May 15, 2013 – GLD Update

GLD Update

This has been one of the worst stretches for gold and silver pricewise in quite some time, no secret there. I have to go back to when silver was in single digits to find a comparable period. More importantly, the question on precious metals investors' minds is whether this bad stretch is going to continue much longer. Are the past few months setting the stage for a pronounced rebound in prices or has the tide changed for the worse for an extended period of time? I think the answer can be found in analyzing the facts around us in as objective a manner as possible.

One of the key facts in gold has been the redemption of nearly 10 million ounces, worth over $15 billion, since year end from the world's largest Exchange Traded Fund for gold, GLD. That is a monstrous amount of gold and represents around 23% of the entire holdings in GLD at year end. Like its counterpart ETF in silver, SLV, these two securities attract attention and emotion befitting the two largest privately held stockpiles of gold and silver in the world. I know many hold that everything about these securities is fraudulent, whereas my main concern for fraud is limited to the shares held short in these highly unique securities (as discussed Saturday).
But no one can deny that these two ETFs have a pronounced influence on gold and silver prices.

The problem is always that we don't know enough. Additionally, because the facts are limited there is a natural tendency to fill in the blanks with what we think or would like to be the case. Therefore, it is widely reported and perceived that the 10 million ounces of gold that have come out of the GLD have been bought by India or China, even though substantiating data are lacking. I think an objective review of the facts suggests something else.

Let's review what we do know. We know that 10 million gold oz came out of the GLD and that equals roughly 100 million shares of GLD (one-tenth oz per share). We also know that the 10 million oz that are no longer in the GLD still exist and, therefore, must be owned by someone (hence, the China speculation). But we know that the reason the shares were liquidated in GLD was due to the same rotten price performance that weighs on metals investors' minds. This tends to eliminate China as the big buyer; as such buying would cause gold prices to rise, not fall. The shares were sold and metal redeemed because the price went down, largely a self-reinforcing spiral. We know how much and why the metal was sold and who the sellers were Â? what we don't know is the identity of the buyers. There is a very good reason for that, namely, the buyers have tried mightily to hide their identity.

Let me not keep you in suspense too long; I believe that the big buyer of the 10 million oz of gold liquidated in the GLD was JPMorgan, either alone or with other collusive commercial banks. It dawned on me that the same methodology I've previously attributed to a potential Mr. Big in SLV (also probably JPMorgan) is at work in GLD. If one (or 2 or 3) big buyers in GLD had merely purchased the 100 million shares that were sold in GLD by liquidating shareholders, that would have quickly pushed the big buyer(s) over the 5% SEC reporting threshold, thereby revealing the identity of the buyers. Remember, we're talking about 23% of shares outstanding and there is no way to buy that many shares and not quickly be into reporting status. But by having the gold redeemed out of the trust and the metal being purchased (instead of shares), stock reporting requirements are evaded. A single holder, perhaps working with a few collusive partners, came to own what is, effectively, almost a quarter of the world's largest gold stockpile and no one is the wiser.

I'm not suggesting that JPMorgan did anything wrong by intentionally evading SEC reporting requirements; that potential infraction pales in comparison to the real crime here. The real crime (actually more egregious in silver than in gold) is that this crooked bank manipulated gold prices lower, via the usual COMEX price-fixing mechanics, to induce GLD shareholders to sell in the first place. This was a highly-planned and executed operation that left no stone unturned. From late November, the commercials as a whole, bought more than 160,000 net COMEX gold contracts on declining prices, the equivalent of 16 million oz. This was the total amount for all the COMEX commercials combined; JPMorgan's share was 4 to 5 million equivalent ounces. The purchase of the gold in GLD was much more beneficial to JPMorgan than what the bank bought in COMEX futures. As current Commitment of Traders Report (COT) data indicate, the commercials are holding the lowest net short position in many years; throw in the scam of buying the 10 million oz of gold in GLD and the commercials are net long in gold and perhaps in silver as well.

I believe that the commercials, particularly JPMorgan, have come to hate the COT and Bank Participation reporting data because it reveals what they are up to in exquisite detail. Vermin prefer to operate in the dark and under rocks. But the one thing the available data do show is that the big buyers on the wicked price decline have been the commercials. On the one hand, I find it deplorable that big banks are allowed to manipulate our markets for their own benefit, making a mockery of our laws and corrupting our regulators.

On the other hand, watching JPMorgan and the commercials buy so aggressively in gold and silver only leads to the conclusion that these crooks have a plan for much higher metal prices to come. If, as I contend, JPMorgan picked up most of the 10 million gold ounces they shook from the GLD tree, a $300 dollar gold rally will net them $3 billion in ill-gotten gains on that position alone; much more if they are more ruthless in creating even higher prices. Generally, with these crooks they usually exceed what you think they are capable of.

