

March 11, 2015 – Questions and an Update

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I'm going to paraphrase some questions I received this week from a subscriber that have been asked frequently in the past, as well as a comment from him that I've heard before, although not as frequently. (The reason I'm not publishing his comments verbatim is because they were rather kind and may have looked self-serving on my part). Darrel's first question had to do with why the miners were missing in action when it came to allegations of price manipulation in silver and gold. As he correctly pointed out, nothing could be more important to a commodity producer's bottom line than the price of the commodity produced. Any hint of unfair price interference in the any other commodity or product would bring howls of protest and legal action by every other group of producers imaginable. Darrel wondered, what's up with the silver and gold miners, are they brain dead?

I have wondered the same thing for the past 30 years. When I first uncovered the COMEX silver manipulation, three decades ago, after first petitioning the regulators (the CFTC and the COMEX, I approached the silver miners with my allegations of manipulation since they (and their shareholders) were the obvious victims. While some individuals were supportive, the only company that took a deeper look and engaged me financially was Sunshine Mining, which, unfortunately went bankrupt (not due to silver, but an ill-timed options bet on oil). Aside from Sunshine way back when, why have the silver miners ignored the growing allegations about price manipulation?

I can't read peoples' minds and the best I have been able to understand why senior mine management has been so hostile to even engaging in an open debate on an issue that so many have increasingly come to fully accept is based on a few things. One, there is a natural aversion to believing anything bad about someone that you depend upon financially. The banks who have manipulated the price of silver and gold on the COMEX also provide financing and other important services to the miners. Therefore, there is a natural reluctance to accepting outside advice that runs counter to insider influences. Who are you going to side with, someone who controls your financing or some outsider (like me) with no financial connection?

Another factor, related to this, is that most mining CEO's are, like corporate heads in any industry, take-charge type-A personalities. The head of any enterprise is typically not a shrinking violet and usually possesses some degree of ego. I don't mean this necessarily as a negative, but typical CEO's don't like to be told what to do and certainly don't like admitting they may have been wrong about anything (I confess to holding similar traits). The upshot is this: because so many mining CEO's had dismissed allegations of manipulation early on (at the urging of the banks or their agents), they are very reluctant to do so now because that risks the admission of being wrong previously. No matter that the companies and their shareholders are suffering due to the manipulation, apparently ego and not having to admit one might have been wrong is more important. Something is preventing the silver and gold mining company management from addressing the issue of price manipulation and that's my best guess.

Darrel also asked why no one from the inside, say a disgruntled former employee, hadn't stepped forward to expose the manipulation if it were as obvious as I contend. Let me add to that under Dodd-Frank, the financial incentives granted to whistleblowers are so extraordinarily large that those incentives are compelling in a way hard to overstate. If the CFTC ever found JPMorgan to have manipulated the price of silver (as they should have) and fined the bank in proportion to the offense, the potential payoff to a whistleblower would be in the tens to hundreds of millions of dollars. Please note that there were no whistleblower incentives in place for me in alleging manipulation to the regulators for decades; I can honestly say that what drove me was the knowledge that the most serious market crime was in progress and how wrong that was.

So why hasn't an inside whistleblower (as opposed to an outside whistleblower like me) stepped forward? My answer is that I think some may have come forward legitimately (not the popular ones you may have read about), but there is an overriding force that has prevented a legitimate whistleblower from exposing the silver manipulation. The problem is not with any inside or outside whistleblower; the problem is with the regulator, the CFTC. And this is one of those contentions on which I have been remarkably consistent. Because the agency has denied that silver has been manipulated for going on 30 years now, there is no way that it can ever admit it is manipulated now. It makes no difference that just about every market that the banks control has been found to have been manipulated other than silver or gold; in fact, that just raises the stakes and makes the CFTC more determined not to admit silver is manipulated.

It would be impossible for the CFTC to now find that silver has been manipulated and avoid the fact that it has been put on notice for decades that silver was manipulated. The regulators weren't put on notice that LIBOR or foreign exchange benchmarks were manipulated for decades, so they could deal with those manipulations with no accusations of coming to the party late. That's not the case in silver; in fact, the CFTC investigated silver on several occasions and found nothing wrong. Or rather, nothing they did anything about. To come out now and, effectively, admit they were wrong for 30 years would be so serious as to threaten the agency's existence, or at a minimum its independence (it would likely be absorbed into the SEC).

