June 10, 2015 – Impossible to Defend

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We live in a world where general opinion is usually fairly evenly divided. On most matters there are usually an equal number on either side of the issue. The best example may be in US political opinion where the two main parties garner a remarkably similar number of supporters and detractors. It's been many years since a presidential election, for instance, that ended in a lopsided result. And it's not just confined to politics; as social, economic and financial opinion usually find those holding strongly conflicting beliefs more common rather than being in broad consensus.

Throw in the ability to voice opinions anonymously on the Internet and not only does that enflame the differences in opinion, but also usually results in personal acrimony over an issue. Voice a strong opinion about anything and it is almost guaranteed that it will generate an equal number of assenting and dissenting opinions.

I've experienced this firsthand. Whenever I introduce a new finding in silver, I'm usually greeted with strong agreement or disagreement. For example, my recent contention that JPMorgan had acquired a massive amount (350 million+ oz.) of physical silver over the past four years, including 75 million oz of Silver Eagles, was met with a roughly equal number of those agreeing or disagreeing with my contention. And certainly, when I first broached the idea that the price of silver was manipulated on the COMEX 30 years ago, those disagreeing with my contention vastly outnumbered those agreeing with it; although that has changed drastically over the years.

That's why I am flabbergasted that I have seen no serious disagreement with my most recent contention Â? that speculators clearly control the price discovery process on the COMEX. The shocking Commitments of Traders (COT) Report of May 19, in which speculators and speculating banks bought and sold more contracts of gold and silver on the COMEX than ever in history was the focus of a recent article of mine. My main point was that because the record weekly futures contract positioning was entirely speculative and excluded real metal producers and consumers, it was against the spirit and intent of commodity law. While not a new contention on my part by any stretch, what is new is that two mining companies took my advice to write to the CFTC.

The issue raised by these miners is legitimate and of the highest significance, namely, that silver (and gold) prices are being set by speculators on the COMEX to the exclusion of actual producer input and that is not in keeping with the spirit and intent of commodity law. The CFTC's own data prove that prices are set by speculators and not by real producers or consumers. Even though the CFTC is the primary commodities regulator and this issue (price manipulation) is its most important mission, I'm not sure if the agency will respond (although it certainly should).

The only reason why the CFTC would not respond is because, effectively, it can't. What the heck is it going to say? It can't say the numbers are wrong, because the data come from them. It can't say the managed money traders aren't speculators, because that's how the Commission classifies those traders. It can't say the commercials aren't speculating because no miners were involved. I suppose the agency could try to throw lots of words on paper in an attempt to obfuscate, because that's something it has long experience with. But since the two miners stated the case so clearly, any attempt by the CFTC to evade a direct answer would be seen as just that Â? an evasion.

Beyond whether the CFTC responds or not, there is also the matter of the self-regulator, the CME Group, which has frontline responsibility to address issues like this. But the CME has been cowardly in avoiding any involvement in the silver manipulation, as has JPMorgan, as both institutions hide behind the CFTC despite open accusations (by me) that their activities are criminal. I suppose leading financial institutions being called crooked isn't much of a stigma today; but it sure used to be.

The main point here is that it is not only the CFTC, the CME or JPMorgan that can't deny that silver prices are set by speculators on the COMEX – nobody can. Or at least that's my takeaway seeing as no one, in our argumentative and contentious world of divided opinion on just about every issue, has stepped forward to deny that speculators aren't setting the price of silver or, as might be normally expected, to argue that speculators have every right to dictate the prices that real world producers receive for their labors. Even more than getting away with labeling the CFTC, CME and JPMorgan as crooks, that's why I am flabbergasted – there's no disagreement on the basic facts from anyone.

I'm almost tempted to run a contest, rewarding anyone who could come up with a rational-sounding disagreement on the facts or, failing a factual disagreement, then a reasonably-sounding explanation about how commodity law always intended that speculators and not real producers and consumers set prices. Maybe I could interest the satirical magazine The Onion in the task. This is no laughing matter, but I am convinced that anyone even attempting to explain away how having speculators control silver prices could somehow be considered legitimate would turn themselves into a laughingstock.

Superimposed on the recent record positioning changes on the COMEX by speculative traders in silver and gold futures contracts is the 800 pound gorilla that the regulators are trying desperately to not notice Â? the massive concentrated short position in COMEX silver. In the current COT report, 8 traders are net short nearly 390 million ounces of silver, 50% of annual world mine production. To say that no other commodity comes close to having such a large concentrated short position understates the matter.

I know I use the word Â?concentratedÂ? often and it is possible my overuse of the word diminishes its meaning. But please remember the word didn't originate with me, but with the CFTC in that concentration data is an integral component of every long form COT report. The agency publishes concentration data on all commodities because it is the frontline defense against manipulation. Simply put, there can't be a manipulation without a concentrated position. Please bear with me as I try to explain this again.

