June 22, 2013 – Weekly Review

Weekly Review

No one reading this could be unaware that gold and silver suffered extreme losses this week as a result of a one-day waterfall price decline on Thursday. For the week, gold lost $94 (6.8%) and silver was hammered for $2 (10%). The silver/gold ratio widened out two full points to nearly 65 to 1, although had you told me that gold would fall nearly $100 this week in panic selling, I would have guessed silver would have fallen much more than it did. We are now at almost 3 year price lows for gold, silver and the ratio.

Although I go through the day with the sound on mute on CNBC, I was astonished at the almost continuous headline display announcing that silver was down near 10% and was at the lowest level in years. While silver is important to me (and you), in the overall scheme of things I can't see why it would matter that much to the financial world at large. After all, the entire value of the world's one billion ounces of silver bullion in existence (mostly parked in ETF's) is worth about $20 billion, a mere pittance compared to the value of stocks, bonds, gold and the net worth of the world's richest citizens.

There was, to be sure, prominent attention focused on the gold price decline and gold is an asset class with a total value measured in the trillions of dollars, so that made sense. But since all the world's gold is worth more than 300 times what the world's silver bullion is worth, the prominent featuring of silver's performance had me scratching my head as it seemed out of place. Perhaps more to the point were the reasons given for the big price declines in gold and silver. To my mind, they all missed the real cause behind the dramatic price plunge.

Generally, I stay away from the popular rhetoric on precious metals. I really don't believe that Fed policy, interest rates, inflation/deflation, the stock market, the state of banking and the financial system and all the other factors given for precious metals movements have much to do with prices; otherwise I would write about them. I don't sense, as many do, that we are on the cusp of some great financial Armageddon and freely admit to being powerless if it occurs. I believe that gold and silver prices move as the result of deliberate positioning by the main traders in the market, primarily on the COMEX and the ETFs. Since I am convinced that prices are manipulated, it comes down to a question of who's zooming whom, on Thursday and for the past three decades.

I'm going to dispense with the normal weekly format this week as involve COMEX and SLV warehouse movements, Silver Eagle sales and the like because none of those things were noteworthy or had anything to do with price movements this week. COMEX silver warehouse stocks were down 1.1 million oz (to 164 million oz) on turnover just slightly higher than that. SLV holdings were down modestly, somewhat surprising given the steep price decline. I will cover changes in the COT Report as that is at the heart of price movement, in my opinion.

In many ways, these past few months have been a most trying period for me and, I am sure, for many of you as well. Silver is down 40% from early February and down near 60% from the peak in April 2011. Although I am aware of the distortions that result from measuring from former price peaks (not many actually buy at historical highs), these are serious price declines that I had not predicted. So, in a very real sense, I apologize to everyone (especially my wife) for not warning everyone to get out at $49 or $32 and re-buy below $20. I certainly don't write (and charge) about silver with the intent of losing anyone's hard-earned investment capital.

On the other hand, I do feel that I have explained the reason for the price takedowns accurately (even to the point of incurring fairly widespread plagiarism). The entire decline since February and certainly Thursday's $2 plunge can be directly linked to the crooks at JPMorgan and the CME Group. And that's the dilemma Â? how can I apologize for the criminal actions of others that I take great pains (and risks) to explain, particularly if those actions make silver a more compelling long term investment than ever before?

I do believe there will come a time when silver is over-valued relative to all the important measurable factors that determine its price and I hope to be around and to be able to identify that time. Despite the jarring price draw downs to date; those factors have not developed yet Â? not even close. I'm still reminded of Warren Buffett's words to the effect that long term investments can and do drop 50% in price (as has Berkshire Hathaway on four separate occasions). I would add to that by noting that if such price declines enhance the investment appeal of the asset, then the asset should be more firmly embraced. That is certainly the case in silver, in my opinion.

A long-term subscriber asked if JPMorgan's absolute control over price didn't suggest that the price would stay under their control and overcome the merits for investing in silver. That's a fair question. The answer, I believe, lies in the historical record and a realistic assessment of the facts and not in the admitted short term ability of JPMorgan to control the price. Silver has been manipulated in price on the COMEX for 30 years and that manipulation has not prevented it from climbing sharply in price (albeit with strong price takedowns along the way). Therefore, the historical record indicates that despite the manipulative grip, the price has managed to largely overcome the price suppression. The facts suggest that will continue in the future. Nothing improves the investment attraction and risk/reward profile of an undervalued asset than a further sharp drop in the price (for no legitimate reason). This is particularly true when the price of a commodity is taken below its primary cost of production, as is now the case in silver.

But if there is one prime reason not to fear JPMorgan continuing to suppress the price of silver indefinitely, it is the fact that they are better positioned for a dramatic upside revaluation in price than ever before. I've referred to JPM's newly created and unprecedented massive long position in gold and sharply reduced short position in silver as the makings for a new era. Heretofore (prior to February 5 this year), JPMorgan had every reason in the world to continue to suppress the price of silver, namely, because they were massively short gold and silver. That reason no longer exists, thanks to JPM's incredible repositioning. Of course, it would be unreasonable to expect new eras to begin without significant price upheaval, such as was witnessed on Thursday.

