February 13, 2013 – SLV Update

SLV Update

The much anticipated release (by me at least) of the latest short interest statistics for the big silver ETF, SLV, came out late Monday evening. The reason the report was anticipated was because it covered the period of time in which there was an unusual one-day deposit of over 18 million oz into the trust, followed by metal withdrawals of nearly half that amount. Because that big deposit came out of the blue, in relation to price action and trading volume in SLV at the time, my knee-jerk speculation was that it had something to do with the short position (please see the weekly review of Jan 19). As indicated in the new data for positions as of Jan 31, short interest in SLV fell an unprecedented (I believe) 10.5 million shares to under 7.3 million shares (oz) http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Not only was this among the largest reductions in shorted shares in any two-week period for SLV, it was the largest percentage decline (60%) in my memory. Importantly, the total short position in SLV is now lower than at any point prior to 2011 and as a percentage of total shares outstanding (2.1%) may never have been lower. Less than two years ago, the short position in SLV exploded to almost 37 million shares (at the price peak), or 5 times the current level. For years, I have obsessed about the short position in SLV because I felt it had a direct and, at times, manipulative effect on the price of silver. I'll get into that in a moment, but I know this can be a complex issue to grasp, so let me speak in more basic and factual terms first. If I didn't believe that the short position in SLV was central to the price prospects for silver, I wouldn't persist in writing about it.

First, a 10.5 million oz single silver transaction is notable for its size alone, as was the case with the single-day deposit of 18 million oz earlier. 10.5 million ounces is equal to 5 full days of world mine production and a carries a price tag of more than $300 million. It also happens to be equal to what I estimate to be the amount of silver available to the world's investors on a monthly basis after all other silver fabrication demand is accounted for. In this sense, 10.5 million oz of silver is a significant amount. Normally, one might think that a single transaction equaling a full month's world silver investment supply and demand should have some impact on price. That there was no discernible price reaction in silver to this transaction is odd and adds to suspicions (or convictions) that the price is manipulated.

It's hard not to classify the 10.5 million oz reduction in the short position of SLV as a single transaction seeing how it came during a period when there was no notable trading volume or price activity in SLV that would be suggestive of aggressive short covering. In fact, it's almost impossible for the historic sudden short share reduction not to be directly related to the concurrent historic and unprecedented one day deposit. To top off the conclusion that the short reduction in SLV was directly related to the big one-day deposit, I'm tempted to add that there weren't that many other plausible explanations (other than a single big buyer). The reason that was one of the most plausible explanations was due to the mechanical workings of the SLV. Short SLV positions can only be closed out by buying back shorted shares or by depositing new metal into the trust in exchange for new shares, with the new shares used to offset and eliminate shorted shares. Once the big deposit was made, the next clue would have been provided in the release of the relevant short report (which we got Monday).

What I would ask you to conclude at this point is that there is strong evidence that the shares shorted in SLV have some direct connection with physical silver. Certainly, in this case, the connection is clear enough because it's obvious the short reduction came as a result of the big deposit. But I would take it further; I would showplace this specific 10.5 million oz short reduction in SLV as proof that shorted shares are not backed by real silver, at least until the point where real silver is deposited and the shorted shares no longer exist. Up until that point of short share elimination, no real silver backs shorted shares of SLV. Let me be clear here Â? I never said shorted SLV shares could not be covered with real metal, just that the shorted shares were not backed with real silver (much to the detriment of SLV shareholders). As a shareholder, I'm delighted to see the sharp reduction in the SLV short position for a variety of reasons. I don't know if I had anything to do with this short share reduction, but I would remind you that I have made numerous attempts, both public and private, to BlackRock and the regulators to get the short position in SLV reduced or eliminated. It never particularly concerned me how the short position was reduced and a metal deposit to cover shorts is fine with me. Obviously, more of a concern is if the short position in SLV grows in the future; but let's savor the reduction for a short while, at least.

In keeping with the single transaction observation, the 10.5 million oz short share reduction in SLV was, most likely, initiated by a single entity. The covering of a short position must be initiated by the short seller in some way; otherwise the short position would not be covered. It's possible some pressure was applied to the short seller (I hope), but a short seller must initiate the closing of a short position if it is to be closed. The odds-on conclusion is that the 10.5 million oz (share) reduction in the SLV short position was initiated by a single entity. Clearly, JPMorgan is the most likely candidate. As the big COMEX silver short seller and custodian of the SLV, it would be almost impossible for JPMorgan not to be the big short seller behind the historic reduction in the short position. I'll speculate on what this portends for the price of silver in a moment, but please allow me to make a different point first.

