

October 2, 2013 – Swirling/JPM's Real Crime

### Still Swirling

I'd like to tell you that after witnessing every silver and gold price smash for the past 30 years, that relax, you'll get used to them in time. But I would be lying, as I've never gotten used to them. In fact, the last thing anyone should feel is that these sell-offs are just par for the course or that they should be attributed to legitimate market explanations. Then again, we have no choice but to endure them if you hold silver as a long term investment.

Everything about yesterday's gold and silver price smash was illegitimate, from the timing (both to the day and hour), the manner and sequence in which prices fell (down first in price and then the real trading took place) and the buyers and sellers (JPMorgan and other commercials were the buyers, speculators were sellers). Don't get me wrong — there is such a regularly recurring pattern to the sell-offs that they do appear routine and expected; but repetition of illegitimate acts should never become accepted as routine under any circumstance.

I'm not going to dwell on it today, but I hope everyone is aware that yesterday's plunge below \$1300 in gold and \$21 in silver was deliberate and intended to induce as many speculators as possible into selling (both long liquidation and new short selling), so that JPMorgan and other commercials could buy. The price plunges were orchestrated on the COMEX and as such there was no outside news of real supply and demand to account for the decline. Ditto for today's reversal to the upside.

The good news (if you can call it that) is that the sell-off looked like it had its intended effect in generating large speculative selling, as volume was high. We were in a good COT structure to begin with and are undoubtedly structured better now. Does that mean we can't go lower temporarily? Any asset can always move higher or lower temporarily and trying to guess those moves is a mug's game. In a minute, I'll play the mug's game.

A quick note on the COT Report Â? there will be no report this week (Bank Participation Report as well) due to the government shut down and none will be published until the shutdown ends. It reminds me of a time (30 years ago) when the COT report was only issued monthly and further delayed by US Post Office delivery. It was a happy day when brokerage teletype machines came to carry the data and the mail delivery delays were eliminated. After living with monthly reports (then every two weeks), I've always felt lucky to have the report published with only a three-day delay each Friday.

Eventually, the reports will resume in normal manner, but it's not the end of the world in the interim. Drawing on what it was like when the data was only available monthly, please keep this in mind Â? what's important is the actual positioning that is occurring, not when that positioning is revealed in the COTs. It is the actual positioning by traders that holds significance for price movements; not the COT report itself. I've never detected that publication of the COT reports ever had an immediate impact on price, most likely because so few traded on the data short term. In other words, I think we will still have a pretty good idea of what the market structure is at any time until the reports are resumed, unless there is a very long shutdown.

Other developments this week included the resignation of the CFTC's Enforcement director, David Meister, after nearly a three-year stint. I can't help but think that the timing of his departure is related to last week's announcement of the closing of the silver investigation and other regulatory matters involving JPMorgan, but putting all these events into a provable thesis is impossible. To many (outside gold and silver circles) Meister was a tough director (with tough meaning good). To those in precious metals circles, he dropped the ball. I'm still sensing that there is a connection to all these developments and the net effect is that the silver manipulation will end sooner rather than later and that the CFTC isn't after JPMorgan publicly on silver because that might put the bank and the financial system at too much risk. I did find it fascinating that in the story breaking the news on Meister's resignation, the key issue in the London Whale debacle has been narrowed down to the size of JPMorgan's position being so large as to be automatically manipulative (about mid-way in the article). That's the issue in silver and gold.  
<http://dealbook.nytimes.com/2013/09/30/c-f-t-c-s-enforcement-chief-to-depart/>

### JPMorgan's Real Crime

With all the regulatory fines and settlements surrounding JPMorgan (and other large banks) for infractions in everything from mortgages to credit cards to energy market manipulation, it's easy to lose track of the real wrongdoing. The real crime was the damage the wrongdoing did to innocent customers, often those in no position to cope with the heartbreak of losing one's home or being harassed by collection agents on credit card balances inflated with all sorts of fees or paying unnecessarily high utility bills due to electricity prices being rigged. Not every bank customer was innocent, but enough were that the billions of dollars in cumulative fines seem proportional.

These large settlements of billions of dollars for wrongdoing do not reflect positively on JPMorgan's management or board of directors. The nation's largest and most important bank clearly had a serious lapse in upholding the ethics and integrity of what should be an institution beyond reproach. Hopefully, JPMorgan and its directors have learned from past mistakes. The test of that may be in what happens in silver.

If the real crime was in how JPMorgan damaged its customers and the public in the various regulatory wrongdoings to date, then what's the real crime in the silver manipulation? Obviously, many silver investors have been damaged by JPMorgan's short market corner on the COMEX for the past five and a half years, but I believe most of them will be compensated by higher silver prices to come. The real victims of JPMorgan's short market corner have been the producers of silver, including mining company investors and employees, as well as silver exporting countries; all have lost revenue due to silver prices being artificially depressed by JPM and other commercial traders on the COMEX. Even as silver prices move higher over time, the damage to producers for silver produced and sold at artificially depressed prices remains.

In fact, I think the potential liability that could accrue to JPMorgan and the CME Group as a result of the long term manipulation in silver is at the heart of why the CFTC won't go after JPMorgan openly for fear of what the repercussions might be. But even if the CFTC can't go after JPM openly, that doesn't mean the bank can continue to manipulate silver prices indefinitely. The real crime that JPMorgan has committed in silver has resulted in a distortion of the silver market that must be confronted at some point because it has created a preposterous circumstance.

