

## April 5, 2017 – No Easy Way Out

A wide variety of different factors appear to be converging in the silver market that promise a dramatic upward revaluation in price in the relative near future. Unfortunately, based upon some of those same factors, even the most powerful upward revaluation might first be temporarily subject to a sudden selloff. But the important point is that regardless of whether we first see a deliberate jab to the downside in price, the factors dictating sharply silver prices ahead appear overwhelming. Moreover, there are other factors suggesting the timeline for a serious price liftoff has also been shortened.

The main factors involve silver in its two forms – as a paper-traded asset and as a physical commodity. The physical side of silver includes it being an essential industrially-consumed commodity that is also incredibly unique in being an investment asset as well. Close to 90% of annual world production of silver is consumed industrially or in other fabrication demand, leaving only 10% (100 million oz or \$2 billion) – left over – and available to the world's investors.

For the past six years, one large entity, JPMorgan, has, effectively, bought all the investment silver made available to the world's investors over this time, a feat I would have described as impossible before I observed it occur. History shows that JPMorgan burst onto the silver stage nine years ago when it acquired the failing investment bank Bear Stearns in March 2008 and took over Bear's role as largest COMEX silver (and gold) short seller. Highly successful initially in continuing the manipulation of the price of silver through its outsized short positions, JPMorgan nearly choked on its COMEX silver short positions as prices rose to nearly \$50 in April 2011. It was then that JPM not only succeeded in once again breaking the price of silver, it also embarked upon the most massive and successful accumulation of physical metal in history.

The physical silver market can be described today as still offering only 10% or so of total new world production to investors, only now with a major institutional entity as a strong competitor for that available metal, as well as that entity holding more than a third of all the existing world silver bullion inventory. If anyone would have tried to tell me six years ago that what I just wrote was even remotely possible, I would have dismissed it out of hand. Yet having followed the silver market as close or closer than anyone for more than 30 years, I can't see it any other way. That way also includes JPMorgan's accumulation of 600 million oz of silver as being the most bullish factor of all, under the simple proposition that JPM is now in position to benefit more than anyone should silver prices explode.

On the paper side of silver, recent developments are on a par with the physical side in terms of the unbelievable occurring. Just as I wouldn't have believed six years ago that JPMorgan would go on to acquire 600 million oz of actual metal, I never would have expected as radical a change in COMEX positioning as I've witnessed over the past three years. Specifically, I'm referring to the buildup of the very strongly held COMEX silver futures long positions by managed money traders.

Prior to late 2013, the core non-technical fund long position of these traders had always been close to 20,000 contracts following engineered and programmed price declines. I started observing that this core long futures position began to grow, first to 30,000 contracts and then to 40,000 contracts and higher over the past few years. At the price low of mid-March, the core long position of the managed money traders bottomed out (for now) at just under 80,000 contracts. In little more than three years, the core long position rose from 20,000 contracts (100 million oz) to 80,000 contracts (400 million oz), an

increase of 300 million oz.

For a market where the “left over” amount that is available to the world’s investors measures 100 million oz annually on a physical basis, a four-fold increase in a strongly held paper long position to 400 million oz by one category of trader is a very big deal. So much so, as I’ve indicated, that I would find it unbelievable had I not observed it occur in real time. Just as JPMorgan’s strangle hold on physical silver becomes clearer daily, the core long position of the managed money traders is also clearer daily. Yes, it is possible that on a steep price selloff, the core long position of the managed money traders may dip under my perceived floor of around 80,000 contracts, but that will be acknowledged and reported on as and if it occurs. In the meantime, that level appears reasonable to me, particularly since the managed money long position increased to 93,000 contracts on the silver price bounce through the last reporting week.

The problem with the large core managed money COMEX long position is not related to the managed money traders holding it, but with the traders holding the other side of this derivatives position. The managed money traders holding the core long position appear to be very well-funded trading entities capable of holding onto these margined positions in the event of lower prices. After all, a hallmark of this core long position is that it has come into being on lower, not higher prices and grew larger as prices declined into late 2016. Moreover, it does not appear to be technical in any way or likely to be sold on lower prices. That’s what makes it a core non-technical fund long position, because it is unlikely to be sold on lower silver prices.

Instead, there exists a serious potential problem for the counterparty shorts to the documented core long position. In any physically-settled commodity futures contract, such as COMEX silver futures, the contractual responsibilities of long holders is, basically, to have enough money to maintain the position in the event of a price downturn. Additionally, a long holder could opt for physical delivery of the commodity in return for full payment. I highly doubt that any of the managed money silver long holders would ever demand physical delivery, but they could if they so desired. (I think others will press for COMEX deliveries in the future, mainly industrial users).

For the short sellers of futures positions, the contractual responsibilities are different. Certainly, the shorts have the responsibility to meet all margin calls should prices rise, but there also exists a potential physical delivery responsibility should long holders demand delivery. This is a key feature of a physically-settled futures contract, such as COMEX silver futures and, in fact, what makes the COMEX legitimate (as much as it is perceived to be). When it comes to delivery, it’s a heck of a lot easier for a long to take delivery than it is for a short to make delivery. The long simply writes out a check; the short must possess or have access to the physical metal. This is particularly true if the physical commodity happens to be cheap in price and restricted in supply, as is the case in silver.

