

August 9, 2017 - Walking in the Other Guys' Shoes

One of the basic truths to understanding and resolving complicated situations is to consider the perspectives of all involved. Knowing how the other person is thinking helps frame the issue in everything from relations with other countries to complex business circumstances to one's relationship with a spouse or loved one. I'm reminded of the words from a long-departed dear friend, "Don't judge anyone until you've walked a mile in their moccasins". Were this principle followed more frequently, the world would be a much better place.

In the spirit of applying this basic truth to the highly complicated situation that is the silver market, I'll try to look at things through the eyes' of those that determine silver prices. The aim here is to look at the motivations and desires of those silver market participants that truly determine prices, as opposed to those participants most affected by changes in the price. This is an important distinction because those most impacted by silver prices are the companies which mine it and the investors which hold the metal and the shares. Oddly and sadly, neither group plays much role in determining prices. Of course, over the very long term, mine production levels and investor activity matter greatly, but not on a month-by-month or even a year-by-year basis.

Instead, there are a number of participants - paper traders - on the COMEX, as well as the exchange itself and the federal regulators at the CFTC, which are solely responsible for setting the price of silver (and other commodities). This is easy enough to see in the verifiable data indicating futures contract positioning changes that dwarf any changes in the real world of metal. I'm not talking about daily trading volume on the COMEX, which far too many (incorrectly) focus on; I'm talking about

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the many hundreds of millions of equivalent silver ounces positioned and repositioned over the course of weeks and months. It is this positioning that determines and sets silver prices and it is truly remarkable how few are the number of traders that account for the enormously large paper contract positioning.

The single entity accounting for the largest share of COMEX silver futures positioning is JPMorgan. It has been this way ever since JPMorgan acquired Bear Stearns in early 2008, which had been the largest COMEX silver (and gold) short seller to that point. Since JPMorgan assumed the role of largest short seller in COMEX silver futures it has always been net short on the COMEX and get this - it has never taken a loss, only profits on every new silver short sale it has initiated for more than nine years; making billions of dollars in cumulative trading profits. That might be enough to explain JPMorgan's dominant role in setting silver prices, but the criminal masterminds at JPM took their control over the price of silver to a whole different level.

In addition to using its vise-like control of COMEX silver prices to profit by billions of dollars by trading from the short side since 2008, JPMorgan pulled off something entirely separate that will profit the bank by many tens of billions of dollars ahead. Since 2011, JPMorgan, in addition to never losing on a silver short sale, has succeeded in acquiring over 600 million ounces of physical silver at an average price of under \$20. This is a manipulative masterstroke of unprecedented proportions. However, the purpose of this article is not to recount what JPMorgan has accomplished by being the single most dominant entity in the world of silver; but to look at the market through JPMorgan's perspective.

From JPMorgan's perspective, silver has been very, very good to the bank and like all

good things, it's hard to imagine why it would rush its massive ruse to an early conclusion. As with the other participants that have very much been on the right side of the COMEX silver manipulation, no one ever looks to end a good thing. In fact, this is the most compelling argument that the silver manipulation could last for a long time, namely, those milking the rewards of the ongoing COMEX manipulation would have little incentive to end the party and not to let the good times continue to roll.

JPMorgan, at its core, is a profit motivated entity, in that its purpose for existence is the generate profits for its shareholders. There is nothing wrong with that as stated. In addition, the bank tries to do right by its employees and the communities it serves. The problem is that JPMorgan is acting contrary to the law in its manipulation and accumulation of silver. However, there should be no doubt that JPMorgan's involvement in silver is strictly through the perspective of profit.

Along with JPMorgan, the other big beneficiaries of the silver manipulation are the exchange itself and other cooperating commercial traders on the COMEX, including other large short sellers (the big 8) and the 30 or so smaller commercial traders I refer to as the raptors. The exchange, owned and operated by the CME Group, is an obvious beneficiary of the ongoing silver manipulation, as its profits grow by the ever-expanding trading and success of its most important commercial members and clearing (guaranteeing) entities. It would be very bad for the exchange if its most important members ran into trading difficulties. The CME advertises that it serves the needs of the trading world, but whenever it has been forced to choose between the public good and that of its members, the public's interest always comes up second. The CME has a vested interest in seeing the silver manipulation continue indefinitely.