If 390 million oz worth of silver futures contracts, or any amount for that matter, were held short by thousands, or even hundreds of different market participants then that would be no problem. That many participants would constitute a market because there is no way that many participants could possibly collude with one another to manipulate prices. And if hundreds or thousands of different traders held 390 million oz of silver net short and not just 8 traders, you wouldn't be reading this because I wouldn't be writing that silver was manipulated in price. In fact, it is most likely that you would have never heard of me because I never would have raised the issue of a silver manipulation in the first place.

But if a much smaller number of market participants held an exceptionally large position, the position would be considered concentrated and the question of manipulation would necessarily arise. In terms of potential manipulation, a large position held by many participants equals no problem; but a large position held by few participants equals a big problem.

What is considered a few number of market participants? Here I would defer to the CFTC which decided long ago to adopt the 4 and 8 largest trader template to measure concentration. Those are the numbers the federal regulator uses, so why would anyone use different numbers? And using the 4 and 8 trader template that the CFTC decided on and comparing the resultant positions to the actual world production and consumption of all commodities, the concentration on the short side of COMEX silver stands out like a sore thumb.

When you then contemplate the significance of the world's most concentrated short position in terms of price, alarms and sirens should be blasting because there is no way that concentrated position could avoid manipulating the price of silver to be lower than it would be if the position didn't exist. Therefore, the concentrated short position in silver is the cause of the low silver price and that's why, after a drought that stretched for decades, two mining companies have finally stepped up to the plate and demanded that the CFTC address the matter.

The fact is that everything that proves that silver is manipulated in price comes directly from the CFTC, in terms of weekly speculative position changes, its own definition of the number of traders that constitute concentration and the resultant size of relative concentrated positions among all regulated commodities. If I were making up my own personal standards of what constituted manipulation, then I would be sure to uncover disagreement. But by using the regulators' own standards, then disagreement becomes difficult, if not impossible. That's why it's going to be real interesting if the CFTC responds to the miners' petition for explanation.

There have been quite a few new developments since the weekly review on Saturday. For starters, following last week's counterintuitive deposit into the big silver ETF, SLV, of 2.5 million oz, an additional 4.5 million oz have been deposited into the trust over the past two days. At the same time, significant withdrawals continue to occur in the big gold ETF, GLD. Considering that the price action in gold and silver was mostly lower leading up to the changes in relative holdings, the deposits into SLV were the more unusual of the two. In a weak price environment, a total deposit of 7 million oz into the SLV underscores the word counterintuitive.

In fact, I was genuinely baffled by these large deposits into SLV; right up until the release of the new short position report last night. I did think that the most plausible explanation for why so much metal had come into the SLV under a weak price environment was in order to close out short positions on SLV, because that's something I always think. But I was mindful that the last short report in SLV (and GLD) showed a massive reduction and I was scratching my head, thinking how low could the short position have dropped to? As it turned out, there was a massive increase in the short positions of both SLV and GLD, as of the close of business May 29, and things made a lot more sense, at least in SLV.
http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%99

After a reduction of 8 million shares in the short position in SLV in the previous report, down to 12.8 million shares (ounces), the new report indicated an increase of more than 7 million shares, back to just under 20 million shares (ounces). While I'm never happy to see any increase in the SLV short position, particularly a large increase, at least it made intellectual sense in this case. That's because the increase in the short position closely matched the 7 million oz deposited over the past week and made more plausible the only explanation I could come up with for the deposits in the first place.

Additionally, the sharp increase in the short positions of SLV and GLD just reported tends to roughly coincide with the recent weekly record increase in commercial selling In COMEX silver and gold futures (the COT of May 19). I don't have a good explanation for lack of deposits into the GLD as occurred in SLV, other than noting that the amount of gold represented in both the increase and total amount of the GLD short position is still miniscule in the broader gold universe. That said, any time the short position in either hard metal ETF increases sharply, it does raise the probability that the shares were shorted because metal wasn't available for immediate deposit; thus signifying physical tightness.

Yesterday, the US Mint reported a large quantity of both Silver and Gold Eagles were sold; some 650,000 Silver Eagles and 10,000 oz of Gold Eagles. As I have been reporting, Silver Eagle sales have been of the start and stop variety, with days of little or no sales, followed by big sales days like yesterday. The sales of Gold Eagles have been more steady, although I would note that sales for June after only 9 days are already well ahead of the full month of May. Based upon very reliable reports from the retail front and how the retail buying public usually reacts in tepid price environments, I'm still convinced a big buyer (JPM) is accumulating Silver Eagles.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Over the past two days (thru Tuesday), another 1.2 million oz have been deposited into the JPMorgan COMEX silver warehouse, bringing to 1.6 million the number of ounces that have been brought into this warehouse in the past few days (all in the eligible category). Thus, we may be on track to see the entire 4 million oz that JPMorgan took delivery of in the May delivery period end up in JPM's own warehouse. You'll remember that JPMorgan moved the entire 7.5 million oz (and a bit more) it stopped in the March futures delivery period into its own warehouse during April. Of course, I'm only referring to the metal that JPMorgan took in its own house or proprietary trading account and not what it took for customers. Yes, JPMorgan increased its paper short position to depress silver prices so it could continue to acquire physical metal on the cheap, a very profitable and crooked maneuver.

