January 29, 2014 – The Lynchpin

The Lynchpin

I received an interesting question that I am sure is on many minds (mainly because I even ask it of myself at times like these). Knowing that JPMorgan has such an absolute control on the short term price of silver and gold, who's to say the price manipulation can't be maintained indefinitely? Let me let Henry ask the question in his own words. By the way, the subject line was Â?Could you be wrong?Â? –

Ted,

You make a great case for silver going up in your report as you always do and I pray that you are right.

But, when you are pointing out that the amount of silver worldwide is so small that it would not take much money buying silver for this market to get out control to the upside, I am now thinking that it does not take that much money for the big banks shorting to keep the price down for as long as they want to, If they have as much silver as you think they do, they will not have a shortage anytime soon.

There seems to be no laws or regulations being enforced to stop them, they have more money than any other trader. Why would they stop now? Why not keep this going as long as they can and keep buying more and more silver at these low prices. They have a good thing going why would they stop now.

Henry

As a human being, the possibility of being wrong is an unavoidable condition, particularly as it concerns divining the short term. Over the longer term, say the past 25-30 years, I don't see how the events and price action in silver have been seriously at odds with what I've written. That's not to say the past three years have been much fun or have followed any timeline I laid out (which is why I try to avoid specific timelines). Just as vivid in my memory are the two decades (1985 thru 2005) when, aside from some brief but exciting flare-ups, the price of silver largely remained comatose around the $5 mark; a victim of price manipulation every bit as much as what has occurred over the past three years. Absent the near ten-fold price advance along the way, I must admit that I may have thrown in the towel on my bullishness on silver, owing to the same inescapable conditions of being human and frail.

But we have witnessed some pretty shocking price movements in silver and every one of them has verified my two main premises, namely, that silver is manipulated and is destined to climb much higher in price than seen to date. All that said, in the end it is the reader that must decide the likelihood of whether I could be wrong (or right) based upon the facts I present and the reasoning attached to those facts.

I do stipulate and agree that if it was simply a case of who has the most money will likely win in the end; JPMorgan would be unbeatable (leaving aside my conclusion that it is now the largest holder of physical silver in the world). If all it took was for those shorting futures contracts of COMEX silver to sell more aggressively than those buying these contracts, there would be scant hope to break the manipulation. Unfortunately, selling more COMEX futures contracts short (either by technical funds or commercials like JPM) does lead to short term price control. But, fortunately, there's more to it than that.

COMEX futures trading controls and dictates short term pricing. Due to the fact that most COMEX trading is conducted by those not directly involved in the production and consumption of real silver (or gold), prices are set for reasons unrelated to production or consumption. For example, there are no silver miners involved in HFT computer algorithms on the COMEX. I doubt that miners make up more than 5% or 10% of total COMEX trading and probably much less. The biggest participants on the COMEX are big banks, led by JPMorgan.

All silver miners do get paid for their production at prices set on the COMEX; it's just that those miners have no say in how those silver prices are set. This is a distortion of how regulated commodity trading and price discovery is supposed to occur and I admit to harping on this. World silver prices in the short term are set on the private betting parlor of the COMEX by financial gunslingers with the fastest computers with no regard for real supply and demand factors. The operative word here is short-term.

While COMEX trading controls prices in the short term, over the long term the lynchpin to price is physical supply and demand. As and when there is not enough physical silver available to satisfy all who seek physical silver, the price will be determined by the rationing of the available physical material, as there is no other way of balancing supply and demand . At that point, additional short sales of COMEX futures contracts would be ineffective in controlling prices and even counterproductive if buyers begin to demand delivery on futures contracts.

This coming silver physical shortage has been a constant theme of mine for 25 years, even though the world had never experienced a physical silver shortage. What is remarkable is that we came close to the first world silver shortage in 2011 (and possibly in 2008); although the signs of that shortage were not completely clear at that time. To my way of thinking, the fact that we came so close supports the idea that the real shortage still lies ahead.

What caused silver prices to run to nearly $50 in April 2011 was a developing physical silver shortage. What broke the price from there wasn't an increase in paper short sales; it was an intentional price shock by means of HFT on the COMEX until prices did break. While that implies that could happen again (from much higher prices), the single biggest factor in the May 2011 silver price crash was that JPMorgan was heavily net short and possibly trapped. Today, JPMorgan has a much smaller COMEX silver short position and has purchased a massive amount of physical silver since the time of the deliberate price smash; to say nothing of the bank's incredibly large futures and actual long position in gold.

JPMorgan will continue to cause gold and silver price sell-offs so long as it can benefit by buying more at lower prices, but the transformation from the banks' position in 2011 to its position today is extraordinary. And while it is also possible for JPMorgan to use its newly acquired silver and gold physical holdings to contain prices in the future, as Henry asks, there appears to be little profit motive in doing so. JPMorgan made billions of dollars to the downside over the past year and has put itself in position to make billions more to the upside at some point. In the event JPMorgan's intent is to simply to cap the price of gold and silver from now on, no big profits will accrue to it and I believe we will be able to track any such new twist in the ongoing price manipulation.

