February 8, 2020 – Weekly Review

The sharp selloff as the week began moderated by weekâ??s end, more so for gold than silver, as gold lost $20 (1.3%) for the week, while silver ended the week 33 cents (1.8%) lower. Silverâ??s relative weakness caused the silver/gold price ratio to widen out to 90 to 1. Having observed even cheaper relative levels recently for silver compared to gold, I canâ??t rule out these levels staying where they are or even for silver getting cheaper in the short term, but I find the thought that silver is somehow permanently fixed this undervalued to gold as absurd.

That said, despite goldâ??s selloff this week, it ended at the second highest weekly close in 7 years, while silver ended at its lowest close in seven weeks and nowhere near multi-year highs. Iâ??m still expecting and rooting for gold to move higher as I know that canâ??t be bad for silver at some point, for the simple reason that the losses to the 7 big shorts on their gold shorts are the biggest portion of the combined losses they have experienced to date. Whatâ??s bad for the 7 big shorts in gold can easily infect their silver shorts as well

There was more going on this week and Iâ??ll try to touch on all the important developments, including some really surprising (but not bad) developments in the new Commitments of Traders (COT) report and a story on Bloomberg about the Justice Department potentially charging JPMorgan itself (and not just its traders) with criminal activity for precious metals manipulation. And while I am as far from an expert on the subject as is possible, the potential scope and damage, both human and economic, from the continuing spread of the coronavirus gives me the willies.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged to 5.6 million oz this week, as total COMEX inventories fell 0.8 million oz to 320.5 million oz. No change in The JPMorgan COMEX warehouse, still stuck at 161.4 million oz, for the seventh week. There was decent category changes (which donâ??t involve physical movement) in other COMEX warehouses and I still maintain the metal transferred is just more silver that JPMorgan now owns or controls â?? an amount well over 100 million oz (in addition to the 161 million oz in its own warehouse). While super easy for the regulators, the DOJ or CFTC, to verify, neither seems likely to do so. Way too busy, I would imagine.

A late twist in the ongoing deliveries in the February COMEX gold contracts finds JPMorgan in its house account now issuing gold deliveries (467 contracts) after stopping 1597 contracts a few days earlier, suggesting JPM controls all aspects of gold (and silver) down to a day to day basis. Try to keep this in mind when I discuss the Bloomberg article later.

Turning to the new COT report, the sharp selloff into the last two days of the reporting week (this past Monday and Tuesday) did result in the expected heavy managed money selling in gold, but not in silver (for a special reason). My hope and expectation for disproportionately large short covering by JPMorgan in both markets didnâ??t materialize in the slightest, although JPM didnâ??t add any new short positions. The Bank Participation report caused me to slightly adjust upwards JPMorganâ??s silver and gold shorts by a tiny bit, but that was due to recalibration and not anything that occurred over this reporting week.

In COMEX gold futures, the commercials reduced their total net short position by a hefty 29,100

contracts to 331,700 contracts, their largest weekly buyback in more than four months (the managed money traders sold even more). The commercials are now less short gold than any time since Dec 17, when gold embarked on a rally from as low as $1460 or so to nearly $1600. While JPMorgan did very little this week (Iâ??d peg its short position at 32,000 contracts), there was notable short covering by the 7 big shorts of around 15,000 contracts.

This big 7 short covering is one of the major features to the new COT report. I was certain that there would be heavy managed money selling on the sharp selloff, but had assumed these big shorts would be very reluctant to buy back shorts because doing so would require them to book large realized losses, something they were eager to avoid to this point. That would clear the way for JPMorgan to scoop up as many contracts as it desired. Instead, the 7 big shorts (and other commercial shorts) were most eager to buy back short contracts and stepped ahead of JPMorgan.

What this suggests to me is that the 7 big shorts (and others) were under tremendous pressure from the adult higher ups in their organizations (CFOs and risk officers) to buy back shorts, as I contended all along. But, instead of being given the order to buy back shorts immediately, which would have sent prices flying and hurt the big shorts even more, the traders were instructed to buy back at the first reasonable opportunity. The first reasonable opportunity would have to be defined as when the managed money traders sold sufficient quantities â?? which would enable the big shorts to buy back short positions. That opportunity presented itself in gold this past Monday and Tuesday.

But this weekâ??s buyback by the 7 big shorts necessitated the booking of realized losses on the order of around $200 million or so, a pill made even bitterer by the fact that it only amounted to a small fraction (5% or so) of their total short position. So the open question is how much more selling can be reasonably expected from the managed money traders from this point on. My sense is not much more. I have stipulated for more than a month that the newer managed money longs (those that came to exist on the rally that began around Christmas) might be vulnerable for selling on prices that were rigged lower by the commercials and according to that template, most of that selling occurred this past reporting week.

