June 14, 2017 – The Defining Moment

Most people experience a number of defining moments in their lives, where certain decisions are made that have a big influence thereafter. Choosing a spouse or an education or career path are common examples of decisions leading to defining moments. Making the right or wrong choice in such decisions does have repercussions that can last a lifetime. The decisions we all have made, while important to us individually, are fairly common in that we all make them.

Much less common and, in fact, quite rare are the occasions where an individual decision not only affects the rest on oneâ??s own life and the small number of people in oneâ??s immediate circle, but also has widespread impact on great numbers of people outside oneâ??s circle. The individual decisions that impact the greatest numbers of people are the defining moments that determine the course of history, for better or worse.

It occurs to me that we are close to the defining moment in silver, where great numbers of people will be impacted depending on what decision and path is selected. The silver path ahead doesnâ??t appear to have much to do with me, as Iâ??m not the one who will be making the decision that will affect the outcome. Iâ??ll certainly continue to speak my mind on silver-related matters and I have no regrets on what I may or may not have accomplished to date in spreading the real silver story. While I feel most fortunate to have been given the opportunity to speak my mind, what I see up ahead is not my defining moment because I see no decision I could make that would alter the path.

As I see it, this is the defining moment for James McDonald, the new enforcement director for the CFTC. Either he will do something about the continuing silver manipulation or he wonâ??t. In the event he doesnâ??t do anything to interrupt the big commercials like JPMorgan from continuing to snooker the managed money technical funds into and out of COMEX futures positions by illegal spoofing and other dirty market tricks, it will fall to something and someone else. Iâ??m not worried that the silver manipulation wonâ??t end dramatically and soon, but it is not written in stone that it will be the defining moment that McDonald will look back on with satisfaction many years from now. Defining moments can be either good or bad and by definition last forever.

What McDonald does or doesnâ??t do will determine if this is his defining moment for the better or the worse. Based upon the recent and surprising press release, I am convinced he will choose the right path and I am prepared to praise him to the heavens in that event, as I know will many of you.

But it would be a mistake to underestimate the pressure he is under not to do the right thing. Essentially, for him to dismantle the crooked price discovery mechanism on the COMEX for silver (and gold) and on other futures exchanges for other commodities, he must repudiate more than 30 years of prior agency thinking, as well as overcome the secret and illegal agreement made between the US Government and JPMorgan, on the occasion of JPM taking over Bear Stearns in 2008. Admittedly, thatâ??s a very tall order. But the taller the order, the greater the defining moment.

Certainly, the inability to overcome the standard line from the CFTC for decades, namely, that no manipulation was possible in silver, has plagued others who set out to do so. Gary Gensler comes to mind because he started off in hitting the road running to establish legitimate position limits in 2009 and seemed to be on the right path to doing so. Even Bart Chilton, the former and very outspoken commissioner who talked openly of the silver manipulation, eventually lost his public voice for the same reason as Gensler failed â?? neither could overcome the illegal agreement with JPM.

It doesnâ??t make either bad people, just that they couldnâ??t stand up to the pressure exerted by JPMorgan and the higher-ranked public regulators at the Treasury Department and the Federal Reserve. None of us can be certain what we would do under similar circumstances. Their lives were hardly ruined as a result of each failing to step up; but they both lost what would have been the defining moment they could look back on with pride.

And itâ??s not just Gensler and Chilton who missed the chance to grab the brass ring and their defining moment in silver; every other commissioner and Enforcement, Market Oversight and Surveillance Division Director over the past three decades missed the opportunity as well. I know because I petitioned most, if not all of them over the past 30 years. And perhaps there is additional pressure on McDonald to look the other way since the last two Enforcement Directors have come from the same US Attorneyâ??s office in the southern district of NY and for him to do the right thing might be considered a personal slap in the face to his predecessors for them not doing so.

Then again, no one ever said that the truly defining moments that will impact great numbers of people for the better, as ending the silver manipulation would surely do, would be a walk in the park. If anything, such moments are created by a unique variety of seemingly unrelated circumstances. After all, if the stars and planets are not properly aligned for a truly defining moment, none could occur. In this sense, McDonald should feel fortunate that he is at least in position to make a difference, even if the decision of what to do must be the hardest decision of his life to this point. The silver manipulation started when he was in grade school and it was mostly fate that brought him to this junction.

