

June 13, 2018 – Mum's the Word

The word not being mentioned is silver and there are at least two very famous people who seem to avoid mentioning it at all costs, despite some obvious connections to the metal. Last week, there was an interesting coming together of Warren Buffett and Jamie Dimon to jointly preach the merits of long term investment and the state of the economy, which was extensively covered by CNBC and the Wall Street Journal, among other media outlets. Neither Buffett, head of Berkshire Hathaway nor Dimon, CEO of JPMorgan, need much of an introduction as leaders of the financial/investment community and truth be told, I am generally in agreement with much of what each man preaches.

That said, as a fairly devout silver/gold analyst who tries to be as objective as possible, it's hard for me to ignore the undeniable connection that each man has had to silver. Buffett, of course, amassed in 1998 just under 130 million oz, the largest stockpile of silver since the Hunt Bros. twenty years earlier. Long time readers may recall my contention that the publishing of my findings concerning the leasing of precious metals upon my introduction to the Internet in 1996 led directly to Buffett's purchase of silver.

Up until that time, Buffett had studied silver closely and acknowledged having been puzzled by how silver prices failed to react to decades of industrial consumption exceeding production. I had been puzzled by the same conundrum when challenged years before by my friend and mentor Izzy Friedman, which led to my conclusion that the low price was caused by the excessive and concentrated short selling of futures contracts on the COMEX. My public explanation that the resulting structural silver deficit was being met with the uneconomic release of metal from central bank leasing was the answer Buffett needed to solve the puzzle. Buffett recognized immediately that this was a temporary stop-gap solution frustrating the immutable law of supply and demand and wasted no time in beginning to acquire as much silver as he could in early 1997. He quickly discovered that 130 million ounces was all the market could tolerate before he was forced to stop buying.

That he later lost his silver as a result of turning to shorting paper silver contracts on the COMEX completed Buffett's history with silver at around the \$7 mark in 2006. While he came out ahead on his eight years of holding silver, mostly by virtue of profits he made on trading futures contracts against his physical holdings, the silver was called away from Buffett just before it embarked on a price rise to near \$50 in early 2011. For the eight years he held silver, Buffett said very little about his holdings, even though Berkshire Hathaway's annual meetings were a showcase of Buffett's investments.

For those who may wonder why Buffett just didn't buy back his paper COMEX short positions at the time and hold onto his physical stockpile, the answer is simple. Buying back the paper short position would have resulted in a large loss of several hundred million dollars which would have to be disclosed since Buffett held the silver in his publicly-traded Berkshire Hathaway.

Although any such loss would have been completely offset by an increase in the value of the physical holdings, the public disclosure that Buffett was actively trading on the short side of COMEX silver futures presented a clear and present danger to his reputation and might have led to allegations that he was manipulating silver prices. After all, the issue of concentrated short selling on COMEX silver

was very much actively debated at the time and any revelation that Berkshire was the big shorter might have put the company in legal and regulatory jeopardy. Buffett chose to avoid any controversy and allowed his silver to be called away. Mum was the word.

While both men seemingly have no trouble speaking their minds on most issues, they share a common bond of silence when it comes to silver. However, Buffett was a virtual chatterbox about silver compared to Jamie Dimon, head of JPMorgan on the same issue. That's understandable, considering the difference in how Berkshire and JPMorgan came to get involved in silver. For Berkshire, it was as a potential investment long considered and just needing an answer to one question before commitment; which was provided by the leasing explanation. Later, Buffett couldn't resist the profits provided by hoodwinking the technical funds on the COMEX.

JPMorgan's route to silver was different. Long a full member of the Silver Managers, a group of money center banks which regularly participated in skinning the technical funds on the COMEX, JPMorgan was thrust into the leading role upon the demise and takeover in 2008 of Bear Stearns, at that time the largest short seller of COMEX silver and gold. Aided by unspecified assurances from the US Government, JPMorgan took to its new role of being the big controlling short in silver and gold like a duck to water, quickly acclimating to dominating prices seamlessly

However, a developing physical silver shortage in late 2010 into early 2011, which caused prices to rise to nearly \$50 caught JPMorgan flatfooted and close to being overrun on its short positions. It was at that time that JPMorgan saw the real silver situation and resolved never to get caught exposed on the short side again. In a stroke of real manipulative genius, JPMorgan embarked on the only way out of a short exposure in COMEX silver futures, namely, to build up an offsetting physical position.

