

June 27, 2018 - The Perfect Double Cross

For the past few weeks, I've been intensely focused on what I believe to be a double cross in COMEX gold futures by JPMorgan of other trading entities, particularly other commercial participants. I would define the double cross as JPMorgan positioning itself so flawlessly so as to be nearly perfect in its execution, including the avoidance of any widespread knowledge of what has occurred. After all, a double cross always includes the element of surprise and this one promises to be a doozy.

Data from recent Commitments of Traders (COT) reports indicate unprecedented changes in concentration and category positioning pointing to JPMorgan buying back massive numbers of short gold contracts disproportionate to anything previously seen. While it is fairly widely known that the market structure in COMEX gold is extremely bullish, thanks to very aggressive managed money selling and commercial buying, it is virtually unknown what special role JPMorgan has played in the process. That's because you can count on one hand (with a few fingers left over) the number of commentators who even mention the concentration data in COT reports.

JPMorgan has been, by far, the largest single buyer of COMEX gold futures contracts over the past month and a half and particularly over the past three reporting weeks, buying back what I would estimate to be a minimum of 50,000 net short contracts and reducing its net short position to be little more than 40,000 contracts. It is important to put this number of COMEX gold contracts into perspective - 50,000 COMEX gold contracts is the equivalent of 5 million ounces of gold.

The world sits up and takes notice when Russia buys 600,000 ounces of gold in a month, as it did last month; yet practically no one noticed JPMorgan's purchase of 5 million oz of paper gold in littler more than a month. Yes, Russia bought actual gold

(largely from its own mines, same as China), but the 5 million paper ounces that JPMorgan bought are much more meaningful in terms of profit and loss, especially future profits to JPM, as I'll explain momentarily. It goes without saying that JPM made a large profit on its buyback of gold short contracts since it sold those contracts short at much higher prices; but the biggest payday for the bank lies ahead.

It would hardly be noteworthy if JPMorgan had bought back the bulk of its gold short contracts from the managed money traders which are invariably on the losing end of the ongoing COMEX wash, rinse and repeat positioning cycle most have become familiar with. While nearly as regular as the tides, the commercial snookering of the managed money traders can hardly be called a double cross in that there is never a surprise in that outcome - nothing is more expected than the commercials taking advantage of the managed money traders. But that is not what happened in JPMorgan's massive buyback of gold shorts this time around.

While there was some managed money selling that JPMorgan used to buy back a portion of its gold shorts, the biggest sellers to JPM were other commercials, not the managed money traders. This is what makes the whole thing unprecedented and in the "man bites dog" category.

To be sure, JPMorgan has purchased even larger quantities of COMEX gold contracts in the past, such as the 160,000 contracts it purchased in 2013, when it turned its short market corner in gold of 75,000 contracts into a long market corner of 85,000 contracts, as gold plunged more than \$400 an ounce over eight months. But the main sellers to JPMorgan were the managed money traders and other speculators, not other commercials. That's what makes the current set up so special - this time the

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main sellers to JPMorgan have been other commercials.

I'm fairly confident that this week's new COT report will indicate a continued buy back of gold (and silver) short positions by JPMorgan, based upon the price action through yesterday's cutoff for the reporting week, so let me wait until Saturday's review to give you a detailed breakdown. Instead, let me explain why I think JPMorgan's actions may be profound for the price of gold and silver. Remember, it's not the data alone that matter, but what the data portend. In this case, I believe JPMorgan's pronounced buyback of short positions portends a very sharp price rally for gold and silver and other metals.

The COMEX gold market structure, by virtue of recent aggressive managed money selling, is easily capable of a sudden rally of \$100 or more. After all, the price of gold is now close to \$50 below its key moving averages and the commercials would have little trouble rigging prices higher to the moving averages and an equivalent amount above. This is, after all, the main, if not sole driver of price and what the rinse and repeat cycle is all about. But what makes it special this time is JPMorgan's pronounced buyback of short positions.

By buying back at least 50,000 gold short contracts, the equivalent of 5 million oz, JPMorgan has just sidestepped the loss of \$500 million should gold rally a quick \$100 an ounce, as seems almost inevitable given the overall market structure. Should gold rally \$200, something that to my mind seems quite reasonable, JPMorgan will have sidestepped a billion dollars of loss thanks to the buyback of its 5 million oz of short contracts. And every \$100 gold rally that might come, JPM will have been better off by \$500 million thanks to its recent buyback of gold shorts.

