

June 5, 2019 - Getting From Here to There

What is the likely nature of a silver price move from where we are currently, (sub) \$15, to some significantly higher price point, be that price \$20, \$30, \$50 or more? More specifically, what would be the time sequence and conditions of such a move higher? Will such a silver price advance be of a grinding, two steps up, one step back type affair where we get to higher price mile markers over an extended period of time, say years or will the advance be compressed into a much shorter time frame?

Those are the questions that bedevil me (and I suspect many of you). I don't have much, if any doubt that silver is dirt cheap and will advance substantially in the long term - which is enough reason to buy and hold it; but is that all there is to expect - a gradual and progressive move higher to correct a price that has gotten too low?

Quite frankly, I don't expect such a gradual move higher. In fact, my basic premise - for nearly 35 years - is that silver has been manipulated in price to be much lower than it ever would have been on actual supply/demand fundamentals alone and only when that manipulation has been terminated will we be able to ascertain what a free market price in silver would look like.

To be sure, there have been several sharp and sudden price increases in silver since 1985 (well after the Hunt Brothers spike up in 1980), including a quick run to \$50 in early 2011; but since then, prices have been downhill. These sudden spurts up in price, amid long stretches of price suppression actually highlight and support the manipulation premise. After all, what possible free market theory could hope to explain silver's highly unusual and unique price pattern over the last three and a half decades?

Most remarkably, the manipulation premise has become incredibly specific, coming to include none other than the leading bank in the US, JPMorgan, following its

takeover of Bear Stearns in 2008. Since 2011, in addition to continuing to suppress the price of silver by being the leading short seller on the COMEX, JPMorgan has used the opportunity created by its suppression to accumulate more physical silver than ever held by a non-governmental entity in history - some 850 million ounces (plus 20+ million oz of physical gold). Originally conceived as a solution to eliminating the risk inherent in being the largest short seller in silver, JPMorgan deduced that its defensive solution would be a potent offensive weapon to reap the rewards of an inevitable price explosion. JPM's switch from defensive to offensive in silver (and gold) was nothing short of brilliant.

For the past five years, my only question has been when will JPMorgan take its foot off the throat of silver, allowing it to run and making it billions in the process? Despite being in a position to vastly benefit itself, time after time, JPMorgan has chosen to add new COMEX short positions on each and every silver rally, thereby dooming those rallies. Of course, the net result of every failed rally was that not only did JPMorgan profit greatly on each and every inevitable price decline by buying back its added short positions (never once incurring a loss), it also added measurably to its physical stash of metal at ever decreasing prices.

So while it has been frustrating and damaging for precious metals investors and producers to suffer for years as JPMorgan continued to manipulate silver (and gold) prices, it was extremely advantageous and profitable to JPM to prolong its manipulation. So much so, that many have taken to assume that the manipulation will last forever, since JPMorgan continues to profit. While I understand how people could feel that way, it's important to break the manipulation down into its two separate components - the short selling scam on the COMEX and the accumulation of physical metal in massive amounts.

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Simply put, JPMorgan didn't need to accumulate its massive hoard of physical metal in order to continue its always win, never lose paper scam on the COMEX. The managed money technical funds have been led in and out of the market with no need or regard for physical metal of any size. The COMEX futures trading scam is purely a paper trading scam - no metal is required for the commercials to hoodwink the technical funds. But the evidence is clear (at least to me) that JPMorgan has accumulated massive amounts of physical silver and gold. No one, particularly not JPMorgan, acquires as much as \$50 billion worth of anything for no good reason. If physical metal isn't needed to prolong the COMEX paper trading scam, then the metal was acquired for another reason. The most plausible explanation for acquiring any investment asset is to make a profit on that asset, which would only result if the asset increases in price.

The bottom line is that at some point, JPMorgan will give up its always-profitable manipulative control of COMEX silver futures to instead cash in on its massive hoard of physical metals. But why would JPMorgan ever willingly give up its impossibly perfect trading scam on the COMEX - isn't that like giving up the goose that lays gold eggs? To be sure, there would need to be a very good reason for JPMorgan to give its always profitable, never losing COMEX paper trading scam. In fact, there is really only one good reason for JPM doing so - much bigger profits to be made by giving up the COMEX paper trading scam.

Since acquiring Bear Stearns in 2008, I would estimate that JPMorgan has booked between \$3 to \$4 billion in cumulative COMEX paper trading silver profits - somewhere around \$300 million or so annually. So who in their right mind would voluntarily give up a business (criminal or otherwise) that had earned more than \$300 million a year? The only conceivable reason for doing so would be if the giving

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up of the ongoing profits would somehow lead to much bigger profits. And that is precisely the point here for JPMorgan. By giving up its recurring annual profits of \$300 million or so, JPMorgan stands to make many times that amount on a big price rise in silver.

For every dollar that silver climbs in price, JPMorgan stands to make \$850 million on its physical holdings of 850 million oz. Every ten dollar advance brings \$8.5 billion to JPM, while a hundred dollar advance would bring \$85 billion to JPM (more than 20 times what JPM made in total over 11 years of paper trading). Due to the massive amount of physical silver that JPMorgan has accumulated over the past eight years, the profits JPMorgan has been able to make by always adding to short COMEX positions have now become chump change compared to what it could make by a dramatic increase in the price of silver. Make no mistake - JPMorgan is in complete control here. Should it not add to short positions on the next silver rally, prices will soar and it will make so many times more what it may be giving up by continuing the COMEX paper trading scam that it isn't even a fair comparison. Therefore, it would appear to be in JPMorgan's best interest to give up suppressing the price of silver in order to make some really big money.

