March 1, 2017 – Has The Worm Turned?

Has The Worm Turned?

A timely question from a long-time subscriber resulted in crystalizing an idea that was on the distant periphery of my conscious thought. The great thing about the idea is that it fully incorporates all the data points up until now as I have been presenting them. But please be forewarned, even though all the important factual dots seem to be connected, the premise must still be considered speculative at this point. On the other hand, should the premise prove to be accurate, it could amount to no less than the game-changer in silver (and gold).

Alejandro's question concerned whether the managed money technical funds who refused to add to short positions in silver back in the fall had to have cooperated in some way in reaching that decision. You'll remember that for the first time in years, the technical funds didn't add to COMEX silver short positions as they always had on similar previous price declines. I opined at the time that some type of cooperation was likely, seeing how the managed money technical funds were a subset of the investment industry that involved hundreds of billions of dollars of investor assets under management and there existed well-known industry trade associations in which mutual concerns were addressed.

Alex asked his question in such a way that it dawned on me that the funds must have cooperated in some way. Cooperation was not just likely, it was required in order to explain the technical funds' sudden change in behavior. That's when the light bulb went off in my head Â? the failure to go short silver a few months ago could only have come from collective deliberation and cooperation on the part of a number of managed money technical funds. Let me add some background and then dissect the simple observation that some managed money traders collectively agreed to forgo shorting silver a few months ago (a decision that seems wise in hindsight).

For background purposes, let me first acknowledge that I have been steadfast from the beginning (more than 30 years ago) in my conviction that the silver manipulation that I uncovered back then and have continued to write about to this day, was the result of market actions taken by large trading entities on the COMEX, as opposed to some government-sponsored plan to suppress the price of silver or gold. To be sure, I can't prove that governments aren't involved in some way, such as the CFTC being prodded to investigate silver and then looking the other way when the evidence was clear; but I never believed that the government orchestrated the manipulation from the get go. The good news (to me) is that today's theme is consistent with the silver manipulation being (mostly) a non-government run operation.

The silver manipulation has been run by large banks (with JPMorgan being the biggest bank crook since 2008) versus the managed money technical funds; with the banks running the scam and the technical funds as the victims and essential enablers. The best example that comes to mind is the decades' old series of supposed basketball Â?gamesÂ? between the Harlem Globetrotters and the Washington Generals. Just like the Generals served as fodder to showcase the talents of the Globetrotters, the technical funds have been little more, up until this point, than the enablers to the COMEX bank crooks.

The lynchpin to the ongoing silver scam was the near slave-like adherence of the technical funds to mechanical price signals. These funds always bought as prices were rising and sold (and sold short) when prices were falling, with particular emphasis on moving average penetrations. So mechanical and rigid were the managed money technical funds to price change that it was relatively easy to predict how they would behave in any price change environment. This can be seen in the widespread and growing attention to developments in COT reports. The technical funds' behavior was such that on numerous past occasions I referred to them as Â?brain deadÂ? Â? not necessarily that they were stupid, just incredibly mechanical and disciplined beyond reason in their trading methodology.

However, neither did I view the technical funds as particularly bright on a collective basis, since they were invariably the patsies and victims of the banks' ability to rig prices on the COMEX. That is, up until recently. The collective decision not to add aggressively to COMEX silver short positions may have signaled that the worm may have finally turned. If so, then the game itself will have changed.

Since there had to be active collaboration and agreement among some managed money traders not to sell short aggressively in COMEX silver futures this last go-around (there was one such trader which did short), there had to be a valid reason behind the collective decision. The inescapable and only valid reason had to be avoiding a trap in which new shorts in silver at that time would only lead to losses when prices turned higher (which occurred).

This leads to another question Â? could the managed money traders which did collectively decide not to short silver in a price hole do so without realizing the broader circumstances, namely, that they've been played like a cheap fiddle for decades by the banks? My answer is that they couldn't see one without the other.

Along these same lines, it's hard to overlook the circumstances of the past year as not contributing to the possible epiphany in thinking by the managed money traders. As I have recounted on a running basis, last year's rally in gold and silver was largely driven by managed money buying and in which these traders flipped from a historically record large short position near the start of 2016, to a record long position by mid-summer in both COMEX gold and silver.

At the summer price highs, the managed money traders held a combined open unrealized profit in gold and silver of close to $4 billion, the most in history, with the counterparty commercial banks in the hole for that same amount. The banks were then able to turn the tables and get prices down yet again and the managed money profits disappeared into year end, as did the banks' losses. This was the highest the COMEX money stakes had ever been and, therefore, was the most expensive lesson ever taught to the managed money traders. Please note, as is usually the case in these matters, it was much more a situation where large open profits evaporated, leaving small realized losses to the managed money traders after the dust settled; as opposed to it being a $4 billion loss straightaway.

Is it unreasonable to think that such a dramatic reversal of large open profits, following an endless string of previous similar experiences by the managed money traders might have woken them from their failure of not recognizing that they were the suckers at the COMEX poker table? Who knows Â? maybe they finally got ahold of what I've been writing for years. The real question all along was when were these patsies going to wake up and smell the coffee? We may have just been given the answer.

