

March 27, 2013 – Cyprus and Silver

Cyprus and Silver

An alert subscriber from the land down under pointed out that I miscalculated the position of the 4 big shorts in silver this past week (and, by extension, JPMorgan's short position). I don't know how the heck I did it, seeing how there are only two numbers involved (total open interest multiplied by the percentage given) and my \$3 calculator (solar-powered) hadn't made an error in the ten+ years it has refused to die. Obviously, it had something to do with fat fingers (mine). When I first received Glenn's note that his figures showed JPMorgan to be short 22,500 contracts and not the 21,500 that I indicated, I assumed he was mistaken. After all, I had made this calculation once a week for over 20 years (or for how long the COT report has been published weekly), so one would think it should go off without a hitch. But the good thing about simple math is the ability to quickly verify and it was easy to see I had erred.

In thinking about it further, it dawned on me that Glenn's email was remarkable in a different way, namely, that he had a darned good understanding of JPMorgan's position, if he could point out that I had miscalculated. Granted, my guess is that Glenn looks at the COT and other data from the CFTC in a perspective learned from me, but it still struck me that would seem possible only if the formula of analysis were logical and compelling and people could follow it. In other words, what was truly remarkable was Glenn's ability to measure JPMorgan's concentrated short position in COMEX silver from the public data. I'd like to expand on that a bit.

Five years ago, JPMorgan took over the failing Bear Stearns and with that acquisition became the largest short seller in COMEX silver and gold. I didn't know that Bear Stearns had been the big COMEX short seller at the time, although I had speculated correctly (I believe) that before Bear, it was AIG Trading and before that, the big short was Drexel Burnham Trading. Even though JPMorgan became the big COMEX silver short in March 2008, it would take me about six months to learn that in the August 2008 Bank Participation Report, although I knew JPMorgan was consistently the biggest player by far in OTC precious metals derivatives (and all other OTC derivatives). This is not intended as yet another walk down Memory Lane, but this timeline is the key point of demarcation about when JPMorgan first came into view as the prime silver manipulator. I have referenced this article more than any other, as it tells the real story.

<http://news.silverseek.com/TedButler/1226344970.php>

My point in rehashing the timeline is to demonstrate what I think has occurred as a result. Not only did the August 2008 Bank Participation report kick off a formal CFTC silver investigation that persists to this day; it has resulted in a near universal knowledge within the precious metals world that JPMorgan is the big silver crook. Of all the unprecedented developments that I highlight in silver, perhaps the most unusual is the widespread awareness that the silver market is manipulated and, specifically, that JPMorgan has been identified as the prime manipulator years before the manipulation has been resolved. That's never occurred before.

When I first identified JPMorgan as the big COMEX silver short four and a half years ago, I did so with great trepidation and even respect, given the bank's high standing in the financial world at that time. In the fall of 2008, we were deep into the grip of the greatest financial crisis the world had seen since the 1930's and JPMorgan was one of the few large banks thought to be navigating that crisis unscathed. Fast forward to today and there is an article in the NY Times indicating that JPMorgan is currently being investigated by eight different federal agencies. <http://dealbook.nytimes.com/2013/03/26/jpmorgan-chase-faces-full-court-press-of-federal-investigations/> (Please be sure to read the public comments as it's really hard to find a supporter of the bank. I'd also swear that some of those comments pertaining to silver came from subscribers - in which case you have my thanks).

Obviously, the knowledge that JPMorgan is the big silver manipulator has not been enough to end the manipulation yet, but events in our strange modern world sometimes indicate that widespread knowledge of a problem can be ignored for a while before reality sets in. I think that recent events in Cyprus illustrate this and it occurs to me that there is a strong Cyprus/silver comparison to be made, aside from the buy metals on banking fears premise. I admit upfront that I see the world through a silver perspective, so I ask your indulgence in making my case.

