Things That Have Changed

I had an interesting email exchange with a subscriber from the UK the other day. It started out with Sam asking me a technical question about COT report analysis, but evolved into somewhat of a retrospective journey back to the mid-1980's, when I first discovered the silver manipulation. I'll leave out the personal aspects, even though the exchange tripped off a flood of intense memories; but it occurred to me that there might be some benefit in noting some of the major differences between then and now regarding silver and its price manipulation.

The main difference is in how widely the concept of manipulation is perceived today than it was 25 or 30 years ago. The comparison is hard to appreciate because the difference is so stunning. Just to be clear, I'm not talking in terms of the collective opinion of the general investment population because silver is an ultra-specific topic that the vast majority will never hold a strong opinion on. Instead, I am speaking of the limited audience which has an interest in silver for any number of reasons. It' fun to think the general investment community would come to embrace silver in full, but that's not practical, considering how little silver is available for investment.

For those with an interest in silver, I believe that a remarkably large percentage, certainly a majority, believes that silver is manipulated in price. They might not be able to articulate all the nuances of the manipulation, but they have a strong sense that there is an artificiality to silver pricing. I base this on what's said and written on the Internet, of course, not in the main stream media, which continues to treat the topic of manipulation as something to be avoided at all cost. I believe this is the case because the biggest advertisers and commercial supporters of the main stream media tend to be the very financial institutions perpetrating the manipulation.

Nowadays, it's actually more unusual when someone strongly denies the existence of a silver manipulation, particularly if the denier is well known. Invariably, the denial brings an outcry of disagreement to the point of mockery. Not for a minute have I ever concluded that silver is manipulated or not by the weight of popular opinion; for me, the manipulation is quite easily proven by the verifiable facts. My point is simply that more who are interested in silver believe it is manipulated in price than not.

That might not seem like an earth-shaking revelation, but in reality it is very much so from what things once were. A quarter-century ago, very few, if any, believed silver was manipulated in price. I know this to be the case because I lived through it. For better or worse, the idea of a silver manipulation originated with me. I point this out, not to pat myself on the back, but strictly to demonstrate the difference between then and now in popular perceptions. In fact, I think you would be shocked at the degree of resistance that existed to the idea that silver was manipulated back then.

As many of you are aware, I discovered that silver was manipulated in response to a challenge in 1985 by my good friend and silver mentor, Izzy Friedman, to explain how silver could be so cheap in price in the face of a documented consumption deficit that persisted for decades. It took me more than a year to come up with the explanation that massive concentrated short selling on the COMEX was responsible for the low price in the face of a bona fide commodity deficit.

What I never told you was that Izzy didn't necessarily accept my explanation, at least for quite a few years. He had asked the right question, but was skeptical of my answer. The irony is that I would have imagined that Izzy would have been the easiest convert of all to the idea that silver was deliberately manipulated in price; instead, it took him years to come to accept it. I've already written that

Izzy was one of the smartest people I've ever run across and I believe that to this day. If it wasn't intelligence, then what the heck made him doubt that silver was manipulated?

The answer, in a nutshell, was the times. Twenty five years ago, the thought that any market could be manipulated as I suggested was the case in silver was heresy, pure and simple. The idea was rejected out of hand. In searching for why this was so, the best I've been able to come up with was that the mere thought that a silver manipulation might exist was actually offensive to those in the business, which were who I approached with my premise. Maybe this was a defensive reaction, as in how could Ted see it and not me; but I sense it was actually offensive to most that a manipulation could exist in what everyone assumed was a true free market environment. Times were different then, there was an implied assumption that markets were on the up and up. Any suggestion to the contrary was summarily dismissed.

That's not the case today; so many serious manipulations and market misdeeds have been recorded that the silver manipulation deniers have almost been reduced to declaring that silver (and gold) is the only market not manipulated. Where I once was isolated and alone, I am now in an apparent majority. I am shocked (and heartened) at this turn of event. The important thing is not, of course, how I feel, but the significance of the turnabout. Having been there at the outset, I am simply astounded by the current level of belief that silver is manipulated in price.

Along those same lines, the number of new articles extolling the virtues of silver as an investment astounds me. This is so different from twenty five years, or even five or ten years, ago that it is hard to describe. While many of the articles sidestep the manipulation issue, there is merit in most of the articles that stick to the facts on silver. My sense is that the facts are so compelling in silver that it is logical for this to be reflected in the numerous new commentaries. As an aside, I always thought that in an age of rapidly expanding communication technologies, more would come to learn of silver's investment potential.

