

## July 20, 2013 – Weekly Review

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Gold managed to extend last week's gains by climbing \$12 (almost 1%), while silver only managed to look putrid, falling 45 cents (2.3%). As a result of silver's stark underperformance, the silver/gold price ratio widened out to nearly 67 to 1, the most undervalued silver has been to gold in three years. Since undervaluation is the long term value investor's main guide in seeking out the perfect investment, silver certainly qualifies on a relative and absolute basis (how many commodities are under the cost of production?). Besides, in our crazy upside down and manipulated world, I suppose it makes sense that the commodity with the stronger fundamentals should act weaker price-wise.

I think it instructive to set the clock back to three years ago, when not only was the silver/gold ratio the same as it is today, but the absolute prices of gold and silver were also virtually the same as today. Starting in the late summer/early fall of 2010, gold rose from \$1250 or so to over \$1900 a year later, a gain of more than 50%. Silver climbed from \$18 or so to \$49 by late April 2011, a gain of more than 150%. I know that seems in a different lifetime to the price action and control of today, but if you look at the actual conditions present back then and now, particularly in silver, it's not hard to imagine a repeat or even stronger performance in the future. What conditions?

For starters, at \$19 in 2010, silver was not way below the cost of production for so many of the world's primary silver miners. Back then, \$19 wasn't way above the collective cost of production, as evidenced by earnings reports of three years ago, even though silver had tripled in price from a few years earlier. That was because the costs to mine and refine silver had been rising sharply by 2010, for a wide variety of reasons, like energy, labor, regulatory and environmental costs and the biggest cost of all, reduced yield from ore. Today, after three more years of cost pressures to the upside, for many primary silver miners, \$19 doesn't come close to covering the cost.

The other big difference between now and 2010, is the market structure on the COMEX. While the prices for gold and silver may be the same as then, it's hard to imagine a more radically different market structure. Back then, there was a peak total commercial net short position in COMEX gold of 300,000 contracts (30 million oz) that rarely fell below 200,000 contracts on the way to \$1900. Today, the total net short position in gold is less than 25,000 contracts. In silver, the total commercial net short position back then peaked at 65,000 contracts (325 million oz) and didn't fall below 45,000 contracts until the top price was hit. Today, the total commercial net short position in COMEX silver is close to 11,000 contracts. The current levels of commercial net short positions in COMEX gold and silver are, effectively, the lowest ever.

While some may suggest that points to the folly of relying on the Commitments of Traders Report (COT), I see it differently. Back then, the commercials (mainly JPMorgan) were not positioned correctly for what turned out to be the closest the world has ever come to a genuine physical silver shortage and were forced to fight it all the way. Eventually, JPMorgan and the commercials succeeded in breaking the price in the first great price smash of May 1, 2011, but not before they had a near death experience. It has taken JPMorgan three years and the biggest gold and silver six month price smack down in history to achieve (illegally) their current positions in gold and silver. This will prevent the bank from having to look into the silver abyss in the next shortage.

I believe the cost of production consideration and radically different market structures from three years ago will make all the difference to how things go from here. That doesn't mean it's straight up (as anyone can see from the daily action) but it would be mistake not to note the differences between then and now even though prices are the same. By the way, the cost of production issue is more critical to silver than it is to gold, because total annual mine production in gold (80 million oz) is only 1.5 % of the 5+ billion gold oz in the world, while annual silver mine production (760 million oz) not only comes close to all the known silver bullion in the world (1+ billion oz), but in addition the entire silver mine production is consumed industrially or in total fabrication needs. In other words, any fall off in gold production would be minor in terms of total physical supply, whereas any loss in silver mine production would push us into shortage more quickly.

Turnover in the COMEX-approved silver warehouses were erratic this week on a daily basis but still exceeded 2 million oz, as total inventories rose slightly by 200,000 oz to just over 166.2 million oz. I still contend that this rapid turnover is in keeping with wholesale physical tightness. As has been the case recently, inventory movements were attention-getting in the big silver ETF, SLV. In the past three weeks, some 13 million oz were deposited into the trust, with 4 million oz deposited in the past week or so. Certainly, the stark contrast between steady to rising metal inventories in the SLV and the massive withdrawals in the big gold ETF, GLD, continues. While puzzling to many, it looks simple enough to me — investors sense a better value in silver, despite the contrived relative price weakness in the white metal and are holding on to it.