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But wait a minute, I can almost hear some ask - what about the 40,000 contracts or 4 million gold oz JPMorgan might still be short - wouldn't it lose \$400 million for every \$100 that gold rises? Yes, but I think JPMorgan may now be short even less than that and there is even a more important consideration - the 20 million ounces that I've maintained that JPMorgan has accumulated over the past five or so years. Even if JPMorgan is still short 4 million oz of paper silver (and I think it is now less), its 20 million oz physical position means it is net long the equivalent of 16 million ounces of gold. That means for every \$100 that gold climbs, JPMorgan will make \$1.6 billion net, even if it is still short 40,000 COMEX gold contract.

Even though JPMorgan may still be short a certain amount of COMEX paper gold, it is unquestionably big net long by virtue of its massive physical gold holdings and will be the biggest winner of all on a sharp gold rally. Just as unquestionable is that it "saved" itself at least \$500 million for every hundred dollars that gold rises by virtue of the 50,000 short contracts it bought back very recently. Don't ever forget that these guys are the true masters of the market.

What about silver - haven't I written that JPMorgan recently added 20,000 new short contracts, the equivalent of 100 million oz? So maybe JPMorgan is only interested in a major gold rally and not one in silver? Fair question, so let's look closer. Last week, I did indicate that JPMorgan bought back at least 7000 of the 20,000 short silver contracts it added, reducing its total COMEX paper short position to 33,000 contracts or less. I think JPM's short position is now down to 30,000 contracts, the equivalent of 150 million oz, so let me work with that round number.

At the same time JPMorgan had bought back 5 million oz of paper gold shorts, it had added 50 million oz (10,000 contracts) of silver shorts at last count. What gives?

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From my perspective, it looks like a master move from the master manipulator. The only reason JPMorgan added silver shorts is because there was no one else willing to do so. If JPM didn't short when it did, the price of silver would have unquestionably moved higher, most likely pulling gold higher as well. That would have interfered with JPM's plan to buy back as many gold shorts as it did because JPM needed to have the price of gold stay below the key moving averages, or the managed money traders would have plowed onto the buy side.

JPMorgan needed the price of gold to move a bit higher, enough to attract selling by other commercials, but not too high (over the moving averages) which would have set off managed money buying. It pulled this off by capping the price of silver with much heavier short sales than it would have likely preferred, with the purpose of keeping gold from moving high enough to set off managed money buying which would have prevented JPM from buying the massive amount of gold contracts it was able to buy. In terms of dollars and sense, it was a masterful move.

As just discussed, if gold does jump quickly in price by \$100, JPMorgan will have saved \$500 million. If silver also jumps by the amount it usually does on a \$100 gold move, we're talking about a two dollar move in silver, maybe a bit more. Two dollars on the 10,000 silver contracts JPM has added will cost JPM \$100 million, maybe a bit more. My point is that the 5 million oz of gold shorts that JPM bought back saves it close to \$400 million when factoring in the additional 50 million oz of paper silver it had to sell short to keep the gold price from moving too high before it finished buying from the other commercials. Even if silver were to jump \$4 (instead of \$2) on a \$100 move up in gold, JPM would still be net ahead \$300 million on its master move.

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But just like JPMorgan is massively long physical gold, to the tune of 20 million oz, the bank still owns at least 700 million oz of physical silver and likely more than that. It's been a while since I've updated JPM's silver holdings and there have been strong signs the bank is still acquiring physical silver (primarily through conversions of shares of SLV into metal). What this means is that even if JPM is short 150 million oz of paper silver, it is still net long silver to the tune of 550 million oz at a minimum (just like it is net long gold to the tune of 16 million oz).

What this means is that for every \$100 higher in gold, JPMorgan stands to make \$1.6 billion and for every dollar higher in silver, JPMorgan stands to make \$550 million. With potential profits of that magnitude at hand, it's impossible to imagine JPMorgan not setting off the big precious metals move higher at some point. As always, the question is when and just as always, the answer is unknowable beforehand. But here's where the double cross premise may kick in.

