July 31, 2013 – London Phony Baloney?

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As an analyst, I try to stick to the facts and remain as objective as possible. I do acknowledge that since I hold some strong and unorthodox beliefs on silver and gold, it can be hard to always be completely objective. Being objective, as an analyst, always includes a concern as to the validity of the source data you rely upon to form opinions. If your basic facts are wrong or can't be substantiated, your opinion is bound to be flawed in some way. A conclusion or opinion lacking documentable facts is the description of a story; maybe not a fairy tale, but neither an analysis to be relied upon.

There continues to be stories, mostly emanating from London, about gold (and silver) and great pending emergencies involving backwardation and shortage and delivery default in gold as well as unusual gold lease rates. The stories sound very bullish and since I'm bullish on gold and silver I want to believe them even though I'm bullish for completely different reasons. But as an analyst my first instinct is to verify and corroborate the facts. And that's the problem Â? I can't verify hardly any facts from London. To be fair, I can't disprove the facts either, simply because the facts are not verifiable.

At the core of the problem is a lack of transparency at the LBMA (London Bullion Merchants Association), purportedly the leading physical gold and silver trading platform in the world. I say purportedly because, in my experience, it is virtually impossible to verify anything on the LBMA. That's the main reason I don't write about activities on the LBMA Â? there are virtually no facts to substantiate. It's not that I haven't tried (as I've read almost every page on their web site), it's just that I can't find any real facts. Don't take my word for it, please go to the main site yourself http://www.lbma.org.uk/pages/index.cfm Also, please spend some time on the LBMA's clearing member web site http://www.lpmcl.com/

The only information I can find is total average daily trading volume, the dollar value of that volume, the daily price Â?fixÂ? (a questionable term nowadays) and the gold forward offered rate (GOFO). Along with the GOFO rates, LIBOR rates are also given. (Did I just awake from a coma, or wasn't there some recent news about LIBOR being phony?) I may have offended some feelings when I referred to GOFO as goofy, but my intention was not to offend. Instead, my intent was point out that this was a prominently posted yet completely unverifiable data point on the LBMA, the same as all the other data there. In terms of verifiable facts, the LBMA is a barren wasteland. To an analyst seeking to uncover every documentable fact around, that is an unacceptable data source.

In fact, there's a much bigger issue here, one that I've long contemplated. Considering how little is the hard data available on the activity on the LBMA, it is impossible for anyone to form legitimate conclusions of any type. I can say for sure that a financial exchange such as the LBMA would never be permitted to operate in the US by only disclosing what the LBMA currently discloses. I don't know the rules in the UK, but even being sensitive to traditions dating back hundreds of years, I am flabbergasted with how little data the LBMA provides for (supposedly) being the world's leading physical precious metals center.

Yes, the list of members is impressive and the design of the website looks professional, but I am blown away with the paucity of the real facts the LBMA provides and how that circumstance is tolerated. The best way of proving my point is by comparison to the other leading world precious metals exchange, the COMEX. There is no real contest as the COMEX (owned by the CME Group) provides what must be more than one thousand times as much relevant data about gold and silver than does the LBMA. All readers should know by now that I find the COMEX to be the enabling mechanism of the silver (and gold) manipulation and it has gotten to the point that it's not possible for me to allege more than I have about how crooked is the COMEX. But when it comes to providing the most important market facts, the COMEX looks like the most trustworthy institution in the world and the LBMA looks like the absolute worst provider of documented data.

Think I'm exaggerating? Then consider this Â? the CME provides detailed daily time and sale price data, warehouse statistics, open interest (the size of the market), delivery data and every possible piece of market information you could reasonably expect, save tomorrow's closing prices. In addition, the CME provides the CFTC with exquisitely detailed trader breakdowns by categories that go into the weekly Commitments of Traders and monthly Bank Participation Reports. The CME/CFTC data is so good that I've been able to prove (and get away with) calling both JPMorgan and the CME as crooked for manipulating the price of silver (and gold). You don't think I'd be so foolish as to put my family in jeopardy, by calling JPMorgan and the CME Group as crooks and market manipulators if the published data didn't confirm it, do you?

By contrast, the LBMA doesn't tell you anything except some unverified general volume and price info. If the CME tried to get away with that (they'd probably love to if they could) the COMEX would be shut down that day. There is no way any financial operation would be allowed to exist in the US if that operation only disclosed what the LBMA currently discloses. It just would not be tolerated. Look, I'm not purporting to be the word of God on such matters and I don't mean it as an insult to those basing market analyses on data from the LBMA, but there are no real facts available from the LBMA on which to conduct legitimate analysis.

Because there are no legitimate facts from the LBMA or London in general (pertaining to gold and silver), making legitimate analysis impossible from that data source, what we end up with are stories. Stories about delivery default and backwardation and panic gold runs on the bullion banks. Stories about whatever one cares to craft, since there is no factual data that can be confirmed or rejected. I'm well aware that people generally like stories; especially those that make us feel good or support an investment position. But stories are different from analysis and what makes them different is the presence or not of verifiable facts. This is not a question of who is right and who is wrong; it's a question of what are the facts?

