

April 26, 2017 – The Dynamics of Change

As I see it, there are two components in the dynamics of change: the speed or pace of change and the magnitude of change. Many things change slowly, others quite rapidly. Most times, the degree of change is incremental, other times the change is radical.

A recent example of a rapid and radical change was the sudden termination of Bill O'Reilly, the longtime host of the most popular US cable news show. I don't care to get into the political issues behind the FOX network dumping O'Reilly just that it was a sudden and radical change, quite unexpected. Strictly in a coincidence, I went to the same high school as O'Reilly, although if I have the dates right, I was a senior when he was a freshman and I didn't know him (or any other freshman).

The thing that stands out to me the most is that the show's sudden termination came on the heels of a newspaper article that highlighted past legal settlements of sexual harassment claims that occurred years ago. The resultant backlash, particularly and understandably by women, led to panic cancellations by major advertisers for the show, resulting in its sudden demise. My point is that this was a radical change that few, if any would have predicted several weeks before its occurrence. In addition, the rapid change involved the sudden recognition of past circumstances, not necessarily brand new allegations.

As for what all this has to do with silver, I think a lot. Based upon everything I think I've learned over the years, the price of silver looks destined to experience a radical change that will shock many in how forceful the price surge will be. That's because certain factors, quite specific and unique to silver, are now in place that make a price surge almost impossible not to occur. As in the O'Reilly example, no new bullish force needs to emerge in order to power silver higher, just a wider recognition of what already exists. This makes silver very special.

To be sure, I am mindful and sympathetic to the broader narrative suggesting that silver may surge higher as part of a widespread âresetâ or steep adjustment in most financial markets. You know, the future scenario of overall financial chaos. There are plenty of signs for concern about financial market dislocations ahead, making some type of a general price reset possible. And I would certainly concede if the stuff truly hits the fan, silver prices would rise as much as anything else and, most likely, by a lot more. However, it is not the broader narrative that will bring about the inevitable, sudden and radical change in price, but the factors truly unique to the metal. What are those factors?

For starters, there's the highly unique and massive concentrated short position in COMEX silver futures, which just set a new record. No other commodity has such a large and uneconomic short position when normalized by actual world production. Not one of the big silver shorts is engaged in legitimate hedging, making the short position excessively and exclusively speculative. The main reason silver prices are so depressed is because of the large speculative (commercial) COMEX short position. It's gotten to the point where we already know the definition of the coming big move up in price â no increase in the concentrated short position on the next rally.

In addition, it is now undeniable that the largest COMEX silver short, JPMorgan, is also the largest

physical holder of silver as well. Please think about that for a moment. The more than 100 million oz that have been moved into the JPM COMEX warehouse over the past few years, largely following JPMorgan taking delivery on futures contracts in its proprietary (house) trading account, establishes JPM as the world's largest holder of physical silver. Forget, for the moment, my contention that the bank owns 500 million oz of actual metal in addition to its COMEX holdings – the facts confirm that JPMorgan is the largest physical long and paper short silver holder in the world. Again, this is all from CFTC and exchange data.

What JPMorgan has achieved in amassing its physical silver hoard, in practical market terms, is truly remarkable. And I can't help but believe that the bank's acquisition of so much physical silver via COMEX deliveries (leaving out the other 500 million oz it owns) was the only real solution for a problem I identified decades ago – how can the big concentrated silver short position on the COMEX get resolved without a price explosion and financial destruction for the big shorts? After all, how can you prevent a price explosion if the big short sellers turn buyers for the first time? JPMorgan figured out a way that even I didn't imagine, until signs of it began to emerge several years ago.

Having inherited and learned how to master the giant COMEX silver short position it got from Bear Stearns in 2008 and having to nearly choke on it into the price rise in 2011, JPMorgan made the conscious decision at that time to close out its short position in COMEX silver. Not only was the bank sharp enough to figure out and then execute the only possible short covering strategy that wouldn't cause silver prices to explode immediately – it did so in a manner that will eventually make the bank many tens of billions of dollars to boot. Believe me – I couldn't make this up if I tried.

