

## June 9, 2012 – Weekly Review

### Weekly Review

In a week featuring great price volatility midweek, the price of gold finished \$30 (1.8%) lower, while silver ended largely unchanged. Gold had finished sharply higher in the previous week. While it didn't feel that way on Thursday and Friday, silver did outperform gold on a relative basis for the week, causing the gold/silver ratio to tighten in to just under 56 to 1. This level is still at a one and a half year extreme of undervaluation of silver relative to gold. Short term fluctuations aside, silver still remains poised to greatly outperform gold on a long term basis, in my opinion.

As is usually the case, the volatility seen this week and last in gold and silver can be traced to activity on the COMEX and I will detail that in a moment. But I would like to acknowledge that this unnecessary and artificial volatility can be unnerving to investors. One of my main intents in constantly focusing on this COMEX activity is to expose it enough so that the volatility and counterintuitive price movements are more widely understood and less unnerving. I also intend to do what is possible to end the manipulation through the same exposure. Given the choice between knowing what's really going on or being in the dark seems simple enough to me, especially when investment capital is involved. I think knowing that the silver market, in particular, is manipulated not only explains much of the price movement but offers a compelling case of undervaluation. But you should only accept that if I present the evidence in a clear and objective manner.

Conditions in the wholesale silver market continue to suggest tight conditions. While there was no movement in COMEX silver warehouse inventories on Friday (somewhat unusual), turnover for the first four days of the week was strong at well over 2 million ounces, as total inventories rose by a slight 300,000 net oz to almost 143.5 million oz. There was also turnover in the holdings of the big silver ETF, SLV, and some net additions; while there was a noticeable 1.8 million oz removed from the big Swiss silver ETF, ZKB. All this silver ETF metal turnover points toward a tight physical situation. Sales of Silver Eagles seemed steady during the first week of June and particularly strong when compared to sales of Gold Eagles.

The changes in this week's Commitment of Traders Report (COT) were notable and mostly expected, at least in gold. Please keep in mind that the big day in the current reporting week was last Friday, when gold jumped \$66 on high volume. The big price action in this calendar week came after the report's Tuesday cut-off. The headline number (the total commercial net short position) for COMEX gold futures increased by 25,400 contracts (2.54 million oz), to 156,100 contracts. I was actually relieved to see "only" a 25,000 contract increase, as I indicated in last week's review that I had thought 30,000 net contracts were positioned (and I had feared even more). More importantly, at least thru Tuesday's cut-off, the tech funds in the managed money category of the disaggregated report only bought back a bit over 5,000 contracts of their newly created short positions, leaving plenty of bullish fuel to be ignited and burned to the upside.

The big 4 in gold added almost 8,000 short contracts to a still historically low net short position. The gold raptors (the smaller commercials apart from the big 8) sold 15,600 contracts, completely eliminating a net long position and leaving them 2200 contracts net short and more neutral than anything else. All the gold commercials appeared to sell on the sharp Friday rally, as is their collusive custom.

The big question, of course, is what transpired on Wednesday's big rally and the subsequent sharp fall on Thursday and into yesterday morning? I think there was tech fund and speculator buying, along with commercial selling on Wednesday, but my sense is that was largely unwound on Thursday and Friday. In other words, if the COT was to be calculated as of the close of business yesterday, it would look mostly unchanged from the cut-off on Tuesday (that goes for silver as well). Therefore, I think the gold COT structure is still very bullish, although not at the bullish extreme as it was when gold was trading at the recent price lows of the past few weeks.

Of course, the commercials may try to rig lower prices to induce more speculative selling, but the gold market is still structured to go up more than it is structured to go down, according to my interpretation of the COT. There also should be no question that the recent price volatility in gold can be directly attributed to the shenanigans on the COMEX where the equivalent of millions of ounces of gold have changed hands between the commercials and the speculators, as key moving averages were violated in both directions. There are stories, to be sure, of big physical gold transactions, but none of those stories are ever documented. Certainly, in the categories of gold holdings that can be documented, such as in gold ETFs, there is little movement. Therefore, I am still convinced that the changes in contract holdings on the COMEX are the prime mover of the gold price.

