

April 27, 2016 – COMEX Silver Cartel

The COMEX Silver Cartel

I continue to be amazed about the growing degree of attention placed upon the data in the CFTC's Commitments of Traders (COT) Report in the analysis of gold and silver. In fact, I'm hard-pressed to imagine how coverage of this data could gain much greater penetration than already achieved. Recently, I've observed that even some die hard advocates who insisted previously that the data was all phony, cast those criticisms aside and have presented fairly decent analysis of the data. I believe this is as it should be, considering the timeliness and importance of the data and the straightforward nature of how the report is compiled.

That's not to say that most new observers don't find the COT report to be a hodgepodge of numbers, confusing enough to ignore or to relegate its interpretation to others. Life is complicated enough without having to acquire a new discipline requiring long study. I can identify with this because as I get older, I find myself consciously deciding which matters I choose to get interested in and find that I pass on more than ever. Despite the apparent complexity of the data, some things matter more than others and when it comes to analyzing gold and silver, it is no surprise to me that there is more focus on the COTs than ever before.

If anything, most of the growing attention to data from the CFTC regarding gold and silver is a relatively new phenomenon, developed over the past few years. However, the data have been available (in different forms) for more than 30 years. I'm convinced that more are gravitating to the COTs because the reports have explained and predicted price movements better than anything else; not perfect by any measure, but better than the alternatives.

But I remain convinced that the most important feature of the COT reports from the CFTC is something else entirely, namely, that they prove unequivocally that silver has been manipulated in price. How so? Well, it seems that there is a feature of the COT reports that few focus on; yet this feature proves that silver has been and is manipulated in price. Embedded in every long form COT report are concentration data for the four and eight largest traders both on the long side and short side of every market.

Subscribers know that I talk about this data consistently, but very few other commentators do so. Perhaps this is due to the manner in which the CFTC discloses the concentration data. Instead of being published in numbers of contracts, as is the rest of the COT report, concentration data is given as a percentage of total open interest; meaning one has to multiply total open interest by the posted concentration percentage to derive at the number of contracts held by the largest traders. In other words, you have to hand figure the numbers.

The reason the concentration data are so important is because it is impossible to have a market manipulation without a concentrated position. Pure and simple, this is why the CFTC maintains and publishes concentration data – because this is the frontline defense against manipulation – the agency's primary mission. I am convinced that the CFTC would much rather not have to publish the data in COMEX silver, because the data show such an extreme degree of concentration on the short side as to make it impossible to explain in legitimate terms.

Simply put, concentration is the same as an unauthorized monopoly or a price fixing cartel, like OPEC in oil or DeBeers in diamonds. The prime intent of US antitrust law and US commodity law is to prevent a few large entities from banding together as a cartel to set an artificial price level different than what free market supply and demand would dictate. Yet despite the CFTC's clear mandate to prevent price manipulation, it continues to publish data which indicate that a cartel exists on the short side of COMEX silver futures.

This is not a new issue for me. In fact, I used this same title for an article that I wrote more than 15 years ago on this same topic – concentration and manipulation by the COMEX silver cartel. For those who may not be familiar with the history of the CFTC's failure to fulfill its main mission when it comes to silver, this is the issue that ultimately led to the agency's public responses in May of 2004 and 2008 that there was nothing amiss in silver, including the opening of a five year investigation into silver in September 2008 that led nowhere.

<http://www.silver-phoenix500.com/article/comex-silver-cartel>

Far from ever satisfying the public's demand that the manipulation in COMEX silver end, the issue of concentration and a COMEX silver cartel has only gotten worse. When I complained about a short side concentration in 2000, the four largest traders held a short position of 160 million oz. Current COT data indicate the short concentration is now double that at close to 320 million oz. Then and now, the COMEX silver cartel on the short side was and is the largest concentrated position of any commodity. This is the heart of the silver manipulation and I am hopeful that those behind the legal efforts against several big banks in the London Fix stumble onto the COMEX silver cartel and end the manipulation.

A lot has occurred since I wrote the original article more than 15 years ago. The biggest (most concentrated) short in COMEX gold and silver, Bear Stearns, went belly up in early 2008 and JPMorgan stepped in and took over the role of biggest silver short and cartel ringleader. Having now amassed perhaps 500 million oz of physical silver since 2011, JPM is no longer a naked short (as they were thru 2011) but is now big net long, despite still retaining a large COMEX paper short position. But COT data, as well as the data in the Bank Participation Report point to some alarming new information about the nature of the current COMEX silver cartel.