There is no way that JPMorgan could have bought back its entire COMEX paper short position at any time over the past nine years without causing prices to explode, if it tried to do so by the plain vanilla open purchase of futures contracts to close out its existing short positions. Remember, JPMorgan has been the biggest COMEX silver short and for it to try to buy back those shorts in a straight forward manner would have the mechanical market effect of causing prices to explode. I'm not talking about JPM and the other commercials buying back short contracts as they rig prices lower and induce technical fund selling in the ongoing price scam; I'm stating that JPM had no chance of simply buying back its shorts by straight short covering. Besides any attempt to do so would show up clearly in COT and Bank Participation reports.

The only way JPMorgan could (and did) buy back and cover its massive COMEX short position was not through the open purchase of futures contracts, but through the purchase of physical metal in quantities large enough to neutralize the paper short position. And that is exactly what JPMorgan has done over the past six years. The nearly 105 million oz that has come into the JPMorgan warehouse is the equivalent of 21,000 futures contracts. In practical terms, that covers and reduces JPM's short position by 21,000 contracts, or most of its short position. The extra 500 million oz that I believe JPM holds, easily covers any residual short position and puts the bank squarely on the path to make many tens of billions of dollars on a silver price surge.

And since 500 million oz is the equivalent of 100,000 COMEX silver contracts, it should be easy to see that JPMorgan would never have been able to buy and hold that many open silver contracts. If JPM couldn't buy 21,000 contracts straight out, then they surely wouldn't have been able to openly buy 100,000 contracts. That's because sellers would be needed to complete those contracts and away from JPM and the other few COMEX commercials, such sellers wouldn't exist.

There's no way around it - what JPMorgan has pulled off is simply genius; genius of the criminal variety perhaps, but genius nevertheless. I confess to not even imagining that such a feat was possible. Then again, necessity being the mother of invention and since JPMorgan was faced with the predicament of being massively short silver in the developing physical shortage in early 2011, I suppose necessity required what I consider to be a solution bordering on genius. I'm just grateful that I discovered what JPMorgan was up to only a few years after it implemented the perfect solution to the perfect crime. That was still a few years earlier than anyone else.

Everything I just described is highly unique and specific to silver. In no other commodity, to my knowledge, do these conditions exist. And in all certainty, this story is unknown to the vast majority of the world's investors. This creates the likelihood that as more come to learn of these details, more will be inclined to buy silver. Again, change can come suddenly and profoundly when facts already long in existence are suddenly discovered, as was shown in the O'Reilly case.

Having not only protected itself against the inevitable silver price explosion, JPMorgan has also positioned itself to reap untold profits by its decision in 2011 to buy as much physical silver as it could. But while this, effectively, removes JPMorgan from the ranks of the other big COMEX shorts, that removal mathematically increases the burden and risk to the other large shorts. By its actions, JPMorgan has cast aside the other big shorts to fend for themselves whenever JPM decides to stop playing the game. That's the reasoning behind my dead men walking premise.

I suppose JPMorgan could use the 600 million oz of physical silver it has accumulated over the past six years, not to line its own pockets when silver explodes, but in order to bail out and protect the other big shorts from the financial disaster they would face. Perhaps for some greater commercial criminal good. After all, JPMorgan's physical silver position is large enough to cover the collective commercial short liability. If you believe that, then you probably shouldn't buy silver.

On the other hand, should you believe, as I do, that what JPMorgan pulled off over the past six years is nothing short of remarkable and genius and it did so strictly for the purposes of first necessity and then avarice, then there couldn't be a more compelling reason to buy silver. The circumstances in silver are so unusual and unprecedented that it's more than reasonable to expect the coming change in price to be sudden and dramatic.

