

## April 15, 2020 – A New Era

I'd like to follow up and expand on comments I made on Saturday about gold and, particularly, silver about to end an old era and start a new one. In addition, I'll be introducing a new thought about who really owns the 25 million ounces of physical gold and one billion ounces of physical silver that I contend was purchased by JPMorgan over the past decade – all while the bank was the leading short seller and price suppressor on the COMEX.

First, I'd define the old era as having begun a few years after the price peaks of January 1980, when gold hit \$800 an oz and silver hit \$50. It was in 1985 that I first uncovered that excessive and concentrated short selling on the COMEX, particularly in silver, was having a depressing and manipulative effect on prices. I did try to do the right thing, namely, complain to every possible authority, including the federal regulators (the CFTC) and the exchange itself, but to no avail, as the manipulation has continued to this day, some 35 years later.

Trying to be objective and a realist, if the manipulation I claim to have started in the early 1980s did exist, all things being equal, then such a case of price suppression should have resolved itself within a few years in accordance with the law of supply and demand which would hold the reduced supply and increased demand brought about by an artificially depressed price should have resulted in a physical shortage of silver. No such physical shortage occurred (although we came close in 2011) and it would not be unreasonable to conclude my allegations of manipulation were unfounded.

There were a good number of things, however, that could have explained how ample physical supplies of silver came to market over the past 35 years despite the growing industrial and investment demand stimulated by the artificial low price. Those things would include massive amounts of physical silver leased (and sold) by foreign central banks, the complete disposal of the world's largest physical stockpile owned by the US Government and the fact that silver's mine production is 70% composed of by-product supply not dependent on the price of silver, but of other metals. All these sources, unique to silver, go a long way to explaining why no true shortage developed over the past 35 years.

But there was one special reason that fully explained why the big concentrated short sellers on the COMEX (mostly banks and financial firms) persisted in continuing the manipulation. Simply put, they made a ton of money by manipulating the price. What enabled the banks' short selling COMEX silver futures was the willingness of their principle counterparties – the managed money technical funds – to trade on mechanical price signals. Eschewing fundamental or value analysis in any form, the technical funds relied exclusively on price signals – always buying as prices rose and selling as prices fell.

This blind reliance on price made the technical funds the perfect patsies to the banks taking the other side of whatever the technical funds could be lured into buying or selling. It even got to the point where the purely mechanical technical funds came to be the biggest short sellers on falling prices, as well as the biggest buyers on rising prices. It's hard to believe, but over the past couple of years and as recently as last year, the managed money technical funds, like Pavlov's dogs, slavishly adhering to selling and going short on declining prices shorted as many as 100,000 contracts of COMEX silver futures – or 500 million ounces of silver.

Whenever the managed money traders got so heavily short, I would foam at the mouth in my bullishness and in expectations of a sharp price rise due to the "rocket fuel" of certain short covering to come. We did get price rallies and short covering, of course, but never to the extent of the commercials truly forcing the managed money shorts to pay way up as I expected. In hindsight, the commercials were more anxious to preserve and prolong their game of taking golden eggs from the managed money geese, rather than slaughtering them.

If anything defined the era that existed for the past 35 years, it was the blind willingness of the managed money technical funds to play as the patsies to the commercials on the COMEX. We could argue until kingdom comes as to why the managed money traders persisted in being the fall guys and suckers, but the hard data from the weekly Commitments of Traders (COT) reports fully document what I just described. And if the data in the COT reports continued to indicate that the managed money traders were still playing the role of patsies to their commercial counterparties I doubt I'd be calling an end to the old era and the start of a new one.

But the data in the COT reports indicate that some things are occurring that are quite different from how the managed money traders behaved in the past. For one thing, the managed money traders seem to have wised up to the folly of selling short on sharp price selloffs. As I have pointed out in the past, whenever the managed money traders have gotten fully positioned on the short side in COMEX silver or gold futures, they've never collectively profited - always losing in the end. You'd think they would wise up in time and perhaps they finally have.

While the sharp deliberate selloff into mid-March did cause extensive managed money long liquidation in both gold and silver, as gold traded below \$1475 and silver plunged below \$12, there was no notable increase in managed money short selling in either market. In fact, the short position of the managed money traders in silver is close to the lowest in history and in gold has never been lower. I suppose it's possible that the managed money traders could return to their old brain dead ways and resume building up big short positions in silver and gold in the future and if they do, I modify my comments. But until they do I'll assume they've wised up to the folly of shorting into a price hole.

