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Imagine

The price of silver and gold has fallen sharply for the week, bringing anxiety to many precious metals investors. Based upon a variety of input, other investors appeared to take advantage of the marked down prices by buying, especially in silver. Once again, the price decline was generated in COMEX paper dealings and not by any legitimate silver supply or demand factors.

It is important to recognize that the actual paper sellers in COMEX silver and gold currently are technical trading hedge funds and not the collusive commercials which happen to be buying everything that the technical funds wish to sell. The COMEX commercials are manipulating the price lower, but not by selling large quantities of paper contracts.

In fact, the commercials are the documented net buyers on every single significant price decline in COMEX silver and gold throughout history. These commercials, led by JPMorgan, are sophisticated enough to maneuver the price lower at critical times (thru HFT and other electronic tricks) with the certain response that the technical funds will then sell. This means that the commercial crooks can always say – "don't look at us for the price going down, as we were big buyers." It's a pretty nifty scam that takes a bit of thinking to figure out and this complexity helps extend the manipulation. But don't feel too bad if you can't figure it out; the federal regulators at the CFTC haven't been able to figure it out yet either – and this is the whole reason for their existence.

I'll return to the specifics of the current smack-down in price in a moment, but I would first ask that you step back from the heat of the ongoing price action and take a broader perspective. Try to imagine that there was no Commitment of Traders Report (COT) and no changing market structure on the COMEX to discuss. I've tried to do so myself and then picture if I would have any interest in silver or in my brand of analysis. I understand that the COT market structure approach does not come easy and for many that reduces the market to mostly following the price and news flow. Many seem content with a price and news flow approach, but the problem with this approach is that the news is always bearish when prices are oversold and bullish at market tops. For me, as a commodity supply/demand analyst, I would be lost without the COT analysis.

I started studying silver closely at a time, in 1985, when demand overwhelmingly exceeded total production (mine plus recycling) and I grappled with prices staying low despite a significant and continuous commodity consumption deficit that guaranteed higher prices. It was only after agonizing for some time that I connected trading activity on the COMEX to be the prime explanation behind most silver price moves. Since I had been studying the COT on other commodities (as a commodity broker) before digging into silver fundamentals, I suppose it was inevitable for me to spot the manipulation early on. Throughout the years, the COT has explained price moves that would have otherwise been impossible to understand. The current sharp price decline illustrates this in spades. Without the COT, it would simply be a matter of concocting bearish stories when silver prices fell and bullish stories when prices rose. Come to think of it, I believe that's what much non-COT analyses consist of.

Without the COT, I'd be lost, as I'm not much into making up stories. Judging by the number of commentators who now reference these reports in their analysis of the silver and gold markets and the investors who rely on the data as well, I'm not surprised by the growing COT attraction. After all, the reports give an objective answer to the age-old market quest of figuring out who is buying and who is selling. Instead of imagining who may be buying or selling, the COT provides a near-precise accounting by trader category. A special bonus has been that the COT report has become incredibly more transparent and detailed as time has evolved. But like any credible data source, it is important to recognize the limitations of the reports. The prime limitation is that while the COT can indicate when a market is topping or bottoming out, it rarely pinpoints or times exact tops or bottoms.

Without a COT report, volume and open interest statistics would become meaningless. What difference would high or low volume or changes in open interest make if we had no clue as to the history of how different trader categories changed with price? With the COT, we always have a firm idea of who sold and who bought and with great detail. The biggest bonus to me has been the ability to identify the concentration on the short side of COMEX silver and the collusive behavior of the commercials that forms the manipulation. My only complaint about the COT is that the publisher of the data, the CFTC, doesn't act on the clear findings in the reports that prove an ongoing silver manipulation.

OK, back to the fortunate world in which we do have such a thing as COT data. Once you accept the validity and accuracy of the data (as I do) and look at the report with an open mind, a clear pattern of commercial collusion emerges, namely, that the commercials always buy on the way down in price and always sell on the way up. Just to be fair, it is not only the commercials who behave in unison, but the counterparty technical funds and other speculators also operate cohesively in buying on the way up in price and selling on the way down. Therefore, I suppose someone could say that it is the technical funds who are the colluders, since they buy and sell as a group and it is their current selling that is driving the price lower.

What it comes down to is this do you think that the technical funds are snookering the commercials or, as I claim, that the commercials are leading the tech funds into and out from the market through short term price manipulation? Please remember that the commercials, mostly big banks led by JPMorgan, seem to dominate every aspect of our financial system and have been found guilty of collusion in other venues (LIBOR). Do you think these big banks are the ones being cheated in COMEX silver?

At the lows, the price of silver was down more than $1.50 for the week, while gold was down more than $40 from Friday's close. The volume this week has been high and it appears there will be additional significant reductions in the headline number of the total commercial net short positions in COMEX silver and gold in this Friday's COT. If I had to guess, I would say around a 4000 to 5000 contract net reduction in silver and a 15,000 net contract reduction in gold (hopefully more than this in each market). That's through yesterday's cut-off; today's action will undoubtedly reduce the total commercial net short position even further.

One thing to keep in mind is that there is a very good reason why silver always drops more sharply than gold in these orchestrated price smashes. Silver is where the really big problem for JPMorgan exists in terms of manipulation; it is where they are most exposed to liability. It is why JPMorgan is singled out as the prime silver manipulator, even by those who are not capable of explaining why it is JPM that they are naming. I have no problem in identifying JPMorgan as the big silver crook (although I am mindful of the bank's political influence and power). Thank goodness for the COT and Bank Participation Reports which clearly prove JPMorgan's silver manipulation over the past 5 years. And it matters not to me that the US Government may be backstopping this crooked bank; the silver manipulation is criminal, regardless of who is to blame.