JPM's solution was genius because buying physical silver was its only way out. It couldn't buy COMEX silver futures as it would have been impossible for the leading short seller to flip to the long side without causing prices to explode. The only way out was to continue to short futures contracts when necessary to keep the price depressed, but to also use the depressed prices to accumulate physical on the cheap. Not only was the plan genius in silver, JPMorgan used this means to accumulate physical gold as well. Since 2011, I would estimate that JPMorgan has accumulated at least 700 million ounces of physical silver and 20 million ounces of gold.

Remarkably, JPMorgan has accomplished this under complete radio silence, never once commenting on its role in the silver and gold markets. I can understand the silence from both JPMorgan and its CEO, as it would be foolish to comment on an ongoing market operation. Warren Buffett only spoke up after he was done accumulating silver, so why should JPMorgan be any different? What's most astounding is that so few market participants have recognized what JPMorgan has accomplished, despite a fairly obvious trail of clues the bank has left behind.

Some clues are obvious to the extreme, such as the growth in silver holdings from zero in 2011 to 140 million oz in JPMorgan's COMEX silver warehouse; all while the bank has been the dominant short seller in COMEX futures, according to CFTC data. This alone should have focused attention to JPMorgan's brilliant solution for neutralizing its short position without causing prices to soar. Other clues were less obvious, but still visible when looking just slightly closer; like JPM's accumulation of 150 million oz by acquiring Silver Eagles and Canadian Maple Leafs for six years running ended in 2016. Or by conversions of shares of SLV, the big silver ETF, into metal by the trust's custodian, none other than JPMorgan, which added at least 200 million ounces to its holdings. Or by

the skimming off of a couple of hundred million ounces of silver from the unprecedented weekly physical turnover in COMEX silver warehouse inventories, which began in April 2011 and persists to this day.

The silence by JPMorgan and Dimon, while understandable, are of a very different type than the silence by Berkshire's Buffett in that there are public allegations of wrongdoing by JPMorgan. Buffett never went short COMEX silver futures to depress the price so he could buy physical silver cheaply; he did so to reap short term trading profits only after accumulating the metal. In contrast, maintaining a controlling short position to depress prices while accumulating physical silver is the hallmark of JPM's massive acquisition.

The most salient feature of JPMorgan's silence is that it comes in the face of public allegations of silver price manipulation. It is unprecedented for a leading financial institution to ignore direct accusations of criminal wrongdoing. I admit there is not much, if anything, that JPMorgan could say to challenge the allegations that it is manipulating the price of silver for its own selfish interest since the allegations are based upon public data. But that's a far cry from the usual behavior of leading financial institutions when confronted with serious allegations of wrongdoing. In fact, JPMorgan's silence may be direct proof of such wrongdoing.

While silence is said to be golden, as time grinds on, silence would not appear to be on JPMorgan's side. Sooner or later, JPMorgan must confront the serious allegations that it is manipulating silver (and gold) prices; either directly or indirectly. Quite frankly, were JPM able to directly rebut the charges, I believe it would have done so already, leaving me with the conclusion the bank will go the indirect route by ending its manipulation and allowing prices to be set free. Not only will this bring JPMorgan massive profits, it will also allow it to maintain its silence forever.

Turning to developments since Saturday's review, the new short report for securities indicated a decline in the short positions for both SLV and GLD, the big precious metals ETFs, as of the close of business May 31. The short position in SLV declined by 1.67 million shares to 8.2 million shares (ounces), while the short position in GLD fell by 2.66 million shares to 9.1 million shares (0.9 million ounces).

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

The reduction in the short position of SLV was somewhat notable in that it contrasted with a buildup in the concentrated short position in COMEX silver futures by JPMorgan over the same time period. I sense the reduction in the SLV short position may have been related to earlier deposits of metal that were held against the box and arbitrarily closed out during the reporting period. As you may recall, I was expecting declines in the short position of SLV due to these previous deposits, but those reductions never seemed to come. Most importantly, the short position in SLV is not a big market factor at this time, either in terms of ounces held short or as a percentage (2.5%) of total shares outstanding. At this time, there is nothing to see here, so let's move along.

My head is still spinning from last week's Commitments of Traders (COT) report in gold, due to the highly unusual commercial category changes reported. Admittedly, this is stuff that goes deep into the weeds in terms of detail, so I'll try to make it as simple as possible. Also admittedly, I may be spinning my wheels if the data were reportedly incorrectly; but it's hard for me to see how that would be likely in this case.

As expected, there was very little change in last week's gold COT report involving the typical matchup between the managed money traders and the commercials because there was so little overall price movement in gold. Certainly, no key moving averages were penetrated in gold and as you know, that's what motivates the managed money traders to buy or sell. No moving average penetrations, no big managed money activity – so far, so good.

