assume is to make an ass out of u and me). The CFTC treats silver and gold differently than it does other commodities. The agency would never allow a bank or any other entity to hold a market corner, long or short, in any market other than silver or gold. The question is why has the US Government looked the other way while JPMorgan has done nothing but corner the market in COMEX silver and gold?

The most popular reason given for why the CFTC looks the other way when it comes to gold and silver and JPMorgan is because the US Government is behind the control in order to prevent silver and gold from soaring in price and hurting the dollar or financial markets in general. Nine out of every ten comments I receive on this matter hold that to be true. Perhaps the majority is correct in this case, but I don't think so. After all, gold soared from under \$300 to almost \$1900 and silver from \$4 to almost \$50 in a decade and neither the dollar nor other financial markets crashed into the metal price highs. And I sure hope the US Government wouldn't be foolish enough to think that artificially controlling gold and silver prices would accomplish anything in the long run.

Instead, I am still convinced that the CFTC looked the other way since JPMorgan began to manipulate silver and gold prices in 2008 for two other reasons. One, there was, obviously, federal government involvement in the Bear Stearns takeover by JPMorgan in 2008. I am certain some private assurances were granted to JPMorgan by the US Treasury Dept and the Federal Reserve at the time of the takeover that made it impossible for the government to turn around and prosecute JPMorgan for manipulating silver and gold prices. That would have been messy beyond belief; something not possible at that time of great financial crisis and uncertainty.

Along with those private assurances looms large the fact that the CFTC had rejected the notion that silver had been manipulated in price numerous times over two decades. There is no way that the agency could have possibly alleged that silver was now suddenly manipulated after blowing it for twenty years without bringing great shame to the regulator. Someone (other than me) was bound to ask how the CFTC missed it for so long had the agency finally moved against the silver manipulation.

Gensler may be the greatest chairman in CFTC history and preserving that accolade may account for his dereliction in not applying commodity law evenly. I believe he chose his legacy and the agency's reputation over a fair handling of the silver manipulation by JPMorgan that would have prevented the massive damage sustained by silver investors and producers. None of us is in position to judge another without complete knowledge of all the facts and future events may shed more light on Gensler's and the agency's non-handling of silver matters.

This is not to imply that my take on the CFTC's failure to terminate the silver manipulation means that the manipulation is not going to end and end soon. More than ever, I am convinced that the silver manipulation will soon be a thing of the past based upon recent developments. In fact, I am having trouble imagining how the coming silver (and gold) rally will not be explosive in nature. Everything hinges on JPMorgan, just as it has over the past six years. That the bank has become the center of attention in all things financial goes a long way in cementing my feelings of a coming market explosion in silver and gold. Almost perversely, it also seems to me that the coming departure of Gensler (and Commissioner Chilton) from the agency may clear the decks for silver and gold to explode in price.

JPMorgan continues to take almost every gold contract issued for delivery in the COMEX December futures contract and most of the silver deliveries despite being net short COMEX silver, so nothing has changed in that bullish circumstance from Saturday's review. I think the fact that JPMorgan didn't add to its COMEX gold futures market corner over the past five weeks has emboldened the bank to continue taking virtually all COMEX gold deliveries this month. By not adding more futures contracts at least JPM can put up some façade to not blatantly squeezing the market, even though that is exactly what the bank is doing.

Yesterday's release of the new stock short positions as of Nov 29 was ho-hum, as short positions declined somewhat in both SLV and GLD. While the total SLV short position is still way too high at 18.4 million shares, or 5.4% of total shares outstanding, this is not the key short position in silver that matters most. Just to put things in perspective, the 18.4 million shares held total short in SLV is the equivalent of less than 3700 COMEX silver contracts. In the latest COT report, there was reduction of 4300 contracts in the total commercial net short position in that one week. Someday the SLV short position may once again become critical, but not this day. In terms of price setting, the COMEX continues to be the only market that matters.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%2599>

So far this week, silver and gold prices have rallied off recent lows. It is reasonable to expect some market structure deterioration or technical fund short covering, particularly on yesterday's fairly sharp rally through the 20 day moving averages in silver and gold; but I don't detect meaningful commercial selling yet. Technical fund short positions had reached such record extremes that they almost had to come down at some point. In fact, I'm more impressed with how little technical fund short covering may have occurred given the price rise on Monday and Tuesday.

As I tried to convey on Saturday, I believe the technical funds are more exposed to great loss on their current gold and silver short positions than ever before. At the end of June (when the technical funds held a record large but somewhat smaller short position than today) the price of silver and gold were at six month lows and many of the technical fund shorts held impressive open profits. After all, gold had fallen hundreds of dollars and silver had fallen even more in percentage terms and many tech funds held huge open profits. That is not the case today.

After the rally on Monday and yesterday, the technical funds' remaining open profits (never particularly large on this go-around) are less than \$20 in gold and around 25 cents in silver from flipping into the red. This circumstance did not exist earlier in the year. Therefore, I would contend that a sudden updraft in silver and gold prices, even less than what we've seen so far this week, could and should trip off a real technical fund buying frenzy on the upside. To be completely open, I don't see how that buying frenzy can be avoided.

This is a very unusual set up, bullish almost beyond description and not one that I can recall seeing previously. There are many tens of thousands of technical fund short positions open in COMEX silver and gold that are close to turning into a very large loss. Importantly, the 50 day and 200 day moving averages are only slightly higher than the loss demarcation point. My strong sense is that the technical fund shorts are trapped and in a short time that will become obvious in price. It's also important to remember that the technical funds have chosen to establish record short positions with gold and silver prices close to or below the marginal cost of production. This highlights the precarious nature of the tech fund short positions.

It also lends credence to my version of the story that the technical funds were lured or duped into establishing their record short positions by the commercials who took the other side of the transaction. The commercials and, particularly, JPMorgan, know full well what motivates a technical fund into buying and selling and since the commercials control the pricing mechanism on the COMEX (thru HFT), the commercials continue to pull the strings that dictate technical fund behavior. It's a sick, rigged game that a few commercials and technical funds play that sets the price of gold and silver for everyone else in the world.

At this point, about the worst I can imagine for silver and gold prices is that the commercials delay the inevitable rush by the technical funds to cover short positions. In that case, we dawdle in price for a while before then exploding. But unless JPMorgan and the other collusive commercials intend to let the technical funds off the hook by selling aggressively on the higher prices to come, the technical funds should quickly find themselves to be in a world of hurt.

More than anything else, the coming rally in silver will be determined by whether JPMorgan adds to silver shorts. Based upon all the new developments (position limits, the Volcker Rule, the departure of Gensler and Chilton and the growing general awareness of what a criminal enterprise JPMorgan has become) makes it appear to me that this will be the time JPMorgan stands aside from continuing to manipulate silver. It's long past the time to fret about lower silver and gold prices and not too soon to envision the historic rally to come.

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Silver – \$20.30

Gold – \$1253

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