Since most of the metal deposited into the SLV recently has come amid lackluster trading volume and price action, the deposits don't look they have occurred due to plain vanilla investor buying. It looks to me like the metal deposits have occurred to reduce the short position in the stock, quite high at close to 21 million shares (ounces). This week's new short position report will cover the period through July 15 and should tell us if my hunch of a decline in the short position of SLV is correct. You may remember we went through this in the beginning of the year, when a large one-day deposit was used to greatly reduce the short position in SLV at that time. (Please see "SLV Update" Feb 13, 2013, in the archives).

Sales of Silver Eagles from the US Mint continue to be reported once a week, on Mondays. A subscriber informed me that this is when the Mint allocates to authorized dealers, which also confirms that the Mint is still operating at full production/blank supply capacity for Silver Eagles. There are no comparable capacity constraints or allocations for Gold Eagles. For the last week or two, the Mint seems capable of producing 125,000 Silver Eagles per day (24/7) and if that pace continues for the next two weeks, total sales should hit over 4 million coins for the month, since a quantity was held back in the previous month. No matter how you slice it, the US Mint is producing and selling record amounts of Silver Eagles this year. Let's see — record demand for Silver Eagles, no net silver liquidation in ETFs and the price is now below the primary cost of production. All's well in the manipulated world of JPMorgan and the CME Group.

As expected, there was deterioration, or an increase in the total commercial net short position, in COMEX gold and silver (and copper) on a price jump during the reporting week in the current COT report. The headline number looked worse in silver than in gold, but under the hood gold fared worse. First off, please keep the increase in commercial short positions in proper perspective, as we remain historically low in commercial short positions in gold and silver as a result of the massive take down in prices this year. Also keep in mind that the COT report is mostly useless for short term price predictions.

In gold, the total commercial net short position increased by 5600 contracts, to 24,600 contracts. Apart from the two prior COT reports, this is the lowest commercial net short position in more than a decade. By commercial category, the big 4 sold 6500 additional contracts short, while the raptors sold almost 3000 longs, with big 5 thru 8 buying back 4000 shorts. The raptors (which include JPMorgan) hold 131,700 gold contracts long, their largest net long position except for last week.

Over the years, whenever I have referred to the big 4 and big 5 thru 8 in gold and silver, I have been referring to the largest traders on the short side of the market. This was deliberate by me as the concentrated holdings by these large traders on the short side were at the heart of the manipulation, particularly in silver. But the concentration data in the COT report isn't limited to large holders on the short side only; concentration data were also published for long holders. I never commented on the large concentrated long holders because, quite frankly, their holdings weren't particularly large or concentrated. That is, until now.

Concurrent with this year's massive take down in price and the resultant monumental repositioning of positions, another interesting development has been a marked increase in the concentrated holdings of the four largest longs in COMEX gold and silver (and copper). This has been a pattern obvious to me for some time and has shown itself in the fact that in COMEX gold and copper, the big 4 on the long side hold a larger position (in percentage and contract terms) than the big 4 shorts. I never recall such a circumstance in COMEX gold (other than very recently). In fact, it was the growing concentration on the long side in gold that first tipped me off to the fact that JPMorgan became the big COMEX gold long (confirmed by the Bank Participation Report).

In COMEX silver, the 4 big shorts are still larger than the positions of the 4 big longs, but by a narrower margin than ever in my decades of studying the COTs. Currently the big 4 on the long side of COMEX silver hold around 30,000 contracts compared to 40,000 contracts held by the 4 largest shorts. In the old days (before this year) a 40,000 contract short position by the big 4 would typically only have a 12,000 contract long position by the 4 big longs. It always looked like and was a mismatch. But that seems to have changed this year.

What this suggests to me is that on the rigged price smash of this year, not only has there been an incredible reduction in the total commercial net short positions in COMEX gold and silver futures, there has also been the emergence of some big concentrated longs. In gold, it's relatively easy for me to pinpoint JPMorgan as the new dominant long, but I am hard-pressed to name who the big silver long might be (although I wouldn't rule out an ally or friend of the family of JPM). My point is this: I am encouraged to see a big long or two emerge in COMEX silver, particularly on such dreadful price action as it suggests it may be someone who understands the real dynamics in silver.

