A Manipulation Timeline<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

A friend and long-time subscriber who intends to write a book about the silver manipulation asked if I could provide him with a bit of history. To my mind, the silver manipulation dates back to early 1983, when the commercial traders grew confident that they could sell any quantity of paper short contracts to the technical fund buyers on the COMEX. By that time the commercials learned that technical fund buyers would never take physical delivery and could be counted on to buy or sell based upon price signals that the commercials could easily influence and control. In essence, the game has remained remarkably similar ever since.

While the commercials learned to behave collusively when dealing with the technical funds, there was an additional requirement that there would be one large commercial standing ready to be the short seller of last resort to backstop the combined commercial effort. Without a "Mr. Big" standing behind and guaranteeing that the combined commercial effort to trick the technical funds would never get overpowered, the long term silver manipulation would not have been possible. Over the past 30 years, there have been a series of Mr. Big's that have been the paper silver short sellers of last resort. Therefore, the history of the silver manipulation can be recorded along the lines of who was the big short seller at any particular time.

In 1983, the big COMEX silver short seller was Drexel Burnham Lambert, although the origination of Drexel's short position began earlier at J. Aaron and A.C. Leon Israel (ACLI). After Drexel went bankrupt in the late 1980's, the Drexel Trading operation was taken over by AIG Trading. Around 2004, the big silver short position was transferred to Bear Stearns. I believe AIG was forced to dispose and transfer their big short silver position on the COMEX due to pressure from then-NY Attorney General Eliot Spitzer who in turn was pressured by public petitions to crack down on the concentrated short position. Nine years ago, I wrote a number of articles (available in the archives) which focused on AIG as the big COMEX silver short. I couldn't know it at the time, but it appears most likely that the transfer from AIG to Bear Stearns was due to Spitzer.
http://www.investmentrarities.com/ted_butler_comentary/12-08-03.html

I knew sometime in 2004 that AIG Trading ceased being the big silver short on the COMEX, by virtue of its disappearance from COMEX silver delivery transactions and withdrawal from the LBMA, but I wouldn't learn until late 2008 that Bear Stearns had become AIG's replacement as silver's Mr. Big. Only in November 2008 would I learn that Bear Stearns' big silver (and gold) COMEX short position was transferred to JPMorgan in March of that year. This revelation was due to CFTC correspondence to various lawmakers indicating that the sudden jump in the short position in the US bank category of the August 2008 Bank Participation Report was due to the JPMorgan takeover of Bear Stearns.

Commodity law prohibits the agency from identifying traders by name (unless charged with wrongdoing), so the letters to congressmen and senators didn't mention either Bear Stearns or JPMorgan by name; but no other institutional merger could match with the public record.
http://www.investmentrarities.com/ted_butler_comentary/11-10-08.html

This revelation was the pivotal point in the silver manipulation timeline. For one thing, it shined an ugly light on the CFTC. The Commission had just published in May 2008 a public denial that there was anything wrong with the concentrated short position in COMEX silver. This was the agency's second public letter on the issue in four years.
http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/silverfuturesmarketreport0508.pdf The only problem was that, two months before the report was published; Bear Stearns went bankrupt, arguably, because of its giant silver short position. In the two or three months before its demise, Bear Stearns had lost one billion dollars on its silver short position; no one can deny that would have contributed to the Bear blow up. For the Commission not mention this in their 16-page report is lying by omission, as I have previously claimed. http://news.silverseek.com/SilverSeek/1261415180.php

But what made the CFTC's revelation that JPMorgan was the new Mr. Big on the short side of silver so significant was that it put a name on the seller of last resort in no uncertain terms. I can't stress enough the difference this has had.

Until November 2008, I was forced to describe the silver manipulators as nameless colluders or as the four or less largest traders. Talk about boring and unspecific. Certainly, I had strong suspicions of who the previous Mr. Big was, otherwise I wouldn't have been writing to and about AIG in 2003. And while JPMorgan was always included on my list of the big firms that dominated silver, until November 2008 I never identified Bear Stearns as a potential silver manipulator. I am the ultimate outsider and have no inside Wall Street connections; I rely on public data exclusively. It was that data (COT and Bank Participation Reports, plus CFTC correspondence) that identifies JPMorgan as the current Mr. Big and main silver manipulator. This has made all the difference in the history of the silver manipulation and its ultimate resolution. It goes without saying that I would not continuously refer to JPMorgan as crooks without irrefutable evidence.

