October 19, 2013 – Weekly Review

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For only the second time over the past eight weeks, the price of gold and silver finished higher; gold by $44 (3.5%) and silver by 60 cents (2.8%). Considering the news of the past month or so, especially out of Washington, I would imagine many have found precious metals price movements as counter intuitive. As a result of gold's relative outperformance, the silver/gold price ratio widened out a half point to an even 60 to 1. Even the silver/gold price ratio movements were out of the ordinary. Last week, silver outperformed in a declining price environment; this week gold did better on an up week, contrary to what normally happens. Aside from highlighting the perils of short term price prediction, I think there is good reason for feeling that the recent price action has been strange.

This week's gains were largely confined to the big price rally on Thursday which included heavy trading volume on the COMEX and coincided with the last-minute deal in Washington to end the government shutdown and resolve the debt ceiling issue temporarily. Usually, one would have expected metals to rise during the crisis and fall on the resolution. I'm still convinced that since the metals didn't experience any notable speculative buying during the crisis, there was not much disappointed speculative selling to be had when it ended. But there's more to comment on regarding Thursday's price pop.

I've noticed comments from those dismissive of the premise that gold and silver are manipulated in price questioning why wouldn't Thursday's rally be proof of a manipulation to the upside? In the what's good for the goose should be good for the gander department (don't tell my wife), the manipulation critics point out that the same exact conditions (HFT and sudden price movements unrelated to supply/demand developments) clearly accounted for the price jump, so why are complaints of manipulation only made when prices fall? I think the manipulation critics are correct in this case, but not for the reasons they would advance, namely, that sharp up moves prove there is no manipulation. Instead, I would argue that the sudden and uneconomic up moves, such as Thursday's, are further confirmation that gold and silver prices are manipulated.

I have never tried to allege that silver and gold prices are manipulated solely because of price sell-offs, as those sell-offs are more the symptoms and result of a manipulative and defective price discovery process. In simple terms, COMEX silver and gold are crooked markets whether prices are falling or rising sharply (or remaining unchanged) when you look under the hood. In calling the silver manipulation by JPMorgan the perfect manipulation, I tried to describe how the bank always buys on big price sell-offs and always sells on big rallies. JPM and other collusive commercials continually rig prices sharply lower or higher in order to get the technical funds to sell or buy, through HFT and other dirty trading tricks.

The manipulative scam has continued because JPMorgan et al have been able to do both Â? rig prices lower so that they can buy and rig prices higher so that the crooks could sell. In essence, that's been the essence of the scam over the past 30 years. Trying to explain the manipulation by looking only at the down days leaves out half of the actual scam. This has been a continual process for decades and the manipulators treat it as any ongoing business enterprise, which must include a constant acquisition and disposal of inventories. What makes this an illegal business enterprise is that JPMorgan and others have violated commodity law with their controlling market share and manipulative devices (HFT). Sure, JPMorgan is acquiring and disposing of silver and gold COMEX positions (inventories) profitably; but the methods they are using include cornering the markets and intentional price disruption, both up and down.

I'll have more on JPMorgan and why this will and must end, but it would be a mistake to believe the manipulation is only in force on the down days, as the up days are just as important to the manipulators as that is when they induce the technical funds to buy. One day (hopefully soon) an up day will represent something different – the breaking of the 30-year pattern of manipulative commercial selling and that's the day the manipulation will end. When that day arrives it will be clear to all that the silver manipulation has been terminated. In the meantime, the manipulation critics are correct to point to sharp up days, but not in the way they intended.

The movement of metal into and out from the COMEX silver warehouses was active again this week (4 million+ oz), as total inventories fell 700,000 oz to 164.8 million oz. I still believe the turnover in the COMEX silver warehouses is the most important feature of the past two and a half years inventory-wise and is a strong indicator of tightness in the wholesale physical silver market. There were further withdrawals this week from the big silver ETF, SLV, of 3.5 million oz, which brought the two week decline to 7.5 million oz. Based upon the size of the individual withdrawals (three 2 million oz and one 1.5 million oz chunk) and the trading volume and price movement in shares of SLV, most of the 7.5 million oz removed look to be due to the silver being needed more urgently elsewhere and not due to plain vanilla investor liquidation. If I'm correct, this adds to the wholesale tightness premise.

