

## March 13, 2019 – Another Critical Set Up

Here we appear to be again, at yet another juncture in the COMEX market structure for gold and silver futures, where prices could do something unusual. As always at past such junctures, is the unknowable question of will or won't JPMorgan add to short positions, particularly in silver to blunt and kill the coming inevitable rally. To be sure, it is possible that the coming rally in gold and silver prices could be postponed by further stabs in price to the downside, as JPMorgan and other commercials seek to buy even more futures contracts on lower prices, but that will only delay the ultimate question of will JPMorgan add to shorts as and when the rally commences.

For many, this may seem like a question already answered by the past outcome to every previous critical market structure set up, namely, that JPMorgan will most assuredly cap the coming rally as it has on every occasion over the past 11 years. Why would this time be any different? Admittedly, JPMorgan capping the coming rally is a persuasive conclusion, seeing how it adding to shorts on every rally for more than a decade is the lynchpin for it never having to take a loss and, at the same time, allowing the bank to continue to accumulate physical silver and gold on the cheap. Why quit a never losing and always profitable game?

While I can't deny that JPMorgan may do exactly the same as it has done on every past silver price rally for more than a decade, the reasons for it not doing so at some point continue to grow more compelling. Those reasons now include the ongoing investigation by the Justice Department, as well as the growing awareness of JPM's dominant role in precious metals trading. However, the most compelling reasons still remain that this is not a scheme that can last forever and most importantly, JPMorgan stands to make a bloody fortune once the manipulation comes to an end. Sure, it may be able to extract continued, but decreasing profits on trading COMEX silver futures from the short side, but JPMorgan stands to make many times more when silver takes off to the upside in earnest.

Strolling down memory lane, of all the things upon which my old friend and silver mentor, Israel Friedman, and I always agreed was the unwavering conviction that when the silver manipulation came to an end, it would be more violent than anyone could imagine. We did differ on how it would end, namely, he opted for the full pants down scenario, in which the big manipulators would get overrun when holding full short positions; while I opted for the price explosion occurring just after the big manipulators had bought back as many short positions as possible. Since there has been no true price explosion to date (early 2011 was just a warm up), the jury is still out on how it will unfold.

As you know, I've lost contact with my old friend and I'm saddened to report that I did find out from his family some time back that he had dementia and, almost incredibly, lost all memory of silver. That doesn't change one bit my feelings that Izzy was the smartest and most honorable man I had ever had the pleasure of knowing and I will always be more than grateful for everything I learned from him, including him infecting me with the silver disease.

Since I started to lose contact with Izzy shortly after his wife, Gabby, passed away in early 2011, I often think that had things remained the same, how he would come to judge subsequent developments. While I first became aware of JPMorgan's dominant role in silver and gold as a result of its takeover of Bear Stearns in 2008, it would be only after the big takedown in price in 2011 that the full role of JPM came into view. For example, I never had the opportunity to discuss with Izzy the fact that

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JPMorgan had never taken a loss when adding COMEX short positions and that it had amassed mountains of physical silver and gold.

Therefore, I often wonder if he would have revised his "full pants down" premise in any way, seeing how there was no way that JPMorgan could ever get truly hooked on the short side, given its massive physical holdings. Regardless, there was never any disagreement than when silver did finally go, there would be nothing gradual about the price rise. I've always admitted that the full pants down scenario was possible and have, in effect, added to it by including the prospect that JPMorgan has put itself in the position of double crossing other commercials over the past year. Still, my strong feelings always remained on the side of the silver price explosion coming when JPMorgan held the fewest number of COMEX short contracts.

What prompts this line of thought is the Commitments of Traders (COT) and Bank Participation reports published last Friday. As I hope I conveyed in Saturday's review, I was taken aback by the apparent aggressiveness of JPMorgan in buying back COMEX silver and gold short positions on what to this point has been a sharp selloff that lasted for little more than a week. Yes, it was the sharpest selloff in months and did penetrate one of gold's and both of silver's key moving averages, in addition to featuring Izzy's patented salami slices to the downside; but I was still surprised (most pleasantly) by the large quantities of short covering by JPMorgan.

In fact, a subscriber wrote to me that he surmised that JPMorgan may have actually lost money in buying back silver short positions this time around. I'm still more convinced that JPM made money in closing out so many of its short positions thru March 5, but do wholeheartedly agree not as much as typically. This only adds to the point that JPMorgan did seem unusually determined to buy back short positions by stepping in front of other commercials. The most plausible motive for such aggressive short covering is a firm expectation of higher prices to come, most likely in the short term.

