February 8, 2014 – Weekly Review

Weekly Review

Gold and silver prices regained the prior week's sharp losses, with gold climbing $27 (2.2%) and silver finishing up 85 cents (4.4%). While it didn't feel like silver had outperformed gold this week, the final tally indicates that it did. As a result, the silver/gold ratio tightened in by a point and a half to just less than 63.5 to 1. I'm clueless as to what near term relative performance will be, other than to believe that sharper moves in silver will likely determine changes in the ratio. While we've remained in fairly tight trading ranges in gold and silver for months, sooner or later silver's inherent Â?restlessnessÂ? will be resolved to the upside, both in absolute and relative to gold.

It turned out to be a fairly steady week and even yesterday's monthly employment report didn't whipsaw prices as much as usual. There were some surprises in the COT and Bank Participation Reports, as well as interesting developments in themes usually covered here.

Thanks to a monster in-day yesterday, turnover or movement of metal into and out from the COMEX-approved silver warehouses accelerated to around 7 million oz for the week. Total inventories rose 2.4 million oz, to almost 181.8 million oz, another new 16 year high water mark. I am still fascinated with the heavy COMEX silver warehouse churn, as the unusual movement is occurring for a reason. Since it represents the physical transport of large quantities of metal, necessarily involving time and expense, it persists for some non-frivolous purpose. If that purpose isn't due to existing metal on deposit not being available and thereby requiring new metal to come in to meet demand, or overall tightness, then I confess to not having an alternative explanation.

There was also a mid-week decline of 1.4 million oz from the big silver ETF, SLV, which smacked of metal being needed elsewhere and not due to investor liquidation. After all, silver prices were higher this week and trading volumes in SLV were normal suggesting, if anything, additions and not withdrawals.

Let me jump to the new Commitments of Traders (COT) and Bank Participation Reports, as both contained the surprise of JPMorgan being a significant buyer in both gold and silver even though only COMEX silver featured a reduction in the total commercial net short position. I wasn't surprised that the commercials bought in silver, more by the amount as silver prices during the reporting week stayed below the 50 day moving average. In gold, prices finished little change in the reporting week but stayed above the 50 day moving average each day.

In COMEX gold, the commercials increased their total net short position by a scant 800 contracts to 65,800 contracts. The four largest shorts added 3000 contracts and the raptors bought 2300 new longs. The technical funds (in the managed money category of the disaggregated report) sold about 3600 contracts, including adding 1200 new shorts. With such muted changes, the biggest standout was that JPMorgan increased its long gold market corner by 4000 contracts to 66,000 contracts, a 21% market share of the net total COMEX open interest (minus spreads).

In COMEX silver futures, there was a very significant reduction of 6200 contracts in the total commercial net short position, to 14,900 contracts. This was the largest weekly reduction in a year. The four largest shorts (JPM) bought back 3000 contracts and the raptors (smaller commercials) added 2400 contracts to a net long position now totaling 42,700 contracts, another new high dating back to July. The technical funds added 3000 new shorts and thereby increased the amount of buying power fuel (although some may have been used up after the Tuesday cut-off).

While it's impossible to predict short term price developments, on a longer term basis the COT and Bank Participation Reports data explain things pretty well. A year ago, in the COT and Bank Participation Reports as of Feb 5, 2013, the price of gold was $1670 and silver was more than $31.50. At that time, JPMorgan was short close to 70,000 contracts of gold (or close to 20% of all net open interest) and short more than 35,000 net COMEX silver contracts (a 35% short market corner). What a difference a year makes.

On the $500 gold and $12 silver price smash since then, JPMorgan has closed out all of its gold shorts (7 million oz) and has established a long market corner of an equal amount. In silver, it has closed out more than 20,000 short contracts (100 million oz) and reduced its short corner from 35% of the entire COMEX a year ago to 12% today.

JPMorgan generated a profit of more than $3 billion on its COMEX gold and silver short contract closeouts in 2013. The bank was the largest beneficiary of the historic price decline in gold and silver and as such had the biggest incentive to manipulate prices lower. This is all verifiable in CFTC data. Oh, and JPMorgan also used the historic price decline to buy millions of actual gold oz and maybe 200 million actual silver oz.