But by far, the biggest change suggesting we are ending the old era and embarking on a new one is the predicament of the 8 or 10 largest commercial shorts in COMEX gold and silver, now no longer accompanied by the presence of JPMorgan among their ranks. Since the rally began last June with gold around \$1270 and silver around \$14.25, the 8 biggest commercial shorts have held a remarkably consistent short position that they have not been willing or able to fully buyback and cover for the first time ever. To be sure, almost all of the financial damage of large open losses has come from the rise in gold and not silver, but I'm still convinced that the 8 largest shorts are still largely one and the same in both metals and it's just a matter of time before being short silver will magnify the big shorts' losses dramatically.

With conditions in the world being what they are, namely, more conducive than ever for a sharp rise in the prices for gold and silver, this would appear to be among the very worst times to hold a massive short position in either. Yet this is exactly the position that the 8 or so big shorts find themselves in. With combined open losses of \$7 billion or so, the 8 big shorts are going into the new era in the worst shape possible. A reasonable person would conclude the prospect of eventual short covering by these big shorts is high and any such short covering would ignite price rallies not seen in the past.

The most serious problem for the big shorts is that the likelihood of big long liquidation from the managed money traders and other speculative longs appears extremely limited, particularly in silver where the managed money gross long position is already the lowest in 7 years. As a reminder, someone has to sell in order for the big shorts to buyback and cover their short positions. As a result, it's hard for me to see how the 8 big shorts will be able to close out their massive short positions at anywhere near current or lower prices.

The new era certainly includes the role of JPMorgan. The bank came to play the leading role in the old era, at least for the past 12 years or so, as a result of its takeover of Bear Stearns and massive accumulation of physical metal since 2011. I have some new speculation about that physical accumulation that I'll share with you in a moment. First, however, I'd like to give you a few thoughts on crude oil, given its importance.

### Some Thoughts on Crude Oil

Since it is the world's most important commodity and it has been some time since I've commented, I figured I would pass along some thoughts on crude oil. Having begun my brokerage career about the time of the Arab oil embargo and the birth of OPEC and later the start of crude oil futures trading, I've always had a keen eye on oil. Please understand that my observations are not intended as price predictions and are mostly centered on what may be going on behind the scenes. I can assure you that – right or wrong – these are my thoughts, not derived from anyone else.

I did report recently that I believed that the price war between Saudi Arabia and Russia wasn't really the spontaneous war it was reported to be, but a premeditated plan to flood the market with the intent to shut in and shut down as much of US fracking production as possible. In conjunction with an even steeper drop off in demand due to the coronavirus pandemic, oil prices plummeted to near 20 year lows. So steep was the price collapse that it brought extreme alarm and howls of protest from those in the US oil industry.

There is no doubt that the potential loss of employment in the fracking industry is great and the protests caught the attention of President Trump and politicians from US oil producing states. As a result of the severe price collapse, Russia and, particularly, Saudi Arabia, came under extreme criticism for engaging in their price war and were quickly labeled as the bad guys, facing repercussions not expected, including the withdrawal of military assistance to Saudi Arabia. President Trump got personally involved, speaking with Russian President Putin and the crown prince of Saudi Arabia, MBS, in the hopes of arranging a widespread production cut in the hopes of propping up prices.

The negotiations proved successful and an historic production cut of close to 10 million barrels a day was announced, with both Russia and Saudi Arabia agreeing to steep cuts and earning the public praise of President Trump and a group of influential US senators and other politicians. However, oil prices failed to rebound substantially and, instead, fell on the announcement, no doubt on the recognition that the oil market was still in deep surplus due to an even sharper decline in demand. The thing about this recent glut of oil is that for the first time in my experience, the oversupply is so severe

that world storage capacity may soon be reached, not something that has previously occurred in past oil gluts.

The funny thing about oil is that someone must serve as the marginal or swing producer(s), and control what is produced, be it the Standard Oil Company of John D. Rockefeller's time, or the Texas Railroad Commission, or the 7 sisters, or OPEC. When too much competing oil production comes on stream to challenge the standing of the key swing producers, those producers (now Russia and Saudi Arabia) have little choice but to open the spigots and crush the interlopers, in this case the US frackers.

Therefore, the net result of all this is that Russia and Saudi Arabia succeeded beyond their wildest dreams in repositioning themselves from the villains behind the oil glut to cooperative allies for going along with production cuts. And the US fracking industry will still, in time, shut in and shut down enough production as originally intended by Russia and Saudi Arabia. In the cruel and harsh world of oil economics and geopolitics, this is known as checkmate.

Back to the new era I see emerging in silver and gold and JPMorgan's prospective role. The new speculation on my part involves the actual ownership of the 25 million ounces of gold and one billion ounces of physical silver that I claim have been acquired by JPMorgan over the past nine years. Some have claimed that JPM did so on behalf of China, but I still find such speculation as bordering on the absurd. My new thought is that some (and perhaps a significant) portion of the actual ownership of the physical metal accumulated might actually be held by insiders close to JPMorgan.