Let me summarize and conclude on Darrel's two questions, before mentioning his comment. I've tried to explain why miners don't speak up and why the CFTC won't regulate and I'm not particularly hopeful that might change (although if anything changed, it would be the miners). But neither is required for silver to increase in price sharply. I believe the price will do just fine without help from the miners or the regulators, just as was the case on the price run into 2011.

Darrel's comment was of interest because it has come up before, although I've never discussed it. He suggested that by sending my articles to JPMorgan and others I might be giving them my playbook that they could then use against long term silver investors. He felt I was perhaps aiding the enemy and pointed out that when I write of a negative COT market structure, prices invariably fall. Wouldn't it be better if I just accentuated the positive and eliminated the negative? At the very least, Darrel raises a valid point and in no way am I minimizing it. After all, the very last thing I would want to do is help the commercial manipulators in any way. But there are a number of factors that I believe might supersede Darrel's legitimate concerns.

One reason I send my articles to the regulators and JPMorgan and the CME Group is because I believe it is the right thing to do; accusing anyone of wrongdoing in secret or anonymously would be underhanded. I also think (perhaps naively) that it helps protect me from accusations of libel. I must have sent all of them more than 600 articles detailing specific instances of wrongdoing and I've never once heard a peep about any offense any may have taken. One would think if I was so off base, I would have heard something by now.

More importantly, I base my analysis on easily verifiable public data, principally the CFTC's COT data. That data both suggests price trends, while at the same time provides the proof of the manipulation. Many manipulation deniers and critics love to erroneously point out that no one ever complains about manipulation when prices are climbing, only when prices fall. Regular readers know that is nonsense and that's because I am usually most vocal about manipulation at price tops, precisely because that is the point of maximum concentrated short selling by JPMorgan and other commercials. Either a market is manipulated or it isn't; it is impossible for a market to be manipulated for as long as silver has been if the manipulation weren't a continuing process.

There's no voodoo or deep secret to my COT analysis. When the commercials get as least net short as they can, the market looks good to go to the upside. When the commercials are overloaded on the short side, the market is not usually good to go to the upside. I may be wrong (and please let me hear from you if you feel I am), but if I refrained from suggesting that the COT structure was bearish when, in fact, it was bearish, that it would make any difference to prices falling. Any legitimate analyst strives to be objective and avoid sugar-coating or distorting the facts. For me to avoid pointing out when the commercials are packed like the criminal rats that they are on the short side would seem to validate the manipulation deniers' criticism and expose me as non-objective. I don't think I could do that in good conscience, particularly knowing it wouldn't likely do any good. Not for a minute am I minimizing or invalidating Darrel's concerns and I have heard from others with similar concerns, I'm just openly considering them. Again, if you disagree, please let me hear from you.

The much-anticipated (by me at least) short interest report on SLV, the big silver ETF, was released last night and, once again, I was taken by surprise. Where I was looking for big decline in the short position on SLV (and GLD, the big gold ETF), there was a big increase instead. You may remember that the previous short report featured large decreases in the short positions where no such decreases were expected. For the period ended Feb 27, the short position in SLV increased 3.2 million shares to 16.9 million shares (ounces), while the short position in GLD increased by 2.1 million shares to more than 11.4 million shares (1.1 million gold ounces).
<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

What's going on, why are the changes in the short position, particularly in SLV, so unexpected recently and counterintuitive? I don't know. Maybe there is some type of time period discrepancy in deposits of metal and short sale statistics that I'm unaware of. I'm confessing that I don't know for sure, but it's still wise to put the data into proper perspective. In terms of total shares outstanding, the short position in SLV represents just under 5% of total shares (4.5% in GLD), still markedly lower than the near 12.5% peak some years ago.

