November 13, 2013 – Bad News, Good News

Bad News, Good News

Let's do the bad news first for silver (and gold); which is pretty much confined to pricing issues because if this year's price action wasn't as bad as it has been, the other negatives wouldn't matter much. But the reality is that this is the worst price year ever in any practical experience that matters. Even in 2011, when silver suffered two unprecedented 30%+ price declines in a matter of days, the price finished up on the year; ditto an uninspiring price performance for 2012.

I think it can be said without fear of contradiction that had any of us known a year ago that silver (and gold) would have been down as much as it has been (40% in silver and 30% in gold) we all would have sold back then (or at the all-time high's). Unfortunately, there are no do-overs. As painful as the last year or so has been to those long term investors who first accumulated silver in the mid-single digits (and gold in low hundred dollar digits), anyone who first came into silver above $30 or $40 (or into gold above $1500) is feeling much worse (if they still hold at all). It is one thing to see things unfold just as you thought when silver jumped more than 10 fold (from $4 to $49), only to crash more than 50%; but quite another to be buried with losses from the relative start without having first experienced the up move. Who wouldn't turn the clock back if possible?

Even worse in the bad news category is that the rotten price performance this year was intentional and deliberate. While no one can predict price and time with great accuracy, that doesn't mean big price moves can't be explained afterward. As I have explained all along, prices for gold and silver are largely set on the COMEX due to the interplay between the two classes of large speculators; traders called commercials (JPMorgan et al) and the technical trading funds. Because the technical trading funds are almost exclusively guided by systematic price signals, they can be manipulated into action by the commercials that control short term price movements (like the price movements in recent days).

The price decline this year (and this week) was due to deliberate acts by the commercials to improve their positioning of futures contracts. What's upside down is that the intentional price decline on the COMEX set off consequences in other markets and in the real world of silver and gold; including a stunning liquidation in the biggest gold ETF, GLD, and the prospective future mine supply of silver and gold. The COMEX price tail has wagged every real silver and gold dog in the world this year.

Worst of all is that this COMEX price control has been ignored and, therefore, sanctioned by the federal commodities regulator, the CFTC – despite preventing price control being the agency's main responsibility. It wasn't that many years ago when I thought that the then-new chairman, Gary Gensler, would address the obvious concentrated short position of JPMorgan in COMEX silver and its obvious manipulative impact on price. After the unprecedented silver price declines in 2011 and this year went unaddressed by the agency and the five year old silver investigation was dropped with no comment by the agency on JPMorgan's short market corner, it is foolish to expect the agency to ever do its job. Now that a new chairman has been announced, it is safe to conclude no help will be coming from the agency to terminate the silver manipulation.

With news this bad, what could possibly be considered good news? Ironically, the good news centers on the same issue which has been so bad Â? the price. But whereas the rotten price performance of the past couple of years has been bad news for all existing silver (and gold) investors; now that the price is so low, it automatically transforms future price performance into a good news story, especially for new purchases. Like any investment asset, the future price performance of silver (and gold) is most determined by the price at which it is acquired. Buy something near the top of a bull market and hope for the best; buy something near the bottom of a bear market and good future performance is greatly enhanced.

This is especially true for tangible assets that can't go bankrupt or simply disappear, like silver or gold. Every prior dramatic price smash in silver over the past decade and longer has resulted in a price that proved to be ideal entry levels. Stated differently, selling at such historical lows was the most unrewarding action possible; although the urge to sell is most extreme at such times (like now). Based upon the extent of the current decline, it would appear logical that purchases at current levels may prove to be the most rewarding of all.

Just like it was bad news, the deliberate nature of the current price decline is good news for future performance because it provides the explanation for why we have dropped so much in silver. We went down in price this year because JPMorgan and other commercial traders tricked the technical funds into selling on progressively lower prices on numerous occasions. The technical funds did well for some time early in the year as prices continued to fall, benefiting initial sales, but the choppy price action over the past few months has hurt the tech funds. But tech fund performance is moot; what is important is that COMEX positioning caused the price decline, as is confirmed in COT and Bank Participation Report data.

The reason this is also good news is because not only does it explain the decline, it rules out other reasons that would have been much more problematic. Let's face it, had the big silver price decline been due to widespread investment selling, or collapsing industrial demand or a dramatic surge in mine or recycling output, that would temper future bullish expectations. But as far as I can tell, none of those things occurred; the clearest and most plausible explanation for the silver price decline was the rigging of price on the COMEX.

I've spent most of my working life analyzing the silver market and I am mindful and most concerned about missing the obvious. I shy away from short term price predictions or where silver may be priced at a specific future date. Instead, I am preoccupied with getting right what the most dominant influences are on price, both current and perspective. For the price decline that started at the April 2011 high and particularly this year (and week) the biggest price influence has been COMEX positioning games, with an added emphasis on what JPMorgan is up to. I ask myself a hundred times a day what else could account for the price action if not what I suggest and I come up blank.

