

September 30, 2015 – The Main Theme

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If there is one thing that I try to do, it is to attempt to present the most important price influences on silver (and gold), both in the here and now and for what will be. That's not always easy, particularly at times like now, when there are more new financial developments in memory; including stock market volatility, troubles at giant resource and trading companies (like Glencore and Trafigura) and more new political and world events than seem possible. It's easy to get sidetracked and veer off into over concentrating on factors that may prove temporary.

The main theme in silver is that it is a vital industrial commodity and elemental world investment asset that is both scarce and rare and, at the same time, exceedingly undervalued. The undervaluation is due to an artificial mispricing on the world's most important precious metals exchange – the COMEX – that meets every criteria of price manipulation. The artificial low price creates the potential for large investment gains in a relatively short period of time and, in fact, of all commodities and investment assets, silver has a unique history of large and quick price gains.

Silver also has a rich history of long periods of dismal price performance and sharp selloffs; owing to the same artificial pricing mechanism of the COMEX. Certainly, existing silver investors can attest to the current long period of price erosion, now more than four and a half years old, in which prices are down 70% from previous price peaks. And if there has been any actual supply/demand fundamental responsible for this last bout of dismal silver price performance (other than the COMEX manipulation), I am unaware of any such development.

Starting in late 2008, thanks to correspondence from the CFTC to various elected officials, I was able to confirm the identity of the largest COMEX short seller and chief silver price manipulator, JPMorgan. For the 23 prior years that I had studied silver closely, I never had concrete proof of who was the big short. Since that time, it has been nothing short of remarkable just how much this one bank has continued to dominate the world of silver. I can't think of one subset of the world of silver where JPMorgan has not dominated and that includes paper and now actual COMEX silver dealings, purchases of Silver Eagles and Maple Leafs from the US and Royal Canadian Mints and metal conversions from the big silver ETF, SLV. I can understand why some might think I have obsessed on JPMorgan's dealings in silver, but to my mind I have just followed the flow of facts.

Now there is a new fact proving JPMorgan's price dominance in silver. Actually, it's not a brand new fact in that I have discussed it previously, but only on a limited number of occasions. I'm referring to the new Office of the Comptroller of the Currency's quarterly report on the Over the Counter (OTC) derivatives held by US banks. The OCC is part of the US Treasury Department and I have reviewed its quarterly derivatives report for more than 15 years.

I don't usually dwell on this report much because it's not particularly data rich, in that it leaves out much information more than it includes. In addition, the OCC report is nowhere near as timely as the weekly COT report from the CFTC, in that it comes out every three months and is always delayed three months – the newest report is as of June 30, 2015. Aside from the reporting delay (remember, the COT report is only delayed by three days), the OCC report tells very little, like whether the banks in question have a net long or short exposure and just reports the total notional value of OTC derivatives contracts held.

OTC derivatives are similar to futures contracts traded on exchanges (like the COMEX) and differ from exchange listed transactions in that they are direct principal to principal transactions and are not –cleared– or guaranteed by a central exchange. Mostly, the entities involved in OTC derivatives, commonly referred to as swaps, are large banks and large trading companies (like Glencore).

While the details in the OCC report are not particularly insightful, the one thing that the report does indicate is the identity of the US banks involved in OTC derivatives – this in marked contrast to the COT and Bank Participation reports, which tells you almost everything except the actual identity of traders (which is why the CFTC's correspondence in 2008 about JPMorgan was so significant). Also, while I can't quite remember a time when JPMorgan was not the largest US bank involved in OTC derivatives concerning silver, the new OCC report is still instructive.

<http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/dq215.pdf>

The only table that matters to silver is table 9, which is near the bottom of the report. There was a recent change by the OCC in which it removed gold from precious metals reporting in table 9 and gold is now included with foreign exchange derivatives, so table 9 is mostly a –white– metals category (silver, platinum and palladium) of which silver is thought to be the main component.

As table 9 indicates, JPMorgan holds more derivatives involving silver than any other bank. (In the previous quarterly report, the OCC listed Citibank as the biggest holder of these derivatives, but in hindsight, it looks like the agency put its decimal point in the wrong place; an error not repeated in the new report). What the new report indicates is that JPMorgan holds more than \$20 billion in total silver derivatives, compared to Citi's \$5 billion. Moreover, JPMorgan's silver derivatives position increased by 50% or \$7 billion in the quarter, an enormous increase with no corresponding increase by any other US bank. The only conclusion is that JPMorgan's counterparties had to be foreign banks or non-bank trading companies (like Glencore or Trafigura).

Most importantly, JPMorgan holds nearly 60% of the total \$35 billion worth of OTC silver derivatives held by all US banks. There is no instance, as far as I know, where a 60% market share would not be considered to be in violation of US antitrust policy (except for an excluded and permitted monopoly Â? like a power company). To say that JPMorgan does not monopolize OTC derivatives contracts involving silver would be wrong according to the OCC report.

But it is not only that JPMorgan has a monopoly in OTC silver derivatives, the bank has a monopoly in everything related to silver. JPM holds the lion's share (more than 40%) of total COMEX silver warehouse inventories, the second largest stockpile of silver in the world, after starting with zero in early 2011. JPMorgan has taken more deliveries on COMEX silver futures than any other entity this year (20 million oz). JPMorgan has purchased more than 100 million oz of Silver Eagles and 30 million Maple Leafs over the past 4.5 years, singlehandedly accounting for the current retail shortage. As custodian of the SLV, the largest visible silver stockpile on earth, JPMorgan had an inside advantage in converting shares of the ETF into non-disclosed metal over the past 4.5 years and must be considered the prime agent behind the counterintuitive deposits and withdrawals of metal from the fund as I've been reporting for years. And it's well established that JPMorgan first came onto the short side of COMEX silver in 2008 and held as much as 40% of the entire market.

