June 17, 2015 – Clear Proof/Same Setup

More Clear Proof

While I acknowledge that I have made some fairly outrageous statements about silver, JPMorgan and the COMEX (CME Group) over the years, one recent statement was particularly extreme. In my May 20 article (Â?The Worst Betting Scandal EverÂ? Â? in the archives), I wrote that one of the clearest proofs that COMEX silver was a crooked venue was because the most dominant price manipulator, JPMorgan, had never taken a loss on any newly added silver short position over the past seven years.

I compared the odds of that to a bookmaker who never lost a single bet and concluded that the only way that could happen was if the bookie had somehow rigged the outcome of the sporting events he made book on. Likewise, the only way a market maker like JPMorgan could always take profits and never take losses on any newly added silver short positions would be if the bank was rigging the silver market. After all, there's no way a bookie or market maker could always win and never lose a single bet if the sporting event or market wasn't interfered with. Little did I know that I would be given compelling proof of my outrageous statement by CFTC data within a month of my declaration.

A few days after my article, the Commitments of Traders (COT) Report of May 19 indicated that the concentrated short position of the 4 largest traders on the COMEX increased by 6600 contracts during a reporting week in which the price of silver jumped by a dollar. I concluded that JPMorgan accounted for 6000 of those shorted contracts and this was subsequently confirmed in the Bank Participation Report of June 2. Based upon price data during the reporting week, it would appear that JPMorgan shorted those additional 6000 silver contracts at an average price of upwards of $17.25. Since this price is still below the average primary cost of silver mine production (not that any miners were involved anyway), the aggressive short sale by JPMorgan was purely designed to cap prices.

Silver prices hit a peak of $17.75 on May 18 and 19 and then declined. JPMorgan (and the big 4) held onto its newly increased short position for three weeks until the most recent reporting week which ended on June 9, when the 4 largest COMEX shorts bought back 6600 short contracts. I estimated on Saturday that JPMorgan accounted for 6000 of those shorted contracts bought back and would estimate the average price for JPM's covered shorts to be less than $16.25.

Thus, according to ironclad COT and price data, the big 4 shorts in COMEX silver made a realized profit of more than one dollar on the new short sales during the week of May 19 and the June 9 repurchase of 6600 contracts. On the 6000 short contracts sold and repurchased by JPMorgan, the bank made $30 million.

The important point here is not that JPMorgan made a profit on this particular short sale; the point is the bank has made scores of trades like this over the past seven years (since acquiring Bear Stearns) and has never, ever taken a loss when it has added to its silver short position. How is this possible Â? is JPMorgan such a skilled (or lucky) trader or is there some other explanation to account for an impeccable trading record? Luck or skill has nothing to do with it; it's all about market dominance and manipulation.

As I have explained on countless occasions, JPMorgan is the Â?swingÂ? manipulator in silver – the short seller of last resort. JPM only sells additional contracts short as and when necessary to prevent prices from seriously climbing. Most times, the smaller commercials, the ones I refer to as the raptors, can match up against and handle the managed money traders (the technical funds) and JPMorgan and the other big shorts generally stand aside. But when the technical funds buy too aggressively, the raptors can't always contain and smooth out prices by themselves and that's when JPMorgan and the other big shorts lend a hand.

One of the reasons JPMorgan (and the other big shorts) never take losses on added short positions in COMEX silver is that they come in after the raptors have sold most of what they can sell, so by definition, JPMorgan only adds short sales at the highest prices of the move. But it's really more a case of JPMorgan having the ability to sell unlimited numbers of additional contracts short. During the jump in silver prices to $17.75 during the reporting week of May 19, JPMorgan needed to sell 6000 additional contracts to cap and snuff out the budding rally. But if necessary, the bank could and would have sold any number of additional contracts required to contain the price. That's the essence of the COMEX silver scam. Then this crooked bank just waits it out until the idiot technical funds get a sell signal at lower prices so that JPM can buy back their shorted contracts at a profit. Wash, rinse and repeat.

As lucrative as the cumulative realized COMEX trading profits have been to JPMorgan over the years, amounting to hundreds of millions and even billions of dollars, I don't believe the bank is projecting the trading profits will last indefinitely. Because it knows what it is doing is illegal and manipulative, JPMorgan knows this crooked game can't last forever. No, not because the inept and corrupt regulators will force JPM to end the ongoing COMEX silver scam, but because the bank itself is smart enough to see the hand writing on the wall and will decide on its own when to pull the plug on a manipulation that must end.

I admit that JPMorgan (as well as the CME and the CFTC) has acted aloof and unconcerned outwardly about the growing allegations of manipulation in COMEX silver, but that doesn't mean it isn't seriously concerned privately and has taken measures to deal with it. Despite JPMorgan's apparent disregard about the allegations, those allegations are not only becoming more widespread, they are also getting rather specific. For example, I'd like to see the bank (or anyone else) deny that it has never suffered a loss after adding to its COMEX short position over the past seven years.

So what do you do if you're JPMorgan and you know the silver manipulation can't last forever and you want to be in the best position possible when it comes to an end? The short answer is that you make every possible preparation for that day as you can. I believe the greater weight of the evidence confirms that is just what JPMorgan has done. How would anyone best prepare for the silver manipulation ending? By buying as much silver as you could and closing out every short position you could. Unless I'm reading it all wrong that is exactly what JPMorgan has done.

Same Setup, Different Outcome?

