March 20, 2013 – A Busy Week

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There were some notable developments these past few days which may have a bearing on silver. I'm not sure how to rank them in importance, so don't let my order of presentation unduly influence you. I'll start with the recent and, apparently, final dismissal of the class-action civil lawsuit against JPMorgan for manipulating the price of silver.
http://www.reuters.com/article/2013/03/18/us-jpmorgan-silver-lawsuit-idUSBRE92H10520130318?type=companyNews

This case dates back to late 2010, when a number of civil lawsuits were consolidated and granted class action status against JPMorgan for manipulating the price of silver. As I have previously indicated, I did meet with the lead attorneys for the plaintiffs early on, but that was a single meeting and I have had no involvement in the case since. Let me get out my personal take on the whole process and then get into what it says about silver going forward. This was a most unusual personal experience for me, almost surreal, and I'd like to explain why. Please remember that I am not a lawyer and don't infer otherwise.

I was delighted when the case was first filed, simply because it followed both my broad outline of a silver manipulation and centered on JPMorgan as the chief manipulator. This was an unexpected confirmation of my long-held allegations. But my delight soon turned to concern when I read the actual wording in the initial and subsequent filings. That's because the legal presentation was not at all convincing to me, the one person in the world most convinced that silver has been manipulated by JPMorgan. At first, I thought that the first filing was rushed to meet some statute of limitation deadline and would be radically revised and restated later. No revision was forthcoming; why I don't know, but that's moot at this point.

Instead, each subsequent filing had me more concerned, because the case veered from the hard evidence in publicly available COT and Bank Participation Report data to hearsay and speculative trading theories. Even knowing that silver was being manipulated by JPMorgan, I came to expect that the case would be dismissed. Since I had commented on this case in the weekly review of Dec 29, I would ask you to reread those comments for the sake of brevity. There are some other things I'd like to mention about the case.

Keeping with my recent theme of unprecedented circumstances turning up in silver, this class-action case was another one. To my knowledge, this was the first time a civil case, class action or otherwise, alleging a commodity market manipulation was filed before any regulator first brought such an allegation of manipulation. Normally, the government files charges of manipulation and after the case is resolved or settled, then the civil cases kick in. That the normal sequence wasn't present in the civil manipulation filing is something I've thought about often. After all, in a seemingly strong defense against manipulation, JPMorgan could (and did) state that there was both a federal regulator in the CFTC and a self-regulator in the CME Group and if those regulators weren't charging JPM for manipulating silver, then what right did a civil plaintiff have for doing so?

Since there was a noticeable rush to file the civil law suits in a race to attain class-action status, perhaps the civil case was filed thinking that the regulators would bring charges of manipulation as the civil case wound its way through the court, making the civil case a slam-dunk. Or perhaps the plaintiff attorneys felt confident enough about the merits of the case that they were only shooting to get to the discovery stage and would be sure to uncover the facts thought to prove the case (even though those facts were already available in CFTC data). It doesn't matter now because the case is over. What matters is what it says about silver.

The big take away is that the filing of the civil case was unprecedented in that no government case preceded it. The main reason why this occurred was because the CFTC refuses to acknowledge the obvious, namely, that it is growing common knowledge that silver is manipulated in price by JPMorgan and the agency is in some sort of cahoots with JPM to allow the manipulation to continue. The ongoing CFTC silver investigation was initiated two years before the civil case was brought in November 2010. The civil case should have been patterned after the same issue of concentration that the CFTC still can't address, namely, how can a US bank holding 30% of a market not be manipulative to the price?

What stands out to me about this whole experience is that a civil manipulation case was filed even though the plaintiffs' lawyers didn't have all the facts in hand: yet the federal regulator, the CFTC, which does have all the facts at hand, refuses to resolve its 4.5 year investigation. Adding to this, the nation's largest and most important bank is at the center of the allegations of an ongoing silver manipulation. Most remarkable of all is that JPMorgan is being openly referenced as being a crook for their role in COMEX silver. I would submit that this is not a situation that can endure much longer. The tossing of the civil case against JPMorgan has done nothing to alter public perceptions that the bank is the prime silver manipulator. The plaintiffs' lawyers were unable to prevail against JPM's lawyers, but in no way did JPM convince anyone outside the case that the bank isn't crooked when it comes to silver. My conclusion is that this whole JPMorgan/CFTC silver scandal is racing towards a dramatic resolution and there can be no true resolution to the silver manipulation that doesn't include sharply higher prices.

