

December 4, 2013 – No other Explanation

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As a result of having lasted so incredibly long and having become more obvious by the day, a funny thing happened to perceptions that gold and silver are manipulated in price. The perceptions have become the most plausible explanation for price levels and movement. I ask you to think about that for a moment; what I am suggesting is that the most credible explanation for why silver and gold prices behave as they do is due to an active price manipulation on the COMEX. As time has progressed, free market explanations for price behavior seem hollow to the point of sounding irrelevant.

In fact, I believe it has gotten to the point that no free market explanation exists that answers all the anomalies in silver and gold pricing, except price manipulation. By anomalies, I am referring to both long and short term price movement against the backdrop of factual evidence. From the two separate silver price smashes of 30% within days in 2011 to the almost daily ritual of sudden sharp declines in COMEX gold and silver, no free market explanations come close to making sense. So pronounced has the price-setting on the COMEX become, it's hard to ignore how purposeful is the manipulation. All big sell-offs in COMEX gold and silver result in uniform commercial buying. So consistent is this pattern that it is impossible to conclude that there is not an intent or purpose behind it.

The growing awareness that precious metals are manipulated through the mechanism of the COMEX and not by real world supply/demand fundamentals is a phenomenon unprecedented in modern market history. All past market manipulations were revealed only after the manipulation was broken; there is no previous circumstance of widespread recognition that a market manipulation was in force in the present state (save perhaps by the London Gold Pool in the time before US citizens were allowed to buy gold in the mid-1970's). Particularly in silver, the existence of an active manipulation depressing the price provides one of the best arguments for the coming spectacular long term investment performance.

It has now been almost 28 years since I first discovered the COMEX silver manipulation and took initiatives to end it (by going to the regulators). Being the first to discover it doesn't make me the be-all and final word on the manipulation; but it does give me a highly unique perspective to make certain observations. In the early days, because there was no means to communicate widely, the conversion process was slow beyond description; there were years that passed where not one new person came to grasp the silver manipulation.

That all changed in 1996 when the Internet allowed me the opportunity to present evidence of the manipulation to a much wider audience. Without the Internet, I can't see how more than a handful of people would be aware of the precious metals manipulation today. The biggest boost came in late 2000, when Investment Rarities started distributing my articles by direct mail and, in a personal accommodation to me, began publishing my articles on their website, free to the public. Still, there were some strong headwinds against immediate acceptance that silver (and gold) were manipulated in price.

For one thing, the idea that a major market, like silver or gold, could be manipulated in price for many years is difficult to grasp at first and very easy to reject. That's because those actively participating in or studying a market (to say nothing of the regulators) are ill-prepared to readily accept that the market they are involved in was anything but free. To do so means admitting they missed seeing the single most important factor in any market, namely, whether that market was free or manipulated in price. No one likes admitting to missing something important, especially those who derive an income from that market. Without naming names, there are such people to this day who reject the idea that a silver or gold manipulation is even possible, regardless of the evidence or past history of market manipulation (in the same markets) because they failed to uncover it for themselves. When presented with the evidence, invariably, they ignore the evidence and turn to personal attacks and not the facts at hand.

As it turns out the evidence of a COMEX manipulation of gold and silver prices has become more compelling than ever before. As has been the case all along, the evidence is contained in the CFTC-published Commitments of Traders Report (COT). Let me give you the unavoidable conclusion on COMEX gold and silver trading and then let me fill in the details and reasoning –

0% Hedging, 100% Speculation

First a little background. US commodity futures trading is allowed to permit legitimate hedging by real producers and consumers of commodities. Congress did not create regulated futures trading in order to create unbridled gambling by speculators. Speculators, of course, are necessary to provide the liquidity needed to allow hedgers to offset the unwanted price risks associated in the production and consumption of commodities. But any objective reading of the spirit of commodity law would conclude that any futures market that becomes completely devoid of hedging and becomes exclusively composed of speculation has no reason to exist.

Data from recent COT reports indicate clearly that legitimate hedging does not exist in COMEX silver (and gold) and instead has been completely replaced by pure speculative trading. Silver prices dropped by \$3 (from \$22.50 to as low as \$19.50) from Oct 29 to November 26, the as of date of the most recent COT report. (Undoubtedly, I will have to adjust my numbers when the new COT report is released and that will strengthen my case, but I want to stick to numbers that can be verified and are not just expected).

The glaring feature of the \$3 drop in silver is that the only large reporting trader category shown to have added new short positions was the managed money category of the disaggregated report. This is the category of the technical funds, those entities that operate by price signals. The technical funds added 15,608 contracts in gross shorts from Oct 29 to Nov 26. No other large reporting category, either commercial or speculative, had any increase in gross short positions during this time.

15,608 COMEX silver contracts are equal to 78 million ounces of silver, more silver than is produced or consumed in the real world in a month and every single paper ounce of it was sold short by technical trading funds on the COMEX and not by any other large trader category. No silver mining company, or processor, or refiner, or distributor sold any silver contracts short on the COMEX for the month ended Nov 26 in order to hedge or for any other purpose; the new short selling was exclusively the work of technical funds.

