April 7, 2012 – Weekly Review/JPM’s TV Appearance

Weekly Review

In a holiday-shortened week, the price of gold and silver both fell, thanks largely to a vicious mid-week sell-off on the COMEX. Gold dropped $37 (2.2%), while silver fell 55 cents (1.7%) for the week. As a result of the price smash mid-week, new multi-month price lows were established in each, undoubtedly prompting additional speculative long liquidation. In the perverse nature of market structure and sentiment, this is constructive. Somewhat unusually for a week in which prices declined, the gold/silver ratio held its own as far as silver was concerned and tightened in slightly to 51.5 to 1.

I'm going to run through the usual weekly format quickly, to get to the most interesting development of the surprise JPMorgan TV appearance, in which it denied involvement in a silver manipulation.

Conditions in the physical world of silver still flash signs pointing to tightness, as I have recorded for a very long time. The turnover in COMEX silver warehouse inventories continued as total inventories took another sharp jump to over 139.5 million ounces. I know rising inventories intuitively appear bearish and suggestive of ample supplies or surplus, but I don't see it that way. I feel certain that the increases in total COMEX silver inventories are not as a result of some sudden unwanted surplus of production exceeding consumption because the numbers and logistics don't support that. That leaves some type of frantic rearrangement of existing silver inventories as the explanation.

Somewhat joining in on the frantic COMEX silver inventory movement were the changes this week in the holdings of the big silver ETF, SLV. There the movements were most counter-intuitive, falling when they shouldn't be and also rising unexpectedly. The most plausible explanation to me is still some type of urgency in owning and moving big wholesale quantities of silver. That still translates as tightness to me. Nothing special to report on sales of Silver or Gold Eagles and it appears retail silver demand is still sub-par.

The changes in this week's Commitment of Traders Report (COT) were a mirror image of what occurred the previous week, but in smaller quantities. Unlike last week, the silver total commercial net short position rose, while it fell in gold. Of course, the big price action and trading volume took place precisely after the Tuesday cut-off of the reporting week. Therefore, the yet unreported changes would appear to be more important than the data in this week's report.

In gold, the commercials reduced their total net short position by 7600 contracts to 177,500 contracts, not quite half the 19,000 contract increase of the previous week (my guess in last week's review). By category, the big four bought back 6000 shorts and the raptors bought back 3000 contracts. The 5 thru 8 largest gold traders added around 1500 new shorts.

In silver, the total commercial net short position increased by 1700 contracts to 31,500 contracts. The big four (read JPMorgan) added a small 350 contracts and the raptors sold about 1100 of the net long position, reducing it to 13,100 contracts. I would attribute the minor deterioration in silver to the fact that the silver price briefly penetrated to the upside the 20 day moving average on Monday and Tuesday, something it hadn't been able to achieve in the previous COT reporting week.

The companion monthly Bank Participation Report was also released on Friday for positions as of Tuesday, April 3. There can't be much of a surprise in this report since it's based upon the same data as the COT. The report showed a decline in the net short position of the US commercial banks for both gold and silver. In gold, the US banks reduced their net short position by 22,000 contracts for the month and by 3800 net contracts in silver. I'm sticking with my estimate of JPMorgan's net silver short position to be 19,000 contracts as of Tuesday. It may be even lower after the cut-off, but as of Tuesday, JPMorgan's 19,000 contracts were 22% of the entire COMEX silver market (net of spreads). At the last Bank Participation report in March, JPMorgan held about 22,000 contracts (see weekly review of March 10 in the archives).

The price smash after the cut-off of the report should have significantly further improved the COT market structure. We did, after all, hit new price lows on Wednesday not seen since January in gold and silver, even though the old lows of the past two weeks were only barely exceeded. This causes speculators to sell, enabling the commercials to buy. That's why the commercials rig prices to new lows, so that they can buy. If it were possible to freeze the action at the end of this week (as of Thursday), I would guess that gold improved by 15,000 contracts and silver by as many as 5000 contracts. This leaves gold at the extreme COT bullish readings of December and silver at perhaps the lowest practical readings it will see. Coming from someone who knows just how crooked and collusive the COMEX commercials can be, I can't rule out prices being rigged to new lows as the commercials try to force every possible speculative leveraged contract to be sold, if there are any left. But you don't want to look so far over the rail that you fall off the boat. These are very bullish COT set ups in gold and silver.