Considering the enormous control and domination that JPMorgan exerts in gold and silver and what the bank has magnificently and criminally achieved, the aggressive buying by the bank in the latest reporting week causes me to sit up and take notice. Unfortunately, there is no way of precisely determining if that indicates a price lift-off from here or if prices will be rigged lower temporarily to enable JPMorgan to buy even more gold and silver (futures contracts and metal).

A Â?hot-buttonÂ? issue that erupted over the past two days was the public reaction to the initial appointment and almost immediate withdrawal of Blythe Masters, head of commodities for JPMorgan, to a market advisory panel at the CFTC. Judging by the number of alerts many of you sent to me (thank you) and the large number of reads and comments on the Zero Hedge site which posted both stories early on, this is a very emotional issue. I'll provide the links to the Zero Hedge stories, but please be forewarned that many of the comments feature crude language.
http://www.zerohedge.com/news/2014-02-06/farce-complete-blythe-masters-joining-cftc

http://www.zerohedge.com/news/2014-02-07/blythe-masters-withdraws-cftc-furious-twitter-backlash-blamed

Most of the main stream media also featured the story, with the Wall Street Journal reporting that the appointment/withdrawal was due to calls from Democratic legislators concerned that Ms. Masters was at the center of recent findings of manipulation of energy markets by the Federal Energy Regulatory Commission (not by the CFTC). On the surface, the episode was a public relations gaffe by both the CFTC and JPM. Truth be told, under different circumstances Ms. Masters was a logical candidate for the global markets advisory panel and, to my knowledge, has participated on like panels in the past. Circumstances, however, are quite different today.

I think there is an important take away from this whole affair. I don't pretend to know the real reason for the appointment/withdrawal, but I was taken aback by the public reaction, both to JPMorgan/Ms. Masters and the CFTC, on Zero Hedge and elsewhere. Let me clarify that Â? I was amazed at the public reaction within the precious metals Internet community. As far as I know, there was no big reaction to this episode in the agriculture, base metals, and energy, currency, stock or bond Internet communities; only in the gold and silver community. I think there is a good reason for the reaction in precious metals circles, namely, because JPMorgan has come to be viewed as the prime manipulator in gold and silver and that the CFTC has been complicit in failing to address the ongoing manipulation.

In fact, the whole thing is beyond remarkable. Despite supposed investigations into silver manipulation by the CFTC over the years and its denials of impropriety, there remains a strong undercurrent of belief that silver and gold are manipulated in price by JPMorgan. And while no one was expecting the CFTC to act against the manipulation (including me) at this time, the outpouring of venom directed towards the agency in recent days points to how reviled the CFTC is to those in the precious metals community. Let's face it Â? most in the precious metals community feel the agency has dropped the ball on its most important mission Â? preventing market manipulation.

Even more remarkable is the collective opinion in the precious metals community that JPMorgan is the prime gold and silver manipulator. JPMorgan is an important financial institution, arguably the most important in the US. For any specific bank to be thought and spoken of as a market manipulator is unprecedented; that the bank in question is JPMorgan should be shocking. Yet the growing evidence of public thought is easily seen.

Certainly, I have identified JPMorgan as the prime manipulator in silver and gold since the fall of 2008. That's when I uncovered irrefutable evidence (in CFTC data releases and in agency correspondence to lawmakers) that as a result of the takeover of Bear Stearns, JPM held short market corners in COMEX gold and silver in August 2008. The reason the CFTC initiated a formal silver investigation in Sep 2008 was because of my revelations that JPMorgan held more than a 30% short concentration (market share) in COMEX silver. The reason few in the precious metals community believe the CFTC conducted a bona fide investigation is that the agency refuses to explain how a 30% market share wouldn't be manipulative to the price of anything.

But so much time has transpired since 2008 that I believe most have forgotten (or never learned) how JPMorgan manipulates the price of gold and silver. In fact, I don't think more than one in a hundred of those in the precious metals Internet community (subscribers excluded, of course) grasp the basics of the manipulation. It's ironic to be sure; more observers than ever correctly believe that JPMorgan is the main gold and silver price manipulator, but few can articulate why. I understand that the issue seems complicated, but that doesn't mean it can't be made simpler.

More can see and sense that gold and silver prices have been manipulated but clear proof seems somewhat elusive. The way to prove JPMorgan manipulates the price of gold and silver is to first define what price manipulation is. Simply put, whenever any one entity (or a few entities acting in collusion) controls a large enough market share so as to influence price, manipulation likely exists. What's a large enough market share? The answer lies in previous historical findings of manipulation and objective analysis.

