July 6, 2013 – Weekly Review/JPMorgan

Weekly Review

Continuing the recent pattern of major price moves on Friday, gold and silver were walloped on Friday to end lower for the third consecutive week. Gold lost $18 (1.5%) for the week, while silver was smacked for 75 cents (3.8%). Over the last three weeks, gold has lost nearly $170, while silver has declined by just over $3. Reflecting silver's relative weakness, the silver/gold price ratio widened out to almost 65 to 1 and back to the extreme levels of silver relative undervaluation to gold for the past three years. Not only is silver on the absolute bargain table, relative to gold it is down as if in the deepest basement sale that would make Filene's Department store sit up and take notice.

All the losses for gold and silver came on the Friday of a holiday-shortened trading week, ostensibly in reaction to the monthly employment report. How this report could possibly influence silver or gold is beyond my comprehension, but to deny it appears to have an influence would be foolish. In reality, the report is used as a thin cover excuse for high frequency computer trading to artificially fix prices. I've studied silver for almost 30 years and I couldn't begin to intelligently explain why this report would impact gold and silver prices in either direction.

But what I can see clearly is that the report is most typically used to suddenly (within minutes or seconds) set prices at a sharply lower level to induce trading at the new lower level. It's a pattern that makes no legitimate market sense. To wit, what kind of news could suddenly set gold and silver prices sharply lower within minutes and then have the price remain in an incredibly stable and narrow trading range for hours on end? Not that I would be particularly interested, but I don't ever recall any previews of the employment report indicating levels which would be bearish or bullish for gold and silver prices.

Instead, the market appears to wait for whatever prices are set after the release of the report and concludes at that point whether the report was bullish or bearish to gold and silver. In a word, this is crazy and I don't mind saying so. These HFT crooks (mainly JPMorgan in my opinion) have set us all up so perfectly that the market (if we can call it that) now waits for the crooks to set prices first and then transact business for the rest of the day at the prices the HFT crooks have dictated. I think we've all lost our minds to allow this. I don't think the regulators at the CFTC or the CME have lost their minds, just any sense of what's right and what they are responsible for. I also don't think that JPMorgan has lost its mind, as the intent behind the sudden takedowns is the enable the bank to buy as much gold and silver as possible and the record clearly indicates that is exactly what these crooks have done.

After a few light weeks, turnover in the COMEX-approved silver warehouses picked up during the four day work week to over 2 million oz, as total stocks rose by 1.3 million oz to 165.8 million oz. But it was warehouse movement in the big silver ETF, SLV, which stole the show, as 4.7 million oz were deposited over the past 4 days, including nearly 3 million oz yesterday alone. Over the past 4 days, more than 200,000 gold oz were redeemed and withdrawn from the big gold ETF, GLD, continuing a pattern in existence since the beginning of the year.

The contrast between SLV and GLD has been stark; SLV is now holding a million oz more metal than the 322 million oz it held at year end, while GLD is down 12.5 million oz (29%) from the 43.4 million gold oz it held at year end. If the SLV had redeemed and withdrawn 29% of its holdings like has occurred in GLD, more than 93 million oz would have been withdrawn from SLV. Instead, there has been no net withdrawal from SLV to date, despite the fact that silver prices have been demonstratively weaker than gold this year.

I hear people asking what could explain the stark contrast between GLD and SLV and I have tried to answer the question in the most straightforward manner possible. Investors in SLV are holding tighter and stronger than their counterpart investors in GLD because they are likely more convinced of silver's future investment prospects than are investors in GLD convinced about gold's prospects. Given the recent plunge to well below production costs for many primary silver producers, I believe that silver investors will become stronger still, as well they should.

I don't usually get into analysis of the day-to-day COMEX delivery details, primarily because for almost every statistic reported, there are many possible explanations as to the true meaning of the data. In simple terms, you are generally not given enough information in the daily statistics to form a solid conclusion. I make an exception with the unusual and persistent turnover in the COMEX silver warehouses, but I try to stay away from micro-analysis of warehouse and delivery minutia because you often end up in circles, like a puppy chasing its tail.

