August 7, 2013 – Cornering the Gold Market

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For the past few weeks I have been harping on JPMorgan's massive long position in COMEX gold futures, stating that nothing comes closer in importance for the price. There has never been a case where a market corner wasn't the prime price determinant. Preventing or eliminating market corners is the number one priority under commodity law. A market corner is the antitheses of how a free market is supposed to operate. A series of market corners and manipulation in the early part of the last century (the Jesse Livermore era) was what led to the formation of commodity regulation in the US in the 1930's. It's bad enough when entities such as the Hunt Brothers or the rogue copper trader from Sumitomo cornered markets; but it's a whole different level of badness when the most important US bank corners a market, as JPMorgan has done in COMEX gold futures.

Today I would like to step back a bit and highlight how we got to the outrageous position of JPMorgan cornering the gold market. Regular readers know that I have pinpointed JPMorgan as being the prime manipulator in gold and silver for going on five years, following the revelation from the federal commodities regulator, the CFTC, that JPMorgan inherited the massive concentrated gold and silver short positions of Bear Stearns in March 2008. That, plus verifiable data from the CFTC, in its published Commitments of Traders (COT) and Bank Participation Reports, clearly confirm my allegations of a market corner by JPMorgan in COMEX gold futures.

This may seem hard to believe, but JPMorgan's current corner on the COMEX gold market is the second market corner in the gold market by this bank in the last nine months and among many prior corners over the past five years in gold and silver. JPMorgan is a serial market manipulator and now swings both ways in cornering markets; usually on the short side of markets until the current long corner in gold.

Based upon COT and Bank Participation Reports data, last December 4, JPMorgan had a net short position in COMEX gold futures of approximately 75,000 contracts. This position represented 20.5% of the true net open interest on that date (once 68,648 spread contracts were removed from total open interest of 434,416 contracts). On that date, the price of gold was $1700. While it is difficult for many (including the CFTC) to grasp the concept that a corner could exist on the short side of the market, surely no one would argue against a 20.5% concentrated share of a major regulated futures market by a single entity would constitute manipulation and a corner.

It was this corner on the short side of COMEX gold futures by JPMorgan that provided the incentive and led to the subsequent $500 decline in the price of gold into the end of June. On the historic price decline in gold over the first half of 2013, JPMorgan booked profits on their short side gold market corner (of over $2 billion in my estimate) and continued to rig prices lower in order to establish their current long side corner of 85,000 contracts, or 25% of the true net open interest in COMEX gold futures (minus spreads).

You can't go from being 75,000 contracts (7.5 million oz) net short to 85,000 contracts (8.5 million oz) net long in an instant or in a week or a month. You can't snap your fingers and buy the equivalent of 16 million oz of gold, regardless of whether you have the money to leverage derivatives with a notional value of $25 billion. It took JPMorgan nine months to buy 160,000 net COMEX gold futures contracts (16 million oz), at an average monthly rate of around 18,000 contracts (1.8 million oz) from Dec 4 thru today.

In a nutshell, a market corner is determined by the size of the position of the corner relative to the total market. In hundreds of previous articles I used the term concentration; but it seems to me that corner is a better description. What percent of a market is large enough to constitute a corner? Like pornography, a reasonable person should recognize it when he sees it. A good place to start is by comparing a concentrated holding relative to other markets, relative to the same market historically, relative to regulatory guidelines and relative to commonsense.

Large and active regulated futures markets (with several hundred thousand contracts of open interest or more), like COMEX gold, NYMEX crude oil, CBOT corn or CME e-mini S&P futures should have relatively low levels of concentration on either the long or short side, say below 20% and closer to 10% by either the 4 largest shorts or longs. Among such large markets, only COMEX gold futures is above all the others with a long side concentration three times larger than for corn or crude oil. On an historical basis, the current concentration on the long side of COMEX gold by the four largest traders has never been higher than it is now, either in gold or in any other comparable large market.

Even though the largest concentrated gold long trader, JPMorgan, succeeded in derailing the imposition of speculative position limits (the one known cure for a market corner), we have a firm sense for what the CFTC intended as the maximum percentage of the market to be held by any one entity. The agency's proposed formula called for a 2.5% to 3% effective limit on what any one trader held in large futures markets before it was overturned in court. Therefore, JPMorgan is holding a concentrated position in COMEX gold futures ten times or more larger than the proposed limits of the CFTC.

Since the names of individual traders are not given in COT or Bank Participation Report data, it could be argued that JPMorgan is not the bank holding a corner in COMEX gold. That matters little because someone holds the corner. The four largest traders are holding nearly 42% of the COMEX gold futures market on a true net basis (after spreads are removed). Even if you assumed an equal division of the 42% true net market share by the four largest traders, at more than 10% each, the individual positions would still constitute a corner on their own. It would also involve an obvious conspiracy among these holders since the positions were established simultaneously. Besides, if it's not JPM holding a 25% share, then JPM management has to be considered irresponsible to its shareholders for allowing the manipulation allegations against the bank to go unchallenged.

And one last thing Â? the fact that JPMorgan swung from a short side corner in COMEX gold in December to a long side corner now, it puts a lie to all the stories that the bank is only hedging for clients. What possible hedging would call for a short corner on the market being reversed to a long side corner in nine months?

Market corners are very big deals and it is for good reason that they serve as historical mile markers. In many ways, the current COMEX gold corner shares obvious similarities with past market corners in terms of the existence of a controlling market share, but it is the differences that make the current gold corner very special. For one thing, all previous market corners had ended or were ending before the world even knew there was a corner in effect. As far as public awareness, all previous market corners had to be reconstructed after the fact. Here, we have a ringside seat (unless my analysis is completely off) on a market corner that is unfolding in front of us in real time. This is unique beyond imagination.

