November 17, 2012 – Weekly Review

Weekly Review

In a week with some volatile daily price action, the price of gold and silver finished moderately lower, with gold ending $17 (1%) down and silver off by 20 cents (0.6%). Silver's slight relative outperformance nudged the silver/gold ratio down to close to 53 to 1, still within the trading range of the past year or longer. Since I just highlighted my long term sentiment of severe relative outperformance by silver over gold, I won't do so again today. But in a major precious metals' up move, the big money will be made in silver according to everything I look at.

I am also convinced that the moderate weekly price volatility masks an underlying extreme fundamental market structure, particularly in silver. There are some unusual forces at play in silver that, sooner or later, must be resolved. I can see no way that the resolution can be accomplished without extreme price volatility. On a short term basis, the silver price can move sharply in either direction; longer term the price must move sharply higher to resolve the unprecedented artificial price restraints in place.

Conditions in the wholesale physical silver market continue to amaze me, even though I have written about them continuously for a year and a half. The frantic turnover, or movement of metal into and out from the COMEX-approved silver warehouses not only continues, but accelerated sharply this week. Back of the envelope calculations indicated a gross turnover of 5 million oz entering and departing the COMEX warehouses, ending in a total level of 142 million oz, down a million oz for the week. As always, I am hardly interested at all in total levels, just the movement. That's because the frantic turnover indicates a tight physical market, almost to the point of hand to mouth supply conditions. This past week, the frantic COMEX silver turnover was joined by unusual physical movement elsewhere.

Metal turnover in the big silver ETF, SLV, also came to life this week as more than 3 million ounces were removed in as many days (perhaps 4.5 million if yesterday's 1.4 million oz withdrawal wasn't a duplicate from the previous day). The withdrawals were counter-intuitive against a backdrop of fairly stable prices and trading volume, in that there were no strong indications of plain vanilla investor liquidations. The most plausible explanation for the big withdrawals was that the owners of SLV shares needed to convert to and ship the metal elsewhere, to where it was needed more urgently. Joining in on the physical silver turnover frenzy was the big Swiss silver ETF, ZKB, which reported a 3.5 million oz weekly withdrawal, following a 2.5 million oz addition in the previous week.

I would not be surprised if some of this physical silver movement was related to the recent purchases by Sprott for PSLV and the Royal Canadian Mint, but that hardly detracts from my premise of tight physical conditions. That premise holds that you don't go to the bother and expense of shipping metal to and fro with no good reason and that reason is because there are not ample supplies of available silver in place to satisfy demand. There used to be ample supplies of silver previously (before the past 18 months) and that was why there was no big turnover heretofore. That was then and this is now. Now there are not enough ample supplies of silver in place and that necessitates robbing Peter to pay Paul on almost a daily basis. If that doesn't translate into tight, hand to mouth silver supply lines, then I don't know what does.

Sprott has purchased a bit over 7.6 million oz so far, not far from my initial guess. It remains to be seen how quickly PSLV actually gets the metal, but I suspect it will be received fairly quickly because if the metal doesn't arrive quickly, Sprott will likely say so. Being a squeaky wheel has resulted in quick deliveries to Sprott in the past and I suspect it may be no different this time. Retail silver investment demand still appears strong from antidotal reports and data from the US Mint. Not only are sales of Silver Eagles strong on an absolute basis, they continue exceptionally strong relative to sales of Gold Eagles.

The changes in this week's Commitment of Traders Report (COT) were somewhat surprising, especially when looking under the hood. Prices during the reporting week were mostly flat to higher for both gold and silver, so I wasn't quite sure what to expect. But the details didn't conflict with any of my convictions that these markets are grossly manipulated. Please decide for yourself.

In gold, the total commercial net short position increased by 17,000 contracts to 224,800 contracts, the first increase in the headline number in five weeks. By commercial category, it was mostly a big 4 operation as the biggest shorts accounted for 15,000 contracts sold short this reporting week, with the 5 thru 8 largest traders and the raptors responsible for the balance. I'm still of the opinion that the gold raptors (the smaller reporting commercials apart from the big 8) will not sell short aggressively on rising gold prices, as they are still licking their wounds from their recent beating on the short side. My expectation was that any overt price capping would have to come from the big 4 and the current COT confirms that in spades. Particularly when looking at the silver COT, I get the impression that JPMorgan, the big silver crook, was the big short seller in gold this week as well. I'm sure that will not surprise many, but I don't usually finger JPMorgan in gold, as the data are not as clear to me as they are in silver.