Of course, JPMorgan has been running with the boyz on the recent downturn in silver prices through today. It has always been the case that when the commercials can rig silver prices lower and set off technical fund selling, that represents the time when it is easiest for the commercials to buy back short contracts in volume, JPM included. That time is now. In fact, today marks the eighth consecutive trading day in which silver has made or closed at a new low. If the term "salami slicing" ever applied to any previous deliberate silver take down, it surely applies to the past week or so. There should be little doubt that this has been one of the most deliberate take downs in silver

The only question is how many technical fund contracts have been sold and how many remain to be sold. While it is just a numbers game, it also goes to the heart of silver price movement. Let's face it, the only thing that has been shown to reliably explain price movement in silver is COMEX positioning. We knew we were at an either/or point – either the technical funds were going to sell on lower prices or the commercial shorts would cover instead (for the very first time). Since we have broken to the downside in technical terms (below the key moving averages), we are getting the usual resolution. The good news is that the resolution looks to be developing fairly quickly (as opposed to a long drawn out affair).

In trying to calculate how many technical fund contracts may have been sold (and commercial contracts bought) through yesterday's cutoff for this Friday's COT report, I consider a number of factors, including daily price action and trading volumes and changes in total open interest. Price action and a weekly decline in total open interest of 13,000 contracts would point to significant managed money selling, despite the likelihood of spread liquidation (ahead of Friday's first delivery day for May silver).

On the other hand, trading volume on the price drop has seemed unusually low when spread rollover volume is subtracted from total amounts. The low net volume suggests an absence of aggressive technical fund selling, in conflict with signs of technical fund selling in price action and the decline in total open interest. I realize this must sound like double talk, but the facts can conflict at times.

Making matters even more complicated is my key recent finding that a number of managed money traders that are not technical funds have built up a massive core long position in COMEX silver. Should it turn out that these special, non-technical fund managed money longs buy more on this silver price decline that would cause technical fund selling to be necessarily understated. (Managed money technical fund selling would be offset by non-technical fund managed money buying).

Let me try to keep it simple – I believe there has been significant technical fund selling through today and we're now in the final phase of deliberate price rigging to the downside. I can't pinpoint an exact price bottom, as it's not a question of how low the price can go, but how many technical fund contracts can be lured into selling by still lower prices. If there are many more technical fund contracts to be sold, then we're going lower in price. When that supply of selling dries up, as it will and must at some point, silver prices will be structured to move higher. Same as it ever was.

The special twist this time is that whenever the last technical fund contract is sold, not only will the price be structured to move higher, the highly unique and unprecedented factors in silver will loom larger than ever before. On the next silver rally, more than any other time before it, the intentions of JPMorgan will be the deciding factor in the next rally being the big move. For that reason, and as you know, I've been reluctant to lighten up and sell because the risk/reward ratio of avoiding a last downdraft versus risking missing the big rally was too lopsided for me, even when considering the probability of what usually happens when the technical funds are very long and the commercials are very short.

But in addition to the lopsided price risk/reward ratio, there's something else about the unusual factors in silver – they are getting more coverage than ever before. It seems a day doesn't go by when a new article or interview dealing with the silver price manipulation appears. Many of the articles and interviews miss some key aspects to the silver manipulation, but the overall effect is that more

discuss it than ever before. If you are running a scam, as JPMorgan and the other big COMEX silver shorts are running, this can't be welcomed attention. This growing attention does not remotely support a continuation of the fraud.

More to the point, hundreds of people have again contacted the regulators as I recently urged. To my knowledge, no one has received the courtesy of a response. Certainly, I have heard nothing, but then again what could the CFTC possibly say? The agency can't deny that JPMorgan has been, simultaneously, the largest physical silver buyer in the world while being the largest paper short on the COMEX and couldn't possibly devise an innocent-sounding explanation. Neither can JPMorgan, the CME or anyone else; otherwise, the explanation would have been given by now.

Because these are the important facts that matter the most and these facts aren't going away any time soon, I am more convinced than ever before that this price takedown will be the last. Yeah, I suppose I may sound like the boy who cried wolf, but this boy has not only seen the wolf before, he has tracked it down and thrown as many rocks into the wolf's den daring it to come out as is possible. At some point, the wolf is going to get fed up with the harassment and fight back or slink away. The twist on this story is that when the biggest wolf, JPMorgan, slinks away, the price of silver will soar.

Ted Butler

April 26, 2017

Silver – \$17.40 (200 day ma – \$18.07, 50 day ma – \$17.90)

Gold – \$1268 (200 day ma – \$1258, 50 day ma – \$1247)

Date Created

2017/04/26