December 5, 2012 – Too Big To Bail

Too Big To Bail

I did receive a decent amount of subscriber feedback about my speculation that a forced cessation of trading in COMEX silver could be one of the few resolutions available to end the ongoing scam of manipulation. It was not a new thought, as I realized long ago that closing the COMEX was an immediate, if extreme, method to ending the manipulation. However, I always considered it a long-shot and something to be avoided, as I indicated in this old article from 9 years ago
http://www.24hgold.com/english/contributor.aspx?article=482881192F8350&contributor=Theodore

What has changed is that the silver manipulation has become so blatant and more are learning of it daily that closing the COMEX is not the long-shot it once was. Nine years ago, I had to guess at whom the big short manipulator might be; today I know it is JPMorgan Â? or at least I feel certain enough to make that assertion openly. Seeing how powerful and connected this bank has grown and how efficiently a closure of the COMEX silver market would eliminate perhaps their most serious problem is the main factor in the odds tightening. Closing the COMEX isn't the only way to end the silver manipulation; it is simply the most efficient from JPMorgan's perspective. A genuine physical silver shortage would certainly do the trick, but that would be especially costly for JPMorgan at this time considering how extended their short position is at present.

One other way of ending the silver manipulation was the method that I always favored, namely, that after a big price takedown in which the maximum number of technical fund long contracts was forced to be liquidated and the total commercial short position was extremely low, the silver manipulators would simply stand aside and refuse to sell short on the next rally. This would free the price and it would no longer be shackled by concentrated short selling. While still possible, the odds on my heretofore most-favored outcome have weakened noticeably. Having witnessed the total commercial short position and, most importantly, the concentrated position of JPM reach the extremely low levels of both last December and this past summer, only to see JPMorgan substantially increase its manipulative market share on both subsequent rallies, I am still scratching my head. After all, the commercials had rigged the price of silver lower to under $27 both in December and this summer and JPMorgan was able to reduce its short position to 14,000 contracts or less each time, their lowest short position since taking over Bear Stearns in 2008. It would have been the perfect time for them to step aside, refrain from aggressive additional short selling and end their continued manipulation of the silver market. Instead, JPMorgan increased their manipulative short position by 24,000 contracts to 38,000 contracts, just about their highest amount ever.

I suppose my formerly most-favored outcome could still yet occur, but it's hard for me to imagine JPMorgan replicating the low short positions of December and this summer. I base that on the continued tight physical market conditions I perceive presently in silver, as well as the developing competition on the buy side presented to JPM by the silver raptors. I'll have some concluding comments on this at the end of this piece, but there are only a limited number of outcomes for the inevitable termination of the silver manipulation. The one common denominator the outcomes share is the effect on price. However it is ended, the termination of the silver manipulation will mean the presence of a shockingly high price.

For such a small market, silver has developed into a major problem for some of our most important institutions, both private and public. Privately, financial behemoths including JPMorgan and the CME Group seem to be enmeshed in an ongoing crime in progress due to the former's concentrated COMEX short position which is manipulating the price and the latter's failure to function as the designated frontline self-regulator. Publicly, as many as three high-level federal agencies, the CFTC, the Treasury Dept. and the Federal Reserve, may be involved in a cover-up of illegal activities in the continuing silver manipulation. These entities are at the very top of the private and public hierarchy.

Throw in the fact that price manipulation is the most serious of all market crimes and that raises the matter higher still. The biggest names, the worst possible crime and a tiny market have converged in a most peculiar way in silver. Most unusual of all is that the combination may have resulted in the best potential long term investment opportunity around today, following silver having been the best investment opportunity over the last ten years. Silver may be a small market, but it is at center stage when it comes to the high profile of its participants and the nature of the crime. Because the silver manipulation is a crime in progress and all manipulations must end; it is guaranteed that the end of the silver manipulation will be on center stage as well.

In fact, the unavoidable attention that will attach to the termination of the silver manipulation is also one of the main forces delaying the coming resolution. If ever there was a can that needed to be kicked down the road by important insiders, the sudden end to the silver manipulation is surely that can. JPMorgan and the CME, as well as the various federal agencies involved are dreading the resolution of the silver manipulation, probably as much as informed silver investors are cheering for it. In a nutshell, this is why it has taken so many years to put a wooden stake through the heart of the silver manipulation; those who should be ending it know that in its termination they will be exposed for not ending it sooner. After all, there is a documented 25 year history of the CFTC being continuously alerted to the silver manipulation with the agency always rejecting the allegations. There's no way any termination of the silver manipulation won't be connected to the clear prior public warnings. No one rushes to their own funeral. Postponing the shame is particularly relevant in the case of many at the CFTC, as an oath of office was taken to protect the public and the public's pleas for relief were ignored.

While Chairman Gensler and the other commissioners were not at the agency for the past 25 years, most have been there for as long the current prime silver manipulator, JPMorgan, has held its giant concentrated short position. Incredibly, a formal silver investigation was initiated more than 4 years ago because of JPMorgan's monopolistic share of the silver market that is unresolved to this day. Justice delayed or left incomplete is justice denied. Considering the specific nature of the allegations regarding JPMorgan's concentration on the short side of COMEX silver futures, the lack of action or response from the Commission has undermined public confidence in the agency and in the regulation of the silver market. From any regulator's perspective, what could be worse than that?