In fact, I believe that the uncensored and unrestricted peer to peer communication realities of the Internet are most responsible for the dissemination of the silver manipulation premise. I've witnessed this in an up close and personal manner. When I first discovered and tried to advance the idea that silver was manipulated in price, there was no Internet (at least for me and most people). Please take a minute and try to imagine how one might spread a controversial market premise without utilizing the Internet.

The only way to do so prior to 1995 or so, would be by telephone and snail mail communications to an extremely targeted audience of mining and trading people (which unknown to me would prove to be markedly unreceptive to the idea). No email, no blogs, no interviews and no publishing of independent articles and reports. Yes, I petitioned the CFTC and the COMEX and every elected official and agency I could think of in protesting the silver manipulation since 1985, but it was, essentially, a private debate in a vacuum a tempest in a (silver) teapot. With near zero public awareness, it's no wonder the idea of a silver manipulation remained off everyone's radar.

But starting in the late 1990's and thanks to the Internet, more became aware of the allegations of a silver (and gold) manipulation. Certainly, it would have been impossible for that awareness to have occurred if it was left to the main stream media. Now that the existence of a silver (and gold) manipulation has reached a level of awareness never achieved before, where to from here? The purpose of this article was not just to stroll down memory lane.

While I never imagined that the COMEX silver manipulation would last for 30 years, when I consider that close to the first 15 years of the manipulation existed without outside notice, in hindsight it seems reasonable that it continued. And considering how much awareness has grown over the last 15 years (thanks to the Internet), my sense is that we have just now arrived at the true starting point of its termination. I can't help but view the last 30 years as a warm up for the real silver game dead ahead.

That's not to suggest it will be straight up from here (given my COT market structure concerns), but it is to suggest that when silver transitions from its current manipulative state, price action will look markedly different from the past 30 years. At some point, enough observers will become aware that silver prices have been controlled by a triumvirate composed of JPMorgan, the CME and the CFTC that continuing the scam will bring them more harm than good. With the current record awareness levels already achieved, I can say with certainty that we are much closer to the point when general awareness renders the manipulation ineffective.

Just this morning, in contemplating all the new articles on silver and the awareness of the manipulation, I watched a segment on CNBC which featured David Tice (from the Prudent Bear). He didn't articulate in detail the manipulation but he did remark that there was a disconnect between paper gold and physical gold and was quick to add that silver was definitely part of that disconnect. It's been quite some time since I remember any reference to this topic on main steam TV and points to the growing awareness of which I speak.

The short interest in SLV declined by more than 3 million shares, to under 17.4 million shares (oz) as of July 31. I was expecting no increase and view the decline as good news. There was an even greater reduction in the short position of GLD, the big gold ETF, GLD. I would be surprised if last week's big deposit (3 million oz) of metal into SLV didn't further reduce the short position. http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

When I consider both the reported and prospective reductions in the SLV short position, as well as the prior increase on the now terminated silver price rally, I am struck by how close the level of both the increase and subsequent reduction(s) came to my back of the envelope estimate that 7 million shares were originally shorted on the recent silver rally. I'm more convinced that 7 million oz of silver could not have been bought and deposited into the SLV without having run silver prices higher. It's not so much the amount that matters as 7 million oz is equal to 1400 COMEX contracts and the price of silver is primarily set by several tens of thousands of COMEX contracts changing hands between the technical funds and collusive commercials. What matters more is that inability (or unwillingness) to buy 7 million real oz of silver instead of shorting shares is another sign pointing to physical tightness (not that this can be seen in price action).

Before commenting on the price action on the COMEX this week, there was another big deposit into the COMEX gold warehouses yesterday of more than 220,000 oz. This brings the past week's deposits into these gold warehouses to more than one million oz. A few words on the recent activity and broader perspective on the level of the COMEX gold warehouse stocks.

A year ago, much attention was given to the fact that around 4 million gold oz had been removed from the COMEX warehouses over the first half of 2013, reducing total inventories from 11 million oz to 7 million oz. (Over the same time, 18 million oz flowed out of the big gold ETF, GLD.) It was believed in many circles that more gold would be removed from the COMEX warehouses, to the possible point of creating an insufficiency for future delivery needs. Instead, inventories in the COMEX gold warehouses have grown 2.7 million oz over the past six months to 9.7 million oz.

For more than three and a half years, I have tried to make a big deal out of the incredible turnover or movement into and out from the COMEX silver warehouses, mainly because it denotes physical tightness to me. There has not been a similar intense daily and weekly turnover in the COMEX gold (or copper) warehouses. Yes, we have seen certain time periods where millions of ounces of gold are removed from the COMEX gold warehouses and the recent period where millions of gold ounces have been deposited. But this is not the turnover pattern I speak of in silver. There has been little "churn" in the COMEX gold warehouses; either we get a big chunk removed for a while and now a big chunk has been deposited. There has been no frantic turnover in COMEX gold as there has been in the COMEX silver warehouses. I'm not saying that's good or bad, just that these are different patterns.

