

August 28, 2019 – From Predator to Prey?

(First, some very sad news. My long-time friend and silver mentor, Israel Friedman, has passed away. Although I hadn't talked with him for several years, I think of Izzy every day and reference him often, including in today's article. Regular readers know that it was Izzy who sparked my interest in silver 35 years ago and I will always treasure the countless hours we spent debating the circumstances in silver. He was the smartest and most moral man I've ever known and I will miss him dearly. Rest in peace my friend).

Since I continue to insist that the key feature presently in force in gold and silver is the resolution of the massive short position held by the largest commercial traders on the COMEX, I thought it would be instructive to restate the issue in basic terms. It is this concentrated short position that has been responsible for the decades-long price manipulation. A price manipulation is only possible if a concentrated position exists. This is why the CFTC monitors and reports on the concentrated long and short positions of every regulated commodities futures market.

No market has ever had a more consistent and extreme concentrated short position than COMEX silver futures. As of the most recent Commitments of Traders (COT) report of August 20, the 8 largest traders (including JPMorgan) hold a net short position of just under 96,000 contracts (480 million ounces). This concentrated short position is 25,000 contracts larger than the total net commercial short position – meaning not all the commercials are short and if the 8 largest traders didn't hold as many contracts short as they do, there would be no commercial net short position. Clearly, the 8 largest commercial shorts dominate and control the short side of silver.

The reason I've always made a big deal out of the concentrated short position in COMEX silver futures is because if it didn't exist, it would be easy to show why silver prices would, mathematically, be much higher. How so? Well, if the 8 or so traders weren't short the massive numbers of contracts the COT data indicate they are short, then other traders would have to replace them. After all, there must be a short for every long and if just 8 traders weren't short so many contracts, then other traders would be required to take their place. But how in the world could those other traders be persuaded to short the enormous quantities that the 8 big shorts hold? There's only one possible answer – higher prices. This is the proof that silver prices have been manipulated.

These 8 large shorts are the apex predators – the T-Rexes as it were – of the COMEX silver (and gold) markets. They have consistently taken on, and defeated in the end, all comers, principally the managed money traders, who have gone long. Never have the 8 largest short traders collectively turned tail and run from their short positions. Whenever a large number of futures buyers have come into the market, the 8 big shorts have always added enough new short contracts to absorb all the new buying until that buying has been satisfied. Then when the longs have bought all they could buy and begin to sell, the 8 big shorts have greased the price skids to the downside and only bought back short contracts at lower average prices than originally sold short at. This has enabled the 8 big shorts to achieve a perfect trading record of never collectively taking a loss when adding to short positions.

This coordinated short selling by the 8 big traders on rising silver prices and the buyback of those shorts on lower prices is the basis for the COT market premise that has now become nearly universally accepted. Since the concentrated short position in COMEX silver and gold is close to all-time

extremes, this has always portended a severe price decline ahead based upon past history. And this explains why so many who have taken up the study of the COT market structure are currently warning of a price setback.

Not only do I understand the reasoning behind why so many are calling for a price setback, particularly in gold, Iâ??ve further identified the current COMEX market structure as the only bearish factor in place â?? meaning if we do move lower in price then it will only be because the commercials and in particular the 8 big shorts were successful in inducing the managed money traders into selling on lower prices. This is what the 8 big shorts – the apex predators – have always been able to achieve when they are as heavily short as they are now. I doubt anyone could be a stronger proponent of the COT market structure premise, yet at the same time, I have also long been convinced that one day the COT premise wonâ??t work.

If there was one thing that sparked the most contentious debates between myself and my dear departed friend and silver mentor, Izzy Friedman, it was his take that the time for the greatest vulnerability for the big shorts was when they were maximum short; or has he called it, caught with their â??full pants downâ??. While I argued that silver prices looked most prime to advance when the big commercialsâ?? short positions were at a minimum, I never ruled out Izzyâ??s version. Itâ??s just that I thought that the big commercials were so smart and had such a tight control on the market that they would never allow themselves to get caught and lose control when their short positions were extremely large.