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Likewise, the other big commercial silver short sellers away from JPMorgan, as well as the smaller raptors have made an absolute fortune by trading from the short side (the big commercials), as well as from the long side (the raptors), with an isolated commercial loss here and there over the years. In fact, the silver raptors have made much more money collectively than has JPMorgan or the other big shorts over the years. Therefore, it's a snap to conclude that the participants considered to be commercials, along with the exchange itself and certainly including JPMorgan have no interest in ending the gravy train. You don't have to walk very far in their moccasins to understand why.

On the consistent losing side of the COMEX silver zero-sum equation and providing the losses that create the commercials' profits, stand the managed money technical funds. These traders have been the chumps and suckers sitting at the poker table betting aggressively, apparently without a clue that they are the victims being played against by other traders. I know it baffles and even infuriates many that the technical funds continue to fall prey to the commercials' trickery, but the data in the COT reports are unassailable in indicating that the technical funds have been the consistent losers in COMEX silver. So what the heck is the perspective of the technical funds?

Clearly, they can't possibly see themselves as the victims, as that would require a radical change in their current methodology of buying high and selling low. The fact is that the managed money technical funds have experienced massive inflows of investment assets, despite mostly poor trading results. How can this be? I think it has to do with the unprecedented world-wide creation of monetary assets, combined with a move towards the quantitative (technical approach), as I discussed in a fairly recent article, "The Quants". Certainly, investors have increased deposits in these

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managed money technical funds to hundreds of billions of dollars, allowing these funds to take record large positions, both on the long side as well as the short side of COMEX silver over the past few months.

Regardless of why the technical funds do the things they do, there can be little doubt that they are doing them, as indicated in COT data. It must be assumed that the perspective of the technical funds is to make profits, even if they have largely been unsuccessful to date. And it doesn't appear that investors are yanking money from these funds. Therefore, it's hard to see a radical change in immediate technical fund behavior.

Finally, there is the perspective of the federal regulator, the CFTC. There is a long and documented record of the agency responding to allegations of a COMEX silver manipulation, going back 30 years, but publicly in 2004, 2008 and finally when it dropped a formal five year silver investigation by its Enforcement Division in 2013. Risking the appearance of immodesty, the common denominator in all these silver reviews by the agency was that I initiated all of them with the help of thousands of readers. In every case, the CFTC roundly denied that any manipulation existed in COMEX silver.

Therefore, the Commission would have to do a complete about face in admitting there was any manipulation of silver prices and that all its previous findings were in serious error if it found anything wrong today. That would seem most unlikely. Therefore, the perspective of the CFTC must be to continue the same see no evil approach it has adhered to for three decades.

In summarizing and in looking at silver from the perspectives of those that determine prices and the regulators, I am well-aware that I just recited, chapter and verse, the

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case for the silver manipulation lasting forever (or until JPMorgan acquires a billion ounces or more of physical silver). I don't believe that will be the case, but I felt a responsibility to present the argument as completely and objectively as possible. The one thing I try to do is to look at silver as realistically as possible; such an approach comes naturally, I suppose, as a function of studying an issue for decades.

Having stated the case for the silver manipulation lasting indefinitely due to the collective perspective of those setting the price, please know that I don't believe for a moment that will be the case. In fact, I believe instead that this self-serving collective perspective serves as the only explanation for why silver has been manipulated for as long as it has. Manipulation is a most unnatural state in any market and the longer it exists the more abrupt and dramatic its termination must be. But let me put the general argument aside and deal with some specifics that tell me that the jig will soon be up for the silver manipulation.