There is no question in my mind that Thursday's price decapitation in gold, silver and copper was the work of JPMorgan, just as this crooked bank was responsible for the overall price declines since February. With some slight variances, the price smashes play out with remarkable similarity. Thursday's smash began in thin market conditions after the COMEX close on Wednesday when prices started to slide ostensibly due to Federal Reserve statements. In reality, nothing the Fed may have said was responsible for the decline in metals prices; the price smash was pre-ordained and organized. Before anyone could react, silver prices were down close to $2 from the COMEX close on Wednesday through the night; the absolute favorite time for the vermin at JPMorgan to fix prices.

By the opening on Thursday all long COMEX silver contract holders faced an automatic $10,000 per contract margin call/account deterioration. Remember, the prices are rigged lower first (usually in thin overnight trading) and then the trading volume comes in because prices dropped so much. The scam is all in the sequence; price rigged first, volume occurs afterward.

In gold, the overnight sell-off meant there was a $9000 margin call on a single contract basis, plus a CME announcement of a $1700 margin increase on top of that for Friday (as of the close). Faced with sudden huge margin demands from their brokers and with no seeming let up to the severe price declines, it looks likely that many long gold and silver holders chose to sell and liquidate positions that were bleeding sudden losses (on top of significant losses already accruing over the past several months). The only other alternative was to immediately deposit huge new sums of fresh money (if able) to hold positions that seemed to have no bottom in price. The disorderly pricing and exceptionally high trading volume indicate many chose to sell to end the financial hemorrhaging.

To those who might ask if JPMorgan wasn't also subject to large paper losses and margin calls on their big net long COMEX gold position (which I would now estimate to be larger than 60,000 contracts as of the Tuesday cut-off), the answer is of course. The difference is that the $600 million JPM had to come up with is peanuts in the scheme of things; a token amount to them like buying a newspaper to you or me. If anyone has unlimited money for such purposes it is JPMorgan. Being able to buy many more gold and silver contracts on the engineered price smash is all that mattered to these crooks.

I am going to come back and finish with this theme and try to prove how the criminals at JPMorgan engineered the big price declines in gold, silver and copper, as well as the big rally in the US Dollar Index, but first let me review this week's Commitments of Traders Report (COT). The changes were minor in silver, but fairly significant in gold (and copper and the US Dollar Index).

In gold, there was a very significant reduction in the total commercial net short position of 14,200 contracts, down to a total of 44,100 contracts. This is another new low that seemed impossible as recently as a few months ago. Of course, it took historic gold price plunges to allow the commercials to achieve such a remarkable record. How anyone cannot connect the dots and conclude that the price declines were deliberate to allow the commercials this achievement is unfathomable to me. Only pig-headedness in denying an ongoing price manipulation could explain the refusal to see the obvious.

By commercial category, the big four on the short side actually increased their short position by 2700 contracts and who I previously called the raptors bought more than 16,000 new long contracts. For those keeping score, by prior raptor calculations the raptor net long position would now be 104,000 contracts. Of course, JPMorgan, now on the long side of gold and the biggest long, is hardly a raptor in my prior meaning. As I mentioned above, I'd calculate JPM's long gold position to be in excess of 60,000 contracts, probably closer to 65,000. I still am awestruck that these crooks were able to flip from being net short 50,000 contracts on Feb 5 to being net long more than 60,000 contracts as of Tuesday. After Thursday's deliberate price smash by JPMorgan, I'm sure I'll be similarly awestruck by next week's report.

Details under the hood stood out in gold as well, as the technical funds (in the managed money category of the disaggregated COT report) were net sellers of more than 16,000 contracts, including a sizable addition of 10,000 contracts to the short side. What's kind of amazing in that prices weren't terribly weak during the reporting week or trading volumes particularly high, although prices did fall to new lows on the Tuesday cut-off. Considering the price weakness on Wednesday and, especially, Thursday as well as extraordinarily large trading volumes, the next COT should be one for the record books again.

In contrast, there was little change in silver for this reporting week. The total commercial net short position grew by less than a thousand contracts, to 6000 and it was all raptor selling of 1000 long contracts that accounted for the change. At 44,500 contracts net long, the raptors are still massively long. Yes, this position was down $450 million on the two dollar drop on Thursday and some individual raptors may have been damaged, but history suggests this position should remain intact or grow.

Under the hood, here were no standout developments on the short side as far as the technical funds were concerned, although I would be very surprised if that remains true in the next silver COT report. My sense in the current report is that the total levels of commercial shorts in silver is still so low as to almost defy belief, so I'm not concerned with the small change this week. While JPMorgan's illegal positioning on gold from biggest short to biggest long is breathtaking, that they have reduced their COMEX silver short position by more than 100 or 125 million ounces since Feb 5 is also the stuff of legends. Too bad these crooks don't abide by the same free market principles the rest of us do.