I still maintain that JPMorgan deliberately depressed the price of silver and gold for more than a decade by being the largest and most dominant short seller on the COMEX and used those low prices to accumulate physical metal on the cheap in a fraudulent and manipulative scheme without precedent. And all the while never losing once on its COMEX silver and gold short sales — so nothing new about any of this. But because JPMorgan knew for sure it was picking up physical metal at ultra-bargain prices and as such would be certain winners (it is already ahead by more than \$500 an oz on its gold acquisition), why not share the bounty with favored insiders?

The thing about physical metal ownership is that there is no legal or regulatory reporting requirement. There are certainly reporting requirements for stocks and futures, but none for physical metal ownership. I've claimed that JPMorgan could easily evade metal ownership reporting requirements through the use of special investment entities or vehicles hidden on its extensive balance sheet. Therefore, transferring physical metal ownership to insiders or — friends and family — would be a snap. Yes, this is speculation on my part, but it seems a lot more realistic than JPM doing so for China. Of course, any of these allegations could be easily checked out by the CFTC or the Justice Department, but along with all the other allegations I've made, what are the chances that either will bother to look?

As today's selloff makes clear, the transition from the old era to a new one is not a one day affair. Silver is not likely to go from being the most manipulated market in the world for decades on end to a new era that can be pinpointed in advance. The 8 or so big shorts were never going to give up without a fight and their bag of dirty tricks include the ability to induce sharp selloffs upon demand. At the same time, however, all the dirty tricks in the world haven't prevented them from incurring their largest open losses in history.

Most importantly, it's very hard for me to see where the amount of speculative selling necessary for

the big shorts to buy back their short positions can come from. Certainly, no one can claim the predicament in which the big shorts find themselves in is any type of strategic master plan. When the bulk of the big shorts were established nearly a year ago, their expected collective profits were projected to be in the \$300 million range, based upon the historical pattern. Instead of ringing the cash register again for \$300 million or so, as had been the case for many years, the big shorts find themselves stuck with open losses 25 times that amount. No one deliberately sets out to make \$3 by risking \$75 or more.

Much worse, as I've intoned frequently, these are open losses existing on open short positions, meaning the derivatives transactions must be closed out at some point. In silver, that means the 8 big shorts coming up with 350 million oz of actual metal to deliver or the buyback of 70,000 COMEX futures contracts. Until either close out option is exercised, the short position remains open.

Yes, I'm well aware that there is no real time deadline by which the close out of open positions must be accomplished, since derivatives contracts can be rolled over indefinitely. But that is very much a two-edged sword in that silver prices rising from here will put more financial pressure on the big shorts, while lower prices will bring them financial relief.

Up until now, the big shorts have gotten hurt on rising gold prices, since silver prices have hardly kept pace. But the odds of silver rising \$10 or \$20 from here are infinitely better than them falling that much and unless gold prices collapse (not something I find likely), any respite to the big shorts from lower prices should prove temporary. You have to ask yourself â?? who in their right mind would choose to short 350 million oz of silver at current prices under current world conditions? I would submit that the 8 big shorts wouldn't choose to go short 350 million oz of silver if they were given the choice today. That's the problem with open positions, even if originally sold short at a different time and conditions, unless closed out, it's the same as putting on a new short position today.

As far as what the COT report will indicate on Friday, as of yesterday's cutoff for the reporting week, my crystal ball is cloudy, particularly after last week's stunning (but expected) results. As a recap, last week's results were stunning because despite sharp price gains in both gold and silver there was little to no managed money buying and commercial shorting. I'm inclined to think there might have been some managed money buying and commercial selling in the reporting week ended yesterday, but not an excessive amount.

Gold and silver prices did rise noticeably over the four day reporting week, with gold rising as much as \$100 and silver by as much as 75 cents, but trading volumes remained somewhat subdued and total open interest increased by a very moderate 10,000 contracts in gold and 4500 contracts in silver. For what it's worth, I would imagine any speculative buying and commercial selling in silver in Friday's report might already be flushed out on today's selloff. Instead of predictions for Friday's report, I'm much more interested in analyzing the data.

At publication time, the 8 big shorts gained a measure of relief from the much larger open losses they witnessed on Monday and Tuesday, but somewhat surprisingly, not much overall relief from where they stood on last Thursday's close at being in the financial hole for \$7.2 billion. The small gain in gold from Thursday's close and larger loss in silver leaves them out the same \$7.2 billion they were out last week.

Ted Butler

April 15, 2020

Silver – \$15.60 (200 day ma – \$16.99, 50 day ma – \$16.09)

Gold – \$1746 (200 day ma – \$1525, 50 day ma – \$1616)

**Date Created**

2020/04/15