Further, the plight of the shorts in COMEX silver is even more problematic as a result of the short position being highly concentrated or held in few hands. Just about every COT report indicates that only 8 large commercial traders (mostly banks) hold around 100,000 net COMEX silver contracts net short or the equivalent of 500 million oz. Since JPMorgan appears to hold 30,000 contracts of this concentrated short position and can’t be considered to be at risk in the event of higher silver prices (because it holds 600 million oz of physical silver), any problem for the shorts is confined to the 7 remaining large traders which hold a balance of 70,000 short contracts or 350 million oz.

I refer to these 7 big shorts (ex JPM) as dead men walking, as there appears to be no reasonable way

for them to extricate themselves from the current silver equation without financially-crippling consequences. If the core managed money long position roughly conforms to past behavior and continues to hold strongly onto (and perhaps even adds to) these long positions, then there is no way out for the 7 big shorts. It's not as if these 7 big shorts can simply click the heels on their ruby slippers and blink their eyes, as did Dorothy in the Wizard of Oz, and wish themselves back in Kansas or out of the massive concentrated short position - it doesn't work that way in markets. Sooner or later, this documented and historical market mismatch will be resolved.

Of course, a market that has been manipulated in price for decades can be manipulated for a continued short while longer. Until there is enough pressure brought to bear on the 7 big silver shorts, then it shouldn't be expected that the shorts themselves will press for their own financial demise. After all, few rush to the bankruptcy court any sooner than when absolutely required. Additional short sales, particularly when assisted by JPMorgan, will stay the eventual execution but not avert it indefinitely. And that's where we stand currently - in a temporary price holding pattern, waiting to see if another selloff can be arranged so that the shorts can buyback positions at less than escalating prices.

I also mentioned at the outset that the timeline for the coming resolution had been shortened by other factors. One observable factor has been the further explosion of commentary about the COMEX silver manipulation, with particular empathies on COMEX positioning and JPMorgan's leading role. Not a day passes that a new article fails to appear. In my opinion, this is the kiss of death for the manipulation and the fate of the 7 big shorts. Silver is so clearly manipulated in price that more people than ever are writing about it, which is precisely what the big shorts would prefer wasn't occurring.

When I type in "silver manipulation" into a basic Google search, some 16 million entries come back. Type in "jpm silver" and more than half a million entries pop up. Most of the articles miss the exact details, but serve as evidence that the story is being widely disseminated. My point is that if you have been running a market scam and fraud for decades and are searching for an easy way out, as the big COMEX silver shorts surely are, then increasing awareness of the scam is what you would fear most.

On top of all the growing awareness of the silver manipulation, I just read something that just about knocked my socks off. This week, the CFTC announced it had created a new unit, Market Intelligence. At first, I assumed it might have something to do with Russian hacking or some other computer-related matter. But as the announcement makes quite clear, the new unit and its director are all about uncovering market fraud and manipulation.

<http://www.cftc.gov/PressRoom/PressReleases/pr7543-17#PrRoWMBL>

Once again, the most reasonable reaction should be WTF and are they kidding me? The agency is creating a new unit, specifically designed to hunt for signs of fraud and market manipulation, just when the signs of manipulation have never been clearer in silver. Of course, I'll be writing to the new director and include him in those I send my articles to (as well as the newly appointed director of the Enforcement Division).

I would safely predict that the new director of Market Intelligence Unit will likely receive many times the number of complaints and inquiries concerning the silver (and gold) manipulation than the combined total of all other complaints. Unfortunately, many of those complaints about silver will also likely be

misstated in some way, so please try to stick to the facts should you decide to contact the agency. My point is that awareness of the COMEX silver manipulation will only grow and that's very bad news for the 7 big shorts – none of which have any legitimate economic reason to be short silver in the first place.

Friday's COT report will help clarify where we stand in the developing COMEX positioning drama. As of yesterday's cutoff, total open interest rose for the reporting week in COMEX silver by more than 17,000 contracts and fell by nearly 22,000 contracts in COMEX gold futures. I still believe the big changes in total open interest in gold were spread related and that also may be the case in silver to a certain, but different degree. Prices were steady to slightly higher in silver, compared to gold, in the reporting week just ended, but not excessively so, although silver prices remained and closed above the 200 day moving average barrier, but have yet to do so in gold. Thinking like a technical fund (if possible), I imagine I would have been a buyer in the past reporting week.

While I can't put firm numbers on it, the focus will be on what the managed money longs did in each market. The possibility of a price take down still exists, due to the managed money longs that have been recently added getting flushed out (assuming any newly added managed money longs are of the technical fund variety). However, considering the lopsided nature of the risk/reward equation in silver presently, I am still convinced that, at least for me, it is not worth the chance of sidestepping a temporary market detour lower and risk not being fully aboard a long term upward journey that could begin at any time.

Ted Butler

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Silver – \$18.25 (200 day ma – \$18.10, 50 day ma – \$17.70)

Gold – \$1253 (200 day ma – \$1262, 50 day ma – \$1231)

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