For instance, the level of COMEX gold inventories is discussed frequently, yet the actual data is inconclusive, in my opinion. That's because the amount of gold in the COMEX warehouses has always been the smallest fraction of total world gold bullion inventories (less than a quarter of 1%), so what can be learned from such a small sample? In addition, metal may move out from the warehouses but it doesn't cease to exist and the identity and intent of the owners are generally unknowable.

I know there is daily commentary as to the meaning of COMEX gold and silver deliveries and total warehouse levels, but having past professional experience (as a commodity broker) with deliveries of silver and other physical commodities, I can say that much of what is written is off the mark. Unfortunately, when there is not enough information available there is oftentimes a tendency to portray conditions differently from what actually exists. Certainly, heightened concerns about JPMorgan not having enough gold with which to deliver at this time seem particularly misplaced, as every data point suggests that the bank is long COMEX gold futures and, therefore, are in position to accept delivery, not have to make it.

Sometimes, however, enough detail is provided to engage in some meaningful analysis. I believe the statistics from the first six days of the July COMEX silver futures contract provide enough data for attention. The standout feature for the first week of deliveries against the July silver contract indicates that JPMorgan has taken roughly 90% of the metal offered for delivery, or a total of 1637 contracts out of a cumulative total of 1828 delivered so far. In turn, of the silver contracts stopped or accepted by JPMorgan, 90% (1479 contracts) were for JPMorgan's own house or proprietary trading account. In other words, JPMorgan took delivery of roughly 7.4 million ounces of silver in the COMEX warehouses for their own benefit and risk.

You may recall that the Volker Rule, an integral component of the Dodd-Frank Financial Regulatory Reform Act, was designed to eliminate proprietary trading by large banks. However, along with the other key commodity component of the Act, namely, speculative position limits, the Volker Rule has been abandoned despite the Act's passage into law. The easy conclusion is that when it comes to any attempt to limit JPMorgan's grip on the silver or any other market, its lawyers and lobbyists will succeed in evading any and all regulatory restrictions. I'll have more to say about JPMorgan in a moment, but let me finish with the July silver delivery analysis.

One glaring fact that emerges from JPMorgan's taking such a disproportionate amount of silver in the July delivery period is that it is another confirmation of my contention that the bank is buying as much silver (and gold) and in as many different forms that it can get its manipulative paws on. ETF shares and metal, OTC swaps, COMEX futures contracts and metal from delivery on futures contracts are all included. There has never been a previous circumstance when so much gold and silver have been accumulated by one entity in such a short period of time.

Another glaring fact is that all the gold and silver that has been acquired by JPMorgan has been on the most extreme price drop in market history. I'm not going to belabor the point here but such massive and determined buying by a single entity could not possibly occur on sharply lower prices unless the prices were deliberately rigged lower.

The last fact is that never in history has any buyer of anything ever bought with the expectation that whatever was purchased would go down in price, except temporarily. Considering how much silver and gold that JPMorgan has bought this year and is still buying, you can be certain that JPMorgan expects a significant rally in silver and gold prices. What the bank does after prices have rallied remains to be seen, but no one would argue that JPMorgan bought what they did to sell at lower prices and a loss. The only thing different about JPMorgan from any other buyer is that the bank has had no hesitation in breaking the law by rigging prices lower first in order to then buy silver and gold cheaply. Of course, JPMorgan has no hesitation because of its army of lawyers and lobbyists.

As I indicated in last week's review, the weekly Commitments of Traders (COT) and monthly Bank Participation Reports won't be available until late Monday. I may issue a brief comment then, depending on what's contained in the reports, but at this stage, we will still be dealing in incremental changes after many months of cumulative massive changes. In place of the usual COT analysis, let me comment in more detail on JPMorgan.

