January 9, 2013 – Another Look Back

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History may not repeat itself, but it is hard not to learn something from it. As always, the important thing in studying history is to make sure you are looking at what matters most and not some side show. What matters most in silver is the physical market and what's happening on the COMEX.

2011 was the most tumultuous year for silver, both in the physical markets and for developments on the COMEX; 2012 much less so. In fact, one might argue that not much has occurred in silver over the past three years, since we have been at the same price, basically, for the past three Dec/Jan time periods. But a price snapshot at any particular time does not always reflect the deeper story. In 2011, we started the year around $30 and then rose to and crashed from the $50 mark in May to the low 30's and then rose again to over $43 later in the year, only to crash below $30 before the end of the year. In hindsight, what drove the price up initially in 2011 was a developing physical silver shortage for the first time in history. What drove the price to crash was commercial rigging and maneuvering on the COMEX. The price crash in the spring of 2011 did break the physical shortage, but only to the extent it was cooled off to a simmering boil, as there is no evidence of any great silver surplus.

In 2012, the price started out around $27 and quickly advanced to $37 by the last day of February, only to crash down below $27 again and remain there for most of the summer. Then prices rose to $35 by the fall, only to decline again by the end the year below $30. Conditions in the silver physical market during 2012 suggested a continued slow boil as COMEX warehouse movements and growth in deposits into the world's silver ETFs indicated extreme tightness all year long. But there was something about 2012 that distinguished itself in a most unusual way Â? this was the year that proved that JPMorgan, almost single-handedly, controlled the price of silver. I realize such a statement requires substantiation. I think that substantiation is present in my running weekly commentaries for 2012.

We ended 2011 at the lowest total commercial net short position in COMEX silver futures in years. Likewise, JPMorgan ended 2011 with its lowest concentrated short position, around 13,000 contracts, since it acquired Bear Stearns in March 2008. JPMorgan and the other commercials were able to reduce the total commercial net short position as a result of rigging prices down to $27 and in inducing technical fund selling as a result of the lower silver prices. My question at the end of 2011 (please check) was what JPMorgan was likely to do on the next silver rally Â? stand aside and let prices rip to the upside or smother and cap the price with additional short sales?

We soon got the answer, as JPMorgan sold a net additional 11,000 contracts, almost doubling their net short position to 24,000 contracts (120 million oz) up to the top in price ($37) on Feb 28, 2012. What I think I missed at the time (I learned later in the year) was that JPMorgan was, effectively, the only commercial entity short selling additional contracts on the $10 silver rally over the first two months of 2012. (The raptors, the smaller commercials, were big sellers then, but their sales were of existing long positions, not new short sales). Aside from the two big price takedowns of 2011, JPMorgan's almost exclusive additional short selling of COMEX silver contracts during January and February of 2012 was the most manipulative act in silver up until that time. Please remember, no market can be considered more manipulated than if there is only one buyer or seller at the margin.

Having succeeded in causing silver prices to top out at the end of February, JPMorgan and the other collusive commercials then rigged prices lower into the summer, all the while using the artificially created lower prices to buy contracts from the selling technical funds. Remarkably, the commercials were able to replicate the record low total commercial net short position of the past December by July 2012 and JPMorgan succeeded in buying back 10,000 short contracts and in reducing their concentrated short silver position to 14,000 contracts. My question, as always, was what was JPMorgan going to do on the next silver price rally Â? sell more silver short or quit the game of manipulating the price? The answer was quickly forthcoming once again. On the price rally that took silver to $35 in the fall of 2012, JPMorgan sold more than twice as many additional silver contracts short than they added on the earlier price advance to $37 in Feb. On this silver price rally, JPMorgan added 24,000 contracts, increasing their concentrated short position to 38,000 contracts (190 million oz) on November 27.

The 38,000 contracts of silver that JPMorgan held short on Nov 27 was equal to 34.7% of the entire short side of the COMEX (minus spreads). No single trading entity had ever held such a concentrated market share of any active regulated futures market, to my knowledge. The 190 million oz equivalent position was equal to 25% of world annual silver mine production. Likewise, no single trading entity had ever held such a large proportion of the world production of any other commodity. If a short side price manipulation is possible, then surely being short nearly 35% of an entire futures market or 25% of world production would be sufficient to manipulate prices. Plus, I get the feeling that JPMorgan would have shorted a lot more to cap the price were it necessary.