On every measure possible, from government documented COMEX and OCC reports, to exchange issued warehouse reports, to sales from the US and Canadian Mints and to ETF public disclosure, JPMorgan dominates silver. I would ask you Â? how crazy is this? Was not the thrust of regulatory reform, specifically Dodd/Frank and the Volcker Rule, intended to prevent exactly what JPMorgan has established in silver? Or was the whole effort in regulatory effort a smokescreen to hide the obvious? (No answers necessary, as that's rhetorical).

The obvious point, at least to me, is that the main theme in silver has been and continues to be JPMorgan. It started when the bank took over Bear Stearns' massively concentrated short positions in COMEX silver and gold futures and continued on the short side until April 2011, when JPMorgan stared into the abyss as a wholesale silver shortage began to develop. It was at that point when JPMorgan decided to continue to use its price control on the COMEX, not just to continue to profit from paper dealings, but to use its price control to acquire as much physical silver on the cheap that it could.

Now that JPMorgan holds close to 400 million oz of physical silver by my estimates, the stage is set for prices to reverse upward (whenever JPM decides) for the simple reason that will benefit JPMorgan the most at some point. That's the whole point of the unarguable monopoly that JPMorgan has established in silver. Had you told me any of this seven years ago, when I first discovered that JPMorgan was the big silver crook, I would not have believed you. I would never have anticipated that JPMorgan would or could arrange to continue the silver manipulation for seven years longer and end up accumulating the largest privately-owned holding of physical silver in history. But having observed these market criminals do just that on a day-by-day basis over the years, I don't believe my eyes are deceiving me.

I go into what JPMorgan has done, along with the facts surrounding it in a new interview with fellow subscriber Dr. Jeff Lewis

<https://www.youtube.com/watch?v=H9eJnyMbws0>

On to developments since the Saturday review, it appears not much has changed, namely, everything about silver is bullish except the price. The US Mint continues to report that it is producing and selling Silver and now Gold Eagles at maximum capacity, with the only difference being the Mint has been struggling to keep up with demand for Silver Eagles for 4.5 years, while demand for Gold Eagles has exploded over only the past 4 months.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The standout feature connecting Silver and Gold Eagle sales is that during the vast majority of time over the past 4.5 years, regular retail demand was lacking in Silver Eagles and regular retail demand in Gold Eagles has been lacking over the past 4 months. I know there are non-stop reports of surging demand for retail silver products and not for a moment do I deny that there exists all the signs of a shortage in retail forms of silver (not in gold). What I take issue with is what brought about the silver retail shortage. Best as I can determine, the current retail silver shortage was not created by regular retail buyers, but by the crooks at JPMorgan. It's not even a little that the retail silver shortage was caused by broad based retail buying; from where I sit it was all JPMorgan.

It's not that I look exclusively at potentially bullish factors for silver and intentionally overlook potentially bearish factors; it's more that I don't see any bearish factors away from the COMEX manipulation. I've been meaning to bring up another issue that could hold important bullish implications for silver. Prices of many important world commodities and metals have been hammered lower; including copper, lead and zinc, all of which have been trading at fresh five year price lows. Especially in copper, there has been an artificiality to the price decline I attribute to COMEX futures positioning (including today's 4% copper price rally).

Regardless of whether the price declines in copper, lead and zinc are as manipulative as I suggest, the impact on the mining companies that produce these metals is as real as rain. As to any company in this space, the price declines have been horrendous and that is fully reflected in reported earnings and stock price performance. It is also a fact that these three metals account for more than 50% of total silver mine production which is derived as a by-product.

Unless copper, lead and zinc prices recover substantially and soon, mine production will likely be cut, including silver by-product output. This was always the case with silver by-product output, namely, that it was captive to the production of these three base metals. What makes it different at this time, is that I don't recall a previous occasion where this base metal production was in such jeopardy of being cut as is the case presently.

Certainly, no one would advance that it is likely for copper, lead and zinc production (and with it silver by-product output) to increase substantially under current price considerations. That's what is so special about silver – everything is bullish except for the crooked COMEX price setting. And it is that crooked price setting behind this week's price weakness in silver and gold.

Immediately following the release of what had to be considered a disappointing COT report, in which the commercials sold the equivalent of 50 million oz of silver and in which the managed money traders bought even more; prices were hammered first thing Monday morning in the usual manner. Silver prices were set below the important 50 day moving average on virtually no volume and then managed money selling came in after prices were set lower. This is probably the most important takeaway and key to understanding the COMEX manipulation. Prices are set (higher or lower) on little volume by commercial traders utilizing HFT and computer algorithms for the precise purpose of then getting the managed money traders to buy or sell. Just because it is painfully repetitive and obvious doesn't mean this isn't what is occurring.

Gold largely resisted the sharp price breakdown in silver until today, when it too penetrated its 50 day moving average intraday. As was and is the case in silver, there doesn't appear to be much particularly negative to gold prices, what with consistent reports of buying by China and India; except for the continued gaming of managed money traders by the commercials on the COMEX. One would think those most interested in gold would speak out against the price setting on the COMEX, because just like in silver, this is the main theme behind gold prices.

I remain reluctant to predict short term prices given how crooked the market has become, but still view the shockingly low prices in silver as an accident waiting to happen to the upside. And with JPMorgan having accumulated hundreds of millions of ounces, that makes the upside accident more likely to occur. Just don't ask me when.

Ted Butler

September 30, 2015

Silver – \$14.50 (50 day moving average – \$14.81)

Gold – \$1116 (50 day moving average – \$1117)

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