June 27, 2012 – Nothing Else Matters

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Â?Este Banco Roba y Estafa.Â? Those were the words spray painted on a branch of a Spanish bank in Madrid in a photo from Mondays' NY Times. It translates into Â?this bank steals and defrauds.Â? Yes, I confess Â? I had images of these words being painted on JPMorgan's NY headquarters for the bank's role in the silver manipulation. But I'm too old to take up graffiti at this stage of my life. I also can't deny that I focus on JPMorgan quite closely in analyzing the silver market; some might suggest too closely.

I've done so for almost four years now and can't help but notice that many others invoke the name of JPMorgan in the silver manipulation. If you take the time to type in JPMorgan and silver or manipulation or some version of those words on Google, you'll come up will millions of results. While most seem to accuse JPM of involvement in the silver manipulation, a good number exonerate and defend the bank of any wrongdoing. Guilty or not, all put JPM at heart of the silver manipulation. I found it interesting that relatively few of the results were articles by me. My point is that there has been a tremendous amount written about JPMorgan and silver these past few years. Please go see for yourself.

That's why when an old friend (we go back 25+ years with an involvement in silver) asked me this week how I knew it was JPMorgan that was the big COMEX silver short, I was somewhat startled at first. It was a great question, the answer to which was probably unknown by many – including those both attacking and defending JPM. After all, the CFTC has never openly identified JPMorgan as the big COMEX silver short, as to do so would violate commodity law. It could not be gleaned from studying the weekly COT or monthly Bank Participation Reports, as those reports are broken down by categories, not by individual trading entities. To my knowledge, JPMorgan itself has never admitted to being the big COMEX silver short. So it occurred to me that perhaps there are many who invoke the name of JPMorgan in connection with silver without being sure of exactly why.

I can only speak for myself, but I learned of JPMorgan's role as the big COMEX silver short as a result of correspondence from the CFTC to various lawmakers in the fall of 2008. Even though the agency referenced me by name in the correspondence, the letters only came to me as a result of readers contacting their elected representatives and those readers being kind enough to send the responses to me. Shortly after I wrote about the big increase in the August 2008 Bank Participation Report, I did suspect that the big COMEX silver short was JPMorgan and wrote so in this article. I also wrote, for the first time, how I suspected it was the US Government behind JPMorgan's silver short position, a suspicion that I had recently became convinced of (although some alleged I had been unaware of a government involvement in a silver manipulation until now).

http://www.investmentrarities.com/ted_butler_comentary/09-02-08.html

Two months later, I received the confirmation that it was JPMorgan from the CFTC's replies to lawmakers. http://www.investmentrarities.com/ted_butler_comentary/11-10-08.html

The relevant paragraph in the CFTC's replies to lawmakers at that time was this Â?

Â?Several members of the public have made inquiries related to silver positions on July 22, 2008 and August 5, 2008 citing recent commentary by Mr. Ted Butler that the silver market is being manipulated downward as a result of the actions of banks selling large quantities of silver futures contracts on the COMEX Division of the New York Mercantile Exchange. Mr. Butler, a long-time follower of the silver market, bases his concerns on the increases in short positions held by two US banks, as reported in the CFTC's weekly (sic) Bank Participation Report in Futures and Options Market report, from 6,177 on July 1, 2008 to 33,805 on August 5, 2008. In his commentary Mr. Butler calls this information Â?so clear and convincing that it is hard to conclude anything but manipulation.Â? Nevertheless, in reviewing silver market developments, the Commission's staff found that this increase in positions did not reflect an overall increase in activity by short traders in the silver futures market, but rather a restructuring that had taken place in the banking sector. In effect the increase in the short position reflected a one-time acquisition of positions that were acquired through a merger in the industry, and not new trading by a bank. Thus, the assertion that there was new activity undertaken by the banks that led to a fall in silver prices is not correct since the "new" activity reflected in the CFTC's report was in essence positions that had already existed in the market prior to July 1st."