But now I think Izzy may have had it right for a number of reasons. First, the big commercial shorts appear not to have noticed (or done anything about) JPMorganâ??s epic accumulation of physical silver and gold and potential double cross. It appears that the big shorts had grown so accustomed to always prevailing against any and all buyers that they may not have noticed that things changed drastically; always winning can do that to you. Certainly, itâ??s hard to imagine the big shorts allowing themselves to get so deep into a financial hole, as Iâ??ve been reporting recently, as entirely anticipated and planned. As it stands, even if the big shorts arrange for and manage to rig prices sharply lower, I donâ??t know how they can come out way ahead on this trade. Theyâ??ll be real lucky to get out with the skin on their backs and close to break even.

This increases the odds that the big shorts wonâ??t get lucky this time around and that the manipulation jig may finally be up. Being so many billions of dollars in the hole may actually turn the big predators into the prey. There are uncountable sophisticated entities throughout the world who would be attracted like sharks to the scent of blood in the water to signs the large shorts might be vulnerable for exploitation in silver and gold. And this has little to do with the merits of silver or gold as investments and everything to do with their potential vulnerability. Certainly, the massive open and unrealized losses to date havenâ??t made the big shorts stronger; perhaps the losses may have made the shorts more desperate and dangerous, just not stronger.

Up until now there are no signs that the big shorts might be beginning to cover their short positions. Total open interest in gold continues to increase, suggesting new shorts are being added, not existing ones being covered. Of course, the final arbiter of whether the big shorts may move to cover their short positions will be the data revealed in future COT reports. So far, the largest share of the open losses to the big silver and gold shorts has come from gold. Of the \$5 billion the 7 big shorts were in the red as of yesterdayâ??s close, about \$4 billion is attributable to gold and the rest to silver. This the most the

big shorts have ever been in a financial hole and being this deep underwater makes them all the more desperate to rig prices lower.

I've been very careful not to handicap which it will be – either the big shorts succeeding in rigging gold and silver prices sharply lower or turning tail and rushing to cover shorts to the upside. How would anyone know in advance? I'm playing it as if the big shorts will fail, but that's just me. But what I've described is a serious market situation and one that the regulators should be actively involved. Unfortunately, I don't see any evidence that the regulators, the CFTC and the CME Group, are taking any steps to defuse the situation.

The one entity that will come out just fine no matter what happens ahead is the kingpin of the gold and silver markets, JPMorgan. Should the bank decide to come to the aid of its fellow COMEX commercial shorts and drive prices sharply lower, JPM will be able to buyback most or all of its COMEX short positions, which as of last week's COT report, I would estimate at around 45,000 contracts (4.5 million oz) in gold and 15,000 contracts (75 million oz) in silver. But if JPMorgan decides to double cross the other commercials and allows gold and silver prices to soar its massive physical gold and silver positions will make it truly immense profits.

While it sure felt good to see silver break above the \$18 mark, the biggest single beneficiary of the price rise was, you guessed it – JPMorgan. I had long pegged JPM's average acquisition price for its 850 million oz of physical silver as around \$18. When the price of silver was \$4 lower than where it is now (just a few months ago), JPM had a loss (on paper) of nearly \$3.5 billion. JPMorgan is now back to even on its physical silver holdings with more of a blue sky for profits than any entity in the world.

And on yesterday's close of \$1550 on gold, JPMorgan was ahead (on paper) close to \$7 billion on its net 20+ million oz gold position (25 million physical oz minus 4.5 million oz COMEX paper short position). While they are the biggest financial crooks around, these guys are the masters. It doesn't make a bit of difference what gold and silver prices do in the short term, JPMorgan will come out ahead like the bandits they are.

In other developments since the weekend review, there was an increase in the short position of SLV, the big silver ETF, as of Aug 15, of 1.6 million shares to 11.2 million shares (ounces), as well as a similar increase in the short position of GLD, the big gold ETF. Neither the increase nor total short position in SLV is alarming in any way, for a number of reasons. At less than 3% of total shares outstanding, the total short SLV position is not large by historical standards.

<https://quotes.wsj.com/etf/SLV>

Plus, as you know, the big story in SLV has been the absolutely enormous amount of physical silver that has been deposited into the trust over the past couple of months, at least 75 million ounces. With that tremendous amount of physical metal deposits, the need to sell short shares because physical metal wasn't available just wasn't there. The only source for that physical silver had to be JPMorgan. What I still don't know is if JPMorgan just sold the silver deposited into the SLV and other silver ETFs, or if it loaned the metal to other Authorized Participants who had sold shares of the ETFs. By loaning the metal and not selling it outright, JPMorgan still retained ownership to the metal leased and put the APs who may have borrowed the metal deeper into a short hole (the double cross premise).

