

June 19, 2013 – The Start of an Era?

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It is usually impossible to recognize important shifts in history as they are occurring. It is generally only with the passage of time that sea changes come to be fully appreciated. This is particularly true in financial markets, where to discern significant shifts early-on can matter greatly. I believe we are transitioning to an important new era in the silver and gold markets.

At the center of what I believe is an historic shift in silver and gold is the giant financial institution JPMorgan. There can be little doubt that JPMorgan sits at the pinnacle of the financial world, particularly in regards to derivatives trading. It would be an understatement to say that JPM was the unquestioned leader in silver and gold trading based upon its market share and influence. In essence, both the old and new eras I speak of revolve around JPMorgan.

The era for silver and gold that is ending centers around the termination of any challenge to JPMorgan's market supremacy. Because of the financial crises of 2008 -2009, an effort was undertaken at the highest levels of the US Government to rein in the power of the world's largest financial institutions whose outsized derivatives bets brought the system to the brink. This effort began in 2009 and coincided with the appointment of Gary Gensler as chairman of the CFTC and culminated in the passage of the Dodd-Frank Financial Regulatory Reform Act. This law was designed to limit the risks that banks and other financial institutions could take on.

Dodd-Frank held particular potential significance for silver, as its provisions to initiate legitimate speculative position limits and ban proprietary trading by banks (the Volker Rule) promised to end the long term manipulation of silver (and gold) of which JPMorgan was the verifiable king pin. But even the passage of a law that would have ended the silver manipulation, if enforced as intended, was no match for the lobbying and political influence of JPMorgan. In short, the power of JPMorgan was greater than the law itself and any effort to limit the bank's dominance and control of the silver and gold market was vanquished. As I have reported recently, JPMorgan has ascended to be the unquestioned force in silver and gold, unrestricted by any regulator.

There have been enough recurring press reports of the pending ouster of Gensler as the chairman of the CFTC to recognize his days appear limited. <http://www.gata.org/node/12699> As I indicated previously, my take is different than the popular spin being advanced that he is being ousted because he was too tough on the banks. I will admit that he may have tried to be tougher on the banks than any other commissioner or prospective chairman, but that's taking relativity to an absurd level. The fact is that neither Gensler nor Commissioner Chilton followed through on issues related to silver that they should have acted on.

To my knowledge, Gensler has managed to serve more than four years as agency chairman without ever once specifically referring to silver publicly. This despite an ongoing formal silver investigation that has been in force during his entire tenure and a series of unprecedented price declines that wouldn't go unmentioned or not acted on were those declines to have occurred in any other regulated market. While I was an early vocal supporter of Gensler who has come to eat his words, I also maintained from the beginning that how he handled the silver manipulation would come to define his legacy. It is no pun to say that legacy is now tarnished.

The old era that I feel is ending is not strictly confined to the last four years, but extends back decades. Even so, current pricing notwithstanding, the price experience of the past four years is instructive. Silver was trading around \$12 in the beginning of May 2009 shortly before Gensler assumed office that month and has never been lower, having been as high as \$49 two years into his tenure before the current two-year correction. My point is that despite the complete failure of the agency to terminate the silver manipulation and rein in JPMorgan, prices still ran up impressively anyway. That's also true of the CFTC's failure to end the silver manipulation over the past 10 to 15 years.

As I see it, the old era that is ending is defined by a continuous manipulation by one big serial silver short seller on the COMEX that didn't always succeed in keeping prices completely suppressed but kept them lower than free market forces would dictate. The old era was characterized by a single concentrated COMEX short position holder that varied over the years and culminated with JPMorgan as the big short upon the bank's acquisition of Bear Stearns in 2008.

What's most remarkable about the ending of the old era in silver and gold and the start of the new is how it has come about. Certainly we can rule out the changeover as being directed by the regulators cracking down on JPMorgan; otherwise Gensler wouldn't be in the process of being ousted. In fact, all the visible signs indicate that JPMorgan has never been in a stronger position of influence than currently (which is no minor concern for someone who criticizes the bank as much as I do). So if it's not the regulators as being behind the potential era shift, then what is it?

I believe the key lies in JPMorgan voluntarily undertaking their massive verified shift from the short side in gold to the long side, along with the bank's sharp decrease in its silver short position over these past several months. Nobody forces JPMorgan to do anything that they choose not to do — not anyone in the US Government or any other government and certainly not any individual citizen. Therefore, it is certain that JPMorgan did what it did because it chose to do so.

