

February 28, 2012 – Some Good News

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I plan on writing a piece for tomorrow, but there are a couple of late developments that I wanted to bring to you sooner. First, and with the risk of setting up for disappointment down the road, the latest short interest data on SLV was very good news indeed; much better than I had anticipated. Following the historic 9.4 million share decline in the SLV short position as of Jan 31, the new short report indicates a further 4.6 million share reduction as of Feb 15, to a bit over 12.5 million shares. Over the last four weeks, the short position in SLV has dropped by more than 50%, to the lowest level in more than a year. Importantly, I don't recall a previous time when the short position of SLV declined as prices were rising. Not only is the reduction in the short position notable by size, it is unprecedented under increasing prices

From the high-water mark of nearly 37 million shares held short last spring, the short position in SLV is now down a stunning 66%. Even more impressive is that the reduction in terms of the short position relative to total shares outstanding is down from over 12% at the peak to under 4% currently. Last year at the peak, more than 12% of all the SLV shares legitimately purchased had no silver metal backing; the new report indicates the number of shares without proper silver backing is down to 3.9%. That is still too high but, man oh man, we are moving in the right direction. <http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

As way of quick review, I have been making a big deal about the short position in SLV, the big silver ETF, as well as the other stocks that I call the hard metal ETFs for quite some time. In fact, it has become somewhat of a signature issue of mine, as I am not aware of any other analyst or commentator publicly agreeing with me (although plenty disagree). I hold that these hard metal ETFs are highly unique securities, different from any other security in that they promise in the prospectus that a certain fixed amount of metal backs each share issued and outstanding. However, the shorting of shares (even when properly borrowed first) is fraudulent and manipulative because it results, effectively, in new shares being issued (by the shorts) with no metal backing. And because the shorts mostly sell shares short because they can't buy the metal easily, they function as a "bucket shop" and don't buy metal which deliberately bypasses the normal supply and demand impact the purchase of actual metal would have on the price.

Back on April 30, 2011 (in the archives) I wrote to Mr. Laurence Fink, CEO of BlackRock, the sponsor of SLV, to alert him to the problem of short selling in SLV, but never heard from him. This past December, after writing to him (and the SEC and the CFTC) about the shorting of SLV shares, I also asked you to write to him. So many of you wrote to him, that I received a very threatening letter from BlackRock's lawyers demanding that I stop encouraging you to write in, among other things. At least, I got a response this time around. It wasn't a response I was particularly pleased (at the time) to get, but you can't make an omelet without cracking some eggs. More importantly, the timeline would seem to indicate clearly that BlackRock or someone applied pressure to the shorts to cover their positions. After this latest short data report, it does not seem reasonable to doubt that your contact made the difference. Thank you again.

Coupled with the stunning reduction in the SLV short position, I have detected a rapid increase in the time required to deposit new metal into the SLV after new buying occurs in the shares. There have been almost 5 million ounces deposited into the Trust over the past three days. It was easy to see that new metal was "owed" based upon recent volume and price patterns, so the deposits weren't a surprise. What was surprising was how quickly the deposits were made. What this means to me is that BlackRock or someone else is cleaning up the SLV along the lines that I have been suggesting. If this is correct, then this is unabashed good news for SLV investors and silver investors in general.

As you know, I have been a supporter of (and investor in) SLV and have always rejected the notion that hard metal ETFs were a fraud or device intended to manipulate the price of silver or gold. It was kind of ironic, people bad-mouthed these metal ETFs to no end, but not for the one legitimate reason in my eyes "the short position. This shocking reduction in the short position and much more timely deposits of metal owed is removing the sole worry on my part about the SLV. Did I say thanks for writing in?

Even though I imagined that BlackRock would be the most likely initiator of reform, seeing how it raked in millions of dollars as the Trust's sponsor, I'm also thinking that someone else may be behind the drop in short interest and quickened pace of metal deposits when owed. I had also complained to the SEC and CFTC about the shorting in SLV and other hard metal ETFs. Reviewing the short interest in the other hard metal ETFs (GLD, IAU and PSLV), strong reductions have occurred in those ETFs as well. This suggests to me that it may not be BlackRock, or BlackRock alone, behind the cleaning up of the hard metal ETFs. After all, the GLD and PSLV have completely different sponsors, not BlackRock.

In the speculation department, I am more convinced than ever that JPMorgan was the big short in SLV and it is primarily on them that the pressure is being applied. While silver prices have been strong, the reason they have not been stronger is that JPMorgan has been selling like crazy additional shorts on the COMEX in an effort to cap prices. This is a dangerous situation that the regulators must crack down upon immediately. I plan on writing about JPMorgan tomorrow.

Finally, I ran across a story that made me sit up and comment, Holy Cow! (Or something very similar). According to Bloomberg and others, a grand jury has issued a subpoena to the CME Group in connection with the auditing of MF Global. <http://www.bloomberg.com/news/2012-02-28/cme-subpoenaed-by-federal-grand-jury-cftc-in-probes-of-mf-global-collapse.html>

This action is long overdue in my opinion. Readers should know that I consider the CME to be a criminal enterprise in its refusal to confront the silver manipulation and for its handling of the MF Global bankruptcy. As the Self Regulatory Organization (SRO) for MF Global, the CME had two basic responsibilities. One was to audit clearing members, like MFG, to prevent bankruptcy and secondly to make whole any customer out money as a result of a bankruptcy of a clearing member firm. The CME blew both responsibilities, as I wrote shortly after MF Global's bankruptcy. <http://www.silverseek.com/commentary/unmitigated-disaster>

It is said that you can get a grand jury to indict a ham sandwich; so there should be no high-fives yet on the Bloomberg report. But there has always been a real simple solution to the MF Global mess and that was having the CFTC order the CME to make all MF Global customers whole first and then dig into it in depth afterwards. Entities like the CME Group and JPMorgan are too big for anyone but the US Government to take on legally and that has always been behind my pressure on the regulators to act. No celebrations yet, but if this report indicates that the Government is finally acting in the public's behalf, then dancing days will surely be here again.

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