

February 7, 2018 – Some Lessons Learned

Dramatic price movements in markets away from gold and silver may provide some clues as to what may be ahead for precious metals. Don't worry – I'm going to keep this as simple as possible and avoid the temptation of offering my opinion as to what happens next in all markets. I'm just going to try to cover a few very basic takeaways from recent volatility in markets not usually discussed on these pages; markets such as stocks and cryptocurrencies.

The recent eruption of price volatility in the stock market following an extended period of unusually low volatility is a lesson in how quickly things can change with no obvious catalyst or news development. Certainly, the preconditions for a volatility explosion in the equity market were present, but they had been present all along. I've yet to hear a good explanation for why stock market volatility exploded when it did – it just did. I suppose it was more a case of something happening that had to happen eventually.

Similarly, the preconditions for an upward explosion in the price of silver have also been in place for a long time, years in fact, and when that price explosion occurs it will have everything to do with the conditions being in place than the particular catalyst that sets it off. Up until the moment that stock market volatility exploded, few, if any predicted the exact timing. It's hard to see how that won't be the case in silver as well. The lesson here is that if you are not positioned beforehand, getting adequately positioned after a seismic event occurs is problematic.

Other similarities with recent stock market volatility and what's to come in silver (and gold) are noteworthy, including the large role of algorithmic trading and the players involved. Quite simply, the explosion of trading and price volatility in stocks wouldn't have occurred as it did without algorithmic trading. That this computer-based trading has come to dominate trading in everything from stocks to silver is just a fact of life. But every once in a while this high frequency trading goes haywire and price volatility erupts.

Silver investors know this as well as anyone, since prices have long been set on the COMEX in paper trading between the managed money traders and the commercials. Therefore, it shouldn't be a surprise that many of the managed money traders in COMEX silver and gold are the very same traders at the heart of the stock market volatility. These guys (the quants) are everywhere. As much as it pains me to admit, if there is a war between man and machine in the markets, the machines have come to dominate.

Another market that has made news recently has been the phenomenal rise and fall in Bitcoin and other cryptocurrencies. The last time I wrote about Bitcoin was when it first hit \$7000 to the upside, a few months back. Since then, Bitcoin rose to more than \$19,000 before falling back to \$7000. As was the case back then, I have no dog in the fight as to whether Bitcoin goes higher or lower, as it's not something I would invest or speculate in; my interest in these cryptocurrencies is simply to try and learn what I can about markets and people in general. A man's got to know his limitations and mine include not understanding what these cryptocurrencies are all about. That said, I have learned, or relearned a lesson or two about collective investor behavior.

I've consistently maintained that rising asset prices beget more collective investor or speculative buying; with declining asset prices begetting collective selling or the absence of buying. That may not sound particularly insightful, but the degree of collective investor buying in cryptocurrencies (stocks as well) has been nothing short of astounding. Published reports indicate that at the top of the cryptocurrency market in December the total market capitalization of all cryptocurrencies exceeded \$500 billion, before having fallen by \$350 billion at recent lows to \$150 billion. These are truly staggering dollar sums.

One lesson I think I've learned about this whole cryptocurrency saga is that there is virtually no limit to collective investor flows in the modern world. Once a mania takes hold, don't stand in its way. As to what drove so many to invest in these cryptocurrencies, I'm nearly certain the price rise itself was the main driver, plus the fact that they were truly international in nature, not confined within any one nation's borders.

If there is anything that can be said about silver and gold it is that they are international assets, perhaps the most international of all assets, known to all people in all countries. That sets the stage for a collective investment buying spree of epic proportions, particularly in silver, whenever the price rises enough to set off excitement in the masses.

I just reported that the cryptocurrencies lost a collective \$350 billion in market capitalization in a month or so. The total market capitalization of all the physical silver in the world (1.5 billion oz in 1000 oz bars) is less than \$25 billion. At \$100 per ounce, all the industry standard physical silver in the world would be worth only \$150 billion. After watching cryptocurrencies run to a market capitalization of \$500 billion, is there anyone anywhere who would rule out that all the physical silver in standard industry form could be worth \$150 billion or more?

There has been a lot of recent commentary about a cryptocurrency connected to silver or gold. I don't doubt that such a vehicle could generate widespread international interest and sponsorship. The problem, as I see it, is in the mechanics of such a cryptocurrency denominated in metal. There can be no doubt that if great numbers of world investors flocked to a cryptocurrency directly connected to physical metal, the price of metals, particularly silver, would soar. However, this is one of those things that sounds great at first, but the devil lies in the practical details of setting up such a vehicle. With regular cryptocurrencies, everything is electronic; if there is to be a bona fide precious metals connection it can't be strictly electronic.

Remarkably, there already exists, in a very real sense, cryptocurrencies connected to precious metals

in the form of ETFs, including SLV and GLD, and others. In essence, the race to develop a cryptocurrency connected to gold and silver has already been run and run quite successfully, I might add. Admittedly, there has been no great recent rush to silver and gold ETFs, other than the rush to stealthily acquire physical silver and gold by JPMorgan, using SLV and GLD, as well as the COMEX, as its acquisition vehicles of choice.