And let me put aside any connection between us writing to McDonald two months ago upon his coming into office and last weekâ??s press release announcing the first price manipulation charges in COMEX gold and silver in 25 years, with the clear stated intent of pursuing the investigation. I know I wouldnâ??t change a word of what I wrote and it certainly seemed to presage the epic 17 day unprecedented continuous slide in the price of silver, but letâ??s chalk it up to coincidence for the sake of argument.

In fact, a subscriber asked me the other day if I knew whether McDonald even read my letter to him of April 10 and the articles I have sent him since.Â Â My answer was that I couldnâ??t possibly know for sure, as just because emails donâ??t get returned, probably means they were received, but there was no way of verifying they were read. This is true with all emails from anyone to anyone else. I did tell the reader that I overnighted a hard copy of my letter as well, so that improved the odds it was read, but there was still no guarantee that it was. In response to the question of whether he has his mail screened, I answered that because the issue involved the most serious crime possible and was, therefore, the number one priority under his direct jurisdiction, itâ??s hard to imagine that my letter and emails wouldnâ??t pass a legitimate screening process. Certainly, I was constructive in tone and not the least insulting in any way.

Further, it dawned on me as I was responding to what were some very legitimate questions, that someone at the Commission must be reading my letters from time to time, because the two 15 page public letters the agency published in 2004 and 2008, as well as the five-year formal investigation into a silver manipulation that commenced later in 2008 were a direct result of my letters to the agency. In addition, I have a stack of previous correspondence from elected officials, former CFTC chairmen, commissioners and senior staff going back to 1986 that wouldnâ??t have materialized without the agency first reading what I wrote to them.

As I indicated previously, my main concern was not that McDonald might not have read any of what I (we) sent to him. A more pertinent question is if he comprehends what I wrote to him. Another subscriber made the very constructive suggestion that I prepare a graphic PowerPoint presentation that laid out all the facts expressly designed for him. Heck, Iâ??ll construct a paint-by-the-numbers manipulation instruction coloring book if I thought it would make a difference. But this subscriber was right â?? it is imperative that McDonald comprehend the matter sufficiently.

Not only is it vital that McDonald fully comprehend the silver manipulation, it is just as important that he knows what to do about it, in very specific terms. After all, it would hardly be fair for me to proclaim that he was in the unique position to decide what may be the defining moment of his life to date, without providing the specific single action he could take to end the silver manipulation. Let me state this as simply as I can.

All manipulations revolve around one or a handful of large market participants which dominate the market through a controlling concentrated position. If there is no presence of one or a few large traders dominating the market, a manipulation is impossible (and you would not be reading this because I never would have gotten involved with silver in the first place).

But COT data consistently show that the COMEX silver market is the most concentrated on the short side of any commodity when compared to real world production. Further, Bank Participation Report data have shown that JPMorgan has been the single largest COMEX silver short since acquiring Bear Stearns in 2008. Both data sets show that JPMorgan has never taken a single loss, only profits on every single new short sale it has made over the past nine years. (Including any short buybacks JPMorgan has made over the past reporting week ended yesterday and that will be reflected in the COT report this Friday).

All told and cumulatively, I would estimate that JPMorgan has first established and then bought back profitably, several hundreds of thousands of COMEX silver short contracts since early 2008 â?? again, all bought back without a single loss. Such a magnificent trading record would be impossible in a free market and could only occur in a highly manipulated market. This is the one specific fact that Director McDonald must focus on. It is imperative that he see that no one trader could ever accomplish the impossibly-perfect silver trading record that JPMorgan has achieved over the past nine years if that trader wasnâ??t also the dominant force that was controlling the price.

