

## February 28, 2018 – Another Domino Falling?

Let me start off with yesterday's news that Scotiabank had decided to keep and trim down its ScotiaMocatta precious metals unit in lieu of selling it, after trying to arrange a sale for more than a year. The bank put a positive spin on the decision as would be expected and no one can rule out an eventual sale of some sort.

<https://uk.reuters.com/article/us-bank-nova-results/scotiabank-pulls-plug-on-sale-of-metals-business-idUKKCN1GB1IS>

Recent market talk was that Scotia was seeking as much as one billion dollars for the unit and final buyers had been narrowed down to include Goldman Sachs and Citibank, who were said to be in final due diligence mode. Scotiabank had made it clear that it was interested in a sale or diminished role for the unit at the outset, although there was no reason given. This resulted in speculation as to Scotiabank's motivation for the proposed sale. Some said it had to do with a gold-smuggling scandal but, quite frankly, that explanation made little sense to me.

I was far more convinced that Scotiabank decided to sell or close its precious metals unit out of concern for the potential liability (both financial and legal) of being one of the traditional big short sellers of COMEX silver and gold. Mocatta, then headed by Dr. Henry Jarecki, was the big silver short seller at the time of the Hunt Bros upside price manipulation in 1980 and was instrumental in breaking the price back then and continued in that role through a change of ownership, first by Standard Chartered Bank and since 1998, by Scotiabank. Something persuaded Scotia to drop its precious metals unit like it was hot and as I wrote a few months ago, it may have been the price run up in the summer of 2016 and growing concern for being dragged into a precious metal manipulation legal quagmire.

<http://silverseek.com/commentary/backing-out-16919>

The failure to sell the unit isn't particularly surprising to me and I would have been much more surprised had Goldman Sachs acquired the unit, although I'm sure Goldman would have demanded complete protection from past actions by ScotiaMocatta. I would point out that we appear to be in the golden age of corporate takeovers, with deals of all sorts and sizes occurring daily in our age of ultra-low interest rates and record high stock markets. How many failed proposed corporate sales have you heard about lately? Scotia's failed sale came against the backdrop of the most favorable macroeconomic period ever for such sales. Apparently, no amount of lipstick could make this pig attractive.

But rather than continue to speculate about Scotia's motivations for the proposed sale, let me get into what it may mean for the price of silver going forward. Trying to be as objective as possible, I can't uncover anything that seems negative in any way with a former big COMEX silver short seller backing out.

For one thing, it doesn't appear Scotiabank was pinning all its hopes on a sale of its Mocatta unit. As I have been reporting, recent monthly Bank Participation Reports have indicated a noteworthy

reduction in short selling in COMEX silver and gold in the non-US bank category. This meshes completely with Scotia's stated desire to trim the unit if it didn't get sold. What trimming could be more appropriate than the one potentially most damaging? And what position could be potentially more damaging than a large silver short position?

Another way of looking at this is that there has hardly been a worse prospective time for anyone to embark on a long term endeavor that would involve heavily shorting silver. I'm not saying the current big commercial shorts won't be able to buyback more of their gold and silver shorts, as that is the high probability bet, particularly in gold. Whenever and however the current COMEX market structures get resolved, being a big short from that point will be highly unattractive. This COMEX manipulation scam is very long of tooth and keeping silver capped in price is getting more obvious and the low prices created by the manipulation are working against it continuing indefinitely (although it certainly doesn't feel that way).

I believe Scotiabank sees all this and that's why it doesn't want to play the COMEX short side anymore. And that's why prospective buyers have held back - this would appear to be a particularly rotten time to choose to become a big silver short. I shouldn't have to point out that this also makes the inverse true, namely, it would appear to be a great time to be a big silver long. The only real reason for buying ScotiaMocatta would be if you wanted to be short silver and contribute to a continuing manipulation. The potential buyers would seem to have voted with their feet (running away from the deal).

As far as the price of silver ahead, the apparent pulling back by one of the biggest traditional short sellers, as well as the reluctance for an aggressive replacement to step forward can only serve to weaken the key ingredient in the manipulation - the concentrated short position of the 4 and 8 largest traders in COMEX silver (and gold). How could it not be potentially very bullish when a major shift occurs in the one thing that matters most? In some ways, I can't believe it seems to be occurring in full view. Let me cut to the point, whenever this current COMEX positioning runs its course, the Mocatta development greatly enhances the odds that the next rally is being the big one (or at least, the best chance for that to date).