Over the past few weeks and months, I've mentioned the COT structure in COMEX copper and the US Dollar Index (traded on ICE). I don't want to get too far afield here, but the changes in this week's COT report for each bear mentioning. In fact, I can see a clear manipulation by the crooks at JPMorgan in these markets as well. Is there any market immune from these creeps?

In copper, on notable price weakness during the reporting week, the commercial net long position surged to more than 32,500 contracts, the highest level in COMEX history or as far as the data I follow goes back (20 years). Over the past two weeks, the commercial net long position in copper surged by almost 14,000 contracts. Since there was extreme price weakness and high trading volume after the cut-off, it's safe to assume the commercial net long position surged to new records. As is the case in COMEX gold and silver, the dominant commercial player in copper over the past couple of weeks has been JPMorgan, based upon COT and Bank Participation Report data.

In other words, the data suggest that JPMorgan has been the dominant buyer in COMEX gold, silver and copper on what have been deliberately set lower prices. In fact, there is no real connection between these three commodities other than JPMorgan being the most aggressive buyer amid sharply lower prices. Certainly, no one would suggest the fundamentals in these three different commodities had changed over the past few weeks to account for the dramatic like-kind price smashes; the only possible connection is JPMorgan. Since JPMorgan has been buying gold, copper and silver so aggressively, it is most reasonable for me to conclude that the price of these three commodities will move sharply higher once JPM gets all that they can get by rigging prices lower (actually, it looks like they are done by my reckoning, but with crooks you can never be sure until afterward).

It is when you look at the changes in this week's COT for the US dollar index that the extent of the manipulation takes your breath away. If you recall, I mentioned in passing recently how there was a concentrated short position in the dollar index of close to 90% of the market by just 4 traders, presumably all banks led by you know who. I'm not interested in currencies, but I think I happened to look at the concentration data as a result of reading various news reports of potential manipulation in currency exchange rates. As far as I am concerned, there can be no stronger proof of manipulation than an outsized concentrated position, although none of the news reports mentioned the concentrated position in the ICE's dollar index contract.

Since there was an unprecedented short position in the dollar index, one would think that would result in the index sinking or staying suppressed. But as you may know, the dollar index soared in the past few days and that was one of the (bogus) reasons given for precious metals weakness. So naturally, I was curious to see how the big concentrated shorts (read JPMorgan) made out in the latest COT. After all, it sounded like the big shorts had taken it in the teeth. I reviewed the dollar index COT and then it hit me.

This is not the easiest thing to explain briefly, so if you have any questions, please get back to me. The COT report for the dollar index this week indicated that the big concentrated shorts managed to cover the majority of their shorts by Tuesday's cut-off, just before the dollar index exploded. The big shorts covered around 30,000 contracts in the reporting week and more than 42,000 contracts of a 76,000 contract short position of three weeks ago; all very conveniently before a surge up in price. I was asking myself how the heck they managed to pull that off when it hit me. The US dollar index is a cash-settled contract, meaning there is no actual delivery or roll-over (like in gold, silver and copper) and all contracts expire and are closed out on a previously set expiration date. This is a date set well in advance that is known to all market participants.

So what this means is that the big shorts could and did drive the price of the dollar index sharply lower into the expiration date and on that date most of their short positions were closed out and settled at the lower rigged prices. Then, immediately after that very profitable close out, they were able to sidestep giant losses the soaring price (due to the Fed meeting and all that crap) would have caused and be in a position to re-short at new and much higher prices.

What makes this manipulation pure and simple is that the close out date was clearly set in advance and unless you believe these big shorts are so clean-living and virtuous that they are being rewarded by a higher spirit, the only plausible explanation is that they knew in advance how it was going to play out. I don't think it is possible that JPMorgan wasn't the ring leader in this dollar index scam, just like they are pulling the strings in gold, silver and copper. When does it get to the point when there can be no argument that this greedy and piggish bank is ruining all our markets?

Despite my low opinion of and serious allegations against JPMorgan, I firmly believe we are entering a new era in regard to silver and strong prices for gold and copper. JPMorgan no longer has the incentive to manipulate metal prices lower (aside from any short term grab to buy more contracts on lower prices). It is basically in the bank's interest to let these prices fly higher. The beautiful thing is that future COT and Bank Participation Report data will tell us when and if JPMorgan's incentive switches back to manipulating silver and gold lower in the future.

The pain these bastards have caused innocent investors to suffer by their deliberate rigging of lower prices should now be overwhelmed by the attractiveness that the low prices provide for new purchases of silver. It's not the script I would have written in which JPMorgan was made to pay for their criminality, but it's a script that spells out sharply higher silver prices to come.

Ted Butler

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Silver – $20

Gold – $1296

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