

January 15, 2014 – Facing Reality

### Facing Reality

Recent actions by JPMorgan in COMEX silver have been highly unusual, even for a bank that has manipulated the price for going on six years. As I reported on Saturday, JPMorgan increased its net short position in COMEX silver from December 3 at what had been its lowest level (10,000 contracts) since acquiring Bear Stearns, to 17,000 contracts as of January 7. In equivalent ounces, JPM increased its COMEX silver short position from 50 million oz to 85 million oz.

The data are in the Bank Participation and Commitments of Traders (COT) Reports. There are so few reporting US banks (3 or less) in the Bank Participation report trading in COMEX silver that combined with the COT reports on the concentrated holdings of the four largest shorts, an accurate bead can be drawn on what JPMorgan is up to. Several years ago, JPMorgan, apparently displeased that I was singling them out as the big silver short, persuaded the CFTC to change the Bank Participation Report and leave blank the number of banks in any category when the number was less than 4. This was done in an attempt to deflect attention away from JPM. But despite the CFTC complying with the change, the data are unequivocal that JPMorgan is the big silver short (and crook).

Over the course of the past six years, JPMorgan has held at times more than 40,000 contracts (200 million oz) of COMEX silver short and as recently as a year ago the bank held 35,000 contracts short. So, while a 70% increase in a month is not minor, 17,000 contracts wouldn't appear to be a big deal in light of JPM's prior silver short holdings. Then why am I calling it highly unusual that this bank added 7,000 short contracts from Dec 3 to Jan 7?

The simple answer is because the price of silver didn't move that much in the time period. Oh, silver did rally as much as \$1.50 briefly during December, but basically finished the month little changed. In fact, that period was one of the tamest times for price volatility for the entire year. Further, during that one month, there was no penetration of the important 50 day moving average. To be fair, there was technical fund short covering of some 12,000 contracts during that time and when the technical funds buy, the commercials basically have to sell. There were commercials (which I call the raptors) who held 40,000 long contracts on December 3 and those raptors did sell 5000 long contracts from their big net long position.

What was highly unusual was that JPMorgan sold 7000 new silver contracts short to satisfy the rest of the technical fund buying at prices hovering around (but mostly below) \$20. The last time JPMorgan sold a significant number of new silver contracts short was back in August when the bank sold 6000 new contracts short as silver broke above the 50 day moving average on its way to the summer run to \$25. I know I repeat myself when I say that the key on any silver rally is whether JPMorgan adds to shorts or not; but that is the key, pure and simple.

Usually, we get some type of rally before JPMorgan begins to short COMEX silver aggressively; but this was the smallest price rally I can recall where JPMorgan added such a large number of new short contracts. That's what makes it so unusual. But numbers are numbers and in this case they are clear enough. Additional verified data (from the CME) indicate that JPMorgan took delivery of 3000 silver contracts during the month that they added 7000 shorts. The delivery of silver (as was the case in gold) came in JPMorgan's proprietary trading account, so it wasn't hedging for clients or market making. Whereas JPMorgan is massively long COMEX gold to the point of having cornered the market, it sort of makes sense that they would take delivery of more than 96% of the gold contracts delivered during December. But it is very unusual for the biggest concentrated short in silver (or any market) to be the primary taker of delivery. Usually the big short makes delivery.

So why did JPMorgan sell silver short so aggressively this time and what else can we conclude about the bank's actions? One thing we can safely conclude is that without JPMorgan being, in effect; almost the sole new short seller in silver, the price would have gone higher in order to attract additional selling (long liquidation) from the raptors. The data indicate, in no uncertain terms, that JPMorgan capped the price of silver during this time. That may seem elementary and repetitive, but it is also inescapable. In addition, it is flat-out illegal. Because it is so easy to pinpoint JPMorgan's price capping in silver, it is safe to label the bank as a crooked market operator. My best guess as to why JPMorgan sold short so aggressively at such low prices is to enable the bank to buy more physical metal at depressed prices.

Any time one market participant so dominates and controls pricing, that participant is manipulating price. It stands out even more in this example because JPMorgan could have sold at higher prices had they not been so intent on capping prices. No legitimate seller (short or otherwise) would sell at a lower price than could be achieved unless there was something foul afoot. JPMorgan's motive in this case was not legitimate because it didn't seek the highest price. Clearly, JPMorgan's intent was to cap the price of silver, which goes hand in hand with every other allegation I've made about this crooked bank over the years.

Just to be clear, I don't relish accusing JPMorgan and neither is this bank some 90-pound weakling that I am bullying. It is not my life's mission to accuse JPMorgan of market manipulation in silver and gold, but the facts leave no other choice. The data are so compelling that I can't avoid singling out the bank.