Despite the withdrawals from SLV, silver holdings are still slightly higher for the year by 3% or so. It remains a very different story in the big gold ETF, GLD, where inventories continue to be liquidated. More than 15 million oz of gold have been withdrawn from GLD, representing 35% of the trust's holdings since year end and $22 billion in investor liquidation (versus a $300 million addition to SLV). Based upon export statistics, I don't doubt that much of the gold liquidated in GLD found its way to China (or to JPMorgan's ownership), but it is important to recognize how this came about. It all traces back to the broken price discovery process on the COMEX discussed above.

Gold prices were rigged lower by historic percentages this year on the COMEX, due to JPMorgan and other collusive commercials inducing technical funds into selling at progressively lower prices. Commitments of Traders (COT) data prove conclusively that from last December to the price lows of the summer, almost 240,000 net contracts (equal to 24 million oz) of gold were sold by technical funds and other speculators and bought by the commercials on the COMEX (with JPM alone accounting for 15 million of those ounces). This was the largest transfer of gold positions in COMEX history and was the sole reason why gold prices collapsed Â? in order to allow the massive commercial buying.

Since COMEX is the main price determiner in gold (and silver), it is not possible that big price changes there wouldn't trigger changes elsewhere in the world of gold. In this case, the sharply lower gold prices created on the COMEX resulted in a massive investor exodus from GLD. Further, the low prices also ignited a rush to buy gold from China. My point is that the GLD liquidation certainly and most probably the extra big China buying wouldn't have occurred had not COMEX prices been rigged lower in the first place. That's what's wrong with the broken price discovery process on the COMEX Â? it results in unnecessary and unintended changes elsewhere, including the unjustified move below the cost of production for many silver and gold miners.

The government shutdown didn't end quickly enough for resumed publication of the COT reports. I'm assuming we'll be back to normal in time for next week's Friday issuance, with maybe a catch up for previously suspended reports, including last month's Bank Participation Report. The last COT report covered positions thru Sep 24, so this is the longest we have not had actual COT data to analyze in modern market history. Of course, trading has occurred and positions have changed; it's just that we have to guess what the changes have been until the actual data are published.

I'm going to stick to last week's guesses of 15,000 contracts in silver and 50,000 contracts in COMEX gold for the headline number of the total commercial net short position. The wild card is Thursday's high volume rally Â? and how much commercial selling took place on that day. Since Sep 24, gold prices have remained below the 50 day moving average and only closed above it twice in the case of silver, so there hasn't been strong price motivation for technical fund buying.

While the changes in COT positions over the past three or four weeks will be reported eventually, they are not likely to be massive changes of the magnitude of what has already occurred this year. As I indicated earlier, almost 240,000 net contracts of gold (24 million oz) and more than 40,000 silver contracts (200 million oz) were repositioned over the first half of 2013 on the private JPMorgan play ground also known as the COMEX. As a result of JPMorgan's market corners and positioning tricks, the damage appears largely done. The resultant COT market structure in gold and silver remains strongly bullish and shouldn't have changed much over the past month. I love the current structure; I just hate how the crooks at JPMorgan arranged it.

I know that I am more than persistent in my attention to JPMorgan and its pricing role in COMEX gold and silver and I question myself constantly if I am on the right course. It's not just that I don't want to get sued (I don't), but it's even more important that I am not deceiving myself with inaccurate assessments and analyses. Additionally, I would feel absolutely terrible if it turned out I was falsely accusing the bank of wrongdoing. That's why I send all my articles to Jamie Dimon and, more recently, to JPMorgan's board of directors; in order to give the bank the opportunity to respond and explain why I'm wrong. (For what it's worth, most of the directors have blocked my emails, but a few haven't, much to their and Mr. Dimon's credit).