This may seem old-hat to regular readers, but here's another attempt by me to explain the silver manipulation in the clearest terms possible to a wider audience.
http://moneymorning.com/2012/04/06/the-who-how-and-why-behind-silver-price-manipulation/

JPM's TV Appearance

There was a very interesting and potentially significant development dropped into the silver equation this week. I'm speaking of the appearance of the head of commodities for JPMorgan, Blythe Masters, in a short interview Thursday on CNBC. There has already been widespread reaction to the clip and I must admit that it touched off a whirlwind of different thoughts in my mind. Quite frankly, I'm glad I've had a bit of time to sort them out before commenting. If you haven't had the opportunity to view the segment, here's the link.

http://www.cnbc.com/id/46969993

After I first discovered and revealed that JPMorgan was the big concentrated short in COMEX silver in the fall of 2008 (having inherited the position from Bear Stearns), Ms. Masters has become somewhat of a lightening rod in the silver manipulation discussion world. Although I don't believe I have ever mentioned her by name, she has been, more often than not, vilified in most Internet quarters. While I can empathize with the extreme sentiments that can arise from the outrage over the lingering silver crime in progress and the damage that it has caused to many, I don't see much benefit in personal attack. Now, more than ever, we need to focus on the facts.

Since my thoughts are varied, let me see if I can put them into some semblance of order. First, let me throw out my visceral feelings and then settle into a more measured and objective analysis. There were quite a few important statements that did come from the interview that go to the very heart of my allegations of manipulation in silver by JPMorgan. I won't dwell on my knee-jerk reactions, but I do feel I should make them known.

There is no doubt that this wasn't a spontaneous event. The presentation wasn't accidental. I've watched CNBC fairly religiously for as long as it has been in existence (but with the sound muted for much of the day) and the last firm recollection I have of any mention of a silver manipulation was more than three years ago, when Joe Kernan commented on the Wall Street Journal article on Sep 25 2008 about a CFTC investigation into silver. I remember him joking about some new Hunt Bros plot to drive prices higher. Never again have I heard the silver manipulation mentioned on that network. CNBC has never seriously broached the subject to my knowledge. So I was taken back when the reporter specifically asked about the allegations of manipulation in silver, as if they were widely recognized as common knowledge. I got a special kick out of the reference to all these allegations coming from the Â?blogosphere.Â? (As opposed to the mainstream media, I suppose).

It would be safe to say that the interview tried to present JPMorgan as a contributor to worthy causes, who would never dream of manipulating silver and as a strong proponent of financial regulatory reform. All of JPMorgan's positions in silver were claimed to be non-directional and only transacted to accommodate legitimate client hedging needs. To the typical CNBC viewer, who has little interest in silver to begin with, I would imagine that the segment appeared little more than a puff piece on an obscure topic. But I doubt that this was all that it was. There was an intent and purpose to this presentation, as many have already suggested. That's what makes it so potentially significant.

To my knowledge, this is the very first time that JPMorgan has openly acknowledged the allegations against it for manipulating the price of silver. Please think about that. It's been more than three years, dozens of class-action lawsuits and a ton of reputational abuse (remember Â?sink JPM, buy a Silver EagleÂ??) and this is JPMorgan's first rebuttal? Years ago, I used to wait for process servers and Fed Ex-delivered cease and desist demands; but I had just about given up on JPMorgan ever responding since so much time had passed. Don't get me wrong, I'm very glad not be sued; but I am a little underwhelmed with how JPM finally did respond. I can't help but ask myself Â? why now and in this tepid a manner? A public relations campaign on CNBC to an audience not remotely aware of the allegations to begin with hardly seems the lasting solution to making the problem go away. So what was the motivation?

