May 17, 2010 – Did JPMorgan Blink?

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As I indicated in this week's King World News Interview, the standout feature in the new Commitment of Traders Report (COT) was the remarkable reduction in the concentrated net short position of the four largest traders in COMEX silver futures. Because the reduction was extremely noteworthy in several respects, I must offer the caveat that the CFTC may have reported wrong, although I don't think that is the case. I only say this because the report was that remarkable.

The current COT report covers the five-day trading period through the close of Tuesday, May 11. From a price low of $17.12 on the first day of reporting week, to the high on the last day of $19.40, the price advanced more than two dollars. This is one of the largest 5 day advances in silver market history. The COT indicated that the big four shorts reduced their net short position from the prior week's 53,453 to 46,614, a reduction of 6839 contracts. This is the largest one week reduction by the Big Four in history, to my knowledge. It is also their lowest net short position in a year. Just the fact that the Big Four bought back any short positions during a price rally is noteworthy. That they bought back the largest amount of shorts ever, during one of the largest historical price advances, is mind-boggling. Quite simply, this is something that has never occurred before.

Usually, the commercials, individually or collectively, buy on the way down in price and sell on the way up, in their role as counterparties to the technical traders. It's very rare for the commercials to behave otherwise. This is the natural rhythm of the market, the tidal flow.
The technical funds and other traders operate as a group and the commercials oppose them, also as a group. Sometimes, you can sense some smaller commercials (the raptors) stepping ahead of the bigger commercials, but with small and big alike always doing the same thing, either buying or selling, just at more aggressive prices. That's not the case in this week's COT.

On the reporting week's two dollar price rise, the smaller commercials did sell, as they normally do, reducing their net long position by more than 2000 contracts. And the medium sized commercials, the 5 thru 8 largest traders, also sold more than 1700 contracts, bringing their net short position to 17,297 contracts. This net short position of the 5 thru 8 is the largest since July 2008. (In stark contrast to the Big Four's position). It's normal and expected that these commercials sold on the silver price rise. What's not normal is that the Big Four bought so aggressively while the other commercials sold so many contracts.

Those are the hard numbers from this week's COT report. Let me add a bit. Not only do we know that the commercials away from the Big Four were selling, as the Big Four was buying, I sense further that it wasn't all four traders in the Big Four that were buying, just the very biggest trader, JPMorgan. Let me be clear Â? it is my belief that among the commercials it was only JPMorgan that was buying silver futures contracts during the reporting week. I believe that even the 2 thru 4 largest traders were also sellers, along with the 5 thru 8 and the raptors. If my analysis is correct, this pattern of behavior is beyond profound.

As shocking as I find JPMorgan's buying while all the other commercials were selling, I can't call it completely unexpected. Considering all the publicity that has come to light about JPMorgan's short position in COMEX silver, it had to come down to JPM either publicly defending or explaining their short position, or them moving to close it out. There weren't a lot of other choices.

Furthermore, this is an outcome I wrote about specifically in an article from April 13, Â?A Double-Cross?Â? In that article, I talked about the potential of JPMorgan not adding to their short position on a big price rally, while the other commercials sold. Only the new COT report shows it went far beyond JPM not selling; they actually bought big as well. This is a double double-cross. The implication for the market is serious. It's bullish enough that this may signal that JPMorgan will no longer sell short to cap the price. But the thought of JPM aggressively buying silver to close out their big short position is the making of silver investors' dreams.

I know I am writing this on a day that the commercials smacked the stuffing out of silver once again. That is a separate short-term issue. I say pay it no big mind. I try to avoid daily discussions about factors in the silver market because I fear it only encourages people to trade silver on a short-term and leveraged basis. That is neither my intent nor the right way to invest in silver. Long term is the way to approach silver, not short term. That said, this COT reduction is special.

JPMorgan buying back so much of their short position on rising prices is astounding. For one thing, they booked losses on the 7,000 or so contracts that they did cover, something a commercial dealer does rarely. Since the commercials never sell to the downside anyway (except to get the price rolling down the hill), we can be sure that JPMorgan will not sell short on the downside, especially since they just bought big to the upside. JPM has not started a new campaign of buying high and selling low. If they are interested in closing out their short position, this recent heavy buying by them will likely be followed by more buying, whether the price is up or down.

That's what is so significant in the new COT Â? it signals to me that JPMorgan has just blinked. Rather than be put in the no-win role of defending and rationalizing their massive silver concentrated short position, they'll take the most expedient path of resolving the mess on their hands by simply buying it back. Let's face it – no one seems able to explain away the concentrated short position in silver; not the CFTC, not the CME, not JPMorgan. That's because there is no legitimate explanation available. That only leaves one other option Â? get rid of the short position by buying it back.

The question that should be forming in your mind is the price implication for silver if JPMorgan has decided to short silver no more. If not them, who will sell? I can see many people potentially selling, but not near current prices. The only sellers in the past at current prices have been the big concentrated shorts, led by JPMorgan. Take JPM out of the selling equation and there is an awful lot of room to the upside in price.

There have been many notable developments in silver over the past few years; the great price performance, the introduction of the silver ETFs, the move to net silver investment for the first time in decades, the various silver investigations, including the current one(s). But if there is one development that would rank up there with all of those notable achievements, it would be the withdrawal of the big concentrated short seller. This lies at the heart of the silver manipulation.

Many are worried that the recent volatility in price may be signaling a silver sell-off. Given the crookedness of the COMEX silver market, that sell-off may come to fruition. But if JPMorgan has started to buy back their big short position, as indicated in the latest COT, a price melt-up is the ultimate likely result.

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