The preposterous circumstance is that the revenue to silver exporting countries is set by the same illicit pricing mechanism on the COMEX that is bedeviling silver investors, because the COMEX sets the price for silver worldwide, by means of HFT computer scams and JPMorgan's short market corner. Mexico, Peru, Australia, Russia, Poland, Bolivia and Chile, among other silver exporting nations have been shortchanged by JPMorgan ever since the bank inherited its concentrated short position and market corner from Bear Stearns in 2008. Making it worse is that the US, as a big silver importer (net 150 million oz), has profited from the crooked pricing on the COMEX as a country, adding credence to the allegation from many that the US Government is involved in the manipulation. I'm not sure of that, but those inferences could easily be made by the silver exporting countries, some of whom feel bossed around by the US.

In addition to tricking and cheating technical funds and speculators on the COMEX, JPMorgan and other commercials have inflicted real damage on real silver producers. This is the real crime in silver as I see it. Since JPMorgan has held a continuous and varying short market corner in COMEX silver for five and a half years, the bank becomes the logical target for reparations and damages, although should action come from the exporting countries, other entities, including the CME, could be dragged into it, as these things tend to snowball once initiated.

It is when you contemplate the absurdity of an insider-run electronic exchange in New York determining the revenue of an exporting country through computer games and uneconomic market corners and not real supply/demand factors, it becomes apparent that this is a set up that could fall apart quickly as and when the exporting countries become cognoscente of it. What JPMorgan and the CME are doing to the silver exporting countries of Latin America is not much different, to me, that what the Conquistadors did centuries ago. There's just a different method to stealing the silver. Throw in a silver exporter like Russia that likes to go toe to toe with the US on many issues and it's easy to imagine a legal challenge that with punitive damages could climb to many billions of dollars cumulatively.

If I were a director of JPMorgan, I would be questioning why the bank should engage in silver trading given the legal liability that might come to haunt the organization, much as the current legal settlements have come home to roost. The main function of a director is to insure the proper governance of the bank and to protect its integrity and reputation. Cheating the citizens of silver exporting countries, which is what JPMorgan has done since acquiring the short market corner from Bear Stearns, is not the way to preserve integrity and reputation.

Will the silver exporting countries stand up for their citizens and move against the silver manipulation? No one can know that, but with silver prices at or below the cost of production in many cases, there is more urgency to do so than if silver prices were riding high. But just the possibility that silver exporting countries might do so, is something a bank director must be concerned with. Alternatively, I suppose JPMorgan could explain to all why the bank's short market corner in COMEX silver has not manipulated prices, but that was something the CFTC avoided at all costs.

The best course for JPMorgan, in my eyes, is to end their involvement in silver post haste and avoid potential litigation before any exporting country or company moves against the bank. Investors had previously moved against JPMorgan on silver, but that attempt was turned back. The exporting countries would seem to have more damages, a better case and deeper pockets.

It's my best guess that JPMorgan may be looking to end the silver scam, as I have been writing recently. This silver manipulation is getting old and JPMorgan is being identified as the prime manipulator more and more. This very specific illegal activity becomes more apparent daily as prices fluctuate for no sound economic reason. Things that must and should end will end eventually. And if the silver exporting companies don't move against JPM, the eventual loss to production from depressed prices will end the scam in time.

A few more words about the price action yesterday and today. Yesterday's big price smash looked like a text book COMEX jam job and took prices to two month lows in gold and silver on heavy volume. Undoubtedly, there was big commercial buying yesterday and tech fund selling (most likely new short selling). Today we came back substantially in price on not as heavy volume as the day before. Yesterday was much more emotional in that investors seemed to be disgusted in the manner and timing of the sell-off. That the US Government actually shutdown is counterintuitive to what 99% of observers would have expected. The only reason for the sell-off was a price takedown on the COMEX that enabled JPMorgan and other commercials to buy gold and silver contracts.

One question is did the commercials sell today everything they bought yesterday? Based upon volume statistics, I don't think so, with favorable implications for higher prices. The bigger question is if the current favorable COT structure is what limited what should have been further speculative selling on yesterday's weakness. More than any price I could pick, the bottom of this move will be seen when we run out of new speculative sellers. There is ample reason to guess that we may have run out of those sellers yesterday since the price action demanded that if you were technically oriented, you would have had to sell yesterday. It's the no follow through to the downside that's most encouraging, as was the relative strength in silver compared to gold on the sell-off. That said, if we are headed lower to suck in new speculative shorts that should occur soon.

What's interesting is that JPMorgan appears to be holding its lowest short position in COMEX silver over the past five and a half years. I had pegged JPM at 14,000 contracts net short in silver before yesterday's route and now I would peg them to be under 12,000 contracts. I'd also put JPM's long gold corner to be near 70,000 contracts, not that far from the peak of 85,000 contracts long at the beginning of August and very, very far from the 75,000 gold contracts they were net short in December. Therefore, JPMorgan looks good to go on the upside.

The biggest question of all remains the same  $\hat{A}$ ? will JPMorgan add new shorts on the next silver rally? That's the key to future silver prices. If the bank does add silver shorts, the manipulation continues. If it doesn't the manipulation should be over.

One housekeeping note. A few subscribers have notified us that they haven't been receiving email alerts when a new article is posted. 90% of the time the problem is due to some type of blocking feature in the subscribers email system, like spam blockers. Please let us know if this happens to you, but remember that I try to publish regularly at around 3 PM (NY time) on Wednesdays and Saturdays, so if it is past that time, don't wait for an alert to check the site for a new article.

Ted Butler

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Silver – \$21.75

Gold – \$1317

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