A number of subscribers have sent to me and asked for comment on a new article contending that the Fed just bailed out the COMEX and saved it from a delivery default by using JPMorgan to deliver gold provided by the US Government. I don't usually comment on the work of others, but seeing as I already commented on the prospects of a COMEX delivery default in the June gold contract both on May 30 and on June 3 (in the archives), I suppose I would be remiss not to comment further. Here's the article in question and there is a link contained therein for the first article which initially prompted comments from me. http://seekingalpha.com/article/3247676-did-comex-just-receive-a-physical-gold-bailout-from-the-feds

I'm going to confine my comments to the matters referring to the mechanics and facts surrounding the still in progress COMEX June gold delivery and avoid completely matters related to everything else in the article, including government statements dating back to 1974 and the general discussion on world gold supply/demand considerations. I don't think I need to say it, but I'm not a big fan of the COMEX or JPMorgan or even the US Government when it comes to matters related to the proper regulation of price manipulation; so please don't take my comments as supportive of the crooks at the COMEX or JPMorgan.

As I indicated back on May 30, there did appear to be a bit of tightness, or congestion in the COMEX June delivery month, as indicated by the then large number of open contracts in the delivery month and tightness in the spread differential between June and later futures months. Many pointed to the low level of COMEX gold in the registered category, including the article above, while ignoring the much larger quantities in the eligible category of COMEX warehouse inventories. As I explained previously, metal in both categories conforms to good delivery standards, with the key difference between eligible and registered inventories being of a paper work variety.

On June 1, JPMorgan transferred 177,000 oz of gold from the eligible category to the registered category in preparation for making delivery that day and along with gold it already held in the registered category, delivered roughly 247,000 oz against short positions the bank held in the June futures contract. This was done in JPMorgan's proprietary or house trading account. I reported on this previously.

The article gives the impression that the 177,000 oz were brought in and provided to JPMorgan by US Government officials. That's not true, as no metal was actually physically moved; the metal stayed in place and only the category was changed by a change in the necessary paper work. There was no Â?replenishingÂ? of gold in JPMorgan's holdings, as the article states; it was a simply paperwork transfer from eligible to registered and involved no physical movement.

The implication that the Fed gave or backed JPMorgan with the 177,000 oz the article implies was added to COMEX registered inventories is further undermined by the fact that JPMorgan, as I previously reported, had stopped or taken delivery of nearly 3250 gold contracts (325,000 oz) in the December and April COMEX delivery months and was in position to deliver 2468 contracts in June. Not only is there no evidence that any gold was added to JPMorgan's COMEX warehouse in early June, by the Feds or anyone else, the explanation for where JPMorgan's gold came from is there for all to see.
http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

As for the matter that the Bank Participation Report showed that JPMorgan couldn't hold the short position it held in the June contract, as the article contends, this is also wrong on its face. The percentages assigned to US and non-Us banks in this report applies to total open interest, not the open interest of individual months. Let me give you a simple example.

JPMorgan, as the leading silver manipulator and all-around commodity crook, has always been big net short in COMEX silver, ever since taking over Bear Stearns' concentrated short position in early 2008. Yet, despite being continuously and certifiably net short in COMEX silver, JPMorgan did hold the maximum number of long contracts (1500) in the March futures contract as well as 800 long contracts in the May futures contract, otherwise it would have been impossible for the bank to take delivery.

A special treatment for commercial traders by the CFTC allows this and makes it impossible for anyone to know what a reporting bank may hold long or short in any delivery month. Heck, the same treatment allows for commercials to be long and short simultaneously in the same futures month. Therefore, to rely on the percentages given in the Bank Participation Report for indicating what JPMorgan held in the June gold contract, as the article did, is next to useless.

Why am I criticizing this article in such a detailed manner? Certainly, not to defend the COMEX or JPMorgan, as I hope you realize. And the last thing I want is to look like is as a know it all. Instead, there needs to be specific and credible accusations about precious metal manipulation and by publishing criticism that is wide of the factual mark, it makes it easier for allegations about manipulation to be brushed aside, in turn hurting us all. We can't make it easy on the crooks by accusing them of things easily deflected. To that end, we need to stick to the facts. Just like the miners who wrote to the CFTC, stick to things that the crooks can't possibly refute.

Price action since the review on Saturday appears to be following the COT market structure script, in that gold has been stronger than silver as was suggested by their relative market structures. Gold's structure was definitely more bullish than silver's. The only way for either structure to get more bullish would be on new price lows, which look easier to occur in silver, given that new lows are closer in silver than they are in gold. I'd further refine expectations for Friday's COT report to be for reductions in the total commercial net short position (the headline number) in COMEX gold to be in the 25,000 to 30,000 contract range and 10,000 to 15,000 contract range in

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