Instead, there was nothing short of a monumental change in commercial positioning against other commercials on a scale never before witnessed on the very same almost nothing overall price change. Specifically, the 4 largest gold shorts bought back a very large 12,000 short contracts while the traders I identify as the raptors (the smaller commercials apart from the 8 largest traders) sold nearly the same number of 12,000 long contracts. These traders have never acted in such an opposing manner before.

Moreover, traders in one of the two commercial categories in the disaggregated COT report, the producer/merchant category, bought nearly 40,000 net gold contracts, while the other commercial category, the swap dealers, sold nearly as many as those 40,000 net contracts. To say this was unprecedented would be an extreme understatement. I would imagine that this Friday's report will reveal if this was a serious reporting error by the CFTC and if that turns out to be the case, all this can be disregarded. But if the reporting was correct, it could have significant implications.

For quite some time, I have raised the possibility of a "double cross" in silver, whereby the big silver short, JPMorgan, turned against the other commercial shorts and let prices soar since JPM was protected against overall loss by its massive physical silver position. Certainly, the commercial rigging of prices to hoodwink the managed money traders couldn't be considered a double cross of any kind since it is more business as usual and how prices are determined. A true double cross must involve commercials turning against other commercials.

While I have speculated about a commercial double cross in silver, considering that JPMorgan operates similarly in COMEX gold as it does in silver, there is nothing precluding a double cross in gold. After all, JPMorgan has most often been the biggest paper short seller in COMEX gold futures and has accumulated, by my count, some 20 million ounces of physical gold over the past several years. The lynchpin of the double cross premise is the ownership of a large physical position which vastly exceeds the size of the paper short position. It doesn't really matter if the lynchpin exists in silver or gold, or both.

Any commercial double cross, should one ever occur, would hardly be broadly known beforehand, with the element of surprise firmly in place and few advance signals given. Any advance signals would, by definition, be subtle and difficult to read, but would involve actions benefitting the agent of the double cross, in this case, JPMorgan. Unless the data in this last gold COT report were seriously misreported, the signs of a double cross appear present.

Specifically, it would appear that the biggest gold short, JPMorgan bought back a disproportionately

large quantity of gold contracts sold by other commercials, not by managed money traders. As of the most recent COT report, both the producer/merchant short position, as well as the concentrated short position of the 4 largest gold shorts are registering low levels of shorting, particularly when compared to the swap dealer short position. Admittedly, this is subtle and not likely seen by the casual eye, but in keeping with the double cross premise.

There is no doubt that the overall market structure in COMEX gold is solidly bullish, as I hope I've been conveying. This is largely the result of the gold price having spent the last month trading below its key 50 and 200 day moving averages, the longest such stretch of time in the past year. You have to have prices trading below the key moving averages in order to get the managed money technical funds to sell heavily and that's what has occurred in gold.

That's not to say even more managed money selling can't occur in gold on new price lows, but it wouldn't appear that heavy additional managed money selling is likely. I'm much more inclined to think that the potential double cross in the gold commercial camp is a last-minute finishing touch to an important advance about to launch in gold rather than as a sign of extensive managed money selling ahead. In fact, the gold market structure would appear to be in much better shape to support a significant rally than the market structure in silver, based upon expected changes in this Friday's report.

As far as Friday's new COT report, the price action in gold through yesterday's cutoff was even more subdued than during the previous reporting week and combined with relatively low trading volume and not much of a change in total open interest, there's no way I could predict much of a change due to managed money activity. I will be paying attention, of course, to any changes in commercial sub-category positioning in gold given the discussion above.

For silver, it's hard to see how there won't be very significant managed money net buying reported, in line with my comments on Saturday. In contrast to the (lack of) action in gold, trading volume in silver was heavy, both key moving averages were penetrated decisively and total open interest increased by close to 20,000 contracts. That's a prescription for a big increase in managed money buying, along the lines of what I estimated on Saturday, say, managed money net buying of 30,000 to 40,000 contracts. Such an increase would put the market structure in silver into the neutral to bearish area. I hope you know I would prefer to be vastly overstating the prospective increase in managed money buying in silver.

That said, silver is a tricky son of a gun at times and given what I think may be transpiring in the gold commercial camp, I'm not abandoning any core or speculative positions in silver, although neither am I adding any at this moment. I won't be terribly surprised if silver prices are rigged lower, given the large amount of managed money buying that has likely occurred, but there are too many potential wild cards out there that could cause a price spike instead, not the least of which is how long in the tooth this whole silver manipulation scam has grown.

Ted Butler

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Silver – \$16.97 (200 day ma – \$16.79, 50 day ma – \$16.58)

Gold – \$1300 (200 day ma – \$1309, 50 day ma – \$1317)

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