Since the only possible restructuring that occurred during that time was JPMorgan's government-assisted takeover of Bear Stearns, the CFTC's correspondence immediately confirmed that Bear Stearns was the big former silver short and that JPMorgan was the big current short. Armed with that knowledge, I then began to focus on JPMorgan's concentrated short position, knowing it was so large that it could not be meaningfully reduced or increased without a strong influence on the price of silver. The CFTC's unintentional confirmation to lawmakers that JPMorgan was the big silver short changed the way I looked at the silver market.

Since then, I have focused on JPMorgan's silver position like a laser, knowing that this was the most important intermediate price influence for silver. Understanding the importance of concentration to any market, I knew JPM's silver position meant both that it not only controlled the price but was trapped by it as well. The analogy I would use is that JPMorgan was the largest fish in a very small pond. As a result, it was at the top of the food chain in the pond, but could easily become victim by someone outside the pond. And it didn't matter much if JPM had US Government backing or not, as ultimately the matter would be decided in the physical silver market. JPM could create as many futures contracts as required, just as the USG could back it with all the money it could print; but neither had discovered the alchemy to produce real metal from thin air. In the end, this would be decided in the physical metal realm.

If you go through the Google search exercise with JPMorgan and the silver manipulation, you'll notice that all the results generated have been dated as being created only in the last few years, or after the disclosure from the CFTC to lawmakers. Therefore, it looks like that was the catalyst for why so many point the finger at JPM for the silver manipulation. Additionally, there would never have been any civil class-actions lawsuits filed against JPMorgan for manipulating silver if I hadn't identified them by writing about the CFTC's correspondence. If you are aware of another explanation, please drop me a line.

I can't overemphasize how important it was to be able to identify JPMorgan as the big COMEX silver short as a result of the CFTC correspondence. Previously, all I could reference as the silver manipulators were the big 4 and the big 8 largest shorts. After a while, that gets old and empty. It makes a big difference when you can pinpoint a specific entity, particularly one as high profile as JPMorgan. I think the need to personalize the main perpetrator of any crime is what lies behind the almost universal identity of JPMorgan as the silver manipulator on the Internet, even if those alleging that it is JPM are unaware of the true origins of the identification.

But if there is a drawback to this general unawareness of how JPM came into view as the big silver market manipulator in the first place, then it tends to be a misunderstanding of what it is that JPMorgan is guilty of. The issue should be clear; concentration in any market is bad and must be avoided. Not coincidently, avoiding concentration and preventing monopoly is at the core of US anti-trust jurisprudence. No market can be considered free if it is dominated by one or a small number of participants. Nowhere is this more important than in our regulated trading markets. This is why the CFTC publishes and monitors the levels of concentration in every regulated futures market in the COT reports each week. A concentrated market is, most likely, a manipulated market. The only question has been why have the regulators ignored the blatant concentration on the short side by JPMorgan in COMEX silver?

Some try to argue that JPMorgan must be long physical silver that it is hedging or that it holds OTC derivates positions that it is offsetting with its massive COMEX short position. The apologists for JPMorgan claim that the bank is actually flat in its total silver position and it just appears to be short because its COMEX short position is the only leg visible. The argument that it's all just an arbitrage can sound convincing at first; that is until you think it through. But claims of hedging or market-making do not trump the issues of market concentration and manipulation. It would not matter if JPMorgan were legitimately hedging (it isn't, in my opinion) or not; no hedger would be allowed to hold such a dominant or concentrated position on the most transparent futures market that clearly caused prices to be manipulated.

For instance, if Saudi Arabia decided to short one year's equivalent of its crude oil production (3.5 billion barrels) on the NYMEX as a hedge, that would result in 3.5 million futures contracts being dumped on a market that has a total open interest of 1.5 million contracts. That would artificially drive oil prices to $2 barrel and that price manipulation would stand the world of oil supply and demand on its head. Most market observers would see that Saudi Arabia may claim to be hedging, but that hedging was manipulating oil prices lower. This is, admittedly, an extreme example intended to make a point, but in essence this is what JPMorgan (and Bear Stearns before them) has done to silver with its concentrated short position on the COMEX. The excuse of hedging can never be permitted to facilitate manipulation or for allowing a domineering market share to exist.