If the managed money traders have finally awoken to the realization that they were being played, as I suggest, what then would or could they do about it? Would they just quit the crooked game? Since quitting would mean voluntarily shutting down going businesses that provided many millions of dollars a year in ongoing fee income, that option would be absurd. Would the managed money traders take the counterparty banks to court to recover past losses? You or I may do that, but the managed money traders would be admitting to having been snookered all along, something not compatible with reassuring investors to continue to trust the funds in holding hundreds of billions of dollars of investor money.

The most logical (and perhaps only effective) course of action for the managed money traders to take, if they did finally wake up and realize just how the game was being played, would be to turn the tables Â? to change trading tactics in such a way to profit and not continue to do what has caused losses. In other words, for the managed money traders to set out to Â?fix them boysÂ? Â? the crooked banks which had been cheating the technical funds for decades. How would the managed money traders do that? By not doing what was always done in the past and which was fully expected by the banks.

Not going short silver in the fall may have been only the start. Other documented facts since then suggest possible additional changes by the managed money technical funds. One such possible change is the recent large increase in managed money long positions put on in silver (but not in gold) on the rally from the end of December. Extrapolating through yesterday, it looks like the technical funds added 35,000 new silver longs, lifting the total managed money long position to more than 90,000 contracts.

The traditional way of looking at this would be to label the COT market structure as extremely bearish, given the very large managed money long position that would eventually be sold when the banks rigged silver prices lower. But what if the newly added longs aren't sold and liquidated by enough technical funds this time around? It is possible that the newly added managed money silver long positions were purchased by the same or some of the same traders who just abstained from adding silver shorts a few months ago.

Let's face it Â? it has been very unusual that the managed money traders have been much more aggressive in building up silver longs than gold longs over the past two months Â? I've been commenting on it endlessly. As it stands now, the managed money long position in silver is unusually large for such low silver prices. By my estimate, the average price at which the technical funds added the 35,000 net silver contracts over the past two months is around $17.30. I don't think I recall a larger managed money silver long position at this low of a price. (Please don't confuse this with the total managed money long position which includes an additional 60,000 contracts in the core non-technical fund variety. I'll get into the overall money game at a different point).

If the managed money technical funds which just added 35,000 long contracts in COMEX silver futures turn out to be hoodwinked again by the banks and sell most or all of the added contracts at the lower prices arranged for by the banks, then the worm wouldn't have turned and I may have wasted your time with today's discussion. But if the 35,000 added contracts aren't largely liquidated in the face of any price selloffs we may see ahead, then the indications are good that enough technical funds may have awoken to the scam and intend to act differently. Acting differently would be not to sell on the bankers' engineered selloffs. The great thing about today's new premise is that it is in the Â?either orÂ? variety that I prefer. If the added technical funds sell out in the face of newly engineered price declines, then it's the same old rigged game. But if the technical funds don't sell, then we have a different game on our hands. Let me be clear Â? I'm not saying there won't be selloffs, I'm saying that how the technical funds react to those potential selloffs will be all that matters.

If, by chance, the technical funds have no intention of selling out most of the recently added silver longs on lower prices, then the only reason for lower silver prices goes up in smoke. There's little economic justification, even of the illegitimate kind, for lower silver prices apart from induced technical fund selling. If, as and when it becomes clear to the banks that no technical fund selling is likely to emerge on rigged lower prices, it shouldn't be long before the banks stop trying to rig prices lower. Talk about a game-changer.

It is also appropriate to consider just who Â?them boysÂ? might be that the technical funds may be setting out to fix. One boy certainly won't be JPMorgan. Sure, JPM has been the big COMEX silver short for the past nine years, but it has also taken the opportunity, over the past six years, to build up the largest physical silver stockpile in history of some 550 million oz, thus immunizing the bank against any net loss on rising silver prices. There's no way JPMorgan could not come out way ahead in a silver price rally. But the same can't be said of the other 7 large commercial shorts on the COMEX, mostly foreign banks.

Subtracting JPM's short position (28,000 contracts) from the net short position of the 8 largest traders leaves the 7 remaining traders short by 72,000 contracts, the equivalent of 360 million oz. That's an average short holding of more than 10,000 contracts or 50 million oz each and not one of these 7 short sellers in a miner hedging future production or an entity that owns physical silver (how could they since JPM scarfed up all of the available metal). Every dollar movement in silver has a collective impact of $360 million in open or unrealized gains or losses. A $3 jump in the price of silver would create unrealized losses to the 7 big shorts of nearly $1.1 billion. While such unrealized losses have been sustained by these traders in the past, that's not to say it wasn't a time of stress for them. But now add in the possibility that the technical funds might not sell out on prices rigged lower and the equation changes drastically.

If the technical funds don't sell on lower prices, it's hard for me to see how some of the big 7 silver shorts and possibly all of them, once they realize that the game has changed, won't panic and Â? for the very first time ever Â? rush to buy back silver short positions. This is a variation of my double cross premise, with both JPMorgan and the newly awaken technical funds putting it to the 7 large COMEX silver shorts. Should this all kick-in in earnest, it's hard to see how silver prices won't truly explode.

