

## February 19, 2014 – A Hundred to One

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The number of reasons why silver (and gold) should rise significantly in price in the long run versus the reasons it might decline significantly are probably greater than 100 to 1, once all the nuances are considered. Particularly in silver, the bullish factors include a small, finite and slowly growing amount of metal available for investment compared to an almost infinite potential demand that could erupt without notice. Throw in a price too close to the cost of production because of anti-competitive market interference and even the one negative reason has a bullish side.

The one negative factor in silver and gold is, of course, price-fixing on the COMEX, on which the giant bank, JPMorgan is the dominant force. I know I write this continuously, but it's almost impossible (at least for me) to come up with other bona fide reasons to be bearish on silver. At current prices, no one could be worried about large supplies coming to market by a mining boom. With silver's widespread and growing industrial applications, no one should be worried about a sudden drop in fabrication demand, except in some worldwide economic tsunami. Even in that event, safe haven buying would surely surge.

Not only is the world's total silver inventory of 1000 oz bars shockingly small at 1.3 billion ounces; in dollar terms (less than \$30 billion) it is not even a rounding error when it comes to total asset values and world investment buying power. Considering this silver inventory is held in the most diversified of hands (excepting for JPMorgan) the thought that great numbers of holders would suddenly sell and divest themselves of long term holdings doesn't seem realistic. Let's face it – if existing silver holders were going to dump in mass, they would have likely done so on the 60% decline in price since April 2011. (Just to balance things, silver prices had surged more than ten-fold into the high point).

As I've indicated previously, I do spend time contemplating what could go wrong in silver, as well as if my specific findings are off the mark. But even the unexpected, such as the brutal and deliberate take downs in price since April 2011 and in 2013, seem like one-offs at this point. After all, the drop from the high is more than silver is priced now and it is impossible for silver to be priced below zero. If silver declined as much as it did last year it would be priced in the single digits with mining companies shutting production left and right. So what is the realistic worst price case for silver at this time?

The worst case, to me, is a continuation of the price levels witnessed since last summer, with perhaps some temporary new low. In other words, the worst case is what we've witnessed for the past eight months or so. One needs to measure the worst case against what the best case is in every investment. Because of the extreme decline from former price highs and the reason for that decline, the best case in silver may come close in risk/reward terms to levels only dreamed about for long term investments  $\hat{A}$ ? 10, 20, 30 or more to 1. Stated differently, for every dollar silver may decline from here, it could rise by 20 or 30 times that risk or more in time.

Since there is always risk present in any investment, silver's current low risk is a positive, as is the reason for that risk, namely, price fixing on the COMEX. What could possibly be positive about price-fixing on the COMEX? The answer is that more are becoming aware of that price-fixing every day and, at some point, the awareness will  $\hat{A}$ ?out $\hat{A}$ ? the price-fixing and end it. I don't know if silver prices will surge or sag in the short term; but I do know prices should surge and if they do sag it will be due to the same COMEX price fixing that has caused every previous price decline. I'm choosing my words carefully here  $\hat{A}$ ? I don't think there has ever been a silver price decline not caused by price-fixing on the COMEX.

So the real question is how long the price-fixing on the COMEX can last, especially considering how JPMorgan has dramatically re-positioned its silver and gold holdings over the past year? Some have argued that by buying massive amounts of physical gold and silver metal, as well as establishing a long market corner in COMEX gold and reducing its short COMEX silver position, JPMorgan is now in position to extend the price-fixing indefinitely. I understand those concerns and concede that JPM could keep the pricing scam going for a while. But there are important reasons why JPMorgan would want to finally wash its hands of this dirty business.

The most prominent reason is that it is such a dirty business, particularly for such a high-profile financial institution. Market manipulation is the most serious market crime possible because it hurts everyone eventually and JPMorgan knows this as well as anyone. There's no question that silver investors and producers have been hurt by artificially depressed prices, but even the industrial consumers of silver will be hurt in the end. Sure, the silver users are getting real benefit from current manipulated prices, but when the manipulation ends and metal is sharply higher and in short supply, the users will suffer the most. Yes, there will be complaints of speculators driving prices higher when that occurs, but the real cause goes back to COMEX price-fixing setting the price too low for too long.

While JPMorgan could keep the COMEX pricing scam going for a while, at this point, there is little financial incentive for it to do so. JPM made a ton of money in fixing prices silver and gold prices lower last year, but its big accomplishment was its re-positioning to the long side. Considering the scale of the amounts of metal and futures contracts involved, the odds of JPMorgan doing this over and over again appear remote. And it's not like JPMorgan is doing anything unnoticed, although you can be sure that it would prefer that was the case.

The most unusual feature to the dirty price fixing on the COMEX is that JPMorgan has become the poster child for metals manipulation. That's because the bank's positions have been so large as to be easily tracked by government public data. The worst thing imaginable to anyone involved in major market manipulations, as JPMorgan is in silver and gold, is to be publicly identified as the manipulator. Yet that is precisely the case with JPMorgan and it is becoming more visible daily.