I know it is no fun that silver investors suffer emotional pain and suffering at the hands of JPMorgan and their collusive crooked partners at the CME. Unfortunately, there is no escape from the periodic and deliberate price smashes, except to resort to short term trading which will prove disastrous for most. But stepping aside, even temporarily, from a core silver position raises the risk of missing the big up move to come in silver. Instead, the best way to cope with the intentional price downdrafts is to do what has worked best historically at times of previous price smashes, namely, hold tight and buy more silver if you are able to do so. Under the hood, the price outlook is bright.

If there is a unique aspect to the current takedown it is the emergence of new technical fund short selling, not only in gold and silver, but in COMEX copper as well. I don't know why the technical funds (in the managed money category of the disaggregated COT report) have chosen this time to establish record gross short positions in these markets, but that is secondary to the fact that they hold such positions in COMEX silver and copper and after this week's COT, may hold new record gross short positions in all three markets. Remember, the scam is that the commercials aren't selling; they are duping the technical funds into selling and selling short. This raises a number of issues.

First, from a regulatory point of view, why should technical funds be allowed to go short in such a big way that causes silver prices to fall with no regard to actual supply/demand fundamentals? Since February 5, the technical fund gross short position in COMEX silver has expanded by roughly 20,000 contracts (probably much more in the coming COT report). That is equal to 100 million oz of silver sold short by the tech funds. This short sale of 100 million oz of paper silver is the prime cause of the big price decline. Yes, these tech funds were tricked into this big short sale by JPMorgan and the other collusive commercials, but leave that aside for a moment.

The COT data show that tech funds went short 100 million oz of paper silver over the past two months, of this there can be no dispute. That it had a big impact on the price would appear to be beyond dispute as well. This raises a new issue. These technical funds are clearly speculators through and through, just like me or any other speculator. Since they are speculators, there is no chance that they are using the futures market for hedging or market-making purposes, which is always the nonsense you hear when the commercials go short. Here is a clear case of speculative short selling that is causing prices to be much lower than would have occurred without that selling. That's against commodity law which holds that speculators shouldn't unduly influence price.

The regulators have turned a blind eye when it comes to correctly identifying JPMorgan as the proprietary speculator that the bank is; but how can technical funds not be identified as speculators manipulating the price? Where are Commissioner Bart Chilton and the CFTC on this issue? I mean besides out making meaningless speeches while ignoring the obvious in silver. http://www.cftc.gov/PressRoom/SpeechesTestimony/chiltonstatement040313 Don't silver (and gold) investors have user rights as well?

The biggest issue with the new record-setting technical fund short selling in silver (as well as copper and gold) is that the price impact is two-fold. The price goes down when such enormous quantities are first shorted; then up when the short positions are bought back, as they must be. Short sales are open transactions in that they must be closed out at some point. The only other way of closing out an open short position is by making delivery. The technical funds are not in a position to deliver silver (or any other commodity), so they must buy back their short positions at some point. When they do so, it is reasonable to expect that the upward price influence of the buybacks would at least equal the downward price impact seen to date.

But if you look at it as I do and assume that the technical funds are also being tricked into going short by the commercials, then the possibility of a price explosion emerges. All that is required for a price explosion is if the commercials force the technical funds to pay through the nose when it comes time for tech fund short covering. It would appear that only if you believe the technical funds are putting one over on the commercials and that the commercials (mostly the raptors) will fold for the first time in history and sell out their accumulated long positions at a great loss can you see the tech fund shorts winning in the end. I don't see a chance of that happening.

Instead, I see a situation where the tech fund shorts may be trapped and the more they add to short positions the deeper the trap is set. Yes, this additional short selling is causing prices to fall as if there is no possible bottom and the mental calculation of accumulated losses is terrifying to many. Unfortunately, this is part and parcel of a manipulated market. Please remember, the lower we go in price, if the tech funds are still adding shorts (as I believe to be the case), more fuel is being added for the upside lift-off. There is no way of knowing when the tech funds will sell short all they are capable of selling, but the fact that they are at new record extremes suggests not much more additional short selling is likely. Also, there is no way of knowing how the coming and certain price rally will play out, but the commercials have rarely been in a better position to really put it to the tech fund shorts to the upside.

One other thing to consider is that the inevitable buy back of tech fund short positions would not appear to be under regulatory protection. I know that many feel, as do I, that the regulators look the other way when the commercials are heavily short silver, instead of cracking down on their manipulative concentration. That said, I don't think the regulators care a whit about protecting the tech funds from big potential damage on their short positions should prices explode. In a real sense, this aspect of tech fund short covering stands apart from regulatory involvement, much like the coming physical crunch.

Hopefully, you hold fully paid for silver positions and are not forced to liquidate at these deeply depressed prices. That has been the reason for holding fully paid for silver positions all along, namely, so that you won't lose positions due to margin calls in the type of intentional takedown in price that we are now experiencing. Certainly, this is an ideal time to add silver in my opinion, perhaps the most ideal time in years. To that end and in the interest of full disclosure, I have added to call options (first mentioned in late January) and have not sold an ounce of silver.

Ted Butler

April 3, 2013

Silver – $26.90

Gold – $1553