March 5, 2014 – The Story Doesn’t Change

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Sure, there are variations, interruptions and time certainly passes, but there has been a remarkable consistency in a theme I have tried to advance for more than 25 years, namely, that silver (and now gold) has been manipulated in price on the COMEX. Since I have been deeply immersed in this specific matter for a quarter of a century and because nothing could be more important in a market than if it is manipulated or not, I'm sensitive to new related developments.

One new development was the Bloomberg report this morning of the filing of a lawsuit alleging a gold price manipulation by the five banks involved in the London Fix over the past decade. http://www.bloomberg.com/news/2014-03-04/barclays-deutsche-bank-accused-of-gold-fix-manipulation.html#disqus_thread The suit sought class-action status for investors allegedly damaged by the banks' actions. I wouldn't be surprised if similar suits were initiated, as was the case with the civil suits against JPMorgan for manipulating silver prices a few years ago, as there is a limited time to gain class action legal priority. In the JPMorgan silver case, there was a rush of civil lawsuits which were consolidated and eventually dismissed. The new suit, just like the JPMorgan case, is a potentially lucrative legal gamble because market manipulation damages more people than any other market crime.

One similarity between the JPMorgan silver civil suit and the new one in gold seems to be a bet that the regulators will find something wrong before the civil suit is adjudicated. The CFTC had an ongoing silver investigation in force when the civil suits against JPMorgan were filed, much like there is said to be regulatory scrutiny of the London Fix. What could be better than having filed a class action lawsuit just before a regulator finds manipulation did exist? On the flip side, should the regulators find no conclusive evidence of manipulation in the London Fix (an event I would consider likely), that would weaken the civil case. That's why I would have preferred any new civil case be ground in the facts as they exist on the COMEX and center on JPMorgan.

My knee-jerk reaction is to hope the new suit succeeds because if it does, it will likely lead to the heart of the manipulation Â? the COMEX and JPMorgan and include silver. Or, at the very least, it may cause JPMorgan and the COMEX to cease manipulating silver and gold prices sooner than otherwise. I can't comment on the new suite until the details are revealed, except in the broadest terms. But here is another circumstance where manipulation is being alleged in precious metals. To my knowledge, in the sphere of world commodities, recent allegations of price manipulation are mostly confined to gold and silver. I think there is good reason for this Â? to growing numbers of observers some type of artificial price influence seems the most plausible explanation for silver and gold price movements.

More and more, price manipulation seems to be the only explanation behind every new development in the precious metals world. For example, perhaps the most talked about new development over the past year has been the flow of gold (and silver) from West to East, particularly to China and India. Putting aside my personal skepticism to official data from either country, I'll stipulate that gold and silver has been so moved. After all, the quantities of metal quoted as flowing to these countries is in keeping with their populations, economies and cultures.

Somewhat lost in the statistics, however, is the cause of the flow Â? what's behind it? Something had to cause Western investors to dump the gold in the big ETF, GLD, and for metal to flow first to Switzerland and on to China. Something had to cause India to import record amounts of silver. And it's clear what that something was, namely, a sharply depressed price. If gold prices hadn't dropped sharply during the first half of 2013, very little gold would have exited the GLD. Likewise, had gold prices not dropped sharply, there is little to suggest that China would have gone on the buying binge just witnessed. Absent the sharply lower price, Western gold wouldn't have been sold and Eastern gold wouldn't have been purchased in the quantities reported. Please think about this for a moment.

Try to construct a scenario where price wasn't what caused the West to sell and the East to buy. What supply/demand development could precipitate both the buying and selling? Next, try and construct a scenario where that could occur simultaneously without a sharply lower price. For instance, how is it possible for China to buy as much gold as reported while prices are declining sharply? Record gold demand from China (or record Indian silver demand) should support prices, if not send them higher. The most logical and perhaps only explanation for record demand for gold from China or silver for India in 2013 was the sharply lower price. Therefore, the most attention should be devoted not to the actual quantities of metal involved, impressive as they are, but to what is driving the demand. The Â?whatÂ? is an almost magic price which has created unprecedented liquidation in the West and demand in the East at the very same time. Almost magic is another term for artificial and manipulated.

The important point here is that the physical (and futures) liquidation in the West and the demand from the East occurred after the price of gold and silver dropped sharply in early 2013, not before prices fell. It is the sequence that makes for a clear case of price manipulation. And when one looks deeper to grasp why the price fell before the record western liquidation and eastern demand and, in fact, caused both to occur, it's the same old story Â? JPMorgan and the COMEX. While I hope the new London Fix suit leads somewhere, the fact that it doesn't mention either is unfortunate.