For one thing, while the CFTC has been silent on the matter of the silver manipulation, effectively, since its last public letter on the matter in May 2008, after addressing the matter on numerous occasions up until that point. However, over this time the questions and allegations of silver manipulation have grown more serious, widespread and specific. It's clear that the agency has stuck its head in the sand because it is unable to answer the most basic allegations, such as, how can trading on the COMEX possibly be considered legitimate if no actual silver producers or consumers participate in that trading?

The whole purpose of regulated futures trading revolves around legitimate hedging by real world producers and consumers; yet there is so little of this activity on the COMEX so as not to exist at all. And it's not just the CFTC that can't address this

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issue, no one can justify the all-speculator, no hedger market composition existing in COMEX silver; otherwise, this issue would have been answered long ago. For the CFTC not to address this core regulatory matter is shameful and damning and becomes more so each passing day.

Likewise, since late 2008, I have been zeroing in on JPMorgan as the prime silver price manipulator, making sure to send all my articles in which I accuse JPMorgan of wrongdoing (essentially all of them) to the bank's CEO, Jamie Dimon, among others. If JPMorgan isn't aware of my allegations, it isn't because of me. Yet the bank hasn't uttered a word denying or rebutting my allegations. No one reading this (or anyone not reading this for that matter) has ever witnessed a major financial institution ignore repeated accusations of illegal activity without a response or denial, particularly when that institution's prime regulator is also being petitioned to end the illegal activity.

Sooner or later, something has to give when it comes to JPMorgan, the CFTC or the CME responding to allegations of silver manipulation and malfeasance. It is more unreasonable to believe all can remain mute indefinitely than respond at some point. The fact that there has been no response from the CFTC for more than nine years or ever from JPMorgan and the CME, tells me that no legitimate response is possible and that it is better for all of them to remain silent than risk an honest and open debate. I understand why they have all been silent on this issue, but this is not an issue that can be ignored forever. At some point, I am convinced JPMorgan and the CME Group will be forced to respond to allegations that both are stone-cold market crooks or to stop their evil ways. And at some point, the CFTC will react to charges of incompetence and malfeasance or its inability to simply address legitimate complaints.

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While I examined the perspectives of those responsible for setting silver prices on the COMEX, because the perspectives of those mining silver or investing in it have been cast aside, a most distorted circumstance has resulted. It is beyond crazy and illegal that those producing silver or investing in it have absolutely no say in determining price. Who died and left JPMorgan and a handful of large paper speculators in charge of silver prices? The answer is that no one died and left these crooks in charge - all just assumed the role of silver price setter under the negligent eye of a complicit regulator.

My common sense tells me that a totally insane and illegal price setting scheme can't last forever and particularly as more become aware of it (as is evident in the explosion of COT commentary of late). That which can't continue will end at some point and when it ends in silver, the price will skyrocket.

While it is true that the CFTC, to its great shame, has not addressed the silver manipulation for more than nine years, it is also true that I have held out hope that its new Enforcement Director, James McDonald, would bring about much needed change. The jury is still out, but likely not for much longer on my assessment of McDonald. To be objective, the feedback I've received on this matter is decidedly thumbs down on the prospects of McDonald doing the right thing, with most opining that everyone in government is corrupt and it's no different with him.

Perhaps I'm overly optimistic and naive, but I don't accept that everyone in government is corrupt. Last I looked, those in the armed forces are government employees and I certainly don't believe all of them to be corrupt - far from it. Besides, I stipulated that the jury was still out on McDonald and don't know what the verdict will be. I think we will all be in position to judge for ourselves in the relative

near future. In the interim, all we can do is monitor and evaluate based upon developments as they occur.

On Monday, the Enforcement Division brought and simultaneously settled yet another “spoofing” case; this time against The Bank of Tokyo-Mitsubishi UFJ for spoofing in US Treasury futures from 2009 to 2014. (Spoofing is the practice of entering a number of orders and quickly cancelling them for the sole intent of inducing temporary artificial price movement). The twist here is that the bank self-reported spoofing by its traders and that was reflected in the relatively small fine levied. McDonald was quoted as using this case as an example for others to step forward before being uncovered.