In silver, the headline total commercial net short position increased by a moderate 1300 contracts, to 51,000 contracts. This was essentially the first increase in 5 weeks, the same as in gold. The real story was in the details. Somewhat surprisingly, the silver raptors actually bought an additional 1300 contracts, increasing their net long position to 9400 contracts, their largest net long position since August 21. The standout feature was that the big 4 (read JPMorgan) sold 2000 additional contracts short, markedly increasing the big 4's concentrated short position on only a modest advance in the price of silver. It would be hard not to classify this concentrated short selling as overt price capping. When one trader does most of the new short selling, price-capping is the first motivation that comes to mind, as free market sellers are more interested in getting the highest price possible, not in halting a price rally. Seeing how the new silver short selling was due to JPMorgan, it is reasonable that JPM had the same motive in gold as it had in silver, namely, keeping the price rally from picking up a head of steam. Therefore, I would bet JPM was the big gold short seller this week as well.

What made the silver COT report so unusual was the combination of raptor buying and JPMorgan selling short, in effect, to the raptors. I expected that the raptors would provide stiff buying competition to JPM, particularly on lower prices and both would likely sell on higher prices; but I don't ever recall the raptors adding new longs while JPM added new shorts. Certainly, this is one COT report and should not automatically be extrapolated, but the potential isolation of JPMorgan on the short side flashes in my mind. Many of us have wondered why no one big ever took on JPMorgan in silver, so I'm sensitive to clues that may be happening. If the physical market is as tight as the all the signs seem to indicate, JPM could be setting themselves up for a wicked Â?full pants downÂ? circumstance.

I hope it is not lost on anyone that JPMorgan, in selling an additional 2000 contracts on top of an existing giant concentrated position, has committed the most visible proof of price-capping and manipulation possible. If JPMorgan had not sold additional contracts short in the reporting week the price would have had to have risen enough to attract other sellers; just like if JPM wasn't short 33% of the COMEX, the price would need to rise to attract enough new sellers to replace JPM. This is so against the concept of free and fair markets as to make the CFTC look conflicted and JPMorgan look crooked.

Contrast the CFTC's silence and inaction on the matter of silver concentration in their published data with the recent ruling by the Federal Energy Regulatory Commission (FERC) against JPMorgan for, essentially, manipulating the electricity market. (Does JPM trade fair in any market?). FERC basically suspended JPMorgan from trading in the electricity market for six months as a punishment for cheating and lying in that market. The instructive point is that it shows that FERC believed JPM was guilty of doing in electricity close to what I allege they are doing in silver. I wish we could vote to have FERC regulate silver and not the CFTC, but at least it shows that a government regulator is capable of regulating. Of course, JPM denies it had intended to manipulate electricity and it was all just a misunderstanding. Does the lying come before the cheating or after, or is it one continuous loop? Let me cut to the chase; forget six months Â? if JPMorgan was suspended from trading silver and forced to close out its manipulative short position for six days or six minutes, silver would be over $100 in that time. Please take a moment to read the following story closely. http://www.bloomberg.com/news/2012-11-15/ferc-suspends-jpmorgan-unit-s-power-trading-authority.html

While we hear excuses from the CFTC about the need to prove intent before bringing charges of manipulation against JPMorgan in silver, FERC insisted that intent was a side issue. FERC's got it exactly right, in my opinion. If someone is messing with the market, there is no need to pussy foot around intent; stop the messing around first and then sort out the details later. We can decide in time if JPMorgan is manipulating silver intentionally or by accident; the important point is to first stop the manipulation. Not every homicide is premeditated and to be prosecuted as murder one; some homicides are manslaughter and not premeditated. That doesn't mean we tolerate people killing people if the intent isn't clear. Likewise, JPMorgan is clearly manipulating the price of silver by virtue of their concentrated short position and status of being the dominant seller of new short contracts. First the CFTC should make them stop; then charges can be decided upon.