Remember, I'm speaking of perhaps the most important financial institution in the US being directly accused of the most serious market crime possible. Remarkably, the bank has chosen to leave the allegations unanswered. Part of me is real happy about that (you can figure out which part), while another part wonders how long this can persist, particularly since awareness that JPMorgan is up to no good is growing. Sooner or later, JPMorgan will quit manipulating gold and silver prices or will address the allegations. Considering that no financial institution has ever been in this predicament previously, to my knowledge, and that the publicity damage to JPM is growing, it would seem reasonable to bet on sooner rather than later for this to reach a head.

A bit of follow up and additional thought on the Bear Stearns matter. As I indicated I would on Saturday, I did put up a public article.

<http://www.silverseek.com/commentary/what-really-happened-bear-stearns-12942> One of my (unstated) reasons for doing so, aside from publicly shining a light on a circumstance that answered numerous open questions, was to get critical feedback as to where I could be mistaken about Bear Stearns implicating so many government officials and regulators. While it's nice when folks agree with my findings and I try to pay little attention to those who attack me personally with no regard to the issues I've presented, what I'm really looking for is reasoned rebuttal. If I've said something wrong, I want to know and correct that error.

I didn't read any serious rebuttal (aside from "you're wrong"), but I did receive an extremely insulting email from a somewhat well-known, but anonymous, manipulation denier who runs a blog. (Why is it that some folks can be so insulting when they shield their identity?) The email exchange was so insulting that I don't know that I focused on what his gripe was until afterward. Anyway, he was berating me because he claimed that I didn't know that the \$2.7 billion in margin calls that Bear Stearns was subjected to from mid-December 2007 thru March 17, 2008 needed to be posted daily or as the calls arose.

It seemed his argument was that I indicated that the \$2.7 billion that Bear Stearns had to come up with came suddenly on March 17, 2008, even though I distinctly remembered using the word "cumulative." Having begun a professional futures career more than 40 years ago at Merrill Lynch, I can assure you that I understand that commodity margin calls must be met swiftly. The insulting tone of the email was such that I wasn't sure what he was saying (except that I was some type of low life) until afterwards.

Then I realized he wasn't refuting anything I wrote about, but instead confirmed my take. Bear Stearns did have to come up with additional margin money continuously from mid-December 2007 to March 17, 2008 to the tune of \$2.7 billion and did so until the very end when it ran out of money. Whether Bear Stearns came up with \$2.5 billion and couldn't come up with the last \$200 million, or whether it came up with the full \$2.7 billion before tapping out is immaterial. I'm still trying to figure what set the guy off (but not too hard).

The most important result of the Bear Stearns failure will be what happens in the future. If enough new observers correctly focus on what it says about silver and gold pricing and JPMorgan's critical role in the price manipulation then the eventual outcome could be profound. It is impossible to overestimate the reaction if enough of the millions of metal investors and miners come to understand the role of the US Government and JPMorgan in the tremendous damage accruing to them these past years. If enough of the world's investors and producers decide to fight back, the manipulators should not stand a chance.

And while the US Government is said to hold the largest quantity of gold in the world (although some doubt that claim), there is no doubt that the USG holds no silver (after being the largest holder 65 years ago). On that basis alone, I suppose the USG could fight a rapid rise in the price of gold by selling some of its gold, but in silver, the cupboard is bare. I'm not saying the US will sell gold; I'm saying it can't sell silver because it doesn't own any.

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Certainly, I can't find any bearish indicators in the most recent silver statistics, further confirming the sole reason for any future price weakness is continued manipulation on the COMEX. Sales of Silver Eagles from the US Mint appeared to have actually strengthened in the most recent data release. The most plausible explanation for a pickup in sales of Silver Eagles is an increase in coin blank supplies, which has been the alleged culprit for the Mint rationing sales. Particularly notable is the year to date relative demand for Silver Eagles versus Gold Eagles. At more than 67 Silver Eagle sales to every one ounce of Gold Eagles sold, I can't remember a stronger relative level of Silver Eagle sales.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

There was a large metal deposit into the big silver ETF, SLV, of almost 4 million oz yesterday, no doubt related to the sharp price rise and high trading volume commencing last Thursday. This is as it should be. There is also continued movement in the COMEX silver warehouse inventories which is in keeping with how it has been. For bearish news, it's strictly what the crooks on the COMEX may be up to.

Undoubtedly, we'll get a measure of what they may be up to in Friday's Commitments of Traders Report. Specifically, what JPMorgan has done, particularly in silver, will likely be the key feature. JPM hasn't sold on higher prices over the past two reporting weeks in either gold or silver and that has been the big standout so far. If JPMorgan turns out to have sold some of its long gold position on higher prices, there's not much to say. But if this crooked bank starts adding short positions in silver, there will be plenty to say, namely, overt price manipulation.

Ted Butler

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Silver – \$21.65

Gold – \$1314

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