September 7, 2012 – The Bank Participation Report

The Bank Participation Report

Before I highlight the Bank Participation Report for September (which was released a bit earlier than usual), I'd like to correct and retract some analysis in Wednesday's article. I made a big deal about the turnover in the silver holdings in SLV as a further indicator of physical tightness. Silver still appears to be tight on a wholesale basis, but not because of SLV inventory turnover. The cause of the turnover is due to a vault transfer from one of the JPMorgan (the Trust's custodian) vaults in London to a separate vault run by Brinks. I don't know what I was thinking to miss that explanation, but since I'm getting a bit long of tooth anyway, how about I call it my first public senior moment and leave it at that.

Yes, I'm embarrassed, but it does not detract or change any of the other signs pointing to tightness like COMEX warehouse turnover and the shorting issue in SLV. It's a pet peeve of mine when anyone publishes incorrect information or opinion and never bothers to acknowledge the error, even after it becomes obvious. I don't want to fall into that trap, so disregard my rant on SLV inventory turnover. I would never write anything I knew or learned to be incorrect (without admission). That's important because I do make some extreme statements (like silver is manipulated).

The new Bank Participation Report indicates a surge in US bank short positions of COMEX silver futures of more than 8000 net contracts, to almost 29,000 net contracts from the prior month. http://www.cftc.gov/dea/bank/deaSep12f.htm I net the figures out arithmetically (by subtracting gross longs from gross shorts) because it understates what may be an even bigger short position in reality. This is the largest net short silver position for US banks since November 2010.

The statistics are through the close of business Tuesday, Sept 4. This is the same cut-off date as for the weekly COT report, which will be released later today. In a sense, early releases of Bank Participation reports give you a sneak preview of the COT, since both reports are based upon the same data. There are usually no big surprises in any BP report since the weekly COT reports presage the monthly report. An early BP report release can sometimes tell you what happened in the latest COT reporting week before publication.

The new BP report confirms the big recent increase in the concentrated short position of JPMorgan and suggests that position has grown to 24,000 contracts. That's the equivalent of 120 million ounces and represents an increase of over 70% in JPM's short position by 50 million oz, from the 14,000 contracts it held in the July BP report. I'll know more after the COT report later today and will detail that in tomorrow's weekly review.

What I think I'll report tomorrow is how JPMorgan has created a risk to all silver investors and market participants by increasing their concentrated short position to levels that must be considered dangerous and over the top. This is a bit like the movie Â?Groundhog's DayÂ? where everyone is trapped in a repetitive loop. Only this is no comedy. On Feb 29 this year, I wrote an article called Â?Betting the Bank?Â? (in the archives) in which I reported how JPMorgan had increased their net short silver position to 22,000 contracts which was up 70% from the December lows. That proved to be the very top of the silver price rise (not that I predicted that) of $10 from December. Here we are again. I'm not predicting what will happen this time, except to say that JPMorgan is at the center of whatever will transpire. That's the problem Â? no market should be determined by the actions of one participant.

Just like was the case in Â?Betting the Bank?Â? JPMorgan holds close to 25% of the entire net COMEX silver futures market (minus spreads). That is preposterous. The COMEX is the largest precious metals exchange in the world and it is impossible for any single entity to hold such a large percentage of any major market (on either the long or short side) and for that not to be manipulative to the price. Worse, JPMorgan, as I have been reporting, appears to be the only recent commercial short seller in COMEX silver. The CFTC and the CME Group should be drawn and quartered for allowing this circumstance to exist.

I can't tell you how this extreme market circumstance will be resolved. I don't know if JPMorgan will succeed is causing a big drop in price (like most often occurs) or whether their big short will blow up in their face (like I hope). I only know how I'm playing it, namely, to the upside. That's because if JPMorgan does get overrun to the upside, it will cause the price of silver to explode and I'm not prepared to miss such a move. Maybe that's what the recent price rally is all about. But that doesn't mean I'm going to sit and hold and be quiet about it.

A couple of weeks ago, a long-time subscriber gave me a wonderful suggestion. Reader Andy R. pointed out a Wall Street Journal article which reported that a highly respected member of JPMorgan's board of directors had been given oversight of the investigation into the big derivatives loss by the Â?London Whale.Â? The director, Mr. Lee Raymond, is the former CEO of Exxon-Mobil and was said to have the highest reputation for integrity and doing the right thing. Andy's suggestion was to write to Mr. Raymond about the bank's role in the silver market. I'm embarrassed that I didn't think of it myself.

I did take Andy's advice and kicked it up a notch by writing (by snail mail) to Mr. Raymond and all other members of JPM's board about my allegations and included a recent article in which I did tear into JPM (Â?Staying FocusedÂ? Aug 22 in the archives). For all I know, the directors may be unaware of the allegations of silver manipulation swirling around JPMorgan. Hopefully, this may help resolve the matter and if I don't hear back from them, I'll probably make my letter public at some point. But I also want to be careful about doing the right thing and I want to give them time to respond or act on the matter. Certainly, an allegation of the bank manipulating the silver market is a matter that rises in importance to the director level. I just can't believe I didn't do it sooner. Thanks, Andy.

Ted Butler

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Silver – $33.50

Gold – $1737

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