The CME, for its part, has pretended to be oblivious to the allegations of a silver manipulation despite continuous notification. The CME acts like a force answerable only to itself, while in reality it is licensed by Congress to operate for the public good. It was never intended to become a force against the public good, yet that is what it has become in silver. The CME is a political and lobbying powerhouse which has remained mute on the matter of a silver manipulation, like its powerful compatriot, JPMorgan. Having a commodity background going back 40 years in addition to being a semi-alert observer of things in general, the most remarkable personal aspect to me is how such giant and powerful financial organizations can leave unanswered allegations of concentration and manipulation. That doesn't prove that what I am alleging is therefore automatically true; but the allegations are specific and serious enough to suggest some defense or explanation. Unless I'm reading it all wrong, the ostrich head in the sand reaction by all of them (CFTC, CME and JPM) has done nothing to dissuade growing numbers from embracing the manipulation.

Most unusual of all, JPMorgan has continued to ignore the allegations of manipulation by silence and by massively increasing their concentrated silver position. It's not possible for JPMorgan not to be aware of the allegations of manipulation against it. Those leading JPMorgan are not stupid and they know the serious nature of the allegations. That they would allow the allegations and the associated bad will to fester and grow is without precedent. Then again, so is the ongoing nature of the silver manipulation itself. We can only guess as to whether JPMorgan is merely arrogant and beyond legitimate regulation, or if they are left with little choice in being reduced to the sole silver short seller on rising prices. In many ways, the silent treatment that JPMorgan (as well as the CFTC and CME) has chosen to adopt has been the best outcome for silver investors and for me personally. I just want the bank to stop manipulating silver and not sue me in the process. That would be a perfect world to me. Therefore, their silence is better than me being served with legal papers, while the allegations and outside awareness continue to grow.
Trying to be as objective as possible, I can't see how JPMorgan has done itself any favor by the approach it has taken. Of course, the final chapter of this story has yet to be written.

It seems like almost every day I read a new article that references the silver manipulation. Sometimes, certain details are missing (like the concentrated short position of JPM), but that does not detract from more being written about the manipulation than ever before. Most often, like recently, more observers connect the sudden sharp take downs in price with trading activity on the COMEX. That's for good reason, as COMEX paper trading accounts for 99% of daily silver (and gold) price movements. Others, mainly in the mainstream media, try to point to world events as the cause for price movements, but their numbers seem to be decreasing, while those aware of the manipulation are ascending in greater numbers. At some point, we hit that sweet spot where the silver manipulation can no longer be denied.

The big question today is how much, if any, downside exists in the price due to further technical fund selling on artificially induced lower prices by the commercials? Obviously, this is a question that will be answered soon. There is clearly a risk of additional liquidation to the downside based strictly upon the still high level of tech fund longs/commercial shorts in COMEX gold and silver. It is important to be aware of that risk so that it if it occurs, it does not cause you to lose long-term positions on emotional price swoons. The cost of a price rig job to the downside is too high if it catches you mentally unprepared. But there are some other signs that indicate much of the liquidation may be behind us.

Yesterday, silver and gold sold off sharply for the third day of the reporting week that will be included in this Friday's Commitment of Traders and Bank Participation Reports. Over the new reporting week, gold fell by more than $40 and silver by more than $1, each penetrating important moving averages, including the 50 day moving average. Total open interest in each market has declined significantly and Friday's reports will record a decline of gold open interest of 45,000 contracts and a decline in silver open interest of 9,000 contracts. (I can't tell you the net changes, but the gross changes in open interest are already known at this time). Even though the coming COT report included deliveries that accounted for some of the open interest declines, it's obvious there has been big net liquidation of tech fund long/commercial short contracts. The bigger the better, as that may suggest less liquidation to come.

In silver, there is an added feature that is different than is the case in gold. In gold, the big 8 traders have been in synch with the raptors (the smaller commercial traders) recently, with all the commercial categories adding to short positions for the past few weeks and all the commercials in gold likely to have bought back short positions in the COT report to come. In gold, it will likely be a straight measurement of when all the commercials are done buying and Friday's report will help in estimating that amount. In silver, it's a bit more complicated.

In silver, JPMorgan has been the sole new commercial short seller for many months (in addition to holding an extremely concentrated position to begin with). The smaller raptors have only sold out previously held long positions on the silver rally that started in the summer and recently have turned net buyers in the past few weeks, just as JPMorgan has loaded the boat on the short side. I have remarked how this is very unusual and may portend that there is a good reason for the raptors to be buying in silver while they are selling in gold and JPM has added significant numbers of new silver shorts. It could be that the silver raptors sense a physical shortage developing. What will be instructive in the coming silver COT is how many contracts were bought by JPMorgan versus how many were bought by the raptors.

The real silver story suggests that JPMorgan may have miscalculated in much the same manner that the bank miscalculated in allowing the London Whale to amass too large of a derivatives position in credit default swaps. As soon as the trading community realized JPMorgan was out of position in the swaps market, they rushed to take advantage; ultimately resulting in more than $6 billion in losses to JPM and almost as much in reputational damages. Considering that the unwinding of this monstrous and manipulative silver short position could cost JPMorgan more in terms of dollars and reputational harm, one would think the bank might reconsider its future course. But if they want to keep adding shorts and letting the allegations of wrongdoing accumulate unanswered, I suppose they will do so until they can no longer. The one sure thing that will stop them dead in their tracks is a physical silver shortage, the signs of which are appearing daily.

Ted Butler

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Silver – $32.95

Gold – $1695

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