Sometimes a story takes on a life of its own and manages to persist despite being absolutely absurd. For instance, the story that there is a 100 to 1 paper position in gold, or 100 ounces of gold committed to being bought and sold for every ounce of gold in London is one such story that borders on fantasy. That would mean if there were 100 million ounces of gold in London (2% of the 5 billion oz in the world), there would be a paper obligation of 10 billion oz or double the amount of all the world's gold. That's flat out absurd. It is not possible for there to be $13 trillion in open gold derivatives in London and not be able to see the clear signs that it existed. Since no signs of this preposterously large position exist from anything from the LBMA or elsewhere, it's a wonder that the 100 to 1 story persists. Yet it does.

I know how this story got its origin, as it came out in public testimony at a CFTC hearing. It is simply a case of confusing volume with open interest. Daily trading volume is very high compared to real world supplies, especially since HFT has come on the scene. But most trading, whether in stocks, bonds or commodities is close to 99% day trading. That means the trading participants generally come in each day with a flat position, trade like crazy all day, and then go home with a flat position at the end of the day. I've deplored HFT day trading since it first appeared, but this trading volume is completely different from the real overnight positions represented in open interest and the 100 to 1 proponents just miss this simple fact.

The LBMA is a closed private club and only a few insiders have access to the real data there. In stark contrast stands the exquisitely detailed data that are widely available to all from COMEX trading. To see stories made up based on what is transpiring on the LBMA is somewhat humorous, except there is little humor in mass delusion. And it's not just the lack of hard data from the LBMA that gets turned into stories foisted on the unsuspecting; it seems that it is easy to make things up away from the LBMA.

I don't want to sound like a scold, but observers and investors have some responsibility in seeking out the real facts and keeping things in perspective. Let me give you an example. Currently, there's a new story making the rounds concerning 1300 tons of gold (42 million ounces) having been dumped on the market by the Bank of England leasing out this gold over the past few months. The story is based upon a discrepancy of numbers, largely on the BOE's website in a virtual tour and what was stated in an annual report.

As it turns out, 42 million ounces is the approximate total size of the COMEX gold futures market, leaving in the 75,000 to 100,000 spread contracts which overinflate total open interest. 42 million ounces is roughly what was in the big gold ETF, GLD at year end, before 13.5 million oz were liquidated over the past six months. As you may know, GLD represents the largest privately owned stockpile of gold in the world and even though the metal is held in London, the details of its holdings, down to the serial numbers in the bars held, are published daily. In addition, strict SEC reporting requirements as to share ownership and hedge fund holdings further expands the facts about who holds GLD. Once again, by comparison, the LBMA reveals no relevant data. No one has a clue as to how large the LBMA may be, despite the self-proclaimed assertions that it is the largest exchange in the world. My own feeling is that the LBMA is more akin to the man behind the curtain in the Wizard of Oz strictly because its lack of transparency.

So here we have what I consider the largest precious metals exchange in the world, the COMEX, with the equivalent of 43 million gold ounces as its total size (open interest), and we also have documented evidence (in weekly and monthly reports from the US Government) that 15 million oz of COMEX gold were sold by speculators and bought mostly by JPMorgan over the past six months. I would contend that the induced sale of 15 million oz in COMEX gold futures are why went down in price as well as the induced sale of 13.5 million oz from GLD, also highly documented. Along comes a story that claims the BOE surreptitiously sold 43 million gold ounces belonging to other entities as the cause of the historic price decline. And there is absolutely no corroborating evidence to support that such a large sale of close to $60 billion worth of gold took place in such a short time. A few years ago, the gold world was dominated by news of a 400 ton sale of gold from the IMF that took almost two years to complete with gold prices almost half what they are now. Does it sound reasonable to you that three times that quantity of gold at double the price was just sold with no corroborating fact?

Nowhere have I seen mention of a more plausible explanation for the discrepancy in the BOE's virtual tour, namely, it was a clerical error or oversight. The most likely explanation of all is that this is a fabricated story with no factual backdrop and the alleged amounts of gold involved push it into the absurd category. It's as if every long holder on the COMEX sold in a short period of time. Not that it matters much, but if JPMorgan monitors these stories they have to be laughing at them.

The central fact is that the gold and, particularly, the silver story need no bullish embellishment at this point. The real facts are bullish enough, from the fact that JPMorgan has purchased truly massive amounts of gold and silver in various forms to the price of silver having dipped below the cost of production for many primary silver miners. I even read an article that suggested that zinc producers with a significant silver by-product component may curtail overall production because of the sharp decline in revenues attributable to silver.