What is also very different about JPMorgan's current gold market corner is that it is visible and provable in the CFTC's own published data. To my knowledge, COT reports didn't exist at the time of the Hunt Bros silver manipulation and the Sumitomo copper manipulation mostly involved trading on the LME, not the COMEX. The current gold corner by JPMorgan is not being discussed because of leaks from insiders, but from US Government data. Let's face it – it's not possible for me to be more of an outsider.

Past market corners pitted the regulators against outside speculators or rogue traders. I don't recall any previous market corners being resolved where the industry insiders and particularly the exchanges were at odds with the CFTC. It was usually the regulators, the exchanges and the industry insiders all on one side and those accused of the corner (like the Hunt Bros) on the other side. In the current gold market corner by JPMorgan, the COMEX (owned by the CME Group) is just as much at fault for allowing it to develop. Were the CFTC to move against JPM, it would result in a decidedly different matchup than seen historically.

There can be no question that the price pattern over the past nine months has benefitted JPMorgan immensely. A short corner on the gold market at $1700 and now a long corner many of hundreds of dollars lower. Just a coincidence or strong supporting evidence of manipulation? Either JPM is the luckiest trading entity in history or they are exerting undue control on the gold (and silver market). Establishing repeated market corners has never occurred in history, yet the data prove that JPMorgan has done just that.

Not lucky at all are the victims of JPMorgan's repeated market corners. The victims of the successful short side corner in gold are centered on those in the gold mining industry; shareholders and employees and anyone else damaged by the deliberate price-rigging to the downside, including metal investors and states and countries dependent on tax revenue. So many damaged with benefit to so few.

A key question is why the CFTC is not reacting to the clear evidence of JPMorgan cornering the COMEX gold futures market. One explanation (that I've long favored) is that the agency doesn't know how to interpret the data they are publishing. But I'm giving them paint-by-the-numbers instruction for interpreting their own data. The Commission has published data that show that the largest four traders hold 140,550 gold contracts net long and that represents 42% of the entire open interest once all spread contracts are subtracted from total open interest. The agency can confirm in a heartbeat if the largest single trader holds close to 85,000 contracts of that total in the latest COT report and whether the largest short held 75,000 contracts on Dec 4. The agency can't reveal the identity of the trader (unless it charges a violation of the law), but it can verify or dispute the share of the market held by the largest gold long without naming the entity.

Since the explanation that the CFTC can't correctly interpret their own data loses credence after basic instructions to them of how to do so, we are left with the more popular explanation that the agency is in cahoots with JPMorgan in some way. As a US citizen, I hope that's not the case, although I am increasingly leaning that way. One thing that can't be denied is that the overall tide of sentiment against big banks trading in commodities is rising. I don't know why it has taken so long as it never made sense for banks backed by insured deposits to speculate in commodities. I'm encouraged by Commissioner Bart Chilton's recent pronouncement to this effect http://www.bloomberg.com/news/2013-08-05/fed-should-reverse-commodity-trading-policy-cftc-s-chilton-says.html but disappointed that he ignored the short corner on the gold market in December and ignores the long corner now in place. It's time to be specific and not speak in generalities.

Perhaps the reason that the CFTC can't see the corner in place in COMEX gold is because they are not looking. I confess; since JPMorgan turns up so often as the gold and silver price controller, I look for their involvement. I can tell you this for sure; if you look at the data through the perspective that JPMorgan is up to no good, then you can see it clearly. This reminds me of my discovery of the silver manipulation in the mid-1980's thanks to Izzy Friedman's challenge to explain the low silver price amidst a supply deficit. I came to see the short side manipulation and concentrated position because I was looking for what was wrong. Same here Â? if you try to legitimately explain why JPMorgan was so short at the top in December and so long now after a $500 decline in legitimate terms, you'll drive yourself mad. This is a rotten crooked bank and their actions can only be comprehended in illegal terms.

Since we are in the unprecedented position of looking at a corner in the gold market in real time with little history to guide us, no one can predict how it will end precisely; but end it will. Will it end to the upside, with JPMorgan realizing huge profits (as they did with their previous short gold corner); or will it end with JPMorgan being forced to divest of their gold corner by the regulators. Obviously, the record would suggest the former, but it's not impossible for the regulators at the CFTC to awaken from their coma of failing to properly regulate precious metals. Certainly how JPMorgan liquidates their gold corner will be the prime influence on the gold price.

Regardless of how JPMorgan disposes and dissolves its gold corner on the COMEX, it should be good for silver. If JPM lets the gold price rip to the upside for great profit (as is most likely), I would expect silver to more than tag along for the ride. If the regulators gain some wisdom about their own data and some fortitude in going against JPMorgan's gold corner, I don't see the great danger for silver at current prices. After all, JPMorgan has no long side corner in silver to be ordered liquidated and we're already below the cost of production for many silver miners.

I'm not sure what to root for. If JPMorgan is forced to divest its corner on the gold market that would be such a regulatory sea change that it would make it extremely unlikely that JPM would short aggressively on the next silver rally. I am still convinced that is the most important market consideration. A measured reading of the facts and circumstances suggests the gold corner could be the catalyst for my long-expected divorce between silver and gold prices. Make no mistake – this gold market corner seems almost from another world or time. If I didn't see the clear evidence that it existed by virtue of the hard data, I'd swear it was impossible. Instead, we're all going to witness how it gets resolved.

Ted Butler

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Silver – $19.50

Gold – $1285

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