The Strange Case of JPMorgan

It has been nearly five years since I first identified JPMorgan as the big silver and gold price manipulator, following the bank's takeover of Bear Stearns. That was nearly a year before I started this subscription service. It's been a long, strange trip indeed. I started out somewhat circumspect in my allegations concerning JPM and I believe the first time I mentioned the bank as the big short seller in silver and gold was in this speculation in early September 2008. http://www.investmentrarities.com/ted_butler_comentary/09-02-08.html Two months later, I received proof that JPMorgan was the big short in CFTC correspondence to lawmakers. http://www.investmentrarities.com/ted_butler_comentary/11-10-08.html

Since then, my tone has become decidedly more intense and I have referred to the bank as crooked for its dealings in gold and silver in just about every article I write. As I have indicated on many occasions, I make sure to send to the bank's CEO and executive offices (to email addresses provided to me by the bank) every article I write in which I mention the bank in accusatory terms. No email from me to the bank has ever been returned as undeliverable, nor have I received any request from the bank to cease in my labeling of it as crooked.
Almost a year ago, I wrote to each member of the bank's Board of Directors about my allegations, asking them to look into my allegations of price manipulation by the bank, again with no response. (Â?TransparencyÂ? September 19, 2012)
https://www.butlerresearch.com/insider/newsDetails.asp?newsId=563

My understanding of how things work in the real world, gained from more than 50 years as a functioning adult and US citizen, is that you cannot publicly and directly label a financial institution as crooked with no repercussion. Since I am unaware of any repercussions to date, I must assume there is some reason that is holding JPMorgan back from insisting that I refrain from labeling the bank as crooked when it comes to silver and gold trading. Let's face it Â? JPMorgan is a systemically important bank, perhaps the most important US financial institution, with more than 260,000 employees worldwide and it is either the leader in every banking category or close to the top in each. That includes assets by deposit, investment banking, derivatives trading, personal and commercial mortgages and every possible individual and institutional line of banking business.

If any bank is at the very top of the financial system food chain, it is JPMorgan. The bank has more lobbyists and lawyers at its beck and call than any other financial institution. To call them the Goliath of the banking world would be no understatement. While JPMorgan has settled charges too numerous to count with US and international regulators (always without an admission of guilt), I don't recall anyone publicly labeling the bank as crooked in any of their dealings before those settlements were reached. That's what makes this whole thing so strange Â? I'm calling JPMorgan crooked in their silver and gold dealings and the bank and its directors remain silent where they never would have done so previously.

Please don't think for a second that I am putting myself as being in the position of David to JPMorgan's Goliath; I know the biblical reference doesn't come close to describing the actual mismatch. In the bible, Goliath was two or three times the size of David; I wouldn't register as a flea on the backside of JPMorgan's elephant butt. I fully concede Â? there is no contest. But that's also what makes it so strange. It's not like JPMorgan couldn't crush me legally with a mere flick of its serpent's tail, but it's more that it hasn't tried. It's as if David taunted Goliath with some Hebrew trash talk in their age-old battle and Goliath turned tail and ran away. And it's not as if JPMorgan has gained in any measurable way by remaining silent in the face of very specific allegations. As a result, over the years more observers have come to view JPMorgan as the evil force behind the silver and gold manipulation due to its inexplicable lack of denial. Since when does a bank ignore challenges to its reputation?

While I believe that the facts that back up my allegations of illegal market behavior by JPMorgan are accurate and presented truthfully, I know that truth alone is no defense against libel. I think what's prevented JPMorgan from lashing out at me is that I have been careful to not intend to harm the bank in any way. In truth, I don't care two figs about JPMorgan; I just want to see it stop manipulating the price of silver and gold (and other commodities). To that end, I have endeavored to approach JPMorgan's illegal activity in silver and gold at the highest and most ethical level possible. In addition to directly confronting the bank with my specific allegations (of concentration and price-fixing), I have also publicly petitioned appointed and elected officials at the highest levels of regulatory oversight and have openly encouraged others to do the same.

Currently, there is a great debate throughout the country and the world about Edward Snowden and his unauthorized disclosure of US security issues. I know this is a very important issue and I don't pretend to know that I can judge it in its totality. Please let me confine my question to one issue only Â? if he or anyone uncovered something believed seriously wrong with government oversight activity and went through the proper channels to end that questionable activity, would that not change and elevate the current debate radically? In other words, had Snowden gone through the proper channels (whatever they may be) would there be an equal current controversy about his role? Or, if he had gone through the proper channels first and that had failed to remedy the problem, would that not change the perceptions of eventual unauthorized leaking?