The standout news development this week is the Cyprus banking crisis. I don't have enough of a working knowledge to comment on the matter except in the most general of terms. The crisis can be traced to bungled and ill-thought out financial negotiations that make it possible for bank runs to develop in Cyprus and perhaps elsewhere. How might this effect gold and silver? At the very least, it introduces a level of general anxiety that didn't exist a week ago as concerns the safety of bank accounts in Cyprus and elsewhere. Confidence is hard to gain and easy to lose. I can say with a high degree of certainty that not one of the world's citizens would have sold any gold or silver to deposit the funds into an insured bank account because of the crisis in Cyprus.

That said, I am a supply/demand analyst who considers the actual flow of metal and changes in the market structure. I am not a Â?gloom and doomerÂ? who recommends the purchase of silver (or gold) for the prime purpose that the financial system or the dollar might crash. Since I can't guarantee against ugly financial developments and because I am well aware that many buy silver and gold for such purposes, I'll never say that's the wrong reason for buying precious metals. It's just not my prime focus. I believe silver is going much higher in price because of a coming physical supply/demand crunch and because its price has been manipulated lower by JPMorgan. I know that investment demand is an important driver of silver and gold prices and that it matters little what may drive investment demand. Certainly, if unexpected physical precious metals demand comes from the banking crisis in Cyprus, it will impact the price.

Truth be told, I would have expected the Cyprus crisis to have exerted much more of an upside push to gold and silver prices than has been witnessed so far. That's because we are currently in a Commitment of Traders (COT) set up that would appear to need only the flimsiest of excuses to set off a rally of significant proportions. As a reminder, I believe the prime short to intermediate cause of price movement in gold and silver and other commodities to be trading in the paper futures markets. The continuous and repetitive process of the commercials collusively maneuvering the technical funds in and out of positions is what drives prices short term. Looking at what happened to prices this week, in light of the crisis in Cyprus; I am more convinced than ever that changes in the COT market structure are what matter most in why prices move.

Stated differently, while the subdued price movements in gold and silver seemed odd considering the bullish COT setup there, I believe they made more sense considering what happened in other markets, like copper, platinum and palladium, other markets traded on NYMEX/COMEX. The high-volume price plunges in copper, palladium and platinum Monday and yesterday appeared directly related to a joint commercial maneuvering to induce technical fund selling in those markets. I think the main reason gold and silver didn't take off this week to the upside (because of Cyprus) was such a price jump would have spoiled plans for the prearranged takedown in those other metals. If anything, the price action in these metals this week makes me more convinced that the manipulative disease that has inflicted COMEX silver (and gold) for so long, has now spread to the other metals as well. In other words, the events in Cyprus underscore that paper NYMEX/COMEX trading is what sets the price. Of course, this is illegal under US commodity law.

Unfortunately, knowing this does not assist in short term price prediction, although it can be very important to longer term price forecasting. Each market is different. In copper, the commercials are aggressively building a large net long position. This means high odds for a price rally at some point, once the commercials have bought as many copper contracts as possible. In platinum and palladium, it's a question of how much the commercials can reduce an extremely large net short position. In gold and silver, the commercials held a low historic net short position as a result of the price takedown this year, so it's more a question of whether the commercials can wring out the last bit of technical fund selling. My conclusion is that the price rigs in gold and silver have spread and taken hold in other markets to the ever-lasting shame of the CFTC.

This can be seen in the concentrated short positions in platinum and palladium, which now rival silver in some respects. In all three markets, the concentrated position centers on a US bank or banks. I believe there is one US bank behind the short concentration in platinum and palladium and that bank is JPMorgan, same as in silver, although I do not have the proof of that like I do have in silver. But there is enough data to infer that it is JPMorgan that is also the big short in platinum and palladium, in addition to the bank being the big silver short (and probably in gold as well). I would ask you to consider the implications of what I am suggesting.

If JPMorgan is the big short in silver, platinum, palladium and gold, that should raise all sorts of questions. For starters, why is this bank the big short in all these markets and what impact does that have on price? The whole issue of commodity price manipulation centers on concentration. With no concentration, there is little to no chance of price manipulation existing in a market. When concentration does exist, the probability of manipulation soars. That there is a verifiable concentration on the short side of COMEX silver and NYMEX platinum and palladium by a US bank(s) suggests that all three markets have the chief requisite of price manipulation present. This data is derived directly from CFTC market reports and which points to the high probability that price capping has occurred in these three markets (and probably in gold, as well). After all, without the concentrated short selling, we all know prices would have risen more substantially until other market participants came to the market to sell. In other words, the concentrated short selling in silver, platinum and palladium (and gold) resulted in prices being artificially depressed or manipulated.