As I indicated previously, I had little prior knowledge or interest in the banking affairs of Cyprus. All of what I think I now know about that situation has come after the crises unfolded less than two weeks ago. As I get older and the world becomes more complex, I strive to simplify and summarize the whirlwind of new developments into terms I can understand. Basically, this is how I cope with the world. Please allow me to simplify the situation in Cyprus and what it portends for silver.

The problem in Cyprus is that, as a member of the Euro community, it does not control the creation of its own currency and must rely on the European Central Bank for a bailout. The bailout is required because the banks in Cyprus are broke and can't cover the money deposited in those banks due to investment losses with depositors' money. Because so much money is owed to depositors and those depositors include outside (Russian) interests, any proposed bailout would cause great losses to uninsured depositors, intensifying fears of banks runs elsewhere in the Euro community. As it stands, both uninsured and insured depositors in Cyprus appear subject to capital controls, meaning they won't have complete access to their funds for some time (at best). Since the banking community was an extremely large part of the GDP of Cyprus, the economic toll on the island nation appears to be devastating.

What is most remarkable about all this is that for many close to the situation (not me) there was widespread awareness about the general conditions of the banks in Cyprus for years on end. The losses on depositor funds did not occur in the days ahead of the crisis and the closing of the banks. Yet, despite that advanced knowledge, no solution was forthcoming and the worst bank crisis in memory has hit ordinary Cypriots. It looks to me that the timing of the crisis, less than two weeks ago, was precipitated by the banks in Cyprus literally running out of money before bailout funds and terms could be arranged. In other words, the banks in Cyprus simply ran out of money and time simultaneously. Then came a sudden and blinding moment of truth when everyone came to learn what was previously known to only a relative few.

What has this got to do with silver? I think a lot. Just like there was a sudden and dramatic wakeup call for depositors in the Cypriot banks, we face such a wakeup call in silver. And just like the moment of truth came for the banks in Cyprus when they ran out of money, that same moment will come in silver when we run out of enough physical metal to satisfy demand. The stage was set in Cyprus by events that long preceded the actual bank holiday, just as the stage has been set in silver by JPMorgan's silver manipulation.

One of the things you hear constantly about Cyprus is how tiny its GDP is in economic terms, only some 0.2% of Euro zone GDP. In very broad terms, there were around \$130 billion of deposits in banks in Cyprus. Yet, as tiny as that may be, it is many times larger than the value of all the silver bullion in existence (\$30 billion) or the amount of new silver available for investment in the world annually (\$3 billion). My point is that if sudden wakeup calls are more prone to occur in smaller settings than larger ones, then, by size alone, a dramatic event in silver is more likely.

The most compelling argument for a Cyprus moment in silver is the irreversibility of a foregone conclusion based upon the physical facts. If someone manipulates the price of a world commodity, either too high or too low, there must be an eventual and inevitable reaction in the real world of supply and demand to someday break the manipulation. This is economics and commodity law 101. Further, when the price manipulation (distortion) does end, it must end suddenly and dramatically.

There was some chance that the banking crisis in Cyprus could have turned out much better than witnessed so far, if different measures were undertaken sooner. Unfortunately, the bailout process was bungled badly. There are no such possible measures in silver that can head-off a sudden ending to the ongoing downward price manipulation. There is a clear distinction between problems and solutions involving money or material. Simply stated, you can fix money problems in money terms of some type, but material problems must be addressed in terms of actual material.

The citizens of Cyprus will pay a high price in money and financial terms for the banking crisis and my heart goes out to them. For the million or so innocent citizens affected by the crisis, there is not much else to offer. In a literal flash, many lives on Cyprus have been turned upside down, through no fault of their own due to this man-made disaster. In contrast, there does not appear to be many prospective innocent citizens likely to be harmed when silver experiences its moment of physical truth. Instead, those silver investors properly positioned will reap a windfall when the silver shortage hits in full force.