While I await the Bank Participation Report to be released on May 6, to hopefully uncover a clearer line on just what JPMorgan may be up to, I'd like to discuss some new findings in recently released Bank Participation Reports, which invite some pretty ugly conclusions. To be clear, there is limited concentration data published in the monthly Bank Participation Report, but when combined with the concentration data in the weekly COT report, some reasonable conclusions are possible. As you probably know, the source for both reports are the same, namely, data retrieved as a result of the CFTC's Large Trader Reporting System.

While I have focused most of my attention on JPMorgan (and I believe rightly so), new evidence has emerged indicating that the bulk of the members of today's COMEX silver cartel are comprised of foreign banks. The Bank Participation Report indicates the holdings of US and non-US banks, including the number of banks and the percent such banks hold on the long and short side of every covered futures market. (Unlike the COT reports for which the CFTC maintains and publishes data going back many years and decades; Bank Participation Reports are limited to two years only).

<http://www.cftc.gov/MarketReports/BankParticipationReports/index.htm>

Over the past two years, a number of patterns are visible in the monthly Bank Participation Reports. In addition to COMEX silver futures having close to or the largest US and non-US bank percentage holdings on the short side of nearly every physical commodity market, there has been a decided shift in pattern between the short holdings of US and non-US banks in COMEX silver. Whereas two years ago it was common for US banks to hold a larger short position in silver than their foreign counterparts that has generally flipped around.

Specifically, since the Bank Participation Report of January (as of Jan 5) until the most recent April report (as of April 5), the net short position in COMEX silver futures held by US banks didn't grow at all, while the net short position held by non-US banks grew from 11,000 contracts to 30,000 contracts (150 million oz). (Since I am subtracting the gross long positions of each category from the gross short positions in order to derive at a "net" figure, I may be understating the extent of the true short positions of each, but certainly not overstating the true size of the net short positions). As of April 5, US banks had a net short position of roughly 18,000 contracts in COMEX silver, while non-US banks held a net short position 66% larger at 30,000 contracts.

In simple terms, since January, foreign banks were the big short sellers in COMEX silver, not US banks. As such, it is easy to conclude that these non-US banks were the critical working element behind the COMEX silver cartel for the three months ended April 5. When it comes to silver, I think JPMorgan is as crooked as a June day is long; but for these past three months, the foreign banks were the big price crooks on the COMEX, according to CFTC data.

That begs a couple of questions, starting with who are these foreign banks shorting silver? The CFTC maintains a policy of confidentiality, but one appear to be the Bank of Nova Scotia, as I indicated on Saturday. What a leading Canadian bank is doing being short mega amounts of ultra-depressed silver is anyone's guess, but it is clearly manipulative to the price of silver. But the evidence of non-US bank concentrated short selling in silver is much more troubling in other ways.

When JPMorgan "rescued" Bear Stearns in 2008, it did so at the request of the US Treasury Dept. and Federal Reserve. As such, JPMorgan was given great leeway in continuing the silver manipulation run by Bear Stearns and used that "free get out of jail card" to maximum advantage, making hundreds of millions, if not billions of dollars in COMEX futures trading (never taking a loss) and in acquiring the largest stockpile of physical silver in history.

But who the heck did the Bank of Nova Scotia or any other foreign bank rescue to deserve the pampered treatment that JPMorgan received? Why is the CFTC and the CME Group allowing and protecting foreign banks in their role as key components of the COMEX silver cartel? Not that JPMorgan would ever need it, but there is no doubt that the US Treasury Dept. and the Federal Reserve would backstop the bank should it get into serious financial difficulty. Moreover, since JPMorgan holds so much physical silver, it can't get into trouble should silver prices explode. But what about the Bank of Nova Scotia or any foreign bank shorting COMEX silver? Does that US Government backstop extend to foreign banks should they get into trouble by being short silver?

And what about the CME Group, the world's leading derivatives exchange? As a systemically important financial institution, what business does the CME have in guaranteeing the concentrated short positions in COMEX silver held by foreign banks? Why should the CME backstop the COMEX silver cartel, when that cartel has done nothing but damage the interests of silver investors and producers?