I have another thought that I don't believe I've shared before. While I had pointed out how interesting it was that JPMorgan was the selling agent for the proposed sale, I didn't comment how strange it seemed to me how JPM and Scotia were direct competitors (perhaps cooperating competitors is a better term) on the COMEX. I'm sure that there are supposed to be clear separations (Chinese Walls) between JPM's and Scotia's investment banking people and the operational side of the metals business to be sold, but JPMorgan and ScotiaMocatta have been one and two as the biggest short sellers in COMEX silver for ten years. What's the odds (or propriety) of JPM being the listing agent in the first place?

But what bothered me the most about the strange arrangement was the nagging suspicion that JPMorgan, as long as it was the broker of record on the proposed sale, would be disinclined to see the silver price explode while it was attempting to sell the Mocatta unit. Yesterday's announcement by Scotiabank that the unit didn't sell and will be dealt with internally would seem to eliminate my nagging suspicion about an additional motive by JPMorgan to prolong the silver manipulation (beyond any short term COMEX positioning adjustments). In other words, if JPMorgan was allowing the manipulation to continue so as not to queer the Mocatta sale, then the sale's failure ends JPM

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motive for delay. Add this speculation to that of JPMorgan's ten year deal with the US Government expiring perhaps within a month and pretty soon you're talking about a fairly tight timetable for the silver manipulation's end. Just saying.

The big question, of course, is when will JPMorgan finally take its boot off the neck of silver and gold prices? While the failed sale of ScotiaMocatta is a hopeful suggestion that the time draws near, it is not the core answer. I don't need to tell anyone how long and painful the past seven years have been for silver and gold investors. Over that entire time, there has been one central cause and force behind the rotten price performance – the burning desire of JPMorgan to acquire as much physical silver and gold as possible without driving prices higher.

The answer to the question of why silver and gold prices have been so low for so long is because JPMorgan wanted to accumulate as much of each as it could at as cheap a price as possible. Therefore, the only possible answer for when the price suppression ends is when JPMorgan has accumulated as much physical metal as it can, either by choice or when market realities dictate. Over the past seven years, JPMorgan has accumulated 700 million oz of physical silver, or 100 million oz annually, all while controlling the price via its dominant paper COMEX short position, a manipulative act impossible for me to imagine in the absence of clear evidence after the fact.

It may not eliminate the pain of having to endure silver being otherwise inexplicably depressed for so long, but it should help to ease the pain in one important way. Not knowing the real reason is never the best option and any explanation other than manipulation to explain the past seven years doesn't come close to holding up under close analysis. That the only answer that makes sense – JPM sucking up physical metal – also being the most bullish explanation possible is no small matter. Silver and gold investors may be feeling a bit blue about price performance over the past seven years, but the biggest investor of all, JPMorgan, is secretly doing a jig about what the last seven years have meant to it in terms of enormous profits down the road.

Turning to other developments since the Saturday review, the new short report for stocks as of February 15, wasn't particularly revealing, as it featured a slight rise in the short position of SLV, the big silver ETF, and a slight decline in the short position on GLD, the big gold ETF. The short position in SLV rose by less than 1.2 million shares to 11.4 million shares (ounces), while the short position in GLD fell by 1.5 million shares to just under 14.65 million shares (1.4 million oz).

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

There is a different reporting cycle on stock short sales (every two weeks) compared to the weekly COT reports, as well as a longer delay in publishing the data compared to the COT report's three day delay, and that must be factored into the analysis of each report. Even though the short report on stocks is nearly impossible to predict compared to the COT report, the price action through today (the cutoff for the next stock short report) would suggest a further reduction in the short positions in SLV and GLD, as does the recent deposits of metal into the SLV (3.5 million oz).

Today was the first notice day of delivery for the traditional March COMEX silver contract. One never knows what deliveries will reveal, so it's more a case of analyzing who makes and takes delivery and by how much. For me, it has come down to a matter of what JPMorgan is up to in its own house account. JPMorgan can also be a big issuer or stopper on behalf of customers, but that data is more – fuzzy – given a wider range of possible explanations. I focus on what JPM does in its own name

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for the simple reason that house transactions are for the benefit and risk of the bank itself. COMEX deliveries in the clearing member's own name are the most transparent means by which physical silver and gold can be acquired or disposed.