On the sell side of gold, the managed money traders sold a very hefty 38,328 net contracts, consisting of the sale and liquidation of 30,497 long contracts and the new sale of 7831 short contracts. This was the largest weekly amount of net selling by the managed money traders since the COT report of Oct 1 and among the largest weekly net selling amounts in history. It also brought the managed money net long position to 181,610 contracts (223,762 longs versus 42,152 shorts) which is at the lower bounds that this position has been at since late-June. To be sure, the managed money net long position (just like the commercial net short position) must still be considered bearish by historical standards, but no more bearish than it has been since last summer. Itâ??s quite simple, if there is a lot more managed money net selling ahead, we will go lower in price, but no one knows how much, if any, managed money net selling may lie ahead.

One reason the managed money traders sold nearly 10,000 more contracts than the commercials bought was due to heavy buying by the other large (non-managed money) traders. These other large traders are now net long 118,196 gold contracts, the most in history and a remarkable 30,000 contracts more than they were just three weeks ago. As Iâ??ve indicated previously, these other large traders tend to move opposite to what the managed money traders do and I have to consider their actions this week and the past few weeks to be somewhat astounding and unexpected by me, similar in

significance to what the 7 big shorts did this week.

Also of interest is that the concentrated position of the 4 largest gold long traders was reduced by nearly 10,000 contracts this week to 132,878 contracts, the lowest this position has been since December. No firm conclusions, except this weekâ??s liquidation clearly came from managed money liquidation.

In COMEX silver futures, the commercials actually increased their net short position by 2200 contracts to 91,400 contracts, quite the opposite outcome from what I expected. Even though I would peg JPMorganâ??s short position to be 16,000 to 17,000 contracts, thatâ??s due to recalibration from the Bank Participation report and not any new short selling by JPM this week. Unlike what occurred in gold, the short position of the 8 biggest traders did increase by nearly 2000 contracts this week to 109,094 contracts (545.5 million oz) – a truly obscenely large and manipulative amount on its face.

On Wednesday, I intoned that on big price declines, the managed money traders always sold and the commercials always bought – always. So what the heck happened this week to make my familiar sermon so off the mark? Well, for starters, there was a fairly sharp silver rally very early in the reporting week, before the selloff into the Tuesday cutoff. But more than that, there was extremely large managed money short covering which was unusual to say the least.

In fact, there was quite decent managed money long liquidation, but much larger short covering â?? which is highly unusual in its own right (most always, when the managed money traders liquidate longs, they also add shorts, just like occurred this week in gold). At first, I thought it was a reporting error, but upon further examination, the number of traders in the managed money short category dropped by 7 to 20, persuading me the data were correct. Finally, it goes almost without saying that being short silver makes no legitimate economic sense, whether you are a managed money trader or from the planet Mars, so aggressive short covering strikes me as a reasonable act.

The managed money traders bought 7251 net silver contracts, consisting of the sale of a fairly hefty 4187 long contracts (fully expected) and the buyback of 11,438 short contracts (completely unexpected). The resultant managed money net long position of 55,218 contracts (78,635 longs versus 23,417 shorts) must still be considered bearish in conventional historical terms, but Iâ??m still shaking my head at the extremely large short covering.

Moving along, itâ??s hard not to be increasingly concerned with the implications of the coronavirus. Please understand that the last thing I am trying to convey is that I know anything of substance about the topic; itâ??s just that people I have come to respect and seem to know what they are talking about make me feel this could be a bigger deal than is widely perceived. Even though I know crude oil and copper prices got a big assist to the downside by excessive speculation on the NYMEX/COMEX, if reports that Chinese oil demand dropped by 3 million barrels (20%) a day are accurate, then I know that is a very big deal. That magnitude of a falloff in oil demand necessarily means a similar decline in Chinaâ??s GDP at some point and I am amazed that there hasnâ??t been a commensurate reaction in world financial markets.

The last world financial crisis (2008-2009) did see a sharp decline in gold and silver prices from the then-peaks in early 2008, before extremely sharp rallies into 2011. The big initial declines into 2009 were completely contrived and artificial and if (a very big â??ifâ?•) we see declines ahead those will also be brief, contrived and manipulated. Still, I would point out that compared to early 2008, gold is

now 50% to 60% higher than it was at its 2008 price peak, while silver is more than 15% lower than it was at its 2008 price peak.

Iâ??ve been thinking more and more about the article this week on Bloomberg concerning the Justice Departmentâ??s investigation and possible criminal charges against JPMorgan, the bank itself, as an outshoot of the DOJâ??s criminal charges against various traders from JPM for precious metals manipulation.

https://www.bloomberg.com/news/articles/2020-02-05/jpmorgan-s-role-in-metals-spoofing-is-under-u-s-criminal-probe

I would agree with those who have suggested this was a deliberate leak by the Justice Department to put pressure on JPMorgan to come to settlement terms. No amount of snooping by the reporters involved would have uncovered future plans by the DOJ if the agency wished the information to remain confidential. We are talking about entities at the very top of anyoneâ??s food chain including the US Attorney General (and most likely, his boss) and the head of the largest and most important bank in the nation. I canâ??t see how you could possibly go any higher.

