

October 9, 2019 – The Institutional Silver Lie

Of all the repugnant traits that can be attributed to anyone, perhaps the most obnoxious is to be considered a liar – someone who deliberately misstates the truth for the express purpose to deceive. From the Ten Commandments (“Thou must not bear false witness”) to George Washington (“I cannot tell a lie”), there are fewer sins worse than lying – heaven forbid the habit becomes imbedded in a child or loved one. And while lying is obnoxious on a personal level, it is much worse on an institutional basis, because the intent is to deceive many more. Also, it generally takes much longer to discover that an institution has lied.

I’ve been thinking a lot about the institutional lie in connection with the silver (and gold) manipulation. Manipulation is the most serious market crime of all because it damages even those not willfully engaged in the artificial price setting. That is why its prevention is the main mission of the regulators and leading participants. These are the institutions we depend on to make sure every effort is taken to assure free and unfettered markets. Sadly, in the case of the silver manipulation, the opposite has evolved, namely, we are living in an age of a great institutional lie. Let me cite a few examples.

First is the US Commodity Futures Trading Commission (CFTC), which quite brazenly, published two lengthy public letters in 2004 and 2008, asserting there was nothing wrong with the concentrated short positions in COMEX silver futures, alleged to be the nexus of the silver price manipulation. The second public letter, in May 2008, came two months **after** the largest short seller on the COMEX, Bear Stearns, failed and needed to be taken over by JPMorgan, most likely as a result of a price run up in silver and gold.

The CFTC had to have been aware that the largest and most concentrated short seller, Bear Stearns, failed precisely because it was so heavily short, yet it neglected to make any reference to the most serious instance of what can go wrong with a concentrated short position. This wasn’t a simple oversight on the CFTC’s part, but an intentional effort to deceive, as I wrote at the time.

<https://www.butlerresearch.com/dec-20-2009-one-lie-after-another/>

One of the Commissioners to which I sent a copy of this old article was Bart Chilton, which as it turned out, verified in the last interview he gave before his untimely passing earlier this year that the agency was up to its eyeballs trying to deal with JPMorgan’s excessive concentrated short position at the time of the May 2008 public letter. Even the initiation of a formal silver investigation later that year in September eventually omitted any reference to JPMorgan’s involvement. There isn’t enough brown bar soap in existence to wash out the lies from the mouth of the CFTC, as would be administered by my dear departed grandmother. Worse is the continued absence of the CFTC in dealing with the silver manipulation to this day.

But the CFTC is hardly alone in perpetuating the great lie that silver has not been manipulated in price. While the leading participant in the silver manipulation since 2008, JPMorgan, hasn’t said much about allegations that it is the prime manipulator; what it has said about its own involvement is nothing short of a bold-faced lie. As proof that JPMorgan has openly lied about its role in the silver manipulation is the public interview given by JPM’s then-head of commodities, Blythe Masters, in

April 2012.

<https://www.youtube.com/watch?v=gc9Me4qFZY0>

Ms. Masters states clearly that JPMorgan does not trade for its own account and merely helps clients with their hedging and investment goals in silver. As head of commodities, one would think she would be in position to know. However, the record would seem to invalidate her statements, by JPMorgan's massive stopping of COMEX futures contracts in its own house or proprietary trading account. A clearing member firm must disclose whether it takes or makes delivery for clients or itself. So either JPMorgan was lying to the clearinghouse (the CME) when it declared it was stopping silver (and gold) in its own account and not for clients or Ms. Masters was lying when she declared JPMorgan doesn't deal in silver on its own behalf.

Moreover, the recent indictments and previous guilty pleas of JPMorgan traders by the Justice Department indicate clearly that JPM's traders were operating on behalf of the bank itself and not for clients. The DOJ went so far as to explain that JPM's traders intentionally traded against the interests of the bank's own clients. That's a funny way of assisting clients, as Ms. Masters asserted. To be clear, many of the announced charges occurred on Ms. Masters's watch, which lasted until 2014. As I indicted earlier, it often takes a long time to discover an institutional lie.

Finally, there is the ongoing lie by the Justice Department (and the CFTC) in its refusal to acknowledge the serious underlying motives and actions behind JPMorgan's manipulation of silver and gold. The DOJ has openly acknowledged that it is investigation manipulation in precious metals, centering on the COMEX and JPMorgan, but refuses to even consider easily provable allegations that JPMorgan has never suffered a loss when adding to silver or gold short positions for more than a decade and has used its ability to depress prices to acquire a massive amount of physical silver and gold for itself.