All the stories about there being a vast silver trading market away from the COMEX are just unsubstantiated nonsense. The surest proof of that is if there were deep silver markets away from the COMEX, then why wouldn't JPMorgan hold its manipulative and concentrated short position on one of those markets and not on the market made transparent by CFTC COT data? Why would JPMorgan subject itself to the endless allegations that are damaging to its reputation?

I've followed silver closely for almost 30 years and for more than 25 years I have written to the regulators about a price manipulation. I've studied and continue to study every supply and demand factor within reach and carefully consider all the investment implications possible. I've thought from the beginning that silver is a great investment destined to go much higher in price, but also that it is manipulated. I still feel that way, only now this business about JPMorgan has taken on such significance that it has become the central issue to an extent that renders all other factors in silver to be secondary. Real supply and demand matter for the long term, but in the short term, it's all JPMorgan. That's why I write so much about them.

Even though many may be unclear about the central issue of JPMorgan's concentrated silver short position on the COMEX, I'm certain that some grasp it fully, including JPM itself and all the commissioners at the CFTC. I think that explains why there has not been an open and legitimate debate on the matter. I don't think any of them want to attempt to explain how hedging can ever supersede concentration and manipulation. Frankly, I don't know how I can continue to allege that JPMorgan is manipulating the silver market with no response from them, the CFTC or the CME. It's not something that I had planned or ever imagined doing; the very thought that I would be in this position is alien to everything I have experienced in life. Perhaps I am being naÃ¯ve, but I can only conclude that complaining and reporting an alleged crime in progress to the appropriate authorities is a basic right for a citizen.

What does this mean for silver for the future? It means the price of silver will be determined by JPMorgan. I can't tell you what they will do, just that whatever JPM does with its concentrated short position will largely determine the price of silver. Free markets should not be determined by any one participant, at least according to commodity law. Yet that is exactly the circumstance in silver. There should be no question that without JPMorgan's massive COMEX short position, the price of silver would be dramatically higher than it is currently. That's the clearest proof of price manipulation possible. And don't forget an even simpler question Â? what the heck is an American bank, backed by FDIC insurance and potential taxpayer bailouts, doing in shorting massive amounts of silver futures in the first place? What aren't they making loans and taking deposits instead?

As much as it disgusts me what JPMorgan is doing in manipulating the price of silver, it is not something that it can do indefinitely. Just as many commentators and market observers have come to know that JPMorgan is the big crook in silver, there are many more that seem destined to learn this in the future. Among those who will learn are those in a position to make a meaningful investment in silver as they learn the facts. I'm talking about the managers of substantial institutional funds around the world. Silver is truly a world commodity and there are multiple silver investment vehicles and ETFs awaiting a surge in demand. All that is needed is the spark to set off a buying stampede. I would submit that the spark need be no more than the growing recognition that JPMorgan is on the wrong side of a dangerously construed risk/reward equation. Este banco roba y estafa. Until it can't any longer.

A couple of quick notes. First, the new stock short position report is out and it indicates the short position in the big silver ETF, SLV, declined slightly for the two week period ended June 15, falling by 530,000 shares to just under 13.5 million shares total. We must continue to monitor this short position, but right now, it's not the critical factor it has been in the past. We can live with anything except a big increase in this short position
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

I'm making my annual summer trek to Maine shortly, so Saturday's weekly review may be delayed, hopefully by no more than a few hours. Friday's COT report will be most interesting in regards to how much buying JPMorgan and the other commercials were able to engineer at the expense of the tech funds and other speculators in last week's smack down of silver and gold.

Ted Butler

June 27, 2012

Silver – $26.90

Gold – $1578

Date Created
2012/06/27