I would calculate JPMorgan's concentrated short position in COMEX silver futures to now be 33,000 contracts, only 1000 contracts below their recent peak. After removing spread positions from the new data, JPM's silver position is 32.9% of the true net total market. This is so off the charts as to defy comprehension. Nothing else comes close to being the critical factor in silver. If we all live long enough to see any legitimate position limit regime in silver, JPMorgan's current dominant position would not be allowed. That position is more than six times larger than the loose as a goose limits proposed by the CFTC and more than twenty times the 1500 contract position limit proposed by thousands of public comments.

Based upon the almost daily flow of wrongdoing by big banks in general and JPMorgan in particular, I am starting to think that this bank must be viewed as a criminal enterprise in everything they do. JPMorgan is only a bank when it suits them, otherwise it is a collection of businesses that seem intent on dominating and controlling any market it participates in.
A subscriber recently suggested that I stop using the term Â?manipulationÂ? when describing JPM and instead simply use the word Â?speculation.Â? His point was that it was wrong enough for a bank to be speculating in markets so far apart from the basic role of banking that it wasn't necessary to accuse them of manipulating silver. This, of course, was the premise behind the Â?Volker RuleÂ? that sought to outlaw banks from speculating with their own money and thereby opening up potential taxpayer bailouts. JPMorgan has taken such proprietary commodity trading to such an extreme that it wouldn't surprise me if manipulating every market in existence was their goal.

The two prime components behind the Dodd-Frank financial regulatory reform were position limits and the Volcker Rule. It should be no surprise that fighting the introduction of both components is the main objective for JPMorgan. The introduction of either legitimate position limits or an honest version of the Volcker Rule should end JPMorgan's manipulative role in silver. If both were passed as intended, it's hard to see how the silver manipulation could continue. That's why JPMorgan is leaving no stone unturned to prevent either component from being enacted.

A couple of days ago, the CFTC voted to appeal the recent court decision denying position limits, as expected. It is only because of JPMorgan that this derailment occurred at all. It's hard to imagine an objective court ever denying the imposition of position limits in the end. From the beginning it was clear that the industry lobbying group fronting for JPMorgan and the CME was just looking to delay the imposition of legitimate position limits in silver to give JPMorgan more time to manipulate the price of silver. Had position limits been in place earlier, JPMorgan would have never been permitted to increase their concentrated short position like they recently did. So, the bogus law suit by the lobbying group accomplished its intended purpose. The question now is what's next?

I'd like to clear the record here a bit. Lately, I have taken to criticizing Chairman Gensler and Commissioner Chilton for not doing enough about JPMorgan manipulating the price of silver. While I think my criticism is valid and they are not doing nearly enough, it came only after long and strong praise for their previous efforts to enact position limits and end the lopsided concentration by JPMorgan in silver. You could say four years was enough for me. But at least Gensler and Chilton always said they were for position limits and voted accordingly. Not so the rest of the Commission, particularly in the form of Commissioners Sommers and O'Malia, who have opposed position limits from the get go. Since Commissioner Sommers is a former employee of the CME, I don't see how it is proper for her to vote on matters where the CME has taken a strong stand against CFTC initiatives, like position limits. She should recuse herself in such matters of potential conflict. As for Commissioner O'Malia, his statement of dissent in appealing the position limit ruling refers to controls already in place in metals as sufficient to make position limits unnecessary. JPMorgan has the largest concentrated short position of any major market on the short side of COMEX silver and that indicates sufficient controls as already being in place? Marvelous. At least Gensler and Chilton never said anything close to that.
http://www.cftc.gov/PressRoom/SpeechesTestimony/omaliadissentstatement111512

There is a current set up in silver that I have not quite seen like this before. JPMorgan is loaded for bear on the short side and continues to add shorts almost indiscriminately. Few other commercial shorts have joined with them as of yet. In the wholesale physical market, things rarely looked tighter and the one sure thing that can do JPMorgan in is a physical silver shortage. A silver shortage will cause buyers to urgently seek physical silver and even unlimited short selling of paper contracts will do nothing to satisfy physical buying at that point. Forget the regulators; JPMorgan's biggest risk is the physical silver market. JPM has both miscalculated before on big positions and run afoul of the regulators in a variety of markets. In shorting silver, they have maxed out on both counts.

Ted Butler

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Silver – $32.30

Gold – $1713

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