I also believe that many try too hard to judge the COMEX gold warehouse levels with futures contract deliveries and, in a broader sense, to the world of gold in general. This is largely a near impossible task given what we know about the connection between deliveries and warehouse stocks; which in couple of words is "not much." Because futures deliveries are only identified by clearing members, unless the delivery involves a house or proprietary account, the actual client's identity is kept secret. Even knowing the actual identities in the deliveries would not add much clarity. Further, deposits and withdrawals from the warehouses are given only by the warehouse name, never the actual owner.

In reality, what we know or can know about COMEX warehouse statistics is always much less than what we don't or can't know.

There is simply too little actually known about COMEX warehouse movements to form conclusive opinions (excepting the frantic turnover in silver). Generally, one ends up chasing one's tail when trying to decipher deeper meaning to COMEX gold warehouse changes. And in a broader sense, it would seem almost futile to place great emphasis on COMEX gold warehouse levels given the level of those inventories compared to total world holdings of gold.

At close to 10 million oz of gold in the COMEX warehouses, that does represent a significant amount in terms of dollars ($13 billion), but in terms of all the gold bullion in the world, not so much. With roughly 3.5 billion oz of gold bullion in existence (out of a total 5.5 billion oz in all forms), 10 million oz equals about one-third of one percent of the world's gold bullion.

It would seem unlikely that anyone could read the true state of gold's physical composition by studying just 0.3% of the total bullion holdings. And while much is unknowable concerning the COMEX silver warehouse holdings (aside from the frantic movement), at least the sampling is much larger □ COMEX silver warehouse stocks (175 million oz) make up 20% of the known 875 million oz of silver bullion in existence. From a practical standpoint, therefore, it would seem logical to place greater emphasis on COMEX silver warehouse data than COMEX gold warehouse holdings.

Of course, it's important to distinguish between COMEX warehouses holdings, silver or gold, and what primarily drives the price of each, namely, COMEX futures positioning. Where gold warehouse changes of hundreds of thousands of ounces garner attention, the many millions of gold ounces changing hands in COMEX futures trading between the technical funds and commercials set the price. In silver, the 4.5 million oz weekly turnover in the COMEX warehouses pales in comparison to the hundreds of millions of futures contract ounces setting the price.

Someday, this illegal setting of the price by COMEX futures trading will surely end (as we reach the critical level of awareness), but that day does not appear to be this day. Recently, I have been focusing on the three major COMEX metals, gold, silver and copper and the pronounced mismatch between the technical funds (in the managed money category) on the long side and the commercials on the short side.

Gold had the lowest historical COT mismatch and had penetrated its moving averages to the downside before silver and copper did so. As a result, gold moderated its technical fund long position first and then bounced strongly up and off its moving averages; but in bouncing, the technical funds appear to have come back strongly in adding new long positions.

I would guess that the technical funds added back the 18,000 gold contracts they sold in the prior COT report, in the new report to be published on Friday. There's a good reason why gold has been acting stronger than silver or copper, namely, the technical funds have been buying in gold, while they have been selling in silver and copper. Of course, if it plays out like it usually does, the technical funds buying gold contracts presently will likely sell on lower prices at some point, unless the commercials lose control.

Both silver and copper hit new price lows today as the technical funds were clearly sellers on what amounts to salami slicing; which is nothing more complicated than JPMorgan and other collusive commercials rigging prices lower for the express and sole purpose of inducing technical fund selling. As for why the technical funds continue to participate in a game rigged against them, there are many reasons I can cite, but the main one is that they don't or won't see their role in the scam. The why is less important than the fact that, as of today at least, the technical funds haven't changed their behavior.

Since there would still appear to be sizable quantities of technical fund selling potential in all three metals, the probabilities still favor the crooked COMEX commercials rigging prices lower to activate that technical fund selling. But there's no sure way to predict if the commercials will rig prices lower straightaway or whether they will rig prices in a manner that involves price rallies as well (as they have done in gold).

That's the problem with a manipulated market the price is set by the manipulators' desire and not anything else, including the law of supply and demand. But with so many new observers becoming aware of the COMEX scam in gold, silver and copper and just how outrageous it is that crooked banks like JPMorgan and crooked exchanges like the CME and crooked regulators like the CFTC are sanctioning the scam, it is not something the rest of the world will tolerate forever. We're not there yet, according to the COT structure, but when this manipulated price bottom is put in, it could be the last such bottom of a crooked era about to change.

Ted Butler

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Silver – $19.85

Gold – $1314