I even see a connection with the recent activity in gold which, in contrast to silver, has not seen as big a buildup in new managed money long positions, although that process appears to have started. I would still call the gold market structure extremely bullish for the reasons I've described for the past two months, namely, the lack of massive buying (yet) by the managed money traders indicated low risk and high profit potential to come. But in considering that the technical funds may have awaken in silver from a three-decade slumber, it also occurs to me that the same funds may have also come to realize that silver is the more critical market for positioning purposes and made a conscious collective decision to build up the silver long position first, because it is the most price sensitive.

The great thing about all this is that it must play out one way or the other Â? either the newly-added technical fund silver long positions will be liquidated at lower prices or they won't be. If the added positions are liquidated at lower prices, then it would be safe to conclude that the technical funds haven't learned as much as I've suggested. If, however, possible lower prices don't result in the liquidation of these new long positions, then it is hard for me to see why silver prices would stay depressed and won't in time race higher. It would be accurate to say that this is an equation where the price could move quite disproportionately to the upside, despite the appearance of a bearish market structure. For that reason, I am further resolved against selling at this time.

On to developments since Saturday's review. I mentioned then that the amount of open interest in the March COMEX silver futures contract looked a bit elevated to me going into yesterday's first delivery day. After the first two days of delivery, the remaining open interest in the March contract still appears high Â? more than 3500 contracts (after adjusting for today's deliveries). Moreover, the liquidation in the March contract over the past few days has come about with the wide spread differentials I talked about recently, tightening noticeably. This is a sure sign that those short the March contract were more aggressive in wanting to buy back those shorts (possibly to avoid having to make delivery) than the longs which sold. Nearby months gaining on deferred months into delivery is generally associated with tight delivery circumstances.

In addition, it would appear that JPMorgan has not varied from its physical silver acquisition binge and has once again emerged as the largest stopper or acceptor of metal in March futures contracts. This is particularly ironic because in order to stop a delivery, one must be long the delivery month, which JPMorgan clearly was. But at the same time JPMorgan was and is long in the March contract, it is short up the ying yang in other COMEX silver futures months, just as it has been over the past few years of the bank taking delivery of tens of millions of actual ounces. That it is standard procedure for this bank to hold many more short contracts than long, yet still emerge as the leading taker of physical deliveries while short overall is something so breathtakingly manipulative as to leave me shaking my head at its audacity. Yet all this is documented in public data.

After two days, JPMorgan has taken 426 of the 829 total silver deliveries (51%) in its own proprietary trading account, plus another 154 contracts for a customer(s). Based upon the COMEX's formula for apportioning deliveries and JPM's share to date, it would appear that JPMorgan may be in position to stop many more than the supposed 1500 contract total monthly limit in its own name. JPM has been in this position before and has always Â?backed downÂ? from pressing too hard to take as many physical COMEX deliveries as it was in position to take. We'll see soon enough what this crooked bank intends this month.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

I also mentioned on Saturday that I was somewhat surprised that we hadn't seen a larger inflow of metal into the COMEX silver warehouses last week, considering the approach of first delivery day. It's not uncommon for there to be deposits of metal into the warehouses before first notice day for the purpose of making delivery. Therefore, I can't help but note the large inflow of physical silver into the COMEX warehouses over the past two days, as total COMEX silver inventories rose by 2.5 million oz (to a fresh 20 year high). It's understandable for many to assume that such an increase in inventories might be considered bearish for the price, but I certainly don't see it that way.

Instead, it appears to me that the metal was brought in, more because it had to be brought in for delivery purposes and not because it was surplus metal looking for a home. Bringing metal in because there is not enough available metal in the warehouses with which to make delivery is very different than parking unwanted silver. Further, almost all the 2.5 million ounces came into the Bank of Nova Scotia warehouse and I feel it was directly connected to the 2.2 million oz (430 contracts) issued by the bank over the past two days. The bank is long thought to be a big silver short.

The bottom line is that along with JPMorgan's unambiguous and continued grab of physical silver in COMEX deliveries, there are other signs of potential stress in the current silver delivery month. Perhaps most remarkable of all, is that the signs of silver delivery tightness are completely separate and distinct from the possible change in managed money technical fund behavior discussed above. That's because managed money traders generally don't deal with deliveries, just futures contracts. Either one Â? delivery problems or the unwillingness of the managed money technical funds to sell Â? is enough to ignite silver to the upside. To think that it might be possible for both to occur at the same time is unnervingly bullish, even for me. I've said it before, but if I wasn't citing verifiable facts, my imagination isn't vivid enough to make this stuff up.

As far as what Friday's new COT report may indicate, I think it likely that there will be continued managed money buying and commercial (bank) selling in both gold and silver. The reporting week that ended yesterday featured several days of fresh multi-month price highs in each, the typical backdrop for managed money buying and commercial selling. A twist this week was that silver's total open interest decreased where gold's increased, but best I can tell silver's drop in total open interest was related to spread liquidation going into first notice day. Obviously, much more important is whether the technical funds intend to liquidate long positions should silver prices move lower and not by how much they may be long

Date Created
2017/03/01