But with the very heavy trading volume in SLV since Friday, a lot more physical silver is now owed to the trust that has yet to be deposited, maybe as much as 7 to 10 million oz. As of last night, no new physical metal had been deposited. If these deposits are not forthcoming, it suggests that JPMorgan may have tightened up on making metal available, either by sale or lease, or that the APs may no longer be interested in borrowing (shorting) more physical silver and instead are shorting the shares. This won't be known until the next short report in two weeks. As far as GLD, there doesn't seem to be any delay in deposits of physical gold.

I'm still convinced that the massive physical deposits into the silver ETFs over the past couple of months (100 million oz) was at the hands of the Silver Whale who converted 20,000 contracts of COMEX futures contracts into physical metal on an arbitrage operation. I'm not sure at this point who is responsible for the heavy trading volume in SLV over the past few days, but regardless who may be the buyer(s), physical metal is now owed to the SLV and perhaps other silver ETFs.

This just underscores the "Death Star" feature of the hard metal ETFs, which is an incredibly efficient mechanism for converting general investment demand into physical metal. This mechanism has been in sleep mode for most of the past 8 years, but as the massive silver ETF deposits of the past couple of months have indicated, can reawakened in an instant. At some point in the not too distant future, it seems inevitable that a surge of collective investment demand will overwhelm available physical silver supplies. As and when that occurs, silver prices should rocket higher.

As for what to expect in Friday's COT report, I will be surprised if there isn't another significant increase in managed money buying and commercial selling in gold, given the rise to fresh six year highs and overall \$35 gain through yesterday's cutoff. Total gold open interest rose more than 42,000 contracts during the reporting week. Since the commercial net short position was only 4000 contracts shy of the all-time record in 2016, it's hard to see how we don't set a new commercial total net short record.

Silver is a bit different in that trading volume wasn't that high (given this was a roll over week) and total open interest increased by less than 2000 contracts over the reporting week. Still, prices did rise by a dollar or so to two year highs, so it's reasonable to expect an increase in managed money buying and commercial selling by an amount more than the 2000 contract increase in total open interest. I'm not trying to be evasive or cute in avoiding specific contract predictions; I just don't know and want to focus on analyzing the data when released.

I'm certainly not trying to be cute in refusing to handicap whether the big shorts will succeed or fail at rigging a skin-saving (for them) price smash ahead or whether they resort to short covering which

will result in a price melt up. I don't think anyone knows which it will be (except perhaps you know who). While I am still playing it like the big shorts will fail, in the interest of full disclosure, I did peel off a portion of my thoroughly reckless and irresponsible kamikaze silver calls today for the sole devoted purpose of being able buy even more reckless calls should prices set back. I hope I come to regret all the potential profits I failed to realize. If the big shorts are able to engineer another manipulative selloff, that would look like the last such selloff to me.

But I do want to stress that it's beyond unconscionable that the regulators have allowed the current setup in COMEX gold and silver to come about. Whatever the resolution – a bone-shaking manipulative selloff or a short-covering melt up – this is a setup the regulators should never have allowed to get to this point. The CFTC and the CME Group should have insisted long ago that the now record or near-record long and short positions in COMEX gold and silver be limited by reasonable position limits. As it stands, we (and the rest of the world) will be impacted by their failure to act, one way or another.

As far as the money scoreboard for the 7 big shorts in COMEX gold and silver, today's action didn't change by much the damage to the big shorts experienced on Monday and Tuesday. At today's publication deadline, gold was up by \$14 and silver by 90 cents from Friday's close. Using 23 million gold oz (230,000 contracts) as the big 7's net short position and 400 million oz (80,000 contracts) as their silver net short position, the big shorts added \$700 million to an open and unrealized loss now totaling \$5.1 billion collectively. The average loss for each of the 7 big shorts is now over \$725 million. As previously mentioned, this makes them more dangerous and desperate to rig a selloff, as well as, presumably, closer to the breaking point of throwing in the towel.

Ted Butler

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Silver – \$18.30 (200 day ma – \$15.34, 50 day ma – \$16.17)

Gold – \$1551 (200 day ma – \$1347, 50 day ma – \$1448)

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