Continuing with the gold COT, big 4 on the short side now hold their largest net short position since January, a real oddity since the total commercial net short position is down drastically since then. This suggests that there may be a non-commercial or two in the big 4 category, something that never occurred previously. We certainly know that JPMorgan is not part of the big 4 on the short side of gold, as they are the biggest long of all, still holding a minimum of 75,000 long contracts. This adds to the rumble in the jungle battle between the elephants I previously wrote about.

On the negative side in gold is that more than 17,000 short contracts held by the technical funds were bought back on the \$50 rally during the reporting week. I knew those contracts would be bought back at some point, so I am disappointed that we didn't get more of a price pop out of this rocket fuel. Offsetting that is that JPMorgan appears to have held tight to its concentrated long position. In gold and silver, the only thing that matters is what JPMorgan does.

In silver, there was a 4400 contract increase in the total commercial net short position, pushing that position to 11,300 contracts. This is the largest commercial net short position in eight weeks, but it is still minuscule by historical standards. By commercial category, the big 4 sold more than 1700 contracts short and the raptors sold 2300 of their longs, reducing their net long position to 39,800 contracts, the lowest amount in eight weeks. The big 5 thru 8 sold 400 additional silver contracts short. I'm not sure what JPMorgan is holding on the short side of silver, somewhere between 12,000 to more than 15,000 contracts. I should know more with the next Bank Participation Report, when published on Aug 9.

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I do know that JPMorgan has continued to be the dominant taker or stopper of delivery notices in the current July delivery month. Leaving out the delivery notices the bank has stopped for clients, JPMorgan has taken, in its own name or house account, 2633 deliveries out of the 3171 total deliveries made so far this month (including hundreds of contracts delivered by clients of JPMorgan to JPM's house account). The more than 13 million ounces that JPM has taken delivery of this month would indicate that JPMorgan made a conscientious determination to acquire this silver, as does the data that show the bank has bought millions of shares of SLV (and may be covering additional millions of ounces of SLV short positions) and has bought back more than 125 million ounces held short in COMEX futures contracts.

Additionally, JPMorgan has bought even more prodigious quantities in gold in all forms and has, I believe, become the single largest gold long in COMEX history. I also believe that JPMorgan has acquired much or most of the 13.5 million oz of gold liquidated from GLD this year. I don't pay particular importance to the day to day talk of COMEX gold inventories, or lease rates, or to alleged trading on the LBMA, or to talk of an imminent gold delivery default; otherwise I would write about those things.

But I do acknowledge that with JPMorgan so massively positioned on the long side of gold, anything can happen that JPMorgan wishes or desires. If JPMorgan wants to put it to the shorts, the shorts will have it put to them. If JPMorgan desires for there to be a large demand for delivery difficult to fulfill by those required to make delivery, there will be a large delivery demand. If JPMorgan wishes for gold to jump many hundreds of dollars per ounce, thereby enriching the bank, gold (and silver) will jump as high as that enrichment requires. Conversely, if JPMorgan desires none of these things then the odds of any occurring, at least in the short term, are much longer. My point is that JPMorgan has and has had an unnatural dominance of the gold and silver market; the bank is the sole determinant for gold and silver pricing. In terms of a rational and free financial market, that is absolutely absurd.

Believe me when I tell you that I haven't consciously chosen to obsess about JPMorgan and silver (and gold). I don't have any unspoken agenda or purpose for focusing so much of my analysis on the bank, save one — everywhere I look, behind every silver door I open or fact I seek out, I find JPMorgan. Prior to discovering that JPMorgan was the big silver and gold COMEX short as a result of the Bear Stearns takeover five years ago, I don't think I ever before singled the bank out, although I did include them with other large traders in a group I called the Silver Managers ten years ago. [http://www.investmentrarities.com/ted\\_butler\\_comentary/06-24-03.html](http://www.investmentrarities.com/ted_butler_comentary/06-24-03.html)

But that was then and now I can't get away from discussing JPMorgan in great detail because everything I look at points to this bank controlling the price of silver and gold. Today is a great example. I didn't start this week contemplating what about JPMorgan I would write about, but it has ended with which stories about JPMorgan should I choose. So let me touch on a few of them.