None of this is to say that we can't have backwardation and a metal shortage developing, but any shortage would logically seem to be confined to silver due to its large industrial consumption profile and low relative inventories. But given JPMorgan's 85,000 contract (8.5 million oz) net long position in COMEX gold futures, we could have delivery tightness in COMEX gold in a heartbeat, although I see little incentive for JPMorgan to instigate a delivery squeeze (considering how much negative publicity the bank has now). Today's first notice day of delivery on the big August COMEX gold contract did feature JPMorgan as the big stopper in their house account, supporting the premise that JPMorgan may be turning into the new Â?Goldfinger.Â?

My main point is that if there is to be true backwardation or a delivery default in gold or silver, it won't just happen on the LBMA, but has to come to the COMEX. I suppose it's possible, due to the LBMA's non-disclosure of anything factual that no one might notice a default there (like no one hearing a tree falling in the deepest forest) but then again, what would it matter? For it to matter it would have to involve the COMEX and presently there are scant indications of a gold shortage or backwardation there. Anything can happen but right now there are no indications of such a gold shortage. Without sounding like a wise guy, I think the problem has been with investors selling gold, not that there is not enough to go around.

Because the COMEX and CFTC provide so much detailed factual information about gold and silver, a different problem has arisen, far apart from stories being fabricated due to a lack of facts from the LBMA. With the COMEX, so much darn detailed information is provided that it has created an information overload that causes people to focus on details that are taken out of context. The appropriate example here is the myopic focus on declining COMEX warehouse gold inventories as certain to cause a delivery default. It would take a lot more than COMEX gold inventories declining to bring about a delivery default, including an intent to cause a default as well as the COMEX sitting by while someone, effectively, destroyed the exchange.

I can tell you from personal experience that all commodity exchanges deal aggressively with delivery congestion and the threat of delivery default. From the exchanges' point of view, business continuity and survival are their most important missions and a delivery default is the greatest threat to closing an exchange. Plus, I can also attest from personal experience that the CFTC is interested in no default, as well they should be, along with the rest of us.

Delivery default is not the desired option; the ending of the manipulation and freeing of the silver price is the main goal. The manipulation can end without a default; all it will take is JPMorgan not selling short additional quantities of silver contracts on the next silver rally. On the other hand, I concede that a delivery default would break the silver manipulation, so I don't live in fear of such a default. Just make sure you are not holding positions that would be affected by default Â? like COMEX contracts.

As we plod along in price, the facts on silver remain compelling. The US Mint did update Silver Eagle sales on Monday and as expected, sales for July exceeded 4 million coins, hitting 4.4 million coins. I'm not sure who is buying all these coins, as it doesn't seem to be plain vanilla retail demand. By deductive logic it almost has to be someone foreign of just big (don't laugh Â? it could be JPMorgan). In contrast, sales of Gold Eagles were marginal, pushing sales of Silver Eagles to Gold Eagles to the highest relative margin in memory. That's another thing Â? I keep hearing all these stories of gold demand, yet it isn't showing up in US Mint sales. I know China and India are mentioned as prominent gold buyers, but why does it always have to be undocumented gold buyers doing all the buying?

In the daily mainstream media news flow, the big banks and, in particular JPMorgan, can't seem to find their way out of the current negative regulatory cycle they are stuck in. The latest was the suggestion raised by the chairwoman of the SEC, Mary Jo White, about proprietary commodities trading by the banks as being conflicted and perhaps subject to insider trading regulations. http://www.reuters.com/article/2013/07/30/us-supervision-hearing-congress-idUSBRE96T0WA20130730?   JPMorgan is the most conflicted commodities trader of all and it never made any sense that insider trading restrictions shouldn't apply to the banks in commodities. Just like it never made sense for big banks to trade commodities in the first place.

But even more important than conflicts of interest or insider trading violations is the ongoing market dominance and manipulation of prices by JPMorgan. Who cares if they are passing insider tips; these crooks hold nearly a quarter of the entire COMEX gold market, based upon public data. And for all anyone knows, JPM could hold even a greater percentage on the LBMA, since there is no public data available from them. Hey, maybe I can start a new story.

I would like to pass on some completely unsubstantiated speculation. Daily, my mouth is agape at the recurring news developments that seem to indicate that the US Government is finally drawing a bead on JPMorgan and other big banks for commodities violations. So unexpected and unmistakable has been this new trend of the regulators cracking down on the banks involved in commodities that I have been contemplating who or what initiated this bolt out of the blue. Don't get me wrong Â? I absolutely love the new thrust; I'm just trying to figure out why now and who is behind it? My best guess centers on Jack Lew, the US Treasury Secretary since Feb 28. http://en.wikipedia.org/wiki/Jack_Lew I always thought his predecessor, Timothy Geithner, was neck-deep in arranging the JPMorgan/Bear Stearns takeover and in protecting the status quo when it came to JPMorgan and silver (and gold). I know many think everything about the US Government is evil, but not me. Anyway, the timeline of his appointment and the attack on the banks certainly match up.

Ted Butler

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Silver – $19.85

Gold – $1324

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