More than anything else, JPMorgan's big new short sale in silver creates a danger to many, including the exchange and the bank itself. Most know that JPMorgan's prime interest now will be in rigging prices lower at some point in order to trick the technical funds into selling short again so that JPMorgan can buy back its new short silver contracts at a profit. Therefore, every silver and silver mining investor, as well as the mining companies and countries that produce silver will suffer if JPMorgan succeeds, as is usually the case. I can't certify that JPMorgan will succeed in manipulating prices lower, but if silver prices do fall, the blame can be placed squarely on JPM.

Even if JPMorgan succeeds in causing silver prices to decline, a real risk exists to the bank and the exchange for legal liability, if not from regulators, then from the producing companies and countries involved in mining silver. This scam is getting old that is not far-fetched that someone may shine a legal spotlight on JPM. In fact, there was a civil lawsuit that didn't succeed, but that was initiated a few years ago alleging silver manipulation by JPM. If anything, the facts surrounding wrongdoing by JPM have only become more obvious since then.

And while it seems remote at this moment, there are many hundreds of billions and perhaps trillions of investment dollars and buying power sloshing around the world and if one or a few sharp big money investors get the scent of JPMorgan being out of position in a market where all the silver bullion in the world could be bought for \$25 billion (if it were available), JPM could find itself on the short end of the stick (just like occurred to it in the London Whale debacle). Forget all the silver in the world; an entire year's new supply of silver (after industrial and total fabrication demand) can be had for \$2 billion, an amount ridiculously small in today's megabuck investment world.

As troubling as is JPMorgan's increase in its manipulative short position in COMEX silver futures, most troubling of all is the US Government's tacit role in the manipulation. I still believe that the COMEX silver manipulation didn't start off 30 years ago by government initiative but instead with the USG initiating JPMorgan's acquisition of Bear Stearns in 2008. In truth, in many ways that is a distinction without a difference. When the US Government first became aware of the silver (and gold) manipulation might be debatable, but there is little doubt that they are aware now. Market regulators at the CFTC have investigated silver non-stop and always conclude their investigations without addressing the 800 lbs gorilla in the room — JPMorgan's concentrated position.

While JPMorgan has damaged just about every gold and silver investor in the world, the US Government's complicity is particularly damaging to US metals investors. It is distressing to see the rule of law unevenly enforced and, in fact, it appears — un-American — and discriminatory. I know of no one aware of the facts (outside JPM and other elite market criminals) who are not disgusted with the USG's sordid involvement.

Well, that's about as negative as can be, but it's important to recognize that is also the extent of the negativity in silver; everything else is super positive — including how little silver exists and the tiny amount that can be produced for investment and, most importantly of all, how little silver exists in dollar terms. We're at the cost of production (a rare bullish occurrence in any precious metal) and there is a potential avalanche of investment money that could swamp silver at any time, just like it almost did back in April 2011.

All the facts in silver are so super bullish that it would take the known negative of JPMorgan's manipulation and USG complicity to explain the low price. In other words, if JPMorgan hadn't openly tampered with the price of silver, none of the bullish facts would have meaning. That's because without the manipulation there would be no current low price in the face of actual supply/demand considerations. As I mentioned a week ago, the facts show that over the past 60 years the world inventory of silver bullion has fallen 90%, while the inventory of above ground gold has climbed by nearly three-fold. Without manipulation, what possible free market rationale could explain the relative price of gold and silver remaining unchanged?

Given the power of JPMorgan, particularly unchecked by any real regulation, I know it must seem to many that this silver manipulation could be extended indefinitely. Having stumbled upon the scam almost 30 years ago, I have a different perspective. As painful as the last three years have been, it was more painful for the nearly 20 years the price hardly budged and, quite literally, no one was aware that silver was manipulated in price. Today, the manipulation is incalculably more widely known and circumstances and prices have and will change in the blink of the eye more readily than compared to what existed before 2003.

Yes, the manipulation is still in force and has never been completely broken over the past 30 years (although we came very close in early 2011). But considering that silver prices did surge at times and at the peak silver gained ten-fold, beating every other investment for a while; it should be clear that the manipulation still allowed for stunning price gains. Stunning losses as well, but the time to dwell on stunning losses is after big price gains, not after 60% price plunges.

My point is that the ongoing 30-year manipulation has not prevented the many extreme silver price rallies over the years, nor will it contain the coming big rallies in the future. The real bonus will be what happens to a typical big silver rally in the future, when the manipulation is finally terminated. Needles to say that will be one for the history books. And that's the one I'm petrified of missing, despite the heavy-handedness of JPMorgan.

Some may declare that the big silver (and gold) price rallies over the years prove that there has been no manipulation. That's nonsense. Price is not the determinant of manipulation, just like a thermometer is not the cause for temperature. Market structure and concentration are the only cause for manipulation and the big price rallies were reactions to a price that was artificially suppressed.