What JPMorgan has just pulled off, namely, the massive buyback of gold short positions thanks to sales from other commercials was unprecedented and, therefore, not easily replicated. When something occurs that is unprecedented there must be a reason for it. When that unprecedented something involves JPMorgan and gold and silver, I sit up and take notice. It goes without saying that JPMorgan is intending to benefit itself in everything it does, so it's only natural to think along the lines of how can JPMorgan benefit the most from the recent actions it has taken.

Let me not beat around the bush - the most plausible conclusion for the unprecedented buyback of gold short positions by JPMorgan is that we're looking down the gun barrel of an explosive move higher in gold and silver and other metals because that would benefit JPMorgan the most. Sure, there may be a bit more to go

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in terms of slightly lower prices since JPMorgan will likely buy even more gold and silver contracts than it has so far, but that's always the case. For what it's worth, I'm using what I believe to be these last salami slices lower to buy way too many crazy out of the money kamikaze call options, but I just mention that as an indication of how I view current conditions.

I know I have treated every market structure bottom over the years as the set up for the big move higher and I don't need to be reminded that the big one has yet to appear (hey, I already got a wife). I also know that JPMorgan has been in position to let gold and silver prices rip higher by virtue of its massive accumulation of physical silver and gold and has failed to do so yet. And it may turn out that JPMorgan doesn't go for the jugular this time around either and instead is content to short anew after a mediocre advance in the gold and silver price.

But I also know that JPMorgan has never been in a better position to let her rip to the upside than now, based upon a tactic it has never deployed before - a double cross of other commercials. Therefore, I'm treating it as the opportunity I believe it to be, namely, that we're on the cusp of the once in a lifetime opportunity that should have been realized long before now. It looks like it has taken a maneuver by JPMorgan that almost no one sees, including those most double crossed, but even that is fitting in the overall scheme of things.

Turning to matters since the Saturday review, the standout feature has been the pattern of continued new price lows. In the reporting week ended yesterday, there were three days of new price lows in gold, in addition to the new lows today. In silver, there were two new price lows during the reporting week, plus today's new lows.

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However, there appears to have been much heavier managed money selling in gold than there has been in silver; very much in line with last week's COT results. The trading volume in COMEX gold has been much heavier than in silver and that suggests more managed money selling in gold than in silver. Total reported trading volume in silver looks high at first blush, but that's due to heavy roll-over volume ahead of this Friday's first notice day of delivery in the traditionally active July silver delivery month. Once roll-over volume in silver is netted out, overall trading volume in silver looks practically non-existent. It's hard to envision heavy managed money selling on light volume.

I mentioned on Saturday that the key in silver would be the extent of new managed money selling as and when prices moved lower. So far, these traders have not responded by selling in the face of new price lows, while they appear to have responded more in gold. As to why the managed money traders appear to be unwilling to sell as aggressively in silver as they have in gold, I opined that it might have something to do with them never making a profit when selling silver into a price hole. But the reason is beside the point; which is that if these traders don't sell, then at some point prices must stop falling and then reverse higher.

The gold market structure is already extremely bullish and, in fact, much more so than the structure in silver, and any new managed money selling only makes the gold structure still more bullish. Importantly, the lower prices and more bullish structure in gold in no way lessen the double cross premise. The only thing that will lessen my double cross premise in gold or silver is new short selling by JPMorgan. That new short selling will only kick in at higher, not lower prices.

The ultimate determination of the success of the double cross premise will be the

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price at which JPMorgan does renew its manipulative short selling; with complete success indicated if it no longer sells short in the future. You know, it's not written in any constitution, or bible or in any stone that JPMorgan must sell short in silver and gold and if this crooked bank refrains from doing so, well then we're talking about a different price structure than any of us has ever seen.

As far as what Friday's COT will indicate, I'd venture along the lines of last week's report, in that there's likely to be a bigger improvement in gold than in silver, but with the overall numbers much less than in last week's report. The fact that total open interest in both gold and silver is very close to unchanged over the reporting week makes me unsure of how much managed money selling to predict, so I won't.

Ted Butler

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Silver - \$16.12      (200 day ma - \$16.73, 50 day ma - \$16.58)

Gold - \$1256      (200 day ma - \$1307, 50 day ma - \$1304)