

October 30, 2013 – Great Minds/ I Think I'm Dumb

Great minds discuss ideas;

Average minds discuss events;

Small minds discuss people.

Eleanor Roosevelt

I hadn't realized the above quote was from Mrs. Roosevelt until I looked it up, but I have always attempted to use it as the unspoken guide in everything I write. As far as I know, I have never written about anyone in an overly personal manner (except perhaps in expecting too much from CFTC Chairman Gensler a few years back). I do write about events, but I don't see how that can be avoided in detailed analysis of markets. Frankly, all I'm really interested in are ideas. After all, the common denominator between introducing and exposing the silver (and gold) manipulation to why silver is the best investment is that they are ideas few were aware of previously.

I'm going to try to abide by the above quote in a discussion that fully tests its meaning, because important ideas are at stake. A recent brouhaha has developed on the Internet between Jeffrey Christian of CPM and Andrew Maguire (I believe this is the first time I have ever mentioned either name on these pages). I "know" each of them, in the broadest sense of the word. Let me get the small-minded people discussion over with quickly in order to get to the idea category.

I go back 20 -25 years with Christian and the connection (as I'm sure he would agree) stems from his virulent opposition with my premise that the COMEX silver (and gold) market is manipulated. From the get go, he has denied that silver has been manipulated in price on the COMEX and he maintains that position today. He has never wavered in that opposition and has done everything possible to debunk it. Because many more people have come to embrace the premise that silver (and gold) are manipulated in price on the facts and data over the years, Christian has (in my opinion) resorted to personal attacks in trying to rebut the manipulation premise.

Strictly in my opinion, as a metals analyst, Christian should have picked up on the manipulation a quarter century ago. In not doing so immediately, he was backed into the position of permanently denying it, even as the evidence and acceptance of the silver manipulation became more obvious over the years. It's tough for people to admit mistakes, especially when the error involves a most fundamental matter, such as if a market is manipulated or not. Of course, that could be said about me as well. Let there be no question that the core reason that Christian attacked Maguire personally was to disprove and deny the manipulation. I don't think they know each other.

Maguire contacted me in late 2009, telling me that he became convinced of the silver manipulation from what I had written and had evidence to confirm the manipulation. He forwarded email correspondence between him and someone at the CFTC and asked if I would publish it or otherwise make it public. Since I had just started my subscription service and had gotten into the practice of accusing JPMorgan for the silver manipulation and sending the bank those accusations, I wasn't inclined to include anything I couldn't be 100% sure of. If I'm going to refer to JPMorgan as silver manipulators and send it to them, you can be sure I would do that only if I had documented proof (in the form of government data) and not on anyone else's say so.

Maguire asked me if I thought GATA might be good to contact in order to promote his material and I said yes. That's what lead to the introduction of Maguire's allegations at the March 2010 CFTC hearing.

The main idea is whether silver is manipulated in price, because nothing could be more important to a market than whether it is free or manipulated. Having devoted most of my efforts and your time on matters related to the silver manipulation, I'll not do so today. Instead, I'd like to discuss an idea that I've touched on in the past. Quite frankly, it happens to be a bad idea that has somehow persisted despite being deeply flawed. You hear about it more in gold than in silver, but it is nevertheless an idea that is false. I'm talking about the idea that there are 100 times more ounces of paper gold contracted on the LBMA (or anywhere) than exists in physical gold. That premise is complete nonsense, as is the premise that this 100 to 1 paper gold oversupply will lead to an imminent default on the LBMA or the COMEX. Look, anything can happen but that is different than objective analysis.

I know where the false premise of there being 100 to 1 leverage in gold comes from, namely, a mischaracterization of a statement made by Christian at the March 2010 CFTC hearing. Up front, I don't like Christian, but neither should his words be misconstrued. He was talking about there being many times more gold (or anything) being traded than may exist. Somehow, that has morphed into some saying that there are 100 times (or some number) more contractual obligations being open and that this mismatch will cause a delivery default, either on the LBMA or the COMEX. Maybe I'm dumb, but that doesn't make sense to me.