It's no wonder that silver has fallen more than $5 from the point of JPMorgan's extreme short position at the end of November 2012. The new COT report on Friday should reveal a further short-covering, but the 30,000 contracts that JPMorgan held as of the last COT report is still large and dangerous, as it is much higher than the 24,000 contracts that the bank held at the top of the market at the end of February. If we move lower in price ahead, it will only be due to JPMorgan's manipulative grip on the silver market and their desperation to rig prices lower to induce technical fund selling. Yes, there will undoubtedly be raptor collusion with JPMorgan in the event of lower prices, but don't kid yourself Â? there would be no risk of a sell-off, based on supply/demand fundamentals, if JPMorgan wasn't massively short. JPMorgan's giant silver short position is the one potential negative to the price. If history were to repeat itself, no one should be shocked if JPMorgan succeeds once again in rigging the price lower in order to reduce their giant short position.

But history doesn't always repeat itself and learning from history doesn't necessarily mean always expecting the exact same outcome on similar set ups. Yes, I know a definition of insanity includes expecting a different outcome under the same inputs, but there's something special about the recurring JPMorgan activity in silver. As repetitive as it has been, there is good reason to expect, at some point, the pattern to change. For one thing, JPMorgan is clearly manipulating the price of silver and it is a bedrock fact that all price manipulations must end. Therefore, JPMorgan must fail in their silver manipulation at some point. Of course, that precise point can only be known in hindsight and not in advance. But knowing that an event must occur at some point is the greatest knowledge possible for a long term investor.

Not only is it true that all price manipulations must end; it is also axiomatic that the end of a price manipulation must be sudden and dramatic and that the price must move opposite to the direction in which prices were manipulated. When the silver manipulation ends, the price must quickly explode upward. Almost literally, the end of the silver manipulation and price explosion must come in a day or a night. I can't tell you which day or night, just that the decades-old manipulation will end in a flash. In a nutshell, that's what keeps me invested even when JPMorgan looks likely to manipulate prices lower yet again; I can't take the risk of missing what I believe is a sure thing Â? the sure thing being that silver is manipulated and that the manipulation must end violently. I can't step aside and risk missing the one day that I've known must come for a quarter century.

The main standout of 2012 was the isolation of JPMorgan as the silver price manipulator. I admit to expecting JPMorgan to step aside and cease its manipulation of silver when the bank succeeded in reducing its short position to the low levels of December 2011 and the summer of 2012. I knew that whatever they did would determine the price, but it looked to me like both were good times for JPM to throw in the towel and let the price climb upward unimpeded. In fact, when I speak with anyone well-versed on the silver manipulation, the question invariably gets asked as to what prompted JPMorgan to stick its head back in the lion's mouth by shorting so aggressively again. The only plausible answer I can up with is that they had no choice, because if JPMorgan hadn't sold additional contracts so aggressively short, the price would have exploded, revealing JPM as the prime manipulator anyway. For JPM, it was a case of damned if you do, damned if you don't.

Because the evidence surrounding JPMorgan during 2012 has grown so clear and compelling, I can't help but feel that the day of resolution must be close at hand. Certainly, there is more public awareness and anger at JPMorgan's role in manipulating the price of silver than ever before. If I hadn't written personally to each member of JPMorgan's board of directors in August accusing the bank of wrongdoing and received no reply, I would have bet you such an occurrence was impossible. If I didn't send every one of my articles to JPM, the CME and the CFTC, I would have bet you that such notifications could not be answered by continued silence. Then again, I would have bet you, back in September 2008 that the CFTC couldn't possibly stall on a formal investigation into silver for more than four years.

Correctly learning from history means understanding the forces that matter most and preparing for those forces to provide both the expected and the unexpected. The forces that matter the most in silver are the physical market and developments on the COMEX. The physical shortage which appeared in April 2011 was temporarily averted by the deliberate COMEX price crash which commenced on May 1 of that year, but it's important to remember we are not far from plunging into a pronounced shortage again. By my calculations, if more than 10 million oz per month of bullion silver (1000 oz bars) are demanded by the world investment community, it won't be long before the shortage is widely recognized. Also according to my analysis, that's the amount that's been demanded by the world's investors (think ETFs) for the past year or so. Any consistent increase in world investment demand above that level, other things being equal, should make a physical silver shortage obvious. A physical silver shortage must trump whatever manipulative paper games JPMorgan can invent.

It is the combination of a simmering physical silver shortage and JPMorgan's increasingly obvious COMEX paper manipulation that stand out to me as the forces that will dominate silver in 2013. Clearly, JPMorgan's bloated short position provides historical worry about a near-term silver price decline, but it is not out of the question for the position to backfire on the bank either, seeing how widespread the position has come to be known. Throw in the probability that the simmering physical shortage will turn into a full boil on a moment's notice and the only prudent approach is to hold onto long term silver positions tightly. There will come a day when the silver manipulation and JPMorgan's concentrated short position will no longer exist. Ironically, when that day comes, it will be time to stop worrying about short term sell-offs and think instead about selling long term silver positions. Hopefully, we'll witness that day together.

Ted Butler

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Silver – $30.30

Gold – $1656

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