Here's where all the knee-jerk conclusions come in that just might be correct Â? they are feeling the heat, maybe they know something may be forthcoming from the CFTC and are trying to stay ahead of the fall-out. My friend and mentor, Izzy Friedman, says they see the physical shortage about to hit, but none of us can be the fly on the wall and know the details. But we agree that the appearance likely means JPMorgan may be in trouble of some sort. JPM sees no other way out than to claim their COMEX silver short position was and is legitimate and they are prepared to stick to that story come hell or high-water. The beautiful thing is that, no matter what, this is great news. The fact that JPMorgan has spoken up first on the allegations of them manipulating the price of silver and not the CFTC, is particularly good news. (More on that later).

Best of all, this may and should open a dialogue on this issue. Ms. Masters gave very reasonably-sounding explanations to the allegations of silver manipulation. But they were very simple explanations offered in the blink of a TV sound bite. To those convinced that silver is not manipulated, her words explained all. To those convinced that silver is manipulated, her statements were false and misleading. That's because the questions and answers in the TV segment were prepared and scripted. But because they only barely penetrated the surface, they fell far short of setting the matter to rest.

The great thing is that this can be resolved with just a little further explanation. You see this is not an instance of he said, she said. This is a case of fact and commodity law and the right questions and answers. So let's drill down to the answers given to see if they really addressed the allegations.

The main theme advanced by Ms. Masters is that JPMorgan holds no unhedged silver positions and all its short positions are a direct result of offsetting client positions in the OTC or swaps market. Therefore, it matters little to JPMorgan whether the price of silver rises or falls. For the sake of argument, let me stipulate for the moment that JPMorgan has offsetting client positions behind their big net short position on the COMEX. I don't believe there are truly legitimate client positions backing JPMorgan's COMEX short position, but let's set that aside for a moment while I try to show that client offsetting positions or not, JPMorgan's COMEX short position is still manipulative. JPMorgan claims they are not manipulating silver, but those are just words. Their actions are quite different. What's more important, words or actions?

The allegations against JPMorgan for silver manipulation are centered on their concentrated short position on the COMEX. Nothing more, nothing less (aside from HFT). Claiming there were some unspecified client positions offsetting the concentrated short position doesn't alter, in any way, the fact that the concentration still exists. The point is not the nature of what may be responsible for the concentrated short position, but the concentrated position itself. Even if JPMorgan owned every ounce of silver they held short on the COMEX in physical form, holding 25% or so of any licensed futures market would be manipulative to the price, in and of itself. It doesn't matter what excuse is given for holding an excessively concentrated market share; such a market share would be manipulative.

If a single trader held a 25% share of any other major futures market, say in crude oil or corn, there would be emergency meetings and decrees to break that concentration before the sun went down. Farmers would be descending on Washington, DC in tractors if a New York big bank held a short position equal to 25% of the Chicago Board of Trade's corn futures market. It wouldn't matter one wit to the regulators what was behind the position. Such a market share in a major commodity futures market would be unthinkable. But 25% has been JPMorgan's usual share of the net COMEX silver (minus spreads) since it took over Bear Stearns and often it has been much larger than 25%. JPMorgan can't deny that market share in silver as that is borne out in government statistics, so it is doing the next best thing – trying to change the issue into what may be behind the position. What's behind the position doesn't matter; the position itself matters.

I've often said that I think JPMorgan is stuck with their excessively concentrated silver short position on the COMEX. This TV attempt to explain it all away strengthens my conviction. The thing about the concentrated short position is that there has always been one big silver short holder on the COMEX. It started with Drexel Burnham, got moved to AIG Trading, on to Bear Stearns and, finally, to JPMorgan. My sense is that it won't be passed on again. JPMorgan is the final holder and I sense them knowing that may be behind the attempt to explain it away. Never, in the 25 years I have been engaged in attempting to end the silver manipulation, has there ever been a public acknowledgement from the big silver short. There is one now.

If holding a giant COMEX short position is such a sweet deal, why wasn't JPMorgan holding such a position prior to Bear Stearns' demise? If legitimate client positions stand behind JPM's short position that implies most of the world's silver hedgers only do business with JPM, no one else. Why aren't other banks and financial institutions looking to compete with JPMorgan on the short side of silver and edge them out? That's because no other firm wants to get stuck like JPM is stuck and reduced to offering flimsy excuses to pre-arranged softball questions on TV.