We've now come full circle Â? from a strongly bearish COT setup on May 19, when managed money traders bought 28,200 net silver contracts (141 million oz) to a strongly bullish COT setup in the most recent report where those same managed money traders sold the exact same number of net silver contracts. Now what?

I'm going to skim over the absurdity of purely speculative traders first buying and then selling the equivalent of 141 million ounces of silver within a week and the impact that has on price. Speculators first bought and then sold two full months of world mine production and this is the sole reason why prices first rose and then fell. It is also in stark violation to the spirit and intent of US commodity law, since actual producers and consumers are excluded from the process.

We're now up to three miners which have written to the CFTC about the undue speculative dominance in the price discovery process on the COMEX and, quite frankly, that's three more than I thought would take my public advice to write to the regulator. I knew it was something that all miners should do, but I admit to having low expectations that any would. While certainly surprised, I'd be lying if I said I wasn't more gratified that actual producers did step up to the plate after three decades of non-involvement.

At the very least, miners writing to the CFTC add pressure on JPMorgan to quit its evil and manipulative ways. While I still doubt the CFTC will respond, mainly because there is no legitimate good response available to it, I would like to make a new point before moving on to the current bullish setup in market structure. Had any producer of any other commodity, say a corn, cotton or soybean producer or a livestock operator, written to the CFTC with clear evidence that speculators were setting prices in those markets like is the case in silver, the Commission would respond fully and immediately. That's certainly not the case in COMEX silver due to the agency's selective enforcement of commodity law. As to why that's the case, in my opinion, it's because the CFTC would be too embarrassed and damaged to admit to any wrongdoing in silver after denying that for 30 years. A subscriber suggested I ask you to write to your elected officials about this selective regulation and that's a good suggestion.

I feel a bit like the boy who cried wolf in what I'm about to say. You remember the fable about the boy tending his flock of sheep who, for the sake of excitement or mischief, screamed Â?WolfÂ? to get the townspeople running to save the sheep. The boy did this a number of times until one day a real wolf appeared and the boy's screams were ignored.

I fully admit, on more than a few occasions in the past, to having warned that the then-current bullish COT market structure could erupt into the coming big move up in silver and, if it did, make it nearly impossible to jump on board easily. My message was mainly that when the silver manipulation ended it would do so abruptly, making it wise to be fully positioned even way too early than a day late. While my warnings have not panned out to date, that is because the manipulation never ended. Unlike the boy in the fable, I did provide the reasoning behind suggesting being early and was not just making up false stories to gain attention. I do so again today with the same reasoning I have used in the past, augmented this time with factors that didn't exist in the past.

All the old reasons are still in effect, namely, an overall massive paper short position, the covering of which could lead to a melt up in price, an eventual physical shortage given there being way too little metal in existence compared to the growing mountain of world investment buying power, capped off with an industrial user inventory buying panic. The new reasons center on JPMorgan.

When I spoke of the coming silver price melt up in the past, JPMorgan was hardly on the silver scene. But starting with the rescue of Bear Stearns in early 2008, JPMorgan had become the new big Kahuna in silver, holding net short positions on the COMEX that exceeded 200 million ounces on a number of occasions.

Then, in 2011, the bank switched strategies and in addition to remaining the big COMEX short seller (and milking untold hundreds of millions and even billions of dollars of profits from the technical funds), began to accumulate the largest privately owned physical silver position in history, an amount I place at upwards of 350 million oz. Over the past few months, JPMorgan has taken a significant amount (12 million oz) in COMEX silver futures deliveries in its own name and moved all that silver into its own warehouse. As I've remarked previously, this highly transparent acquisition of silver suggests JPM's accumulation may be near completion.

Very recently (meaning over the past 2 or 3 weeks), I believe the bank has made aggressive moves to close out its giant short positions in both SLV (based upon the large and highly counterintuitive metal deposits of 11 million oz into the trust) and on the COMEX (please see above). When anyone appears to be finishing an epic accumulation of an asset, combined with an aggressive short covering in that same asset, it is not unreasonable to think upside fireworks may be close at hand.

Of course, I'm reading the tea leaves, but those tea leaves are based upon documented facts and not the imaginations or mischief of the bored juvenile sheep herder in a fable. Does the current strongly bullish COT market setup in COMEX silver (and gold) guarantee we will go straight up from here? Of course not. Can the setup become even more bullish on new price lows if new managed money selling is arranged? Of course it can. But is the most likely result of the existing bullish setup, whether it becomes even more bullish or not, a rally of undetermined magnitude? Absolutely yes. Could that rally be the big one? Again, absolutely yes.

What it comes down to, as it always does, is whether JPMorgan will add to its COMEX (and SLV shorts) on the next rally. If this crooked bank doesn't add to short positions on the next rally, we are off to the races. If they do add, the next rally will be capped and, most likely, snuffed out. But just because the crooks at JPMorgan have always added to shorts on every silver rally in the past, including the one of less than a month ago, doesn't mean they will on the next rally.

Strictly in the interest of full disclosure and not intended in any way as an invitation or inducement for anyone to do likewise, I have used the recent swing from a bearish COT market structure to a very bullish setup to be more than fully positioned on the long side, including the purchase of near suicidal call option positions with funds I consider already flushed down the toilet. Please bear in mind that long shot call options are unsuitable for more than 90% of all investors and the remaining 10% (like me) are just too dumb to know otherwise.

Ted Butler

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Silver – $16

Gold – $1181

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