I think the primary mistake that many are making is not distinguishing between volume and the number of contracts outstanding or open. Trading volume is one thing, open interest is quite another. Most trading volume, say 90% or more in most markets, is day-trading, in which positions are taken and closed out repeatedly during the day. I'm not saying that volume cannot influence price as High Frequency Trading intends and accomplishes price manipulation. But to confuse trading volume, no matter how high, with end of day open interest is a big mistake. Pure day trading neither adds to or reduces open interest or contractual delivery requirements. If someone day-traded a billion ounces of paper gold, not one ounce would be added to open interest.

Because COMEX statistics are more transparent and detailed than the LBMA, let me use the volume and open interest data there to make my point. (There are no open interest data available from the LBMA). Daily COMEX gold futures volume runs around 100,000 contracts per day, the vast majority of which is day-trading. That is the equivalent of ten million ounces traded per day. For a full year (250 trading days) that comes to 2.5 billion oz of gold futures contracts traded for the year, the vast majority of which were put on and taken off the same day. To look at the 2.5 billion total ounces traded in a year on the COMEX and conclude that is somehow an open obligation to deliver is silly beyond words.

Instead, if one is looking for potential delivery obligations, you must look only at open interest. Currently, there are less than 400,000 contracts of total open interest in COMEX gold futures, including more than 56,000 spread positions which overinflate potential delivery requirements. The 400,000 contracts of total COMEX gold open interest represent the equivalent of 40 million gold oz. My first point is that there is a very big difference between 2.5 billion oz (total annual volume) and the 40 million oz. of open interest.

Does that mean that there are 40 million oz of COMEX gold realistically set to be demanded for delivery? Absolutely not. Aside from spreads overinflating true open interest, most long holders are not interested in taking delivery. If they were, they would most likely buy it in a different form; either in pure physical form or in an ETF, like GLD. Most long (and short) holders of futures contracts are only interested in price change, not in making or taking actual delivery. That's because one need only put up 10% or so of the value of a contract for holding futures contracts. To take delivery, you must deposit the full value.

As to suggestions that there are signs of an imminent delivery default because of the level of open interest in the nearby delivery month, that has always proven to have been false speculation up until now. I guess anything is possible, but please note that the open interest of the nearby month traditionally falls to less than 2 or 3 million oz by first delivery day, a far cry from 2.5 billion or 40 million oz, so we are far away from the 100 to 1 extremes of the false premise. Lastly, any overt attempt to squeeze a delivery month to push prices higher is one thing the regulators are prepared for.

Let me be clear Â? the delivery mechanism requirement in COMEX gold and silver futures contracts is what ensures the legitimacy of the market, manipulation aside. Without the delivery requirement there would be no COMEX gold and silver market. But the importance of the delivery mechanism should not be misstated by unfounded speculation about imminent default. Besides, with JPMorgan long gold up the ying yang, the bank would be front and center in any delivery squeeze and I can't see them positioning themselves in that manner. Driving prices higher? Heck yeah, that's what these crooks do; but not engineering a default.

There is one remaining point that puts me to wit's end when I read stories about there being 100 times more gold obligations than exists real gold. Who would be so stupid, in this day and age of almost unlimited alternatives for holding gold (ETFs, closed-ended funds, etc), to instead hold gold in the unallocated form spoken of? Even if we were only talking about there being 1 million oz of underlying gold in these unallocated programs (and not 5 billion oz), that would mean there would be long and short holders of 100 million oz of gold (or double the COMEX open interest). Wouldn't there be evidence of such a market? I look, but I can't find any supporting evidence that such amounts are widely held. Therefore, I must conclude that this 100 to 1 leverage in the gold market is a crock.

There was another COT report published on Monday, as the CFTC is catching up on the past reports not published due to the government shutdown. The latest report covered the week ended Tuesday, Oct 8, a week that saw gold gain about \$40 and silver more than \$1.20. Considering those gains, it is not surprising that the total commercial net short position grew in both markets, although the sharper price falls in the next reporting week, ended Oct 15, should have reversed the short commercial increase.

Thru Oct 8, the total commercial net short position in COMEX gold grew by 12,300 contracts, to 90,400 contracts. This is among the higher levels of commercial shorts since May, but on a longer historical basis, anything near 100,000 contracts of commercial net shorts is low and, therefore bullish for gold prices (aside from short term smack downs). Since we will be considering two COT reports this week and next, let me cut to the chase and focus on the standout features.