The CFTC tracks and reports positions and concentration data by individual trading entities based upon who controls the account. If a legitimate hedger wants to sell short on the COMEX to hedge production or inventory it can do so in its own name and for its own account. It doesn't need to join with others and do it in someone else's name and in concentrated form. There is no legitimate reason why JPMorgan's clients can't hedge in their own names to the extent JPMorgan is claiming, especially since allegations of concentration and manipulation are being lodged against JPMorgan. You would think that JPMorgan would be doing more than pleading their case on TV. One would think JPMorgan would advise clients to hold the COMEX short positions in the customers own names to reduce JPM's concentration.

Unless, of course, that there is only one major client behind JPMorgan's concentrated COMEX silver short position. In other words, if JPMorgan is representing only one or a very few related clients and that is what backs the concentrated short position on the COMEX, then that raises the issue to a whole new level of possible criminality. If JPMorgan is facilitating and enabling an unnamed client or clients in holding a concentrated short position by agreeing to put it in JPM's name on the COMEX, then JPM may be the transfer mechanism in what can only be described as hiding the identity of a market manipulator. The terms aiding and abetting and fraudulent conveyance come to mind. In many ways, particularly if the real hidden short is foreign and outside US jurisdiction, that's even worse than JPMorgan holding the position itself. Enabling a foreign entity to evade US commodity law and manipulate a US futures market? This gets worse the deeper you dig.

Much is made of the great size of the OTC market when compared to the COMEX. While I think that claim is bogus, many insist that the OTC market (including the LBMA) is much bigger than COMEX. In fact, the client positions that JPMorgan claim backs the concentrated short position on the COMEX, are implied to be OTC positions. But if the OTC market is so much bigger than the COMEX and JPM is the acknowledged leader in OTC trading, then why doesn't JPMorgan just hedge its client's OTC positions with other OTC positions? Why resort to selling short so excessively on the COMEX where it gets picked up in CFTC data? If JPMorgan offset their clients' OTC positions with other OTC positions, we wouldn't be having this discussion. All these positions wouldn't be included in the COT and Bank Participation Report data and I wouldn't be able to analyze and write about it.

This is also what makes all the threats about traders abandoning our listed and regulated exchange traded markets to the regulatory-free big international OTC markets a pile of junk. Because the COMEX is the most important derivatives market in the world for precious metals, any large silver derivatives position must be reflected in COMEX positioning. If JPMorgan could just make this COMEX concentrated short position disappear by dealing instead on the OTC market, they would have done so long ago. The simple answer is that they can't because the OTC market is smaller than the COMEX. JPM is reduced to trying to convince anyone who will listen that the COMEX concentration doesn't matter because the real big short is someone else hiding behind a tree that you can't see because of client confidentiality. It's no wonder many folks are coming to hate the banks, because the banks always have a slick answer to what we all know is simply bad behavior. How about the reporter asking JPMorgan what the heck are they doing trading in silver in the first place? Shouldn't they be out taking deposits and making loans like banks are supposed to?

The real problem is that the COMEX sets the price of silver for the world. Therefore, JPMorgan's concentrated short position, by its size, unduly influences the price of silver. Manipulation aside, this gives JPMorgan control of what price its clients transact in the supposed private silver hedges with JPM. This is a serious conflict and certainly not in the clients' best interest. What fair and open good business practice would permit JPMorgan to first set the price on the COMEX and then use that price to transact hedges with clients at the Â?setÂ? price?

It is because I go so far back with this silver manipulation that I see it in a different perspective than most folks. Eight years ago, on May 14, 2004, the CFTC made public a long letter which denied that any silver manipulation existed. The letter took aim at me (not mentioning me by name) and concluded that investors had best be very careful before investing in silver. On the day of the letter, the price of silver was around $5.60.
http://www.cftc.gov/files/opa/press04/opasilverletter.pdf

Almost to the day four years later, the CFTC released another long public letter, dated May 13, 2008, which basically re-iterated that there was no silver manipulation or undue concentration on the short side on the COMEX. On the date of this letter, the price of silver was $16.66.
http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/silverfuturesmarketreport0508.

I'm not much for cycles,

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