And the increase in this reporting period of 3.2 million shorted shares amounts to less than 700 COMEX contracts, so this needs to be put into perspective. Clearly, the shorting of SLV shares is not at the heart of the price manipulation, as that belongs to the COMEX. Where the short position in SLV comes into play is at the margins and the main thing to be concerned about is when that short position is much higher as that has always meant a lack of availability of physical metal to deposit into the trust. Still, the thought process gets cranking when the changes in the short position on SLV comes in so unexpected. My biggest takeaway from this is that it is related to physical demands for silver. There are other factors pointing in this direction, such as COMEX warehouse movements and continued strong relative demand for Silver Eagles (compared to Gold coins). At the center of all this still appears to be JPMorgan, which continues to stand for delivery on the March COMEX silver futures contract and is still (in my opinion) behind the heavy purchases of Silver Eagles.

As has been the case for eight days running, silver (and gold) has hit successive new price lows on the COMEX through today. I know some things for sure — how and why this is happening, even though I can't know what everyone (including me) wants to know, namely, where's the exact bottom? That will only be known after the bottom has passed. So let's stick to what is known — the how and why of the decline.

This price decline is a 100% pure COMEX production, as is nearly always the case. It is not the result of any developments in the physical world of silver, such as investors selling physical silver on balance. It is not the result of any sudden increase in silver (or gold) mine production or falloff in physical industrial demand. Technical funds and other price momentum speculators are selling into the lower prices that the commercials know how to create. The commercials rig ever lower prices for the purpose of buying whatever contracts the technical speculators can be induced into selling. The game has become so obvious and repetitive and proven by the CFTC's own data, that the only wonder is how everyone can't see it after it's explained to them.

What is also known is that there is a limit to technical fund selling. There may be no limit, in theory or practice, as to how many contracts the commercials can buy or sell, but there is a very finite limit for the technical funds. Quite simply, if the equation was reversed and it was the commercials who were limited in any way and the speculators could buy or sell in unlimited quantities, the COMEX silver manipulation would not have lasted even a year, to say nothing of not enduring for 30 years. JPMorgan demonstrated on several occasions over the past seven years that it was allowed to hold over 40,000 net contracts of COMEX silver short, the equivalent of 200 million ounces. Never would an individual technical fund or other speculator be allowed to hold 40,000 contracts of COMEX silver. I'm not telling you anything you don't know about the COMEX paper game being rigged and how the key to ending the manipulation now rests in the physical silver market, but even the current price takedown will soon be exhausted in strictly paper terms.

Due to the continuous streak of down days, unusual even by gold and silver standards, the technical funds have had every incentive and opportunity to sell long positions and add new short positions, which the commercials have been gobbling up on the buy side. Since we were down every single day during the reporting week that ended yesterday (and continuing today) it's almost impossible that there hasn't been heavy technical fund and speculative selling and commercial buying to be reported in Friday's new COT report. How much? I'd guess maybe 40,000 net contracts in gold and 10,000 in silver. Whatever the numbers may be, more technical fund selling and commercial buying occurred today. This is salami slicing at its finest.

How much technical fund selling/commercial buying is enough? Since I was already of the opinion (in the weekly review) that we were close to exhausting technical fund selling potential, the additional selling we've seen this week brings us closer to the exhaustion point and, therefore, to whatever the bottom turns out to be. As I also pointed out on Saturday, this is the time when one can look real stupid in explaining why prices must stop falling, as they continue to fall. Unfortunately, that's the nature of the analysis.

I would ask you to consider this \hat{A} ? as I described above in regards to Darrel's comments, I don't think it makes much difference to the eventual price outcome when I point out when the COT market setup is bearish and I say so. Likewise, I'm not much concerned about temporarily lower prices when the set up looks as bullish as it does now; just as temporarily higher prices don't matter much when the setup is bearish. The big difference is that silver is destined for much higher prices in time on the realities of how much physical material will be available versus the even smaller amount of money that translates into. It's OK and even advisable for long term investors to ignore a short term bearish COT market structure, but there is no possible excuse not to hold as full a silver position as possible when the short term market structure is bullishly aligned with the long term realities. Even if you look dumb for a while.

Ted Butler

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Silver – \$15.44

Gold – \$1152

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