Aside from providing the most plausible explanation for past price action, the JPM/COMEX connection promises an extremely bullish end result for silver. I believe it is reasonable to conclude that the JPM/COMEX price manipulation cannot last indefinitely, despite it being firmly in control in the past and currently. Yes, I admit the CFTC will never end it and I can't pinpoint the precise time the manipulation will come to an end; but this manipulation has become so obvious and the allegations of wrongdoing so vocal and specific to JPMorgan that something has to give. Either JPMorgan eventually addresses the allegations and explains them away, or the bank stops manipulating the market. The easiest thing for JPMorgan is to quit the manipulation.

On Monday, the Wall Street Journal reported that JPMorgan and another bank has clamped down on FX traders chatting online with co-workers and competitors about markets amid concern of another manipulation scandal. What impressed me was how sensitive JPM was to the allegations and the steps the bank took in dealing with it, starting months ago. It really is astonishing how many different wrongdoings and alleged wrongdoings the bank has been involved in recently. I remarked a while back that if JPMorgan isn't guilty of price manipulation of silver and gold, then they are the only markets where JPM has acted legitimately.

Just yesterday, I watched a CNBC TV segment that featured an interview with Barry Diller, CEO of IAC and noted media industry powerhouse. The topic of JPMorgan's legal problems came up and Mr. Diller was adamant that JPMorgan's CEO, Jamie Dimon, was not only a decent and upstanding human being, but an outstanding corporate manager. Mr. Diller acknowledged that in a bank as large and diverse as JPMorgan, the CEO couldn't be expected to know of every instance of wrongdoing in advance. The key, according to Diller, was that Jamie Dimon always responded appropriately to problems as he became aware of them. I have trouble reconciling that sentiment with my personal experience.

For more than 5 years, long before any of JPM's recent problems were even contemplated, I have sent every article I have written about JPMorgan and its role in the silver manipulation to Mr. Dimon at email addresses provided to me by the bank. None of the roughly 500 articles have ever been returned as undeliverable (although I have been blocked by members of the board of directors, saving one). Considering Mr. Diller's sentiments about Mr. Dimon, I am baffled by my own experience. I have been careful to stick to the verifiable facts concerning JPMorgan's market share and concentration in COMEX silver and gold and the conclusion that these positions amount to market corners appears indisputable.

I can only conclude that JPMorgan isn't speaking up or taking action on the allegations of its market corners in gold and silver because it can't for some reason. The inability or unwillingness on JPMorgan's part to openly deal with the allegations of market manipulation in silver tilts the odds, in my opinion, to the bank stopping its manipulation at some point in the future.

Finally in the good news department on the low price is that the price has been below many silver miners' true cost of production over the past six months. This has been reflected in recent earnings reports. What hasn't been mentioned enough is the Â?holeÂ? the low price has put in the exploration development cycle. The mining industry's most important influence is the price of the commodities it mines. Throw in the lack of financing and confidence in this ultra low silver price environment and many millions of ounces of projected production have already been lost. Millions more will be lost as price continues at current levels, to say nothing of lower prices. Considering the loss in future silver production from low prices to date, as much pain as that is causing current investors, it must be considered good news for future price performance. In the end, the cure for low prices is always low prices. That's certainly the case in silver now.

A few words about the horrid silver price action the past few days, especially relative to gold. As is almost always the case, there are no legitimate supply/demand developments to account for the one dollar loss in silver so far this week. Once again, this is strictly a blatant episode of JPMorgan and allied commercials rigging prices lower to induce technical fund selling. The succession of lower lows on increasing volume virtually guarantee that this week's COT report will show significant reductions in the total net commercial short positions for both COMEX silver and gold.

I've learned not to be surprised by how far the commercials rig prices lower in any particular price-rigging campaign and I don't know of any more practical approach than of riding it out with fully-paid for positions; except buying more silver if financial circumstances permit. I did buy some high risk call options last week and I'm glad I hadn't mentioned that before because they are much cheaper now. I plan to buy more options in the weeks and months ahead as things develop. The high-risk refers to the odds of the price of silver shooting sharply higher in a short time period and not to the amount of premium at risk because that is known and predetermined beforehand.

Anyone holding silver or gold on margin has suffered massively and has probably lost positions. It's bad enough to be holding fully paid for positions when silver (or any asset) declines as much as it has, but at least the silver is still owned and will restore capital as prices rise. You can't say that with positions held on margin if one runs out of margin money, so that type of leverage is still to be avoided.

I promised a few words if the new Bank Participation Report (released yesterday) altered my calculation for what JPMorgan held short in silver and long in gold. As of November 5, I would recalibrate JPM's short COMEX silver position to be 15,000 contracts (from 17,000) and the bank's long gold position to be 72,000 contracts (from 75,000). Considering the rotten price action this week, I would stick to my guess that JPM is now holding 80,000 net long contracts in gold (or more) and is back down to 12,000 short contracts in silver (or less). This is close to JPMorgan's maximum long gold market corner and minimum short silver market corner. It would seem reasonable if JPMorgan decides to quit manipulating silver prices, it would do so when it was as favorably positioned as possible.

Ted Butler

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Silver – $20.55

Gold – $1274

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