That's the premise and equation as I see it and have seen it for the past several years. However, knowing the equation is not the same as knowing the precise timing of when this will all unfold. That's because it's up to no one except JPMorgan and it is not telling. But unless the CFTC starts intentionally misreporting the data in the COT and Bank Participation reports (something I don't expect), we'll be able to see what JPMorgan does; although we will likely observe it first in price, followed by confirmation that JPM hasn't added to short positions.

Turning to price action since Saturday's review, gold has, obviously, continued to surge in price, ever since decisively penetrating the last of its key moving averages to the upside last Friday. Silver, not so much, despite an early morning rally today. Since penetrating its key moving averages last Friday, gold had advanced as much as \$50 in the four trading days (including Friday) to this morning, its sharpest rally in quite some time.

As for why gold advanced so much (and why silver hasn't) is evident in the same old COMEX market structure premise that I continue to hash out on these pages. Let's face it, a market premise and equation must explain both big down and up price moves. Gold fell below \$1200 last summer/fall due to extreme and historic managed money selling on the COMEX. It then rose to more than \$1340 in February as the managed money traders bought nearly 200,000 COMEX contracts (20 million oz), before the price then chopped around until last Friday. Now that gold prices have surged anew, there can be little doubt that the managed money technical funds were big buyers (with the commercials big sellers).

Therefore, considering gold's strong price advance through yesterday's cutoff for the COT report to be issued Friday, I would be quite surprised if we didn't witness one of the largest weekly increases in managed money buying and commercial selling, along the lines of 50,000 to 60,000 net contracts, maybe more. Such an increase would put us in the neutral market structure range, meaning gold could continue to climb for a whole host of reasons or it could be subject to a correction for the singular reason that the commercials, led by JPMorgan, could once again pull the plug on the technical funds. My point is that the reasons for gold continuing to move higher are varied and plentiful, while the only reason for a sharp decline at this point is COMEX manipulative shenanigans.

As for silver, I'm not at all sure what to expect in Friday's COT report. In fact, I'm less sure about this coming COT report than I can recall. Yes, prices advanced every single trading day on much heavier than usual trading volume, and were up more than 50 cents for the reporting week at the highs. This argues for a substantial amount of managed money buying, perhaps on the order of 10,000 contracts or more (hopefully, not more than 20,000 contracts).

On the other hand (why is there always another hand?), we didn't penetrate any of silver's three remaining key moving averages (the 50, 100 and 200 day ma's). The highest silver moving average, the 100 day, is currently at \$15.22 and we didn't come close to penetrating that moving average, not even on today's early spurt. Plus total silver open interest was little changed over the reporting week (while gold's was up by 76,000 contracts), also perhaps suggesting not much change in net positioning.

It looked to me like the managed money technical funds might be buying back significant numbers of silver short contracts, given the price rally and, particularly, in conjunction with the sharper rally in gold. After all, the managed money silver short position was close to a record high in the last COT report and the most recently added shorts were definitely in a loss position and subject to buy back due to money management principles (cut your losses short, let your profits run). On the other hand (there I go again), I don't recall the technical funds ever buying back short positions in silver until the moving averages were actually penetrated, something that didn't occur during the reporting week ended yesterday. And I do recall other instances, as previously mentioned, where the technical funds actually added to short positions on rallies up to but not penetrating the moving averages.

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Summing up, I'm not sure what to expect in the coming silver COT report. I wouldn't be surprised by a 10,000 contract or more net positioning change (managed money buying/commercial selling) and such a change would still leave the market structure in silver as decidedly bullish (as opposed to the expected neutral structure in gold, as a result of the 50,000 to 60,000+ contract positioning change predicted this week). Looming large over this week's reports, it goes without saying, is any revelation about what Mr. Big, aka JPMorgan, may have been up to. We also will get the monthly Bank Participation report on Friday.

No one is more ready to see my silver premise unfold than I am (although I'm sure there are many near as anxious). Unfortunately, the timing isn't up to us, it's strictly in the hands of JPMorgan. But if the premise is sound, the timing is secondary. The most productive thing we can do is to best prepare ourselves for what has been, most admittedly, an event never expected to have taken this long. Paraphrasing from a quote in his new commentary that John Hussman attributes to the late MIT economist Rudiger Dornbusch, "The resolution takes a much longer time coming than you think, and then it happens much faster than you would have thought." While the quote was not at all related to silver, it struck a chord with me because it summed up how I think we'll get from here (sub \$15) to there (fill in the blank).

Almost regardless of what Friday's reports indicate, the net result will be a confirmation that gold is much more advanced in having the managed money traders reverse from the short side to the long side than has been the case in silver. The only way this could have transpired is if gold had performed better in price than had silver. However, this is a dynamic and evolving process with all sorts of twists and turns ahead. It's not particularly surprising that gold has moved sharply higher in price, as its market structure has been bullish since last summer/fall. I have no idea

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of the short term price specifics ahead, but in time silver will reflect its extremely bullish market structure in price as well.

Also very much along these lines is recent article by Jim Cook, president of Investment Rarities, Inc.

<http://silverseek.com/article/rocket-fuel-17664>

Ted Butler

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Silver - \$14.77 (200 day ma - \$14.91, 50 day ma - \$14.87)

Gold - \$1333 (200 day ma - \$1262, 50 day ma - \$1291)