Because I could never prove conclusively, prior to November 2008, the certain identity of the big silver short, I could only intimate or beat around the bush; I could not point to the one specific entity backstopping the commercials. For years, after acquiring 130 million oz in 1998, Warren Buffett was a very big paper short seller on the COMEX (against Berkshire Hathaway silver holdings) until he got caught short in late 2005 and lost his giant silver hoard at $7. As was the case with Bear Stearns, I never realized Buffett was shorting silver on the COMEX until long after he stopped. This is what makes learning that JPMorgan is the big short in silver so important — for the very first time, the knowledge is in the present tense. JPMorgan is the big silver short right now.

From my point of view, it shouldn't make a difference if we know the identity of the entity behind the silver manipulation as long as the public data indicate a level of concentration proving a manipulation exists. The level of concentration on the short side of COMEX silver leaves no possibility that the price isn't manipulated. That's why the CFTC has stalled for more than four years in its investigation. That investigation began shortly before it was revealed that JPMorgan was the big short. But if the case alleging manipulation by reason of excessive concentration was compelling enough for a third silver investigation, the revelation that JPMorgan was the manipulator raised the matter to a completely different level. It would not be an understatement to say that JPMorgan's involvement has created an unprecedented circumstance.

I have never experienced, or even imagined, a situation where a major financial institution could be openly and continuously accused of violating the law with no strong rebuttal from that institution. I doubt any of you have experienced or imagined such a situation either. But life is about learning and experiencing and that includes the silver manipulation. I can understand JPMorgan's silence, as I can't imagine they would desire an open discussion based upon the public facts. Better for JPM to ignore the allegations and hope they will fade in time; why inflame the situation? Unfortunately for them, the last thing that is happening is any fading in the finger-pointing at JPMorgan. Based upon recent indications that JPMorgan has markedly increased its concentrated silver short position, the bank may be stuck and unable to gracefully exit its silver short position.

One thing that I don't think that JPMorgan can easily pull off is something that previous Mr. Big's in silver managed, namely, transferring the silver short position to someone else. Under the threat of bankruptcy or legal pressure, Drexel, AIG and Bear Stearns all dumped the short silver position on someone new. But few knew these firms were the big silver short at the time of the transfer. In contrast, many are aware that JPMorgan is the big silver manipulator, making a transfer of the manipulative position much more difficult.

The real-time knowledge that JPMorgan is the big concentrated silver short not only represents the pinnacle of the history of the silver manipulation, almost by definition that knowledge must also be at the core of the manipulation's future. JPMorgan has been the prime price determinant since the Bear Stearns takeover in March 2008 and they will remain responsible for the price of silver as long as they maintain their concentrated short position. Seeing how there is little likelihood of a transfer of the concentrated short position, the question becomes – can JPMorgan maintain and increase its COMEX silver short position indefinitely? I say not a chance.

While I can't pinpoint the timing, there is no way that JPMorgan can continue to manipulate silver forever. I'm assuming that the CFTC will not start to deliberately misreport the data in the COT and Bank Participation Reports because they never have done so in the past; but even that would only postpone JPMorgan abandoning its silver price manipulation. I know that many believe that JPMorgan is invincible, fortified by protection from the US Government, but some things transcend even the most powerful of large organizations. Forces of nature and basic laws of physics and supply and demand will always overwhelm human attempts to subvert those forces; the only question is when. In any market, an artificial price level caused by an intentional manipulation distorts the law of supply and demand and must end violently at some point.

Silver's price level is and has been artificially depressed due to JPMorgan's concentrated short position. In addition to the negative publicity that has been attached to JPM, this concentrated paper short position has impacted the underlying host physical market in a manner that can't be sustained. By artificially depressing the price, JPMorgan has set in motion a more powerful counter-force of stronger physical silver demand and weaker physical supply than there would have been otherwise. The artificial low price makes it a certainty that physical demand must overwhelm real silver supply and at that point, additional paper short sales by JPMorgan will not matter. If the market is demanding physical silver and that metal isn't available, paper silver will not be accepted as a substitute. The minute that occurs, there will be a radically different price structure in silver; quite literally almost overnight. That hasn't occurred yet, despite the long term climb in the price, but the signs are growing that we are drawing close, mainly in the form of unusually frantic movements in the big silver depositories. The important thing to remember is that regardless of how many years and decades that the silver manipulation has been in place, when it ends, it will end in a virtual instant. That's why it's better to be positioned early in silver, rather than late.

Just as a head's up, due to the Thanksgiving holiday, the CFTC will delay the release of this week's COT report until Monday afternoon. Happy Thanksgiving to all.

Ted Butler

November 21, 2012

Silver – $33.30

Gold – $1728