June 7, 2010 – Confirmation of Change

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Last week's takedown in the price of silver stirs sentiments ranging from disgust for the regulators for allowing it, to recognition of an even more attractive investment opportunity. I'm going to reserve the disgust sentiment for a separate article, as I'd like to dig into the most recent Bank Participation Report for positions as of June 1.

On May 17, I published an article titled Â?Did JPMorgan Blink?Â? The premise of that article was that Commitment of Traders Report (COT) data indicated that JPMorgan had bought back a significant amount of their massive concentrated short position in COMEX silver futures on a sharp price increase. I found this circumstance to be both remarkable and unprecedented (even though it fit with my long-held expectations). So remarkable that I was openly concerned that there may have been a reporting error by the COMEX and CFTC. Fortunately, the data reporting looks correct, so let's review it.

My conclusion was that JPMorgan's buying while prices were rising signaled that the silver manipulation would soon end if JPM moved to eliminate its concentrated short position. Such an end to the big concentrated short position would result in an explosive move to the upside. Interestingly, the sharp price drop of recent days does not negate the price explosion premise in any way. In fact, it actually enhances the explosion premise. This can be a complicated discussion, so I'm going to try to keep it as simple as possible. But if any reader has any specific questions, please let me hear from you.

The unbroken rhythm of the market and the essence of the silver manipulation are centered on technical fund buying and commercial selling on the COMEX as prices rise and the opposite when prices fall. This is the pattern that actually causes silver prices to rise and fall. While generally true in every market, this trading pattern had grown to grotesque extremes in COMEX silver, as measured by objective comparisons related to percentage levels of concentration and real world supply and demand data. No commodity comes close to COMEX silver in terms of its concentrated short position versus world production and inventories. No commodity has ever been this manipulated before. The resultant artificial low price and the actual fundamentals are so convincingly bullish that the short side of COMEX silver has become concentrated in fewer and fewer hands, as it made no apparent economic sense to short silver. If it did make sense to bet on silver dropping in price, surely the short position would be held by many, not by so few. Meanwhile, the buyers have become more numerous in reaction to the compelling investment value in silver.

A common fear among many is that the few commercial silver short sellers, led by JPMorgan, are so big and powerful that they can continue the silver manipulation indefinitely. This is a false fear, as every manipulation must end suddenly and violently. In the case of silver, two things suggest the end is near for the manipulation Â? the realities of the coming physical shortage and the growing recognition of the manipulation itself. We draw closer to the inevitable moment when industrial users will be more concerned with the immediate delivery of physical material more than the cost per ounce. At the point when real silver is needed immediately and that silver is not available at that moment, additional paper short sales will only cause an obvious disconnect between the physical and paper price.

Also, I am amazed (even though I started the awareness process) by how widespread the knowledge of the silver manipulation has become. That's not conducive for the manipulation sustaining itself for much longer, given how silent the regulators and the perpetrators have been in response to specific questions and allegations. If the CFTC and JPMorgan can't explain or defend the concentrated short position, it would be logical for them to move to eliminate it. That's why the data in the recent COT and Bank Participation Reports are so noteworthy.

The new Bank Participation Report indicates that the US banks (JPM) reduced their short position by 4300 contracts which confirms the earlier COT report that first revealed the data. It is clear from that earlier report that this short position was bought back on a sharp $2 price rally. Make no mistake, this reduction, by 12.5%, still leaves a 30,000 contract net concentrated short position, the equivalent of 150 million ounces. So why am I making such a big deal out of this reduction by JPMorgan of its giant short position? Because it was bought back on sharply rising prices, it suggests that JPMorgan is serious about closing out the short position as much as it can.

If anyone understands the rhythm of the market, it would be the silver traders for JPMorgan. These silver traders, formerly from Bear Stearns, have managed the silver market even before JPM became the big concentrated short on the COMEX, due to their merger in 2008. For these traders to cover aggressively to the upside may confirm they have gotten the word to unwind the short position. If they can't justify it, then they must get rid of it at some point. One other thing that makes the silver short covering in this month's Bank Participation Report remarkable is that the concentrated short position in COMEX gold rose to an all-time extreme at the very same time silver's concentrated short position declined.

There's no question that JPMorgan tries to buy back as much of their short position as possible on price declines, like last Thursday and Friday. But they are always faced with competition in their buying from the other big commercials looking to cover shorts, as well as the raptors looking to add to longs. The traders at JPM also know that the other large commercials and the raptors will be selling on price rallies, but JPM will then face buying competition from the technical funds, who always buy on prices rallies. The solution for JPM? Buy to the upside as the other commercials sell, but before the tech funds start buying. How to do that? By buying aggressively out of the blue, causing the price to rise so much that the technical funds will be leery of buying at the suddenly higher prices. Therefore, I would look for JPMorgan to buy aggressively at any moment. And continue to buy, driving prices sharply higher still.

I started writing this piece yesterday (Sunday), thinking I'd have the luxury of time, as the commercials continued to collude and drive prices a bit lower than Friday's lows, so they could pick off the tech funds on a leisurely basis. Obviously, today's mid-day reversal action to the upside robbed me of the luxury of time, as it looks to me like JPMorgan started buying aggressively to the upside again today. Therefore, I'm cutting this article short and sending it out. I can't tell you for sure if this is the exact start of the real move to the upside, but the start of that move would look a lot like today's move to my way of thinking.

There should be no question in anyone's mind that the silver sell-off on Thursday and Friday was due to the sole reason of the commercials tricking the technical funds into selling. There was no silver news to account for the sell-off, or for today's rally. This was all a COMEX paper rig job. If today's buying was, as I suspect, by JPMorgan to the upside, then we could be at the point of ignition to the upside. There's no way the largest silver short seller in history can terminate its role as being the seller of last resort without having a profound impact on price.

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