In silver, there was a not unexpected increase in the total commercial net short position of 2200 contracts, to 16,500 contracts. This was a much smaller increase proportionally than what occurred in gold, but silver's price action in the reporting week was more subdued than gold's. But for the second week running, the big shocker was in the details, as the big 4 (read JPMorgan) increased its concentrated short position by more than 2000 contracts, accounting for the entire increase in the commercial net short position.

Surprisingly, the silver raptors didn't sell hardly a contract of their 23,200 net long position, while the 5 thru 8 largest traders sold a scant 200 contracts in new short positions. As I hinted at above, I think the silver raptors may have sold on the Wednesday silver rally after the cut-off, but I think they bought back whatever they sold on Thursday's and Friday's price weakness. In the current COT, it was basically all big 4 selling and specifically just JPMorgan as the sole seller, according to my calculations.

As confirmed in the June Bank Participation Report, also as of Tuesday, JPMorgan's silver short position has increased by at least 5000 contracts (and maybe 6000 contracts) in the past two weeks on the small price rally. That is the equivalent of 25 to 30 million oz of silver, truly an enormous amount in a two week period of time and about equal all the silver produced and consumed in the world in the same period of time. I would calculate JPMorgan's net short position in COMEX silver futures to be between 16,000 and 17,000 contracts. JPMorgan has been the sole net commercial silver short seller over the past two weeks, according to COT and Bank Participation Report data. It is not possible for that not to be the clearest proof yet of manipulation, as a market dominated by one buyer or seller is the ultimate definition of manipulation.

Had JPMorgan not sold short 5000 or more net additional contracts in COMEX silver over the past 2 weeks, the price of silver would have climbed much higher in price. Why? Because without JPMorgan selling, someone else would have to sell in their place. Those sellers would have certainly demanded a higher price; otherwise they would have sold already, instead of JPM. That's the way (free) markets work. As an analyst, I would calculate that without JPMorgan selling the 5,000 or 6,000 additional contracts that they did sell short, silver would have risen \$5 or more in price, maybe a lot more.

Furthermore, JPM's short position alone equals the entire 16,500 contract total net commercial short position in COMEX silver. In other words, if JPMorgan did not hold a 16,000 to 17,000 contract net short position, there would be no commercial net short position at all. Without JPMorgan, the seven largest commercial shorts on the COMEX (the big 8 minus JPM) would hold a net short position roughly equal to the raptor net long position. In that case, I wouldn't be able to claim diddly-squat about any silver manipulation. I'd be shut down and silenced completely, as there would be no concentrated short position.

That's what makes JPMorgan's additional silver short-selling so egregious. Even if you chose to look at the COT data through the most innocent and Pollyannaish of eyes and assumed there was no intent on JPMorgan's part to deliberately manipulate the price of silver, any objective observer would be troubled. Let's say that JPM was engaged in legitimate hedging and market-making (there we go again), and unintentionally ended up as the only seller for two weeks and with a position that equaled the total commercial net short position. So what? Even if JPMorgan were engaged in legitimate activity, if that activity caused them to own an outrageously large and dominant share of any market, would it still be tolerated?

When I was child (a very long time ago), I sort of remember a cartoon character by the name of Baby Huey, an oversized duckling that had no sense of how large he was and ended up in funny circumstances because of his size. Even if you wanted to characterize JPMorgan as the Baby Huey of the silver market, not aware of its own size and influence, there should be some basic agreement on the wisdom of allowing unlimited size and market share dominance by any single participant. As CFTC Chairman Gensler states consistently, concentration is bad for any market.

But I don't view JPMorgan as Baby Huey; Darth Vader perhaps, just not Baby Huey. If anyone knows that JPMorgan has been the sole seller in silver and that their position is equal to the entire commercial net short position, then that anyone would have to be JPMorgan itself. JPMorgan also must be aware that it is widely perceived in metals circles to be the silver manipulator and that thousands of investors have complained to the regulators about the bank. The bank also knows it is being sued in civil court for manipulating silver and that the CFTC has been investigating silver (or so it claims).