The standout feature in the gold COT report was that despite the increase in the total net commercial short position of 12,300 contracts on the jump in price, JPMorgan did not sell any of its 70,000 contract long market corner. Over the past two COT reports, there was an increase of almost 19,000 contracts in the total commercial net short position, while JPMorgan added about 8,000 new gold longs (1000+ the week ended Oct 8). This is definitely in the unusual category, as well as bullish if you believe JPM has as much control over prices as I do. As of Oct 8, I would peg JPMorgan's long market corner in gold to be 71,000 contracts or 22.6% of net COMEX total open interest (minus spreads).

The second standout in the gold COT of Oct 8 is that the technical fund buying that occurred was mostly of the short covering variety. Because the tech funds have not ventured onto the long side in any significant manner, it is hard for them to liquidate and sell what they haven't bought. As such, I have to consider that bullish as well. Certainly, now that we have been broaching the 50 day moving average in gold recently, this will be a feature to watch for in future reports. For now, it's good that JPMorgan was the buyer of new long gold contracts and not the tech funds.

In silver, there was a more proportionately sizable increase in the commercial net short position of 4,600 contracts to 21,300 contracts total. But this follows a 3000 contract decrease in the previous week and anything around 20,000 commercial contracts is bullish for silver historically. Whereas JPMorgan was a buyer in gold, the bank appeared to be the big seller in silver, as the big 4 shorts added 3000 contracts and I would assign all of it to JPMorgan. This brings JPMorgan's short market corner in COMEX silver to 15,000 contracts, or 15.2% of total net COMEX open interest.

In reviewing the price action of silver in the reporting week, unlike gold, silver did manage to penetrate the 50 day moving average fairly decisively on two days, before falling under that average the next reporting week. As best as I can determine, in adding significantly to its manipulative short position in COMEX silver, JPMorgan was determined to prevent any further price rise at the time. I'll be looking to see if they bought back in the following week in Friday's report.

There was no formal press release, but according to an official statement by Commissioner O'Malia, the CFTC voluntarily dropped its legal case in trying to overturn the banking industry's victory in postponing the introduction of position limits. O'Malia is usually on the side of the bankers and he was quick to say, "I told you so." (Never an admirable trait in anyone).
<http://www.cftc.gov/PressRoom/SpeechesTestimony/omaliastatement102913>

There is a public hearing on position limits on November 5, so please put it on your calendar for viewing should you so choose. http://www.cftc.gov/PressRoom/Events/opaevent_cftcstaff110513

I'm not getting my hopes up on position limits, simply because it would end the silver manipulation immediately if legitimate limits were enforced. The CFTC has had ample opportunity to end the silver manipulation and crack down on JPMorgan were it interested in upholding the law. That the agency has chosen not to dashes any hope that legitimate position limits will be enacted any time soon, particularly considering Commissioner O'Malia's staunch opposition.

If it seems hopeless to expect regulatory enforcement of commodity law, what can be done about the manipulation? The answer is mostly what has been done to date, namely, to keep exposing just how crooked is JPMorgan's behavior in COMEX gold and silver. Let's face it "the CFTC has never done a darn thing about the silver (and gold) manipulation and that has not prevented awareness and opposition from spreading widely.

We happen to live in an age of unprecedented horizontal and peer to peer communication due to the Internet. If it weren't for the Internet, no one reading this would even have a clue that silver (and gold) was manipulated in price. That circumstance should not be minimized as to ending the manipulation. At some point, enough people will be aware of it to make it impossible for JPMorgan's evil and manipulative ways to be tolerated. Please just remember the dissemination of crackpot ideas (like the 100 to 1 nonsense) delays the arrival of a free market in gold and silver,

A few minutes before publishing this, the price of gold and silver were taken down sharply, supposedly on the latest Fed non-announcement. In actuality, the sell-off has little to do with the Fed and everything to do with HFT and the capture of the price mechanism by JPMorgan and a few other commercial traders. As such, I don't know of any way to deal with it than the immune yourself to it and tune it out. How to do that? Discard any misconceptions of the short term and focus on the long term. Silver fundamentals are terrific and the COT set up is fine as well. If you know that the crooks at JPMorgan control certain streets or neighborhoods, avoid those areas. They don't control the long term and that's where you should confine yourself to.

Ted Butler

October 30, 2013

Silver – \$22.60

Gold – \$1340

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