# How silver has been suppressed

China suppressed silver to accumulate more, using Morgan as broker

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In recent decades, China, which ranks fifth in global silver reserves, has not only mined 3,500—4,000 tonnes annually but imported large quantities of silver dore for refining as well. Less well known is the Peoples Bank's role in managing silver reserves, which is still regarded in China as a monetary metal. China was on a silver standard only 90 years ago.

Today gold is the principal monetary metal, and silver is widely regarded as industrial only. But since 1983, along with gold, the People's Bank of China has been responsible for overseeing the accumulation of the nation's silver bullion reserves. The key to this policy has been price management. This article tells how this was achieved.

About 12 years ago I had a speaking gig in New York at a conference attended by about a dozen silver mining and exploration companies. At that time conspiracy theories about JPMorgan's dealings in the silver market were rife. But when Blythe Masters, then head of global commodities at JPMorgan went on CNBC, she made JPMorgan's position clear:

"Speculation is [rife] particularly in the blogosphere about this topic and I think the challenge is that speculation represents a misunderstanding as the nature of our business.

"As I mentioned earlier, our business is a client-driven business where we execute on behalf of clients to achieve their financial and risk-management objectives. The


Blythe Masters Refutes Claims that JP Morgan manipulates silver markets challenge is that commentators don't see all of that activity simultaneously.

"So just to give you a simple example, we store significant amounts of commodities -- for example, silver -- on behalf of customers. We operate vaults in New York City, in Singapore, and in London. And often when customers have that metal stored in our facilities, they hedge it on a forward basis through JPMorgan, who in turn hedges itself in the commodity markets.

"If you see only the hedges and our activity in the futures market, but you aren't aware of the underlying client position, then hedging it would suggest inaccurately that we're running a large directional position.

"In fact, that's not the case at all. We have offsetting positions. We have no stake in whether prices rise or decline. Rather, we're running a flat or a relatively natural. ..."

(Then the interviewer interrupted.)

Silver bulls rushed to condemn Masters, calling her a liar and worse. But I was convinced that a senior executive of her undoubted ability and in her position would be telling the truth. Furthermore, I suspected that Masters did the CNBC interview specifically to quash the wild rumors about JPMorgan's silver dealing rather than ignore them.

So what was JPMorgan's true role in the market?

Clearly, it was dealing for clients and not taking one-sided positions. As Masters revealed, the bank took out derivative positions only to hedge their dealings with clients, maintaining a level book.

The conference in New York gave me a chance to dig a little deeper.

I asked the dozen or so silver companies present there about the process of how they turned their silver at the mine into cash to pay their costs. They all said that the process started with an assessment of the silver dore's value by a specialist assessor from Glencore or Trafigura, who then arranged for payment and shipment to a refiner.

None of the miners admitted they knew where the dore was shipped for refining. It was no longer their business. But the common assumption was probably China.

Glencore and Trafigura are huge commodity traders acting for large mining corporations as well as the miners I interviewed. They obviously worked with a major bank on the payments side, which is where JPMorgan would come into the picture. As soon as the dore was shipped, the cashflow-hungry miner would be paid on the assessor's valuation.

Likely, it would be shipped free-on-board origin, which means the dore enters Chinese possession at the point of shipment, and payment would be through JPMorgan's books.

Presumably, China instructed JPMorgan to hedge the silver price on Comex or London, effectively dumping silver onto the market before it was in deliverable form.

Note that this is not JPMorgan acting as principal but acting for the refiner (China) as a client.

The consequence was for JPMorgan to continuously feed short positions into Comex, suppressing the price. But as Masters made clear, JPMorgan was not taking a position for itself, only dealing for the Chinese as client.

As well as being a large miner herself, China was refining cheaply considerable amounts of imported dore when some Western refineries were closing down on environmental and cost grounds. So the hedging book through JPMorgan would have been significant, depressing the spot price through Comex dealings.

We can take this even further, in the context of a normal dealer/client relationship. As dealer and client work together, an element of dealing discretion can be given to the dealer along with dealing objectives.

So what might those objectives be?

As a major buyer of dore, it would have been in China's interests to keep the price as low as possible. And it would have been the means for China to accumulate substantial silver reserves for monetary purposes, which she had already done with gold.

In this context, the original 1983 Regulations on the Control of Gold and Silver appointing the Peoples Bank of China states:

*Article 4. The People's Bank of China shall be the State organ responsible for the control of gold and silver in the People's Republic of China.*

*The People's Bank of China shall be responsible for the control of the State's gold and silver reserves; responsible for the purchase and sale of gold and silver; work in conjunction with the authority responsible for commodity prices to formulate and administer a purchase and sales price for gold and silver [my emphasis]; work in conjunction with the competent department to examine and approve the operations (including processing and sales) of units (hereinafter referred to as managing units) dealing in gold and silver products, chemical products containing gold and silver, the recovery of gold and silver from residual liquid and solid wastes; control and inspect the gold and silver market and supervise the implementation of these Regulations.*

Note the PBoC's responsibility for controlling the price of silver.

We know or should know that in the period 1983—2002 when the Shanghai Gold Exchange finally came into existence under the control of the PBoC, that the PBoC was able to secretly accumulate vast quantities of gold that was in a deep bear market with American and European financial communities liquidating their bullion holdings in favor of dollars.

I believe that during this period China secretly acquired as much as 20,000 tonnes, spread around various state bodies.

These easy conditions for accumulating gold were not generally true for stockpiling silver in the larger quantities required reflected in the price relationship between the two monetary metals. The PBoC had to use different tactics. The practical way to accumulate massive quantities of silver was to become the world's refiner and manage the price -- in other words, keep it suppressed principally by selling as a covered bear in paper markets.

Blythe Masters had no need to lie about JPMorgan's role in this. Between Glencore/Trafigura and China as its customers, JPMorgan would be central to achieving the outcome China desired.

There is another aspect to this puzzle rarely mentioned.

Note that under Article 4 of the Regulations appointing the PBoC, no distinction is made between gold and silver. For the purposes of the regulations, silver is as much money as gold, a reserve to be controlled by the central bank as general backing for the currency.

It should be remembered that China was on a silver standard as recently as 1935. Ordinary people accumulated silver as wealth, and banks kept reserves in silver. For the Chinese population, silver was their money as much as gold was in the West. There is every reason why silver should be singled out in the Regulations to have the same status as gold.

Will China continue to suppress prices? Those days are probably over. Almost certainly China has accumulated substantial silver reserves, more than enough for a supporting monetary role to gold. The state's monetary silver reserves are likely to be segregated from industrial production, which has become an uncontrollable source of demand.

Clearly the PBoC understands the role of monetary metals, which is ultimately to secure the value of credit. The central bank knows that gold and silver values are generally stable, and that it is credit that declines. The bank's very public disposal of dollars for gold tells us that it is no longer suppressing gold prices. What goes for gold must also apply to the bank's policy regarding silver.

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