As I have previously reported, it appears to me that back when the DOJ charged 3 traders from JPMorgan on September 16, JPM retaliated by throwing the repo market into disarray. A subscriber suggested there were signs of this occurring again this week after the Bloomberg article appeared. Certainly, JPMorgan has some power to retaliate against the Justice Department. Even ceding ultimate power to the Justice Department in the end (I think), the DOJ appears to be mindful of the potential fallout should it lower the boom on JPMorgan and charge it as the criminal enterprise in precious metals that it deserves to be.

However, were JPMorgan to be charged with manipulating precious metals in the manner I have alleged for more than a decade, namely, as the prime price suppressor in COMEX short sales (never taking a loss), while then using the depressed price to accumulate massive amounts of physical gold and silver, there is no doubt in my mind that would put JPMorgan out of business fairly shortly thereafter. That is what JPMorgan has done, but for the DOJ to charge the bank along those lines would be a death sentence for the bank. Forget the coronavirus, such an action against JPM would upend the financial world like no other event.

Thatâ??s why the Justice Department, in my opinion, would never charge JPMorgan for its real gold and silver crimes of manipulation – it would bring financial ruin to tens of millions of innocent bystanders. Even the threat of such charges would lead to JPMâ??s demise. By comparison King Solomon had it easy when he threatened to split the baby in two. Therefore, the Justice Department has no choice other than to stick to the allegations of spoofing, an activity while reprehensible and deserving of punishment, is kid stuff compared to what JPMorgan has done in depressing gold and silver prices and accumulating physical metal on the cheap.

My thoughts about all this have led me to something new that I would like to share with you. To be sure this is speculation on my part, but not being able to read the minds and motivations of those at the very top, all that is left is speculation. It occurs to me that a near perfect solution to the decades of silver (and gold) manipulation may be at hand. When I say â??perfectâ?•, I donâ??t mean necessarily perfect for you or me or those forced to live with manipulated prices against their will for so very long; but perfect in that it may resolve the manipulation in the best overall manner possible to the only entities

that matter, namely, the Justice Department and JPMorgan.

The solution is this â?? the Justice Department, in addition to extracting meaningless gazillions of dollars in fines from JPMorgan and the chopping off (termination) of selected heads, bans the bank from dealing in COMEX precious metals futures trading for its own proprietary account (and maybe even for clients). As much as spoofing has been a side show to the underlying much more serious manipulation JPMorgan has long engaged in, the bank has demonstrated it was a systematic and institutional violator of trading rules by virtue of what its traders have been charged with. A ban from futures trading would be a very fitting punishment in most peoplesâ?? eyes and make the DOJ look tough as nails.

Such a trading ban would also appeal to JPMorgan for a number of reasons. It would provide an easy exit from a business that has ensnared most of its traders and promises to be under scrutiny for the foreseeable future. Most importantly, a trading ban based upon spoofing would completely avoid and put to rest the real issues at hand, namely, JPMorganâ??s long term suppression of price and its massive accumulation of physical metals. It would free JPMorgan from the potential ruinous lawsuits that would come from all quarters for the bank having depressed prices for more than a decade. Those damaged by JPMâ??s spoofing would be able to sue, but those cases should prove as rare as henâ??s teeth.

The biggest advantage to JPMorgan would be that it gets to keep all (or most) of its accumulated hoard of physical gold and silver free from any worry about having to give up the metal. I suppose such a ban might not result in an immediate explosion in price for the simple reason that such an immediate explosion might attract unnecessary attention. The whole idea is for the Justice Department to look like it lorded over JPMorgan, not for it to have truly extracted justice. By sticking to spoofing, the DOJ will not have alerted the world to JPMâ??s real crimes. But make no mistake, a ban on futures trading for JPMorgan will ignite the price of silver and gold before long.

Again, this is speculation on my part, but the Justice Department needs some type of resolution to an investigation that has become quite long in the tooth. Having entered the fray (Iâ??m still not sure why), the DOJ needs to bring it to a fitting conclusion. Putting JPM out of business was never a real objective, so the DOJ stuck to spoofing, deliberately ignoring the evidence of far more serious crimes by JPMorgan.

Finally, the 7 big shorts ended the week better than they ended last week, but not by as much as when prices were at their lows at mid-week. On yesterdayâ??s closing prices, the big 7â??s open (and now partially closed) losses came to $4.9 billion, down from last weekâ??s $5.6 billion. And with the closed out gold shorts this reporting week, I think the big shorts have signaled they want out from these positions.

Ted Butler

February 8, 2020

Silver – $17.68Â Â Â Â (200 day ma – $16.74, 50 day ma – $17.57)

Gold – $1573Â Â Â Â Â Â Â Â (200 day ma – $1456, 50 day ma – $1525)

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