For a number of years, JPMorgan was always to biggest stopper (taker) of COMEX silver deliveries, until it ceased taking deliveries after last March's COMEX silver deliveries. JPM returned to the stop side this past December, taking 2800 silver contracts (14 million oz), more than ever before and proceeded to move every single oz into its own COMEX warehouse as has been its custom for years. It's not just that JPMorgan has taken so many COMEX silver contracts in delivery over the past few years, it has then physically moved virtually all the silver it stopped on futures contracts into its own COMEX warehouse. Not only is it hard to get more transparent than that, it's hard to otherwise conclude that the 135 million oz in the JPMorgan COMEX warehouse isn't the property of JPM.

Today's first delivery day features JPMorgan as a big stopper of silver in its own name, but only the third largest stopper, taking 447 contracts of the 3507 total contracts issued. The largest stopper was Goldman Sachs in its house account, taking 1786 contracts. With less than 1400 contracts remaining open, effectively, in the March futures contract, it's hard to handicap the rest of the month, but I got the feeling, mostly from spread differentials and open interest reductions in delivery month open interest going into today, that JPMorgan may have backed off from taking delivery of as much silver as it was in position to take (so as to relieve pressure from physical demand disrupting price for a bit longer).

The stopping by Goldman Sachs stands out and I seem to remember an occasion last year where Goldman was also a very big stopper of silver in its own name, but had ended up redelivering all the stopped contracts later that month or in a subsequent delivery month. I do remember thinking that Goldman appeared to be doing JPM's bidding (although I may be confusing silver with gold deliveries). I guess the point is to let's wait and see how the deliver month progresses. That client(s) of JPMorgan were the biggest issuers to the tune of 1647 contracts was noteworthy, but not enough to reach firm conclusions at this point. Scotiabank was the second largest silver issuer with 1323 contracts and that also meshes with them abandoning the short side.

Since I never know if JPMorgan will be issuing, stopping or standing aside in any COMEX silver or gold delivery, but do know that the bank is Mr. Big in such markets, I'm naturally focused on these deliveries. For sure, JPM's delivery record on the COMEX fully supports the notion that the bank has been on a physical accumulation binge of silver and gold on a scale more massive than ever in history. It's only the first day and JPMorgan has continued to acquire physical silver, so let's see what it does the rest of the month.

As far as what's in store for Friday's COT report, going into yesterday's cutoff, the unquestioned expectation was not much, at least until yesterday. That's because the first four days of the reporting week featured dull price action and subdued trading volume, conditions that suggest little overall positioning change. However, gold and silver prices broke down in yesterday's trading on heavy trading volume, with gold penetrating its 50 day moving average for the first time in two months. This is like Pavlov ringing the dinner bell for the managed money technical funds to sell, so it's most reasonable to conclude there was such selling, with the only question being how much was sold.

Silver has been below its key moving averages so yesterday's downdraft should have been less

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technically significant, but since the high probability outcome has been for managed money selling in gold to spill over into sympathetic additional managed money selling in silver, it's reasonable to assume such selling occurred in silver as well. As far as numbers, I'd look for 25,000 contracts of managed money selling in gold and 5000 contracts in silver, with the more, the merrier.

Regardless of what gets reported in Friday's report, it's reasonable to conclude that silver will still remain in an extremely bullish market structure, while gold's market structure will still remain bearish, although not excessively so. So the question remains if silver's bullish structure will somehow pull gold prices higher or if gold's bearish market structure will pull silver lower still into a drop dead extremely bullish structure. I suppose it's in my religion to be fully invested in silver when its market structure is extremely bullish and that's my position now.

But I still fear the devil at play in gold, as too many potential managed money contracts seem at risk of being sold. Strictly in manipulation and COT terms only, I can't see why the crooked commercials, led by JPMorgan, wouldn't be able to induce significant managed money selling in gold yet again and for that selling to spill over into silver, perhaps for the very last time. Certainly, these crooks have always done so in the past, so I'm not suggesting something out of the ordinary.

I'm as certain as I can be that the price of silver will rise much higher than where it is today, but I do have some concerns it may be a bit lower first, if the managed money traders get flushed out in gold.

(On a housekeeping note, I'm switching to the May COMEX silver contract for price reporting purposes, which adjust the price higher by 8 or 9 cents temporarily. Gold prices remain based on the April COMEX contract).

Ted Butler

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Silver – \$16.40 (200 day ma – \$16.84, 50 day ma – \$16.79)

Gold – \$1320 (200 day ma – \$1287, 50 day ma – \$1321)

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