That it is JPMorgan as the likely concentrated short candidate in all four markets is deeply troubling. Why is any US bank so heavily involved on the short side of any metals market, to say nothing of why is our most systemically important bank probably the one big precious metals short? It's hard not to reach the conclusion that JPMorgan has been anointed by some entity within the US Government to tamp down any price rally in any precious metal market. This also explains why the CFTC has stood by in allowing the silver manipulation to spread to other markets, violating its most important mission of preventing manipulation. Instead, it appears the CFTC is sanctioning an ever-expanding price manipulation scheme. As such, they appear as crooked as JPMorgan.

Despite the increasingly obvious and spreading pattern of undue concentration and manipulation, I don't see how it can be successful in the end. Three of the commodities in question – silver, platinum and palladium- do not have substantial enough above ground inventories to allow a price suppression scheme to last indefinitely. If these markets are manipulated by a concentrated short position as I allege, sooner or later physical shortage will force an end to the manipulation or an exchange default of some type. I also believe that the greater attention placed on JPMorgan's role in this mess will hasten the day of resolution.

There were some other developments this week that I'm going to skip over, such as Commissioner Bart Chilton's revelation that Â?wash tradesÂ? comprised a big part of the crooked HFT trading that plagues many markets. What he didn't say was that phony HFT is more prevalent in COMEX silver than in any other market. I would like to comment on the extraordinary metal flows into and out from the big precious metals ETFs, mainly GLD and SLV.

Since late November, mainly due to price-rigging on the COMEX, the price of gold had fallen around $200 peak to trough. On that price move down and because of it, almost 135,000 net COMEX gold contracts were sold by technical funds and other speculators and bought by the commercials. That amounts to 13.5 million oz of gold; paper gold, to be sure, but still a quantity much larger than any other documentable amount of gold changing hands. In the gold price move lower, physical metal was redeemed in the big gold ETF, GLD, to the tune of 4 million oz since year end, with more than 3 million oz coming out in the past month. On Monday, there was a very large 435,000 oz redeemed in the GLD. I still think that, by size alone, COMEX trading is dictating gold prices and that the liquidation in GLD came after the COMEX price rig was well advanced.

I also continue to think that the selling in GLD was largely ordinary investor liquidation in response to the deliberate decline in price and resultant negative press about gold. The 10% reduction in GLD holdings since year end, while worth close to $7 billion, is only half the near 20% reduction in metal holdings in SLV back when the silver price was deliberately smashed as much as 35% starting May 1, 2011. In SLV, close to 60 million oz were redeemed back then.

The standout feature in the SLV this year has been the lack of a significant redemption in the trust paralleling what has occurred in GLD. Instead, SLV had added more than 20 million oz since year end, perhaps due the big single day 18 million oz deposit related to the short position. That suddenly changed yesterday, when nearly 5 million oz were redeemed from the SLV. I have a decidedly different opinion about the decline in GLD holdings and the one-day decline in SLV yesterday.

Whereas the GLD redemption still looks like ordinary investor liquidation (hopefully near an end), yesterday's 5 million oz SLV redemption couldn't possibly be for the same reason. Silver prices were stable for the past week (and longer) and trading volume in SLV was substantially below average. This basically eliminates ordinary investor liquidation being the cause. The most plausible explanations for the large SLV redemption were metal being removed by a large investor or for industrial use purposes. (You'll remember that I had earlier opined that converting SLV shares for metal could eliminate large investor reporting requirements of the SEC). Either of these explanations is highly compatible with the ultra-tight wholesale physical silver structure I speak of incessantly.

Finally, a word on recent price patterns. We've been in a fairly tight trading range in gold and silver for the past month and it still feels and reads like the COT structure is sufficiently washed out to support a major rally at some point. Of course, as was demonstrated so far this week, the exact timing and daily price direction can be counterintuitive with news events due to collusive commercial COT intentions. As such, sudden sell-offs can't be ruled out. But we do seem to be rushing to some type of structural climax in many metals markets, with silver being the most critical. Considering the growing evidence that more markets may be coming to be infected with the JPMorgan short concentration disease, I'll leave the short term price predictions to others.
In the long run, however, it's hard to see how silver won't soon explode in price as the physical shortage inches closer.

Ted Butler

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Silver – $28.80

Gold – $1607

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