Since the traders in the managed money category of the disaggregated COT report are registered with and classified by the CFTC as speculators (and not commercials), it is certain that the 78 million oz sold short were not part of a hedge; it was pure speculation. Therefore, more than 78 million equivalent ounces of silver were sold short by speculators on the price drop and, in fact, caused the price drop. 0% hedging, 100% speculation.

On the other side of the trade, other speculators which are classified as commercials bought what the technical funds sold short. These other speculators, mostly JPMorgan and other financial firms also were not hedging but instead speculating that the technical funds would be wrong eventually (a good bet in my opinion, but definitely not a hedge). Once again, 0% hedging, 100% speculation.

What I just described is diametrically opposed to the spirit of US commodity trading law. It is graphic proof that speculators have controlled the price of silver (and gold) by uneconomic excessive speculation. Worse, these speculators are setting the price of silver lower to the exclusion of input from the real world. Silver mining companies are in great financial stress because of speculation on the COMEX is so excessive to the point of completely excluding any legitimate hedging.

Because the data are so clear in the COT reports and because it violates the spirit of commodity law, it allows me to label the COMEX (run by the CME Group) as being crooked, just as I label JPMorgan as being crooked for being the prime manipulator in gold and silver. While my labeling of both as being crooked may be repetitive, it is still unprecedented. No one reading this has ever witnessed major financial institutions, like JPMorgan and the CME Group, being openly called crooks without a rebuttal (yes, I still send all my stuff to both JPM and the CME).

For years, I have predicted that in a world marked by growing instant communication, it was only a matter of time before a critical number of participants came to learn of the real story in silver. Based upon my observation of what is being written on the Internet, the trend of more individuals coming to recognize the manipulation is very much intact. Although it doesn't seem possible for this to be true while prices have declined as unrelenting as they have, the reality is that more are becoming convinced of the manipulation.

The great thing about the manipulation premise is that it is a one-way conversion process. Those unsure of the manipulation can be converted into seeing the manipulation if they look deep and objectively enough; those who grasp the manipulation can never be converted back again after they recognize the truth. At some point, enough will become aware of the scam being run on the COMEX so as to render it unsustainable. If a physical silver shortage hits first, then it won't matter if enough learn of it or not.

A few words on developments this week. The COMEX delivery data continues to intrigue as it is centered on JPMorgan. Since JPMorgan has a long market corner in gold of approximately 80,000 contracts, it is not surprising that it has taken delivery (in its proprietary trading account) of 1011 of the total 1086 gold contracts issued this month so far. This is reminiscent of the large quantity (3151) and percentage of gold deliveries stopped by JPMorgan in August.

There is a reasonable assumption that JPMorgan holds 90% of the roughly 5600 contracts still remaining open in December (after adjusting for today's deliveries). As I indicated in the weekly review, this has a strong bullish flavor. While I don't expect JPMorgan to instigate a delivery squeeze, the crooked bank is certainly capable of doing so.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

More surprising is that JPMorgan (in its proprietary account) has also been the main stopper of COMEX silver deliveries, having taken 844 of the 1544 total silver deliveries tendered so far this month. I say surprising because JPM is still short more than 50 million ounces in deferred futures months, but obviously long in the December delivery month. Normal delivery assignment procedures indicate perhaps half of the 1500 silver contracts still remaining open in December are held by JPMorgan. Clearly, JPMorgan wants physical silver even though it is net short. This coincides with my feeling that JPMorgan would give its eye teeth to be truly net long silver but just hasn't been able to lure enough technical funds to go short for JPM to buy.

Completing the December delivery intrigue is copper, where no deliveries have been made yet and a clear backwardation has developed. Just as a reminder, JPMorgan is very long copper futures. Is there any market these crooks don't seek to dominate? The ironic aspect is that the Volcker Rule is set to be finalized by the CFTC next Tuesday, December 10. I say ironic because if either a legitimate Volcker Rule or position limits were established, JPMorgan would not be allowed to dominate the markets as it does. Who knows? maybe JPMorgan sees the handwriting on the wall and that is why they positioned themselves for an upside price explosion.

http://www.cftc.gov/PressRoom/Events/opaevent_cftcstaff121013

Was today's sharp price reversal the start of the explosion? Could be, but we'll only know for sure as time passes. Certainly, no one should be surprised at the sharp rally and the potential for this being the big one. That's because it is clear that why we went down (tech fund short selling) is why we must go up at some point (tech fund short covering). As always, the key is what the crooks at JPMorgan intend to do on the next silver rally. Will they add new shorts and cap the price or will they keep their hands in their pockets and refrain from adding shorts and allow the price to fly? This is one of those things we'll all observe in real time.

Ted Butler

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Silver – \$19.80

Gold – \$1245

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