<http://www.cftc.gov/PressRoom/PressReleases/pr7598-17#PrRoWMBL>

By my count, this makes the total five for the significant enforcement cases under McDonald’s watch over the past four months, just blowing away the pace of spoofing cases pre-McDonald. I get the strong sense that he (or others at the agency) knew instinctively that spoofing, by its very nature, was illegitimate and needed to be eradicated. I don’t know how anyone could ever justify the existence of spoofing as a legitimate market practice and the recent cases against spoofing seems to confirm that (other than those profiting from it, like JPMorgan and the CME).

I would point out that until McDonald’s arrival, it appeared that the CFTC was ambivalent towards the practice of spoofing, judging by the very small number of cases brought before his appointment (0?). But make no mistake, regardless of what prompted the agency to suddenly wake up to the complete absence of any good in a practice that had and has become quite widespread, the result is unabashed good news. The sooner spoofing is eradicated in every shape and manner, the better it will

be for most.

Perhaps it is strictly coincidence that the onslaught of spoofing cases brought by the CFTC began shortly after McDonald's arrival, but it's hard not to connect the timing between his appointment and the distinct uptick in spoofing cases being filed. I can't help but think that someone at the agency suddenly and finally became aware that this practice was all-bad and no-good. I also can't help but think that if spoofing was discovered suddenly after existing for years, then how could that not also occur with the silver manipulation? After all, the evidence in silver is more compelling than the evidence that spoofing is corrupt. I can't imagine how McDonald or anyone else could see spoofing as illegitimate and not see anything wrong in silver. As I said, the jury is deciding the verdict.

Speaking of upticks, today's price jump in gold and silver pushed prices to fresh two-month highs, quite a change from the price action through yesterday's cutoff for this Friday's COT report. Undoubtedly, there was deterioration in the market structures of both gold and silver today as technical funds bought the price breakout today as commercials sold on very heavy COMEX trading volume (in contrast, ETF volume wasn't very heavy, at least to this point). Of course, any deterioration will not be verified until the following Friday's COT report.

For a quick review of what to expect in this Friday's, perhaps already-outdated report, there should be no deterioration and probably improvement, at least in silver. Prices for gold and silver were lower over the reporting week just ended yesterday, with gold down as much as \$20 at the lows and silver by as much as 70 cents at its lows. The big difference is that gold remained above both its key moving averages (the 50 and 200 day ma), so the urge for technical funds to sell wouldn't have

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appeared strong; while silver fell back below the only moving average (the 50 day) it had briefly penetrated to the upside the prior reporting week, including the high volume price smash last Friday. Based upon that, I would expect a slight improvement in gold this Friday and a more substantial improvement in silver, perhaps along the lines of what it deteriorated by in the previous two reporting weeks (say around 10,000 contracts).

The key question is if today's price jump signals the start of something big to the upside or just another shuck and jive short term whipsaw of the technical funds. You know, did the commercials induce technical fund selling last Friday in silver, only to induce them into buying today for short term profits, or is something more meaningful going on? Instead of telling you that I'd tell you but then I would have to kill you; let me just say I don't know. But it shouldn't be long until we all will know from subsequent price action.

No matter what the market structure deterioration is as a result of today's trading, both gold and silver market structure easily support a move higher. Gold's structure is still neutral to bullish and silver's is still strongly bullish, almost regardless of what occurred today. Both can and should erupt to the upside and, likely, will someday (soon), but the precise timing is not knowable at this moment, at least by me. What I think I know is that silver, in particular, is glaringly undervalued in every possible manner and can get up and run to the upside like nothing else. Therefore, you've got be in it to win it.

Ted Butler

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Silver - \$16.88 (200 day ma - \$17.12, 50 day ma - \$16.59)

Gold - \$1283 (200 day ma - \$1232, 50 day ma - \$1254)