I know this concentration issue is complicated and that explains how the COMEX silver cartel has been able to last as long as it has; but it's too important to let slide. It comes down to trying to justify how a handful of large traders, increasingly foreign banks, have been able to sell short such massive quantities of COMEX silver contracts to suppress the price.

Take away the 4 or 8 largest shorts in COMEX silver and you take away, effectively, the entire short position. While this is true in some other COMEX/NYMEX metals, it is not true to the extent it exists in COMEX silver. Most importantly, this concentration doesn't exist and would not be tolerated in any important commodity market, like corn or wheat or soybeans or meats or energies. Why is it tolerated in COMEX silver?

The good news is that just as public opinion and commentary has come to embrace the COT report and its analysis, so too will attention turn to the concentrated short position and the COMEX silver cartel, particularly if the legal cases against the banks in the London Fix advance (of which the Bank of Nova Scotia is involved, as well as other members of the COMEX cartel). Sooner or later, the short side concentration in COMEX silver will be resolved.

With analysts and commentators emphatically declaring that silver (and gold) prices are about to plunge or explode given the extreme COT market structure, I continue to maintain that silver prices will explode in time (and perhaps very soon), but the chance for a sharp selloff first still exists. I don't mean to be wishy-washy or talking out of both sides of my mouth, I'm just calling it as I see it. I'm ready for silver to explode forthwith, but also prepared for a sharp stutter step to the down side first (which if it comes, should be the last such decline).

One thing I would point out is that the sharp increase in foreign bank short selling in silver, accompanied by no increase in US bank short selling thru April 5, plays into my JPMorgan double cross premise. I should know more when the May Bank Participation Report is released a week from this Friday, but if JPMorgan has not joined in as a full participant in the COMEX silver cartel on the recent price leg up and the foreign banks are adding to silver shorts on their own, those foreign banks could find themselves in a world of hurt. The whole idea behind a double cross is JPMorgan exiting quietly and leaving the other big shorts holding the bag. JPMorgan has been screwing the little guys in silver for years, but in the final end game must screw other big guys.

There was an increase in the short position in shares of SLV, as of April 15, as I suspected in Saturday's review, but of greater concern in the next short report which will include all of last week's high volume rally. Yesterday's report indicated an increase of 1.2 million shares to just under 14 million shares (ounces). There was a similar increase of 500,000 shares in the short position in the big gold ETF, GLD, to just under 11 million shares (1 million gold ounces).

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

While the increase in short selling in SLV smacks of an inability or unwillingness to acquire physical silver in the open market, of more concern is that through yesterday, no metal has been deposited in SLV as a result of last week's high volume rally (as of last night). I'm still inclined to think that as many as 10 million ounces of silver are owed to the trust and the failure to deposit any smacks even more of physical tightness. As far as who owes this metal to SLV, if you don't answer the COMEX silver cartel, please reread the above.

Finally, in the "just when you thought you were out, they drag you back in" department; I was planning on ending this article at this point until I uncovered that I was dragged into some petty personality dispute. It seems my name was raised and attempted to be dragged through the mud by Bob Moriarty of 321gold.

<http://www.321gold.com/editorials/moriarty/moriarty042716.html>

I'm not above criticism, but I am above wrestling in the mud. I'll debate the issues all day long, but leave the name calling to the Housewives of Beverly Hills. I've never referred to myself as a guru or expert, but do plead guilty to introducing most of the important issues in silver, including a potential COMEX default and, most definitely, the silver manipulation itself. I did see \$50 or \$100 in silver when it was \$5 (although I didn't sell there) and see those highs being far exceeded in the time ahead.

There was a contract default in NYMEX Maine Potatoes in the mid-1970's when shorts (JR Simplot) couldn't deliver and that ended trading in what was a very active market. Unless I'm time-travelling, 1976 falls within the period we know as recorded history. There were also effective contract defaults in palladium on Japan's TOCOM in 1997, as well as an effective default in LME nickel in 2006. So much for there never being commodity contract defaults.

http://www.investmentrarities.com/ted_butler_comentary/08-21-06.html

If the COMEX moves to a cash settlement for those holding long contracts in lieu of physical delivery, as Moriarty suggests could happen easily, that is the epitome of a contract default. This the basic problem with manipulation deniers Â? they can hurl insults but have trouble with the facts or reasoned debate.

Ted Butler

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Silver – \$17.25 (50 day moving average – \$15.65)

Gold – \$1247 (50 day moving average – \$1239)

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