First is the pending settlement between JPMorgan and the Federal Energy Regulatory Commission (FERC) for the alleged manipulation by JPM of the electricity markets in California and Michigan. The amount to be paid by JPMorgan is reported to be \$500 million or more, which would be a record for FERC. I previously commented on this case, which included FERC allegations that the head of commodities and regulatory affairs for JPMorgan, Ms. Blythe Masters, had lied to the energy commission under oath. FERC appears determined to prevent the bank from future violations. Good for them. <http://dealbook.nytimes.com/2013/07/17/jpmorgan-in-talks-to-settle-energy-manipulation-case-for-500-million/>

What makes this interesting is that it parallels the silver story closely. JPMorgan got hold of the electricity trading business at the heart of FERC's suit as a result of the Bear Stearns acquisition, same as silver (and gold). The allegations by FERC concern "manipulative schemes" by JPM to defraud many innocent victims in order to profit; I'm sure I must have used those exact terms about silver at some point. The CEO of JPMorgan, Jamie Dimon, had snapped a while back at reports that tried to hold JPM responsible for wrongful actions at Bear Stearns before the takeover. While I agreed with Mr. Dimon in that case, the FERC case illustrates the manipulative schemes were developed after the takeover. Same with silver, as JPMorgan has been real time, all the time, the prime force in the manipulation of silver and gold "biggest short, biggest long, biggest deliverer, biggest stopper of deliveries, dominant in all things silver and gold. And it can't be blamed on Bear Stearns.

About the only difference in the FERC case is the government agency handling electricity. Oh, what I would give to trade the incompetent and/or corrupt CFTC for a regulator which would do its job. I'm sure that the electricity case was harder to prove than the silver manipulation when you consider how many thousands of public complaints have been made to the CFTC about silver and that the proof lies in data published by the CFTC. Since FERC's case was based upon incidents in 2011, that agency didn't take 5 years investigating and many years before that trying to avoid the obvious, as the CFTC has done.

The next story concerns the sudden resignation of two directors of the board of JPMorgan yesterday after being re-elected in May. Obviously, these were two of the directors I wrote to less than a year ago about JPMorgan manipulating the silver market and they happened to be on the risk committee. I'm not going to read too much into it, but it suggests to me there is some sort of turmoil behind the scenes at JPM, of which being publicly and repeatedly identified as the market manipulator of gold and silver may be contributing.

<http://dealbook.nytimes.com/2013/07/19/2-jpmorgan-directors-resign/>

The last story may be the most important of all, and does specifically mention JPMorgan, along with some other firms. It's a Reuter's story about the Federal Reserve rethinking its approval of allowing banks trade in physical commodities. <http://www.reuters.com/article/2013/07/19/us-federalreserve-commodities-banks-idUSBRE96I17A20130719>

If there has been a common theme in not only today's article, but in just about everything I write, that theme is why the heck are US banks allowed to trade in commodities, futures or physicals, in the first place? You heard me often ask why aren't banks like JPMorgan out taking deposits and making loans and behaving as a bank and not as a hedge fund manipulating the market. That the Fed is now asking raises the question to a different level.

Look, I know why JPMorgan has devoted so much capital and effort towards trading and manipulating commodities, namely, there's big money there. Commercial banks have a problem. In order to produce consistent and growing profits they can't rely on traditional lines of business. How much can you skim from the public in the form of overdraft fees on checking accounts, pay day loans and mortgage rip-offs? Not enough to juice earnings sufficiently. For the earnings that JPMorgan needs, they need to rig markets, from electricity to precious metals and every conceivable derivative scheme that can be dreamt up.



The problem is that the profit quest has become so critical and intense that it is leaving tell tale trails of evidence in its wake so that maybe even the Fed is getting concerned. Take a minute and put this on fast/forward and contemplate how this ends. I know many assume that JPMorgan can manipulate silver and gold and any other market they desire indefinitely, but the news this week does not support that. JPMorgan is certainly not going to continue to manipulate electricity while FERC is around. And unless this bank can come up with one valid reason they should be allowed to manipulate other commodity markets, they may have to go back to hidden fees on checking accounts and credit cards and not by ripping off silver and gold investors. Too many have become and others are now discovering the manipulative role JPMorgan plays in gold and silver. That's not conducive to JPMorgan continuing to dominate and control gold and silver prices. How long can JPM remain silent to direct and specific allegations they are manipulating prices?

I can't help but feel all these things are related and have much to do with JPMorgan's incredible repositioning in gold and silver this year. No one can know how things will unfold in the future precisely

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