There are certain imbalances that can last far longer than we may reasonably expect, but can nonetheless end in a literal instant. Maybe not every imbalance must end suddenly, but some must. I've long held that the physical imbalance in silver brought about by the price manipulation is one destined to end suddenly and dramatically well before the crisis in Cyprus. The forces in silver are much stronger than the money forces of the banks of Cyprus since those forces are physical (in the form of increased investment demand). The bank depositors of a sovereign nation woke up to the shock of a complete realignment of priorities and their daily lives overnight. The coming overnight shock in silver will be more forceful, but far less negative in its impact. The world is not going to end when silver explodes in price and there will be many jubilant silver investors. There were few, if any, such investors involved with banks or deposits in Cyprus.

Why Cyprus is another confirmation to me that the silver manipulation will end suddenly in an explosion of price, is that I can see no plausible explanation pointing towards a gradual end. Specifically, I can't see how JPMorgan can legitimately eliminate its concentrated short position on the COMEX without a price explosion. I can see how they might rig prices lower like they did overnight (more on that in a moment) in order to buy back a few more short positions; but I can't see how they can rid themselves of the short position without price fireworks to the upside at some point. It's something I think about often and please feel free to tell me of any plausibility's you may see. Heck, I think silver prices will explode if the crooks at JPMorgan just don't add to shorts on the next silver rally (like it did on the last two silver rallies).

A couple of quick notes before talking about current market action. There was an increase in the short position of SLV as of March 15, but the increase of 850,000 shares to just under 9 million shares short, didn't set off any alarms to me

<http://www.shortsqueeze.com/?symbol=SLV&submit=Short+Quote%99> Meanwhile, sales of Silver Eagles took another big jump yesterday and it looks clear that the US Mint has added production capacity.

http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2013 Silver Eagle sales are a good indicator of the strong investment demand currently in place in silver. In addition, continued strong movement in the COMEX-approved silver warehouses point to wholesale tightness.

In the last two articles, I mentioned how the silver "disease" of concentration on the short side by a US bank seemed to have spread to other metals markets, like NYMEX platinum and palladium. My gripe with such a short concentration is that it represents credible evidence of a price manipulation and means that the price is being set on the NYMEX/COMEX and not in the real world of supply and demand. That is so contrary to the way it should be that it's not funny. Therefore, I had to sit up and take notice when this article appeared on Bloomberg about how Russia and South Africa, which account for 80% of the world platinum production, were in discussions to exert more influence on that market. <http://www.bloomberg.com/news/2013-03-26/russia-south-africa-seek-to-create-opec-style-platinum-bloc.html> While I am not an advocate of cartels, given the choice of the price being set by legitimate producers or some shyster paper trader at some crooked New York bank, I'll go with the producers. And vote for the paper shysters to be put in jail.

I've commented recently that true market liquidity has been lacking in silver. Last night, at a time when liquidity is at its thinnest when it does exist, the price of silver was smashed for about 50 cents with no notable price weakness in other commodities, like gold. This was no accident and is of the type of expected price stab to the downside I've written about recently. There should be no doubt that this was solely designed to induce additional technical fund selling on the COMEX. The good news, in addition to the price struggling back the rest of the day, is that it looks like significant tech fund selling did occur, based upon volume statistics. The bad news, of course, is that instead of free markets, we must endure such intentional manipulation by JPMorgan and other collusive COMEX commercials until the final day of resolution.

One development that I would call positive is that, more than ever, there is no other single explanation for what is occurring in silver other than manipulation. Like you, I am seeking out what is truly driving the price of silver as well as what best explains all the different verifiable developments along the way. It's not so much that the manipulation premise explains some things and other market premises explain other things better; as time has gone on, the manipulation premise explains all and the other premises make little sense. Because of that, it's hard for me to conclude other than the silver moment of truth being close at hand. I don't know what warning signs, if any, were available to the depositors in Cyprus before the bank holiday; but I can sense the warnings that something must get resolved in silver dead ahead.

Ted Butler

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Silver – \$28.70

Gold – \$1607

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