My intent is not to libel JPMorgan or for that matter the CME Group, that as the front line regulator must be aware of JPM's status as the sole net silver short-seller over the past two weeks and of JPM holding a position equal to the total net commercial short position in COMEX silver. These two organizations could legally chew me up and spit me out before breakfast should they desire. I am not intending to harm JPMorgan's or the CME's reputation in any way. I'm not trying to sink JPMorgan or any such thing. My intent is to get JPMorgan to stop manipulating the price of silver and for the CME to stop aiding and abetting in that silver manipulation. I am providing the clearest evidence yet, through data provided by the CME and published by the CFTC, in the form of the COT and Bank Participation Reports that JPMorgan was the sole net short seller over the past two reporting weeks and that JPM holds a short position equal to the entire net commercial short position. This would be a wonderful time for JPM, the CME or the CFTC to refute these specific allegations.

On Wednesday, I admitted to facing reality and giving up hope that the CFTC would ever do anything about the silver manipulation. I still feel that way. But that doesn't mean I regret having petitioned them to end the silver manipulation over the past two decades, nor did I claim I would stop petitioning them. However, I must confess that I did not expect to be presented with such clear proof of manipulation as exists in the last two COT reports of JPMorgan's selling. I thought it would be problematic if JPMorgan sold additional silver contracts short on sharply climbing prices. I never imagined them adding short contracts so aggressively on such marginally higher prices that no other commercials would join in on the selling, even the raptors which are holding a multi-year record net long position.

In terms of what it means to prices, I am not at all dismayed by JPMorgan's unusual short selling at such low price levels. The immediate price impact of the large and concentrated short sales has already been felt on silver prices. It strikes me as being almost desperate on JPM's part. It suggests that JPM might be close to losing control of the silver market, given the blatant nature of the short selling. I don't want to be overly optimistic, but JPMorgan may have gone too far over the line this time. Certainly, JPMorgan is not infallible, as its recent derivatives disaster indicates. I also remember a time in early 2011, when JPMorgan added 6000 contracts to its short position in the very low \$30 range, only to subsequently buy back in a panic in the high \$40 range of late April, 2011. I can't say that JPM will face the same fate this time, but it's not impossible. At the very least, this latest short selling by JPMorgan is the most manipulative I have seen.

Even though I have given up on the regulators at the CFTC doing the right thing, that doesn't make their inaction any less harmful to our markets and our society at large. That's the real damage here – a loss of respect and belief in what should be a highly esteemed regulator. The world is grappling with the most serious financial circumstances of our collective lives and the last thing we need is the corrosive effect of not trusting those in charge. I got a letter from a subscriber in the UK in response to –Facing Reality– that I'd like to share with you.

Dear Ted,

Many thanks for your abovementioned recent post on your website.

Firstly, I would like to thank you again for all your efforts to publicise the manipulation in precious metals, especially silver.

Your consistent and dedicated work has proved enormously helpful to small, long-term investors like me, who were lucky enough to follow your reasoning and to act on it when silver was much closer to \$4.00 than to \$40.00.

However, I can well understand the sadness that echoes through your most recent comment.

We may be separated by Nationality, Culture and Geography, if not language. However, from your writings I surmise that we may both have shared, perhaps due to our respective upbringings, a common belief that Government-appointed and paid officials would act with honesty and integrity, more especially for those in the most senior positions.

To have this basic contract exposed as a sham is profoundly distressful to honest people and does much to fracture the bedrock of common Law, which is, in large measure, shared by our respective Nations.

This is lethal.

If the citizen sees that he cannot rely upon those appointed by Government to enforce the Law, why should that Citizen trouble to obey the Law himself?

Clearly, the outcome you fear from the CFTC investigation is yet to materialise, so no point in getting upset just yet, although your warning is timely.

Thanks for all you have done – go well.

George

George hit the nail on the head. It is lethal for citizens to lose belief in our important government institutions. The CFTC is well on its way to destroying the belief of large numbers of metal investors. I know that Chairman Gensler and Commissioner Chilton, in particular, must be aware that the process of reputational destruction is under way. I don't know how they can tolerate it. I don't care what assurances were given to JPMorgan when they took over the silver and gold short positions from Bear Stearns; no one is above the law. The CFTC can pretend that it doesn't see that JPMorgan has been the sole net seller in silver over the past two COT reports and that JPM doesn't hold a short position equivalent to the total commercial net short position. But the agency can't pretend that its wilful dereliction of duty comes at no cost. That cost is much larger than what the current price of silver may be; it's the destruction of trust and confidence.

Ted Butler

June 9, 2012

Silver – \$28.65

Gold – \$1596

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