September 2, 2010 – JPMorgan and Silver

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The big news is that JPMorgan revealed that it is closing its propriety commodities trading operation, in response to the new regulatory reform law. Once again, I thank all of you who sent me the various links to this story. I agree that this is significant. Some public commentary has suggested that JPMorgan has something up its sleeve and the exit from trading commodities for their own account is a deception of some type. I don't see it that way; this looks as real as rain to me, and it's all good news and no bad news for silver.

One of the most fascinating developments to me over the past couple of years has been the acceptance as common knowledge by silver market observers that JPMorgan is the big silver short. By way of review, I first wrote that I suspected JPMorgan as being the big COMEX silver short almost two years ago. First, I wrote in Â?The Smoking GunÂ? http://news.silverseek.com/TedButler/1219417468.php about how the August 2008 Bank Participation Report proved one or two US banks were the big concentrated silver shorts. Then, a week later on September 2, 2008, in an article titled Â?Fact versus Speculation,Â? I first speculated that JPMorgan was the big COMEX silver short. Here's an excerpt from that article,

Â?I think the data in the COT and the Bank Participation Reports indicate that the U.S. Government may have bailed out the biggest COMEX silver short by arranging for a U.S. bank to take over their position. This coincides with JP Morgan's takeover of Bear Stearns. In fact, it would not surprise me if the bailout was JP Morgan taking over Bear StearnsÂ?short silver position, at the governmentÂ?s request.Â?

Finally, in an article titled Â?The Real StoryÂ? on November 10, 2008, I tied in a CFTC letter to a US Congressman which further proved JPMorgan was the big concentrated short. http://news.silverseek.com/TedButler/1226344970.php There were many additional articles I wrote about JPMorgan and I was always careful to make sure I sent them to JPMorgan's CEO, as well as to all members of the CFTC. (I thank all of you who took the time to write in as well.) To my knowledge, no one had singled out JPMorgan as the big silver (and gold) short before me. Since starting this subscription service a year ago, I have mentioned JPMorgan in the vast majority of the hundred some-odd articles I published. I believe the net impact of my articles was responsible for the common knowledge about JPMorgan being the big COMEX silver short.

If you are thinking I'm just patting myself on the back, you are only very partially correct. My main purpose is different. It was always my intention to influence the common knowledge to come to accept that JPMorgan was the big concentrated silver short. I knew I wouldn't get very far in pressuring JPM by myself. I also intended to do so without being sued by JPMorgan for defamation (so far so good). So I wasn't particularly surprised that JPM revealed its exit from commodities trading for its own account. For two years I had been asking the question of how can the fact that one or two entities holding 20% or 25% of the annual world production of any commodity not be manipulative to the price. I knew there was no legitimate answer to that question and that the entity holding such a concentrated position would have no choice but to eventually abandon the position. That appears to be what has occurred.

Of course, JPMorgan is reacting to the new regulatory reform law, but that is directly related to the concentration in silver. I am convinced that CFTC Chairman Gary Gensler was responsible for the portions of the new law pertaining to commodities and silver. I am also convinced that Gensler was influenced by so many of you taking the time to write to him about these very substantive issues of concentration, manipulation and position limits in the silver market. For all intents and purposes, the new financial reform law and JPMorgan's exit from proprietary commodities trading have silver market reform at the core. If the blatant concentration on the short side of COMEX silver wasn't addressed in the new financial reform law, the whole exercise was a waste of time. It seems clear to me the issues in silver are about to be addressed and that is why JPMorgan appears to be beating it out of Dodge.

For many years, I had to confine my analysis of the short silver concentration to the four or eight largest traders. I knew it frustrated readers not to be able to pinpoint the manipulators by name, but I wanted to be careful about falsely accusing anyone of the serious market crime of manipulation. I came close to naming AIG and then Scotia Mocatta as dominant silver shorts over the last several years, but it wasn't until enough evidence emerged that I could pinpoint JPMorgan without fear of error. There's something about being specific that convinces people more, and I think me being consistently specific about JPMorgan has made all the difference. Certainly, JPM has had ample opportunity to deny it was holding the big short position in silver and they have failed to do so. That would appear to be behind the decision to abandon commodity propriety trading.

With that background, what does JPMorgan's decision mean for the price of silver? I believe an awful lot. And it looks all good to me, with no bad. JPM's decision to exit propriety commodity trading wasn't made one day this week. They knew it was coming and this is what has been behind them reducing their silver short position over the past few months, as I hope I have been adequately reporting. This, in my opinion, is what is behind the recent thrust upward in price. But JPMorgan has not yet covered the majority of its COMEX short position and if it covers, or tries to cover, the remaining portion that should further pressure prices higher. I think it's safe to say, if I have been anywhere near close on my analysis of JPMorgan and silver over the past two years, that JPMorgan should not increase its silver short position ever again. That would remove what was always a formidable price suppressant.

Up until now, the next largest 2 thru 8 commercial shorts appear to be providing additional shorts on the recent rally, with the raptors further reducing net long positions. But this puts the 7 large commercials (ex JPM) in a potentially very dangerous position. As I wrote months ago, these 7 large commercial shorts could more easily be overrun and be subject to panic to the upside without JPMorgan's support. Any additional shorting by them on the recent rally becomes more potential short-covering fuel in a buying panic. I don't think these other big shorts have read the handwriting on the wall yet. But JPMorgan has. I believe some of the 2 thru 8 are also banks like JPMorgan. Now that JPM has made the decision to abandon propriety commodities trading, it is reasonable to assume more banks will also decide to abandon commodities trading for their own accounts, especially since those banks are faced with the same financial reform law that motivated JPM. Besides, banks are notorious for always doing what other banks are doing. As more banks retreat from silver shorting, the remaining 7 big shorts are further undermined and more at risk of a buying panic. The list of potential big and panicky silver buyers grows longer. The list of potential big and panicky silver sellers is not very long at all.

I'd be remiss if I failed to mention that the new financial reform law that has prompted JPMorgan to swear off the short side of silver is doing us all a favor. We lose track of things at times, but how we ever succumbed to allowing big money center banks to become the dominant players in the commodities markets is beyond excuse. Maybe they slipped us all some Kool-Aide that blocked our mind from seeing that big banks shouldn't be the biggest commodities speculators. The good news is that the new financial reform law should bring us out of our collective stupor.

Some last minute market notes. This very recent move up in silver feels different than past moves. I suppose it's possible that the big commercial shorts could rig another sell-off, just like they always have. We must remember that these are the most corrupt of all market participants. If they do rig a sell-off, at least we all should understand why it could occur, namely, manipulation on the COMEX. But a sell-off is not what I am expecting; a price explosion seems more likely, for the reasons cited above. This retreat by JPMorgan is very big news. It is the mother of all sea changes.

Ted Butler

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Silver – $19.65

Gold – $1252

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