

September 13, 2012 – SLV Short Position Update

SLV Short Position Update

Contrary to my expectations, the latest short report on SLV indicated that, instead of rising sharply by many millions of shares (ounces), the short position in SLV, the big silver ETF, fell by more than 500,000 shares to just over 13.1 million shares.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99> My expectations were based upon the strong price rally and trading volume into August 31, the cut-off for the report. Whereas I freely admit there are things I can't predict, like short term prices; other things, like predictions of changes in COT structure or of changes in the SLV short position, are usually much easier. That's because those changes only come after price and trading volume have occurred and represent an attempted measurement of a fairly repetitive result rather than a pure guess of what's to come pricewise.

As a result of the wide miss, I admit to a knee-jerk sense of something being "fishy" about the report. As I have previously written, I've always been distrustful of the compiler of the data, the Depository Trust Clearing Corp (DTCC), due to a lack of transparency and cross-verification in the reporting process. If there were a very influential short seller who wanted a large short position to go unreported, say someone like a JPMorgan, I'm not sure that couldn't be accomplished, especially considering the overall seriousness of my allegations against JPMorgan.

One of my main fears is that the raw data upon which I base much of my analysis, like CFTC data about traders' positions, becomes compromised. I have never detected that in the COTs, but the things that scare you most generally haven't occurred yet. Then again, it could be as simple as my prediction of a big increase in the SLV short position being wrong, which is no big deal as it wasn't anything that would cause anyone to lose or profit. Still, in reviewing the price and volume data from August 16 thru the 31st, a big increase in the SLV short position would still be the logical prediction.

In one sense, the SLV short position being lower may be good news. For one thing, it eliminates, at least temporarily, the requirement that I complain about it (although there should be no short position in hard metal ETFs). Believe it or not, I don't like to complain about everything; I just want to see the silver manipulation ended. More importantly and if accurate, the report indicates that the excessively large and manipulative SLV short positions of the past aren't in place currently. But considering my fear about inaccurate public data being published, I thought it might prove instructive to imagine a worst-case scenario of a future complete fabrication of SLV short data. Let's say JPMorgan or anyone did secretly establish a short position in SLV of extreme levels, say over 100 million oz or more? As they say, in for a penny, in for a pound.

No doubt, as I've described continuously, such a short position would have a serious manipulative impact on the price and represent a fraud of massive proportions. It would violate short sale borrowing and reporting requirements and a whole host of other violations not yet present. It would continue to cause the price of silver to be lower than it would be otherwise and would extend the duration of the manipulation. But if you put this imaginary process on fast-forward, you will end up with an even more bullish set up for silver than exists currently. What's going to end this silver manipulation for sure is a physical shortage. Because shares of SLV are a proxy for physical silver and because the SLV is the largest silver repository on earth, an eventual silver shortage would cause industrial users and others to turn to SLV as a means of quickly securing physical supplies. At that inevitable point, an excessive short position in shares of SLV would be exposed and become fuel for a silver price advance of unprecedented proportions. Now that I think of it, this would be Izzy's ultimate Full Pants Down. When you take the unreported and unlimited SLV shorting to its logical conclusion, you end up with a bullish silver scenario almost beyond imagination.

I don't want to obsess over one questionable SLV short position report as there are other issues to be discussed. A reader sent me a news report about management changes at JPMorgan that seemed a bit odd. The woman in charge of commodities trading at JPMorgan, Ms. Blythe Masters, was also appointed to now be in charge of regulatory affairs.

<http://www.bloomberg.com/news/2012-09-12/jpmorgan-names-carlos-hernandez-head-of-investor-services.html> It struck the subscriber (who was a lawyer and trader for a well-known investment bank) as being an odd appointment because such a regulatory post is usually held by someone with a high-profile regulatory background, like a former SEC or CFTC official.

You may recall that it was Ms. Masters who appeared on TV back in April to answer questions about JPMorgan's silver short position. Her response to unspecified allegations on the "blogosphere" was that JPMorgan only acted on behalf of clients and the bank did not care about the direction of silver prices http://www.investmentrarities.com/ted_butler_comentary04-16-12.shtml

This is an incredibly specific and unprecedented issue. I have alleged that JPMorgan, by virtue of a large and concentrated short position in COMEX silver futures, is manipulating the price of silver. It does not matter if that position is for clients or for hedging or for market-making purposes or for any other contrived excuse; controlling more than 25% of an active futures market is manipulative in and of itself. You can't control, dominate or manipulate a market under the guise of hedging or market-making. You certainly can't be the sole short seller in any market over a significant period of time and not be guilty of price manipulation.

I have taken these simple and specific allegations to the highest levels possible, both to the regulators and to JPMorgan itself, including the CEO and board of directors. You can't go any higher than the commissioner and chairman level at the CFTC or the CEO and board of director level at a public corporation. So far, there has largely been silence from all parties, but these are such serious allegations that it would seem improbable that all can remain silent much longer. These are serious matters of law and reputation. Although I am trying to avoid being sued, I am convinced that JPMorgan is breaking the law in silver (although they may have private government protections). I can't see how JPM's directors can ignore indefinitely allegations harmful to the bank's reputation. Perhaps they may come back with the phony hedging or market-making nonsense as an excuse; but the directors should know better (like in the JPM credit derivatives disaster). When you're already in a deep hole, the first thing to do is stop digging.

One expectation of mine that was not incorrect was that we were on the cusp of increased price volatility by virtue of the extreme COT structure. That's still the case, so prepare for more, not less price volatility. Do today's wild swings in price presage a withdrawal of JPMorgan from the short side of silver and a final freeing of the price? While that day is coming, we can't be sure it is upon us. As I told a friend just a short while ago, it's the same for JPM as it was with Dracula the vampire – until you see the wooden stake driven into their hearts, assume they are not dead. But the day is drawing near.

Ted Butler

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Silver – \$34.50

Gold – \$1765

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