After a quarter of a century, the most remarkable aspect of the growing awareness of price manipulation in silver and gold is in how little the story has changed over that time. For me, it was always a case of excessive and concentrated short selling on the COMEX, mostly by speculators called commercials. For many years, I couldn't narrow the identity of the manipulative traders beyond the four or eight largest traders thanks to CFTC reporting guidelines. That's morphed into being able to pinpoint JPMorgan as the prime manipulator as a result of government reports and correspondence. The fact that JPMorgan was able to flip a short side market corner in COMEX gold to a long side market corner is the real highlight of 2013, as well as providing the ultimate proof of manipulative intent.

While it is true that silver and gold prices can rally sharply even in a manipulated state (as they did for the decade ended in 2011), it is the end of the manipulation that promises the most reward for investors, particularly in silver. Without the willingness or ability to sell unlimited quantities of COMEX silver contracts to deliberately suppress prices by JPMorgan or any concentrated substitute, the manipulation will be terminated. Then, for the first time in history, the world will discover the true free market price. What is so remarkable is that it has come to this specific point, namely, what JPMorgan does or doesn't do. Before I return to JPMorgan, please take a moment and imagine a world where JPM didn't set the price of silver on the COMEX.

It would be a world where real producers and users and investors determine the price by their own collective input and not where the price of silver is set for them by speculators on some private exchange. Producers and consumers would produce and use metal to their capability and need and investors would do the same. The price would be set, not by intentionally disruptive computer schemes like HFT, or by some private trading scam involving technical funds and crooked banks, but by dealings in real metal. Then factor in that only 100 million oz (worth $2 billion) are available for world silver investment annually after all silver fabrication demand is subtracted from total production. Finally, factor in that only 1.3 billion ounces of silver exist in 1000 oz bar form (worth less than $30 billion) and the owners of that silver don't seem inclined to sell near current price levels. Ask yourself at what price you would sell in a non-manipulated market?

I know all this may sound pie-in-the-sky, but in reality it may not be that far away. That's because it comes down to an incredible specific – what JPMorgan does or doesn't do with regards to additional COMEX silver short sales. And even if the bank does add silver shorts and succeeds in capping and controlling the price in the immediate future, that will likely prove only temporary, as it has in the past. Because the silver manipulation has come down to such a specific point, sooner or later, JPMorgan must alter its behavior in some way; meaning it must refrain from adding COMEX silver shorts at some point or explain why such sales are not manipulative to the price. While that's not something I can guarantee, I can guarantee that I will continue to press them on this issue as hard as I can. At some point, no one can tolerate being labeled a crook, even an entity like JPMorgan.

We may get a clearer sense of what JPMorgan intends in Friday's release of the weekly COT and monthly Bank Participation Reports and in subsequent reports. Silver prices were weaker, certainly compared to gold, during the reporting week that ended yesterday. Gold prices hit new highs on Monday when the news from the Ukraine was most tense; silver did not. Therefore, there may not have been as much commercial selling in silver for the reporting week as there might be in gold.

JPMorgan had sold significant additional contracts of COMEX silver over the two previous reporting weeks, some 5500, and those additional short sales have contained the price and set up the possibility of a sell-off. But the offsetting factor is that compared to a year ago and other times over the past six years, despite the additional manipulative silver contracts recently sold short, JPM is still positioned to benefit from rising prices considering what I feel it holds in physical silver and in physical gold and COMEX gold futures.

As I mentioned in the weekly review, on an historic and conventional basis, the recent large increases in the total net commercial short positions in COMEX gold and silver usually result in sell-offs at some point; but that it might work to JPMorgan's advantage to let prices rise instead. I'm not predicting what will happen short term because that is unknowable. What I think I do know is that when JPMorgan stops manipulating the price of silver, the impact on price will be meaningful and immediate.

Try as I might, I can't come up with a scenario where silver prices advance moderately or even orderly in reaction to JPMorgan quitting the manipulation scam. In fact, that's what it comes down to Â? risking one more temporary silver sell-off of a two or three dollars due to JPMorgan or a sudden move up many times that amount also due to JPMorgan setting aside its manipulative ways. Holding fully paid for silver positions and being able to react to either outcome seems prudent.

Finally, while I continue to be unsure of who the buyer(s) may be, sales of Silver Eagles from the US Mint continue to astound, particularly relative to sales of Gold Eagles. Through yesterday, more Silver Eagles have been sold year-to-date relative to Gold Eagles than for any similar period in the 27 year history of the program; 9,428,500 ounces of silver versus 123,500 ounces of Gold Eagles, a 76 to 1 ratio.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I'm not expecting this pace to continue, but then again I wasn't expecting it in the first place either. Clearly, the Mint has been able to increase its production capacity or supply of silver blanks. Just as clearly, at least to me, it points to the artificiality of the price of silver being set on the COMEX and what is occurring in the real world of metal.

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Silver – $21.20

Gold – $1338

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