The CFTC has found that market manipulation has occurred in several markets over the years. Some of the most notable are the Hunt Brothers silver market manipulation of 1980 and the Sumitomo copper manipulation of 1995. Both were upside price manipulations, but the CFTC also found that a short side manipulation existed in Maine potatoes in 1976, two years after the CFTC was brought into existence by Congress. In each case, there existed market corners Â? on the long side in silver and copper and on the short side in potatoes.

JPMorgan's short market corners of 20% in COMEX gold and 35% in COMEX silver of a year ago and the bank's 21% long market corner in COMEX gold currently meet or exceed the market shares held in the previous manipulations. On that basis alone, the CFTC should be prosecuting JPMorgan today. The Sumitomo copper trader who manipulated the market was known as Â?Mr. 5%Â? for his share of the market. Shouldn't JPMorgan be referred to as Mr. 20% or Mr. 35%? And seeing how easy it is to quantify what JPMorgan has done and how much it has profited over the past year provides the motive and intent behind JPMorgan's positioning. To my knowledge, there wasn't detailed concentration data published in 1976 or 1980, but there sure is today.

No monarch has passed away and bequeathed to JPMorgan the divine right to manipulate gold and silver prices, although many believe that has been, in effect, accomplished by the regulators looking away from JPM's market corners. I also know that many believe the US Government's sanctioning of JPMorgan's illegal market behavior makes it likely that the gold and silver manipulations can last indefinitely. Let me explain why that is not the case.

The biggest difference between the previous manipulations and the current manipulation in gold and silver is that no one wrote of the previous manipulations until after the manipulations were broken. Here's an article from 1996 by Professor Paul Krugman on the copper manipulation, before most of his awards and before he became the economist you either love or hate. As Krugman points out, the copper manipulation lasted for years and many bet against it too soon, only to give up, like George Soros
http://www.slate.com/articles/business/the_dismal_science/1996/07/how_copper_came_a_cropper.h

The reason manipulations go unreported until they have been broken is because the potential liability of accusing anyone of an active manipulation, particularly America's most important bank, is too large for those in the main stream media world. After a market manipulation is broken, the proof of the manipulation is self-evident and safe; before, not so much unless you are well-versed in all the facts. Before a manipulation is broken one runs the risk of being labeled a conspiracy kook; after, a learned market scholar.

So I understand why few would challenge JPMorgan before the gold and silver manipulation has been broken. But what makes an ongoing manipulation so rare and special is that it hasn't been broken yet and that knowledge is infinitely more valuable than any knowledge gained after the fact. What is so exciting about JPMorgan's gold and silver manipulations is that something can be done before it is broken. That something is up to the individual; for me it means investing in silver and writing about it (and sending my stuff to JPM).

Considering the outpouring of public sentiment in the CFTC and JPMorgan appointment/withdrawal debacle, I also sense there may be a very short distance between suspecting that JPM is manipulating gold and silver and proving it. That's because the proof is simple Â? an excessive market share. All the other dirty tricks in everyday COMEX trading, like High Frequency Trading, are secondary to dominant and controlling market share. When those who sense or suspect gold and silver may be manipulated distill it down to JPMorgan's market share (don't forget JPM's 60% market share of the OTC gold and other precious metals market of US banks), the audience of awareness could literally explode.

Even if it has the blessing of the US Government, this gold and silver manipulation by JPMorgan will end. That's because, in the end, especially in silver, it comes down to enough physical metal being available. That's the great equalizer. I don't deny that any US Government involvement could extend the manipulation and that may be why the silver manipulation has lasted as long as it has. But the US has a net import reliance in silver almost as extreme as India with both countries importing close to 200 million oz annually. And with 22% of world GDP coming from the US that means that 78% of world GDP is outside the US. Since the USG owns no silver, once a critical level of the world's citizens and silver users learn that the market has been manipulated by JPMorgan and move to buy more physical silver, no force can contain the price.

Of course, no one can time when JPMorgan's gold and silver manipulations will be broken, but all it will take are enough observers and participants becoming aware at the margin. I can also assure you that there will be too many darn manipulation experts after it has been broken.

Ted Butler

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Silver – $20

Gold – $1267

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