To pretend to investigate but to deliberately overlook the most serious aspects of the investigation is a lie by any other name, since the intent is the same, namely, to deceive. We could argue as to why the Justice Department is deliberately deceiving the public into believing that it is engaged in a true investigation of precious metals manipulation, but there can be no disagreement that, if it wanted to, the DOJ could quickly determine the veracity of whether JPMorgan has a perfect trading record and has amassed massive quantities of physical silver and gold. Not to look is not only a lie, but also brings shame on the Justice Department for running a bogus investigation. I never would have imagined that the FBI - the Federal Bureau of Investigation - would refuse to fully investigate any matter it was involved in.

So what can be done when our leading institutions (the DOJ, CFTC and JPMorgan) engage in an open and continuous lie about a matter as important as market manipulation? As an analyst, it seems to me that openly stating the case as clearly as possible is the best course. Accusing the Justice Department, the CFTC and JPMorgan of intentional deception is not an everyday occurrence or one without potential blowback, but their collective conduct is deplorable, particularly considering the severity of the deception. The ongoing silver and gold manipulation will come to an end, but it is regrettable that end will not be at the hands of our leading regulatory and law enforcement institutions, even after the investigation was underway.

Turning to other matters, gold and silver prices have seesawed this week, both below and above the key 50 day moving averages, with Monday's price weakness bringing some relief to the 7 big

commercial shorts that has largely evaporated as I begin this piece today. I'll give a current update of the big shorts' financial standing when to send this article out later.

As far as what to expect in this Friday's COT report, both gold and silver ended the reporting week yesterday higher on the week, gold by \$15 or so, silver by 40 cents. Not a firm prediction, but I would imagine some moderate amount of managed money buying and commercial selling in each, but don't take that to the bank. I'll be most interested in the details under the hood, particularly what JPMorgan may have been up to.

It still seems to me that the central point is the fate of the 7 big COMEX shorts and whether they will be able to trick the managed money traders into selling heavily — especially as regards new short selling in silver. I will certainly concede that the big shorts have weathered the storm to this point as far as coming up with the required margin needed to be deposited to offset the large open losses. But can they handle another surge upward in price that will add to even greater open losses? What amount of additional losses can they handle?

The best hope for the big shorts is a slam down in price in which the managed money technical funds trip over themselves to sell and go short in their typical Pavlovian response to falling prices. Sadly, I sense the Justice Department and CFTC, to say nothing about JPMorgan, are also pulling for this outcome since it will defuse, temporarily, the problems associated with a big commercial short giving up (like Bear Stearns) on higher prices. This not a role, of course, that the DOJ or the CFTC should be in, but is the natural result of each regulator turning its back on the rule of law. Refusing to do your job and then lying about it on an institutional level does have serious consequences.

Unless I missed it, here's something I've not seen mentioned elsewhere. The big shorts were successful in rigging a sharp selloff into September 30, the last day of the third quarter and more of an institutional financial mile marker than for others. In a matter of 4 or 5 trading days, the shorts were successful in rigging gold prices \$70 lower and silver by nearly \$2, shaving nearly \$2.3 billion off their combined open loss over that time. I'd love to hear an alternative explanation for why gold and silver prices suddenly fell to nearly two month lows right into the quarter end (just please not the Golden Week holiday in China excuse). This is yet another compelling proof of manipulation that the regulators will be happy to ignore.

Of course, while the big shorts were successful in rigging prices lower into the quarter end and did buyback a portion of their short positions, particularly in gold, it remains to be seen how successful they will be in closing out the bulk of their short positions. The overt price rig and partial short covering into Sep 30 is one thing, but a complete close out with minimal financial damage may be something else. After all, it's still hard to visualize how the big shorts allowed themselves to get so deep into a financial hole except as a severe miscalculation, suggesting something less than their typical total control of the past. Add in the fact that JPMorgan is still in an ideal position to double cross the other big commercial shorts and the eventual outcome is anything but assured.

That we have to endure and wait out the near term resolution is somewhat regrettable, but it is more encouraging that weâ??ll get to see which it will be â?? either one more manipulative shakedown followed by the real liftoff in price or a liftoff without a final shakedown. Short term price movements and outside news developments donâ??t provide, at least to me, much real clue as to which outcome it will be. Please donâ??t misunderstand, as I do focus (obsess) about such things; itâ??s just that they donâ??t matter much to the eventual resolution.

At publication time, prices for gold and silver are little changed to a bit higher from Fridayâ??s close, meaning a slight worsening in the collective open and unrealized loss for the 7 big COMEX shorts in gold and silver, along the lines of \$100 million or so. That would place the total open loss at around \$3.8 billion. Aside from the very recent times in which gold and silver prices have been higher, the current open loss is still the largest in history.

Ted Butler

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Silver – \$17.80Â Â Â Â (200 day ma – \$15.87, 50 day ma – \$17.62)

Gold – \$1512Â Â Â Â Â Â Â Â (200 day ma – \$1368, 50 day ma – \$1511)

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