One sign to monitor closely when a physical silver shortage seems to develop will be the short position in the big silver ETF, SLV. Net new buying in shares of SLV must result in new physical silver deposits in the trust, unless (and this is the key) the short position grows substantially. Both in 2008 and 2011, the short position in SLV exploded as tightness in physical silver caused Authorized Participants to short shares in lieu of depositing metal. Short sales of SLV reached 25 to 50 million oz in 2008 and more than 36 million oz in 2011 and played an important role in containing the developing shortage in 2011.
http://www.investmentrarities.com/ted_butler_comentary/06-16-08.html

I've long held there should be no short positions in hard metal ETFs because, effectively, any short position means there is not enough metal on deposit for all shareholders (of which my family belongs). Currently, there is too large of a short position in both SLV and GLD, but at least it is not growing substantially. Yesterday's short interest report for positions held as of Jan 15, indicated slight declines in both SLV and GLD. The short position in SLV declined by almost 700,000 shares (oz) to just under 19.5 million shares and the short position in GLD dropped by 900,000 shares (90,000 oz), to less than 17.7 million shares.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%2599

I'd like to raise an issue about JPMorgan that I'm not sure I discussed before. That issue is whether JPMorgan has been working against the interests of US investors for the benefit of China. There have been numerous stories and commentary about the flow of gold from the West to the East. Just yesterday, another 321,500 oz was removed from the JPMorgan's COMEX warehouse, the second such reduction in four days. Basically, all the gold that JPMorgan took delivery of against the COMEX December futures contract and that was deposited into JPM's COMEX warehouse has now been removed.

The added fact that the metal was in kilo form (rather than in 100 oz bars) prompted many to conclude this gold was destined for China, since that is the form most preferred there. It's hard to argue with the reasoning and anecdotal evidence that a massive gold flow from West to East has occurred. The problem is that the circumstances over the past year paint an even uglier picture of JPMorgan than I have alleged so far. While I am convinced that the bank has manipulated gold and silver prices, I had not previously alleged that JPMorgan was working against the interests of US investors specifically. But the facts point in that direction. What facts?

The first fact is that the price of gold (and silver) fell by an historic amount last year. The single biggest beneficiary of that decline was JPMorgan which made more than $3 billion by covering short positions on the COMEX on the way to completely reversing a short market corner in COMEX gold futures of 75,000 to a long market corner of as much as 85,000 contracts by August (and currently sits near 60,000 contracts). All this is clearly evident in COT and Bank Participation Report data. In addition, JPMorgan acquired massive quantities of physical gold (and silver) at depressed prices as evidenced in recent COMEX delivery statistics.

Also in 2013 the world's largest stockpile of privately owned gold in the gold ETF, GLD, suffered its largest liquidation in history. There can be no doubt that the 18 million oz of gold liquidated in GLD, worth more than $25 billion and representing 40% of the total holdings in the ETF at year-end 2012, were liquidated because the price of gold declined so much. This is unquestioned cause and effect Â? extreme gold price declines caused the liquidation in GLD.

Let me state this as simply as I can Â? the largest single beneficiary of the extreme price decline in gold and silver, JPMorgan, realized more than $3 billion in profits by rigging prices lower and, by causing gold prices to decline, also caused the historic liquidation in GLD. Since GLD is mostly held by US investors, both on a retail and institutional basis, the largest share of the 18 million oz liquidated in GLD was by US investors.

Up until now, I have been alleging that JPMorgan rigged prices lower to cover COMEX short positions at great profit and establish a giant long position in gold futures and to acquire large physical positions in gold and silver for the bank's own benefit. However, the flow of facts also suggests that JPMorgan may have been acting on behalf of Chinese interests, perhaps the government of China itself. Even though JPMorgan reports futures positions to the CFTC as the large trader in question, those positions could be for a large client. Even though JPMorgan has taken large deliveries of COMEX gold and silver futures contracts in its proprietary trading account, those deliveries could have been on behalf of a client.

There is no question in my mind that JPMorgan has manipulated the price of gold and silver; the only new question is for whose benefit? The worst answer would be that JPMorgan did it to benefit a foreign client at the cost of damaging mostly US investors. As repugnant as it would be for the leading US bank to intentionally harm the interests of mostly US investors for the benefit of foreigners, somehow it seems in keeping with JPMorgan's overall recent behavior. After all, the tens of billions of dollars of legal settlements paid by JPM have resulted mostly from how badly the bank treated millions of its own customers.

In no way am I insensitive to the damage suffered by non-US gold and silver investors because of JPMorgan. Of course, the main issue is that JPMorgan has clearly manipulated the price of gold and silver and not for whose benefit prices were manipulated. That the manipulation continues unabated is still evident in the current price action, particularly in silver. I wish I could end it, but all I can do is to explain it the best I can in the hopes of exposing it. More and more, it seems to me like the exposure is working against JPMorgan although that is not evident in price. It's important to recognize that time is not an ally to manipulations since all must end at some point.

I also have the sense that JPMorgan is going out of its way to make silver look as crummy as possible against gold for the purpose of discouraging silver investors in particular. But seeing how much the price of silver has declined already suggests additional deliberate price sell-offs are of limited distance and duration. Since silver is in the throes of an epic long term price manipulation, the only effective reaction is to approach it on a long term basis and not to be overly concerned with the short term.

Ted Butler

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Silver – $19.67

Gold – $1263

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