Therefore, the one thing that McDonald could and must do to end the silver manipulation is to privately suggest, cajole, order, persuade, jawbone or otherwise convince JPMorgan not to add to COMEX silver futures shorts on the next silver rally. And do the same thing with the few other big COMEX commercial silver shorts, which means no more than three or four phone calls. No drawn out investigations, tying up agency personnel for years and wasting limited budget resources; no paint-by-the number coloring books; no need to make this any more complicated than necessary. Just call his counterparts at JPMorgan and a few others and say no mas to new shorts. Presto-change-o and bingo-wingo, no more silver manipulation.

And donâ??t let anyone tell you that jawboning is not a perfectly acceptable and welcome action on the part of a regulator to alter bad behavior on the part of the regulated. The silver manipulation is nothing more than JPMorgan and a few other world class market criminals being allowed to sell as many new short contracts as needed to cap prices whenever silver prices rally. There is nothing legitimate about this selling and it makes a mockery of our commodity laws and free market principles.

Will McDonald do the right thing? We canâ??t know that beforehand for sure, but I think there is a good chance, considering the stakes. If he doesnâ??t, Iâ??m convinced he will rue the day for the rest of his life. And considering the ongoing and continuous nature of JPMorganâ??s crime of silver market manipulation, every day that McDonald delays is another day he is allowing the manipulation to continue, thereby denying justice. The CFTC has an absolutely dismal (and perfect) record of never busting up an ongoing and active price manipulation. Should McDonald break that rotten record, it will only enhance his defining moment.

It is not my intent to publicly badger McDonald, although I will continue to send him my articles. I donâ??t expect to hear from him; we will likely see the results soon enough in either official announcements or price action (or both). Since I donâ??t intend to zero in on him on an ongoing basis, let me comment on the price action since the review on Saturday with regards to what I just wrote and try to tailor events to both you and him.

Through yesterdayâ??s close on the COT reporting week, there can be little doubt that this was a special five trading days in silver. Call it whatever you want â?? classic salami-slicing, deliberately rigged lower prices or the handiwork of JPMorgan â?? it was very reminiscent of the unprecedented 17 straight trading days of consistently lower silver prices that occurred following the COT report of April 18, when silver prices closed at $18.50 and quickly proceeded to drop to $16. Iâ??ve read that 17 straight down days is a statistical impossibility, but for sure the qualifier is that it is statistically impossible in a free market (not a manipulated market).

The past five trading days featured a price drop of close to a full dollar in silver, from the $17.71 close on the previous cut-off date, June 6. (There was also a five day $28 drop in gold and while gold did decline for all five trading days of the reporting week, it never penetrated the key moving averages, so Iâ??ll confine my remarks mostly to silver). Iâ??m raising the similarity of the unprecedented 17 day price smash in silver that began after April 18 to the drop that began just after June 6 because the connection is so strong in my mind. In fact, it goes to the core of my analysis.

The record commercial net short position that existed in COMEX silver going into April 18 was one of the two reasons I wrote to McDonald at that time; the other being his appointment and the opportunity both created. As I indicated in my letter, record or extremely large commercial net short positions had always led to sharp selloffs in price, evidence that the commercials controlled the price. Therefore I was not particularly surprised at the price decline that would begin shortly after I wrote to him (although I chose not to lighten up at the time – a mistake in hindsight). What did surprise me was the unprecedented string of consecutive down days.

Hereâ??s the way I see it. On the epic decline that took silver prices lower by $2.50 into early May, the commercials succeeded in inducing the technical funds into selling (both long liquidation and new short sales) a record 80,000 net silver contracts (400 million oz) in just four reporting weeks. Not only was this the largest number of silver contracts the technical funds were ever induced into selling in such a short period of time, by May 16, the technical funds also ended up holding their largest short position in history. And just to remind you, the technical funds held record long positions in silver just a few weeks prior. A couple of points.

It was this large positioning change that was primarily behind my calling for a sudden and unexpected explosion in the price of silver (which, no matter how it turns out from here, was made as close to the May 9 price bottom as is as humanly possible). The other point I would make about the unprecedented silver price decline and extreme positioning change that occurred from April 18 to May 16, it occurred immediately following my letter to McDonald and other agency officials. In other words the unprecedented price decline and positioning change came with McDonald being given fair warning beforehand. At the very least, he should have made the connection between my letter and what transpired.