But that's my whole point, namely, that the coming collective investment rush into precious metals has not commenced due to the rotten price performance since 2011. JPMorgan, being the market master (and master criminal) that it is, has been harvesting and accumulating massive amounts physical silver and gold since then, while simultaneously being the single entity most responsible for the low silver and gold prices by virtue of it also being the largest paper COMEX short. Just as the early adopters of Bitcoin made the most money, JPMorgan stands to make the most in the coming rush to silver and gold, along with those holding the metals.

All that's missing at this point is a lift off in price to a level that will set off the coming collective investment buying wave. That's the main lesson of the recent stock market and cryptocurrency volatility — once the preconditions are in place, all it takes to get the ball rolling is price action. Once JPMorgan gets what it feels is enough physical metal in its hands, the game will begin. Judging by what other markets have done, the silver and gold rush will not end without a complete rewriting of history.

Turning to developments since the Saturday review, it is very clear we are in the salami-slicing phase to the downside in silver, in which JPMorgan and the other commercials (the raptors) seek to buy as many COMEX contracts as they can by inducing the managed money traders to sell. This is as pleasant as a root canal for silver investors to experience and for me to report, particularly because it is so blatantly manipulative. I would remind you that I am only the piano player in a very crooked whorehouse reporting what is occurring as accurately as possible. If I were the sheriff, I'd be shooting up the joint.

The twist in the current price takedown is that the silver rally that preceded it was the weakest yet, both in the extent of the rally pricewise (barely \$2) and in the amount of managed money buying/commercial selling that drove it. In terms of commercial selling from the price bottom of December to the price highs of late January, a little more than 30,000 net COMEX silver contracts were sold or less than half or a third of what is typically sold. In contrast, more than 115,000 net contracts of gold were sold by the commercials on gold's much stronger \$120 price rally. Accordingly, the COMEX market structure in silver never came close to being bearish, as was the case in gold.

The problem with a manipulated market, in terms of predicting short term price moves (always near impossible anyway), is that prices are set by the will of the manipulators, not on free market considerations. Where it was reasonable to classify the silver market structure as neutral or bullish, there is no safeguard against a neutral market structure going back to a bullish market structure on lower prices; instead of marching ahead to a bearish structure (on higher prices). Such decisions are made by the manipulators (the commercials) and not you or me.

Usually, gold and silver market structures coincide, in that both are typically bearish or bullish at the same time. That wasn't the case this time. In fact, silver is the only precious metal to have closed below both its key moving averages (the 50 and 200 day moving averages) starting last Friday and continuing as I write this (although gold seems to be catching up on the downside). This is not at all

accidental or a free market development.

For some reason, which may never be known, the commercials (led by JPMorgan, but definitely including the raptors) were determined not to allow the managed money traders to buy as many silver contracts as they were capable of buying on the rally that was aborted in late January. Instead, the commercials chose to rig silver prices lower so as to induce managed money selling. Now it's a question of the contract count or how many managed money contracts can be lured onto the short side in silver. I'd be lying if I said I wasn't concerned that there should be aggressive managed money selling in gold, should (when) its key moving averages get penetrated to the downside and what impact that might have on silver.

However, the move to a bullish market structure in silver is advanced, even if it doesn't feel that way. I know, I know - any more of a bullish structure from here and I'll jump out the window. Unfortunately, that's the way it works - the managed money traders won't sell more unless prices go lower, regardless of what our feelings may be. The price bottom will only be achieved when the maximum number of managed money contracts are sold. If there is an alternative explanation for price movement, I'm not aware of it.

With yesterday's close to the reporting week to be revealed in Friday's COT report, there has undoubtedly been managed money selling and commercial buying in both silver and gold (plus a lot more today). I hate to call it an improvement in market structure, but that's what it is. There will also be a Bank Participation Report issued which should help pinpoint JPMorgan's position.

Contract predictions are less important than what the actual data indicate, but based upon price action and changes in total open interest, I would imagine around 20,000 net contracts of managed money selling/commercial buying in COMEX gold. In silver, I'm hoping for 15,000 to 20,000 net contracts of managed money selling and commercial buying in Friday's report, close to what I outlined on Saturday. I'm expecting (perhaps hoping) a big increase in managed money short selling in silver and a reduction of less than that in managed money long liquidation. A side hope/expectation is that JPMorgan may have bought back as many as 5000 short contracts in Friday's reports.

I did read a report suggesting the market structure in silver was particularly bearish, but that didn't make much sense to me. Sure, silver can and will move lower as long as there are managed money short positions to be added, but it's important to keep in mind that the managed money traders have not been correct in making profits whenever they have shorted silver aggressively over the past few years. And there's no reason to expect it will be any different whenever they are finished shorting this time.

It's no fun watching the brain dead managed money technical funds get suckered into shorting silver to the pits of oblivion, but this too shall pass in time and when it does, there has always been a snap back in price. One of these days, that snap back will lead into the move that will be a lesson remembered forever.

Ted Butler

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Silver – \$16.27 (200 day ma – \$16.87, 50 day ma – \$16.72)

Gold – \$1316 (200 day ma – \$1281, 50 day ma – \$1303)

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