Whether it is JPMorgan behind the short covering in SLV or not, it is all but certain there was a single short seller behind the reduction of 10.5 million shares in shorted shares. It is virtually impossible that many different short sellers all converged at this time to suddenly deposit metal into the SLV. According to data from the NASDAQ, the largest single long position in SLV is less than 7.7 million shares http://www.nasdaq.com/symbol/slv/ownership-summary That means there had to be a single entity in SLV holding a much larger short position than the position of the largest long shareholder. That bothers me and should bother you as well (to say nothing of the regulators). The worst thing is not the inherent unfairness of long shareholders having to publicly disclose large ownership positions while short sellers get to operate in the shadows and not report large short holdings at all. Talk about granting a license to play market games. I admit to holding mostly negative feelings towards short selling in general, but someone needs to explain to me why large short sellers are given such an advantage over legitimate buyers.

The worst thing is that silver is already a market that is at the center of allegations of price manipulation due a concentrated short position by JPMorgan in COMEX silver futures. Now there is clear evidence that there was also a concentrated short position in shares of SLV, the largest stockpile of silver in the world. How hard would it be for the regulators to connect these two dots? Maybe two or three phone calls? The CFTC is still trying, after investigating for 4.5 years, to come up with some credible-sounding explanation for why JPMorgan's concentrated COMEX short position is not manipulative to the price of silver. That's because concentration and manipulation go hand in hand. Now we have evidence that a concentrated short position also existed in SLV. The two most important silver markets in the world, the COMEX and SLV, and both have/had concentrated short positions. It is almost beyond the point of obviousness that one large US bank would appear to have been the big short in both markets, but that is most likely the case.

OK, so what might this portend for the price of silver? I think it's great that the short position in SLV is down sharply, as long as it doesn't grow again. I also hope the large deposit of metal to cover the short position crystallized the connection between shorted SLV shares and those shorted shares having no metal backing and, therefore, no reason for existing in a hard metal ETF. There is no logical reason for an owner of silver to short shares of SLV as a hedge of some type, as there are so many more cost effective ways to hedge. It should be clear that the shorted shares just covered in SLV were sold short before the metal was rounded up and deposited, as any other sequence would be illogical.

I am hopeful that the sudden reduction in and resultant low level of shorted SLV shares indicates some recognition behind the scene that the silver manipulation is heading for a resolution of some type. There exists the quandary that the concentrated short position in COMEX silver futures has rarely been larger, just as the SLV short position has been sharply reduced. As troublesome as it may appear, I can't help but speculate that this might argue for some type of forced closing and default in COMEX silver futures that would see the price of silver soar in its aftermath. This is something I have speculated about previously. Certainly, I never have anticipated such a default in SLV, so I suppose if I were the big silver manipulator with short positions in both SLV and on the COMEX, I'd be sure to cover the SLV shorts first, especially if a forced COMEX closing were foreseen. Then again, I may be reading way too much into this.

As a reminder, the short SLV share reduction was one of two plausible explanations for the big one-day deposit, with a large buyer also mentioned by me as being behind the big deposit being made. In fact, the large buyer premise further explains the 8 million oz withdrawal of metal since after the deposit in order to shield public disclosure, as I've speculated on previously. My own feeling is that the big deposit involved both short covering and a new big buyer and the numbers involved would seem to support that. After all, 18 million oz were deposited and 10.5 million short SLV shares were covered, leaving almost 8 million oz unaccounted for, except as taken by a new buyer. I'm not trying to massage the data to fit a predetermined premise; I'm trying to uncover the most plausible explanations behind certain facts that stand out, such as the historically large SLV deposit and the historically large reduction in its short position.

I think the most recent price and trading action has been instructive. I've had the sense since Sunday night that the COMEX commercials (principally JPMorgan and the collusive raptors) have been trying mightily to trip off technical fund selling in silver and gold, by any means possible. That includes sudden price drops below critical moving averages, particularly when markets are most illiquid. Behind the relentless commercial press of lower gold and silver prices (despite there being no legitimate reason for lower prices) is the sole focus on causing tech fund COMEX selling. The commercials have had more success in inducing technical fund selling so far in gold rather than in silver, but that doesn't appear to be due to lack of trying on the commercials' part. I wish I could pinpoint when the crooked commercial campaign to rig prices lower will end, but that is always knowledge learned after the fact. We do know for sure that the commercials are only rigging prices lower in order to buy. We also know buyers expect higher prices at some point; otherwise they wouldn't have bought.

While awaiting the final wash-out price lows it is important to keep the longer term in perspective, as that is easily lost when JPMorgan and the other commercials press prices lower. It is also important to recognize that deliberately induced lower prices automatically improve the risk/reward equation. That's the amount of potential gain versus potential loss and in silver it is lopsided to the upside, even if the steady press of deliberately lower prices distorts perspective. At the core, the deliberate lower prices are only intended to distort perspective.

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Silver – $30.80

Gold – $1643

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