To be sure, there is no question in my mind that JPMorgan rigged silver and gold prices lower in order to lure others into selling so that the bank could buy and that fits the definition of manipulation. There is no doubt that the markets were manipulated lower and it ranks as one of the greatest regulatory failures of all time; but that is a separate issue. The key is still the motivation behind JPMorgan's tectonic position shift. What the heck prompted JPMorgan to buy silver and gold so aggressively? What do they see that caused their buying?

Perhaps the simplest answer is that they expect silver and gold prices to move higher and that is all that is needed by us to justify a bullish outlook. But considering JPMorgan's prior role in the ongoing silver and gold manipulation over the past five years, it is natural to contemplate the reason for dramatic shift now. I've been thinking a lot about this lately and will give you my thoughts, but please feel free to send any of your own thoughts my way. I'll also describe where I may be wrong in my new era premise.

One of the motivations for JPMorgan to have bought so aggressively is to put themselves in position to stop manipulating silver and gold prices. As powerful as the bank may be, it can't be happy about the near universal damage to its reputation in precious metals circles where the bank is continuously vilified for its role in the manipulation. Truth is that I think some of accusations against the bank may be unfounded but that's beside the point that JPMorgan's reputation could hardly be worse in precious metals Internet circles. That JPM has never responded forcefully to suggestions that they are involved in rigging silver and gold prices only adds to the reputational damage. Even if there is a US Government involvement with JPMorgan in the manipulation, that doesn't lessen the undermining of the bank's reputation and, therefore, would still prompt JPM to stop manipulating the price of silver and gold.

Where I will be proven wrong on my era shifting premise is if JPMorgan quickly resorts to selling short additional quantities of silver contracts on any price rise or if they revert to shorting gold heavily. That would prove that the deep decline in silver and gold prices this year was just a tactical positioning for short term profits and the bank has every intention of continuing to rig prices in the future. I have previously identified potential additional short selling by JPM as being the key development to watch and this just reconfirms my point. What JPMorgan does on the next price rally will reveal their intent.

In the interim there can be no denying that there has been a monumental shift in JPM's silver and gold position of late. Obviously, the bank sees something that persuaded them to orchestrate an historic silver and gold buying program, otherwise they wouldn't have bought. As a silver and gold bull, who am I to argue? In fact, I wouldn't be surprised if JPMorgan simply sees what I and many of you see, namely, that gold and, especially, silver are about to be radically adjusted to the upside in price for a wide variety of supply/demand considerations. It's not likely that JPM is ill-informed on silver and gold matters and their actions speak loudly and clearly.

While JPMorgan has covered all of its gold short position and most of its silver short position on the COMEX, it is important to recognize that is not the same as the total short position being closed out. It would be more correct to say that the short position was transferred to other entities than it ceased to exist. This is a key fact. I've long maintained that before the silver market tops out, there would be an obvious short covering (and industrial user inventory buying panic). Even though JPMorgan has covered all of its gold and most of its silver short positions, it would be a mistake to conclude the total short covering was behind us.

The proof of this is in comparing the current total net open interest (total open interest minus spreads) in COMEX gold and silver futures from previous points, say the price top on February 5. On that net open interest basis, current readings are within 10% of the net open interest back then. Or you can just plot the growth in the speculative short positions in gold and silver since then. My point is that JPMorgan covered its shorts like crazy, but it wasn't a total short covering but rather a transfer of short positions to speculators. And that should make all the difference in the world and resides at the heart of my new era premise.

For the first time in my experience with silver and gold, the big former short has flipped sides and is in position to not lose and even profit big by an upside explosion in prices. That's a first for me that I wasn't completely expecting. In fact, should JPMorgan not resort to selling short additional silver contracts on a price rally, I have difficulty in seeing how prices won't explode. In other words, without JPMorgan selling short I can't see how the coming rally won't be abrupt and not gradual.

I'm still decidedly non-clairvoyant as to when the process of JPMorgan loading up on lower prices will end precisely, but that concerns when to deploy the last of financial reserves and not whether silver and gold are good enough to buy right here. If we are on the cusp of a new era of there being no single big short seller of last resort in silver and gold, it won't matter much or for long what the exact bottom was in price or date. If there is no manipulation, what will matter is what position you hold in the new era.

Ted Butler

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Silver – \$21.45

Gold – \$1360

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