I do try to see it from JPMorgan's perspective, which I think is only fair, but in doing so I become more convinced something is rotten with JPMorgan and gold and silver pricing. One thing that has occurred to me recently is how few US banks even deal in COMEX silver or gold. I've always asked the question as to why a big bank would (be allowed to) speculate in gold and silver, especially on the short side, to say nothing of a US bank holding market corners. Then it dawned on me that government data, in the form of the CFTC's Bank Participation Report and the Treasury's OCC report on OTC derivatives, confirm how few are the number of banks that do so.

The Bank Participation report rarely shows more than 3 or 4 US banks dealing in COMEX silver and the OCC report only names two US banks in OTC precious metals derivatives (and not much different in gold). That strikes me as odd. If it is so normal for JPMorgan to be dealing in COMEX silver and gold, then why aren't more banks doing so? If it was such a good and legitimate banking business, then why is there no competition from the banking community? After all, there must be scores, if not hundreds and maybe thousands of US banks capable of doing so. This also goes for non-banks as well, as in if it was such a good clean business of shorting COMEX silver contracts, then why are there not more competitors on the short side so that JPMorgan wouldn't hold such large concentrated positions over the past five and a half years? I ask myself these questions, but I am never able to answer.

A year and a half ago, the head of commodities for JPMorgan, Ms. Blythe Masters, said on CNBC that the bank only took positions on behalf of clients and that the bank never held directional bets on the price of silver. She claimed that suggestions to the contrary were due to uninformed chatter on the Internet blogosphere. http://www.silverseek.com/commentary/jpm%E2%80%99s-tv-appearance But since that time, the world has witnessed findings that JPMorgan manipulated electricity prices in a trading unit directly under Ms Masters' supervision and separate charges of manipulation in the London Whale case with neither instance involving outside hedging for clients and both being clearly directional bets. I can't genuinely reconcile these circumstances in JPMorgan's favor, although I have tried.

This leads me to the biggest inconsistency of all Â? JPMorgan's refusal to directly refute allegations that the bank is manipulating silver and gold prices. If I feel it is surreal for me to be accusing JPMorgan of the most serious market crime of all, then it is beyond Salvador Dali-surreal for such a powerful and prominent financial institution to ignore challenges to the bank's reputation and integrity. I didn't set out to Â?getÂ? JPMorgan and I didn't intentionally create and design myself in that role. But the facts continue to support my allegations. Forget there not being many inconsistencies to my JPMorgan silver manipulation premise Â? I honestly haven't found one inconsistency. I'm still looking in earnest and if I do find an inconsistency, I promise I will report on it.

In the meantime, I can't see how this is developing well for JPMorgan. In the five and a half years of managing Bear Stearns' former short positions in COMEX silver and gold, clearly many more outside observers have come to view JPMorgan as the big precious metals manipulator than have not as a result of chatter on the blogosphere. The overall regulatory nightmare for JPMorgan in other related and unrelated matters is beyond any previous expectation (just today, a new $4 billion settlement was reported between the bank and the FHFA). I think the problem for JPMorgan now in silver and gold may be beyond any hope that the bank might explain away its activities as indicated in government statistics. I guess I'm more surprised that the bank didn't look to explain and resolve the silver manipulation earlier; as now it looks too late.

Since the silver manipulation must end someday and because it has already lasted far longer than it should have; that's just another way of saying it should end sooner rather than later. I would remind you that none of us has ever experienced a silver market that wasn't manipulated. Therefore, when the manipulation does end and the price of silver suddenly goes Â?free,Â? there will be no past lessons learned or experiences to guide us. It will be, quite literally, a brand new world for everyone. I can't help but believe that those who are aware of the coming shock to the silver system will be better prepared to cope with and prosper from the price violence to come on the upside than those unaware.

Ted Butler

October 19, 2013

Silver – $21.95

Gold – $1317

Date Created
2013/10/19