Both five years and nine years ago this week, the CFTC issued public letters explaining in detail why the silver market wasn't manipulated by large traders on the short side of COMEX silver. http://www.cftc.gov/files/opa/press04/opasilverletter.pdf

http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/silverfuturesmarketreport0508.
 Particularly in the 2008 letter, subsequent events have revealed that the agency flat-out lied to the public. This public letter clearly indicates that there was nothing unusual with concentration on the short side of COMEX silver and the big short sellers changed positions regularly, so that there was no one big permanent silver short position holder (as I long alleged). I didn't know it at the time, but two months prior to the release of the CFTC's letter, the largest concentrated short in COMEX silver, Bear Stearns, went bankrupt and its big silver (and gold) short position needed to be assumed by JPMorgan. For the CFTC to omit this basic fact makes this perhaps the single biggest lie in history by a federal agency. And if that's not criminal, I don't know what is.

Worse, I have become convinced that it was Bear Stearns' concentrated short positions in silver and gold that pushed the firm into bankruptcy in March 2008 and not their widely-reported mortgage portfolio. From the end of 2007 to mid-March 2008, the price of silver climbed more than $5, from $15 to more than $20, while gold climbed more than $150, from $850 to over $1000. According to my calculations and COT concentration data, Bear Stearns was short close to 40,000 silver contracts and 80,000 gold contracts on the COMEX. As a result, by mid-March, Bear Stearns had to have deposited more than $2 billion with the COMEX clearinghouse to cover losses and margin requirements. Clearly, Bear Stearns could not meet those margin calls. Enter JPMorgan, at the request of and with the financial backing the US Government. It was a good match in terms of manipulating the price of silver and gold lower; as by the end of March, the price of silver collapsed by $5 and gold by more than $100 with JPM/USG in charge.

The whole point of guarding against concentrated market positions in the first place is to prevent artificial pricing and market turmoil should the concentrated holder get into financial difficulty. That was my message to the CFTC for many years prior to the Bear Stearns debacle. Instead of accepting that message, the CFTC looked the other way as Bear Stearns manipulated the price of gold and silver and then had the unmitigated gall to lie about it after the firm failed. There has to be a special place in hell for regulators behaving this way. As bad as all this was, if the USG and CFTC had at least learned from the Bear Stearns disaster and instructed JPMorgan to gradually unwind the concentrated short position it would have almost been a worthwhile learning experience. Instead, after greatly reducing the concentrated short position on the price collapse later in 2008, JPMorgan, obviously enjoying being the big short pig in silver and gold, resorted to reinstating and increasing the big concentrated short position on several subsequent occasions.

So here we are five years later and the CFTC is still lying (about the ongoing silver investigation and never correcting their previous lies) and JPMorgan is still manipulating the price of silver and gold to their own advantage. Where to from here? Every day, I seem to wake up to lower prices and non-stop bearish commentary about the gold bubble being burst. As you know, I'm more a silver guy than gold, but I find the bearish gold talk unconvincing when I analyze what's going on beneath the surface.

The commercials have been and are buying hand over fist in both gold and silver. COT data confirm that as does what's occurring in the big ETFs. I don't understand how anyone can't see that the commercials are rigging prices lower for the express purpose of buying more; although I understand why the CFTC doesn't want to see it. Certainly, the recent announcement that the agency may be investigating suspicious trading in metals and energy is not to be taken seriously in my opinion. http://www.gata.org/node/12573 I think it should be clear that the CFTC looks into or initiates investigations readily; the problem is it never finishes these investigations properly or worse, lies about what it finds.

There is a special burden attached to investing in a market where the primary regulator and major participants are aligned against your best interests. Sadly, that's always been the case for silver and gold and is unlikely to change. This is a cross that metal investors must bear. That said, the regulatory dereliction and major participant (JPMorgan) headwinds become tailwinds as the regulatory neglect becomes more obvious and the crooks buy more. Especially with today's new price pounding we are closer than ever to that point where there is no more blood to wring out of this stone. Yes, I thought we were at this point previously. And yes, I have donated more blood; in fact, too much blood.

The purpose of analysis is to interpret the available facts in the most logical manner. In attempting to do that it appears to me that JPMorgan and their ilk have bought absolutely massive quantities of gold and silver in many different markets. Unfortunately, most of that buying has come as a result of the deliberate and successful manipulation of price in order to force others to sell. I don't believe that is fair or even legal; but the bloodless verdict of the market suggests we are going a lot higher at some point soon.

Ted Butler

May 15, 2013

Silver – $22.60

Gold – $1393

Date Created
2013/05/15