Coming back to more recent events, after silver bottomed in price in early May, it rose by $1.50 by the end of the reporting week of June 6. The rally was driven by about 30,000 contracts of net managed money technical fund buying (new longs and bought back shorts). Hereâ??s the equation and the stage of mile markers so far â?? the technical funds sold 80,000 contracts on the $2.50 decline and then bought 30,000 contracts on the $1.50 rally into last Tuesday. At that point, the odds seemed to favor continued technical fund buying in that there were more contracts to be bought to get back to the bearish positioning extremes of April 18 (by 50,000 contracts) than to be sold to get back to the bullish extremes of May 16 (by 30,000 contracts).

But since silver prices, being manipulated by a few large commercials, are subject to change based solely upon the whims and desires of those commercials, unless you can read the commercialsâ?? crooked minds, thereâ??s no real way of knowing which way they will send prices in the short term. Fortunately, large price moves are always fully explained, in hindsight, by positioning changes in the COT report, so at least we nearly always know why prices moved. In this case, we know that the five day and one dollar price decline in silver through yesterdayâ??s cutoff involved heavy technical fund selling and commercial buying because thatâ??s what always moves silver prices lower.

So the question is how much technical fund selling and commercial buying occurred thru yesterday and which should be reflected in this Fridayâ??s COT report? Because the price decline in silver looked particularly deliberate and intense, my sense is that around 20,000 net managed money contracts were sold, maybe more. Iâ??m not sure the commercials were the sole buyers of silver, since they seem to have real buying competition from other trading categories. I know I usually use the alternative headline numbers as basically interchangeable, but for a change this week Iâ??m looking for larger net managed money net selling than net commercial buying. (Iâ??m also looking for a 20,000 net positioning change in gold, but 20,000 contracts in silver is a lot more significant than it is in silver).

So if my predictions come close, the managed money traders in silver may have sold much, if not all of the 30,000 net contracts they bought on the $1.50 rally thru last Tuesday, putting them very close to the extremely bullish market structure of May 16. As such, it would seem an important price bottom is being put in. Silver price bottoms are made, according to my observations, when the technical funds run out of contracts to sell. We appear to be at or very close to that circumstance, although Iâ??m not sure what to make of todayâ??s price snapback.

Regardless of what the new COT report indicates, there seems to be a growing disparity in the relative market structures in COMEX silver and gold. Silverâ??s structure is extremely bullish, while goldâ??s structure is still neutral at best going back to last summer and bearish considering the past eight months.

I would be remiss if I didnâ??t highlight the recent positioning record of the silver marketâ??s biggest crook, JPMorgan. When there existed a record large commercial net short position on April 18 ($18.50 silver), JPMorgan was net short 34,000 contracts. On the subsequent $2.50 decline into May 16, JPM bought back 14,000 short contracts, all at clear profits. On the $1.50 rally that followed into last week, JPMorgan sold 8,000 additional contracts short for a total of 28,000 net short contracts on June 6. Thereâ??s no way that JPMorgan didnâ??t buy back short contracts during the reporting week ended yesterday and my hope is for 3000 contracts or more.

Thus, JPMorgan has kept intact its incredibly perfect trading record, as recently as through yesterday. I have gleaned all this through the official reports published by the CFTC. Further, the agency has a wealth of additional detailed trader data not publicly available. If it feels things are much different than I allege, the easiest thing to do is explain why JPMorganâ??s trading record does not reflect its vice-like control on the price of silver.

Itâ??s commendable that the CFTC finally found that a manipulation existed in COMEX silver prior to 2012, particularly after it had found previously that no such manipulation existed after five years of formal investigation. Far better would be for the agency to interrupt and end a silver manipulation in progress that exists to this day. Thatâ??s the stuff of true defining moments.

Ted Butler

June 14, 2017

Silver – $17.10Â Â Â Â (200 day ma – $17.57, 50 day ma – $17.34)

Gold – $1270Â Â Â Â Â Â (200 day ma – $1244, 50 day ma – $1261)

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