I have known that the price of silver has been manipulated for most of my professional career and I have tried to publicly uncover and end that manipulation in the most open and aboveboard manner possible. I'm not bragging, I'm just stating it as objectively as possible. I ask anyone to describe how he or she might have conducted themselves had they uncovered the silver manipulation first and tried to end it. I believe that because I took the high and ethical road that JPMorgan can't lash out at me (or at least I hope that's the case).

By continuing, for more than 25 years, to go to the regulatory authorities at the CFTC and the self-regulators at the CME Group about matters they are directly responsible for (manipulation and price-fixing), even after both demonstrated no appetite for fulfilling those responsibilities, is the best thing I ever did. This, in my opinion, is what raised my allegations to the point of being legitimate and credible. Certainly, everyone, JPM, the CFTC and the CME, along with anyone who reads my allegations is free to explain why I am wrong. But that hasn't occurred; what has occurred instead is silence (or agreement). Talk about strange. One would think that reporters in the mainstream media or financial analysts in general would be drawn to the issue of a major bank being accused of illegal market behavior with the intent of at least discrediting and proving the accuser wrong. Even that hasn't occurred; in my experience, reporters and financial analysts just freeze up and run away from the allegations altogether. I'm not sure why that is and if anyone has an insight, please drop me a line.

Not in a million years would I ever have imagined it would come to this; this being me openly accusing the most powerful bank in the world of the most serious market crime possible Â? price manipulation. Not in two million years would I ever have imagined that bank remaining silent in the face of such specific allegations. Better yet, I'm not sure what JPMorgan can do about it now, except to illegally position themselves (as they have) on the long side to profit from the price ride up. Likewise, I don't know what the corrupt and incompetent regulators can do about it at this point; aside from initiating another investigation to find out why silver prices exploded in the end.

I do think I know what won't happen. The crooks at JPMorgan and the CME Group and the hopeless incompetents or worse at the CFTC will never engage in an open and honest discussion about what has been happening in silver these past years. Just like there will never be a conclusive resolution to the near 5 year old silver investigation or any explanations for the unprecedented price drops in silver (and gold). And that's going to be the best thing of all Â? these dishonest players will never be able to come clean because they refused to confront this issue in a timely manner when they should have.

In many ways, this latest price smash to below the real cost of production promises to bring about the resolution of the silver manipulation like nothing before it; certainly more than anything I ever attempted. Just a few short months ago, say back in January or February, there was no talk whatsoever about mine closures or asset write downs by gold and silver producers; now nothing else is contemplated and discussed. Talk about turning on a dime. It's not just that the big drop in prices has brought us to the point where mine shut downs loom; it's the rapidity of how things have changed. That and why we went down (due to speculative paper trading on the COMEX).

Many point to years past when silver did remain at or below the cost of production for extended periods of time and surmise that we may be entering another period of prolonged low silver prices. But conditions are radically different today in a number of ways. For one, previously there were massive amounts of above ground silver inventories which came to market and filled any demand at low prices for decades, including the uneconomic leasing of metal. Those days are not only gone, but the vast amount of the world's remaining one billion ounces of silver bullion inventory have been transferred and are now owned by a diverse group of investors who appear to be strongly disinclined towards its sale. There are no great hordes of silver standing ready of coming to market like there were formerly.

With hundred dollar crude oil and ore yields much below previous yields for every mineral, the cost of production has escalated sharply over the past ten years and any suggestion that silver mining will be maintained for long under $20 an ounce is unrealistic. But the biggest disruptor to the notion that silver can be priced indefinitely below the cost of production is the coming reaction on the demand side of the supply/demand ledger. Silver investors may have held off somewhat in rushing to silver on this steep price drop, but I doubt that will remain the case for much longer.

Once existing silver investors get over the shock of what just occurred to the price, they are likely to assess the situation in light of the new realiti

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