Yesterday, the Federal Reserve Board announced it was considering new restrictions on banks dealing in physical commodities, including the trading associated with such dealings. Previously, I speculated that the new Treasury Secretary, Jack Lew, was the initiator of this process and I still feel that way. The Fed asked for public comments to aid it in its considerations and I'm contemplating whether to comment.

<http://www.federalreserve.gov/newsevents/press/bcreg/20140114a.htm>

What I would like to do is to frame the issue for you as I see it. I realize it may appear that I'm off tilting at windmills again, but the issues before the Fed have more to do with JPMorgan and silver and gold than anything else. Besides, I've never gone to the Federal Reserve about this issue (although I did write to them about gold and silver leasing in 1997).

Just so you understand that I am not interested in pursuing completely hopeless quests, I'm ignoring completely the current public comment period underway by the CFTC for opinions on position limits. As you may recall, on several occasions over the past few years I did urge readers to write to the CFTC on this issue and all told, I believe a combined 10,000+ public comments were filed with the Commission pertaining to position limits on silver. These were more comments than the CFTC had ever received in its history on any other issue. Since the Commission completely ignored the public comments the first few times around, it would be pointless to pursue position limits any longer.

Whether the Federal Reserve Board can actually be influenced on the matter of banks dealing in physical commodities I would classify as a long shot. But that's better than no shot at all (or so I'm thinking now). Let me back up a bit and mention once again that there are already two separate proposals coming into existence, position limits and the Volcker Rule, which individually and jointly would end the manipulation by JPMorgan of silver and gold, were those proposals to be enacted and enforced in the true spirit of the law. In other words, if the regulators applied them fully in gold and silver (something lacking until now) we wouldn't need both or even the Fed's new consideration. Legitimate position limits would end JPMorgan's price stranglehold on gold and silver on its own when and if legitimately enforced. Ditto the Volcker Rule which would outlaw proprietary trading by banks, which is mostly what JPMorgan has done recently in COMEX gold and silver. The catch in the Volcker Rule is that it's not scheduled to be enacted until June 2015 (if not further extended).

What the Fed is considering is if physical commodity trading endangers the banks so engaged in it or if such trading puts the financial system at risk. In the case of JPMorgan and silver and gold, the answer is a resounding yes — such trading greatly enhances the risk to the bank as well as the system. In fact, I wrote earlier today of the risks to JPMorgan and the system because the bank is doing something beyond what the Fed is considering, namely, the risks associated with the price manipulation of at least two fairly important markets, silver and gold.

Aside from the potential losses that could accrue to JPMorgan if its control of silver and gold is overcome (as in the London Whale case) because market manipulation is such a high market crime, there is present a litigation risk from the thousands and tens of thousands of parties damaged by JPM's market corners and price manipulation. And as I indicated above, the number of US banks so engaged in trading COMEX silver and gold on a physical basis and otherwise is three or less in silver and four or less in gold. It's not like there are a great many banks engaged in the physical trading of gold and silver and the Fed might be inclined to view that fact as confirming that there is no broad and useful purpose for JPMorgan and one or two other banks to do so. If it was such an upstanding and legitimate venture for a US bank, why isn't there more competition?

To be sure, JPMorgan has tried to frame this issue in a manner favorable to the bank and is deceiving those who contemplate the issue. What JPMorgan has advanced in a series of leaks to the popular press is that the bank will do whatever the Fed decides, including that the bank will sell its commodities business if the Fed so rules. JPM also always adds in their leaks that should the physical commodities business be sold, that would not include its trading in precious metals. (Please see third paragraph from the bottom). <http://www.bloomberg.com/news/2014-01-13/fed-said-to-release-plan-to-limit-banks-commodities-activities.html>

JPMorgan is as slick (and crooked) as they come and it's real clever how the bank has decided which physical commodities businesses it will keep whatever the Fed decides. The problem is that the bank manipulates gold and silver to a much greater extent than even the markets they have been formally accused of manipulating, like electricity. And, certainly, given how long JPMorgan has manipulated the price of silver and gold and how much more serious it is to manipulate the price of a world commodity, instead of merely ripping off thousands of utility customers in California and Michigan, the Fed would, hopefully, see it differently than JPMorgan.

Although I have promoted position limits for more than 20 years as the cure-all for the silver manipulation and have often wondered aloud about the insanity and recklessness of having the nation's most important bank as the silver and gold manipulator; the regulators are the ones raising the issues of position limits, the Volcker Rule and the Fed's consideration of restricting banks in the trading of physical commodities, not me. Therefore, the long shot of actually getting something constructive accomplished should be advanced because it's coming from them.

I did see one previously submitted comment from a law firm that acknowledged restrictions should be applied if market integrity comes under attack or if too much market power is assumed by the bank in question. In a nutshell, market integrity undermined and market powers abused are synonymous with JPMorgan and the silver and gold manipulations.

<http://tinyurl.com/n934wen> (thanks Kevin).

Ted Butler

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Silver – \$20.10

Gold – \$1238

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