Another potentially bullish point is that while JPMorgan did add to COMEX silver and gold shorts as the rally from mid-November developed, it didn't add as many as it typically added on past price rallies. I have been consistent in pointing out that this has been the key factor making the manipulation possible, so it's only natural to notice any type of change in pattern. The combination of JPMorgan not adding as many new shorts as it usually does and with a super-aggressive buy back of those added shorts on the first break in prices, can hardly go unnoticed. It's almost as if JPM knows the game is coming to an end and is trying to manage a gradual and nonviolent ending.

But the state of manipulation is similar to other states, like the state of being pregnant. In other words, the condition either exists or doesn't exist. And just like any state or condition that must get resolved in time, the price manipulation in silver must get resolved - it cannot continue indefinitely. All things that must end, like life itself, will end; although it is quite rare to know exactly when. What I do know about the silver manipulation is that its end will be clearly delineated by the absence of the concentrated short position on the COMEX that has existed for more than 30 years.

It's no coincidence that silver has to be considered manipulated in price because it is the one commodity to have a concentrated short position larger, in real world terms, than any other commodity. If this concentrated COMEX short position didn't and hadn't existed for more than three decades, my claims of price manipulation would be completely invalid and I would be embarrassing myself by making such claims.

Sure, I know full well that most folks' eyes glaze over when I bring up the subject of concentration, mainly because the matter is hardly discussed elsewhere. (We all have our own crosses to bear, so I suppose this is mine). But just because the issue has been mostly overlooked, does it mean it isn't valid. Ask yourself why the CFTC bothers to include concentration data in every long form version of the COT reports for every commodity? It does so because concentration is the primary frontline warning against manipulation, even though the agency does its best to overlook the data pointing to manipulation in silver. Market concentration is also the Justice Department's first consideration in antitrust, monopoly and restraint of trade issues.

You can bet your bottom dollar that the one entity which is more aware of market concentration than any other entity is the one that holds the market concentration. In the case of the silver manipulation that entity is, of course, JPMorgan. No one could pull off what JPMorgan has pulled off over the past decade in silver without knowing that its concentrated positions, paper and physical, have dominated the market. I don't know about the CFTC or the Justice Department, but I do know it is impossible for JPMorgan not to know it has controlled silver prices. It couldn't have possibly achieved what it has achieved otherwise. And above all, JPMorgan knows the silver manipulation must end, no matter what the CFTC and Justice Department may know or do.

So when JPMorgan takes what could be interpreted as the logical final arrangements one might take before a price liftoff, it's only natural to sit up and take notice. It's always impossible to know JPMorgan's motivation (vis a vis the DOJ), as no one can know its thinking, so what we are left with is interpreting its actions (which it does its best to disguise). The last COT report strongly suggested to me that JPMorgan went way out of its way to buy back as many COMEX silver and gold short positions as it possibly could. JPM's actions are the only 'tell' available.

What about this Friday's coming COT report? In keeping with the above, I'll be paying close attention to the concentration data, first and foremost, and will be disappointed with any big increase in the concentrated short position in gold and, particularly, in silver. That said, I'm less sure about prospective positioning changes through yesterday's cutoff for the reporting week. While there was a snap back rally to the prior reporting week's sharp losses, the first two days of the new reporting week were mostly lower and trading volume remained subdued even on the subsequent rally.

In COMEX gold futures, prices ended the reporting week up by around \$13 and thru yesterday's close had failed to re-penetrate to the upside the 50 day moving average penetrated to the downside in the previous reporting week. Trading volume was definitely on the light side, especially when adjusting for rollover volume as we approach the traditional April delivery month (in a couple of weeks). A real standout, however, has been the sharp increase in total gold open interest which has grown by nearly 60,000 contracts over the reporting week. Based upon the fairly tepid rally in prices, including the failure to re-penetrate the 50 day moving average thru yesterday, it would appear that the bulk of the large increase in open interest is spread related and, as such, is not meaningful in true positioning terms.

As to why gold spread positions increased sharply, thus likely inflating total open interest, I don't have a legitimate explanation, away from active rollover periods just prior to the approach of a traditional delivery month provide the greatest liquidity for spread trading. In fact, a quite noticeable pattern has developed where total open interest increases sharply at the beginning of the roll over period (like this past week) as new spread positions are established, only to end in even sharper

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reductions in total open interest as spread positions are liquidated completely in the days immediately ahead of first delivery day. I don't know what the economic justification or legitimacy of this large spread positioning and liquidation might be, but as far as I can tell, it doesn't amount to much in the end. It strikes me as speculative spread traders having too much time and money on their hands to, basically, spin their wheels and do largely nothing.

Bottom line, I'm not looking for a large change in gold positioning in this week's report, maybe a few thousand contracts (hopefully, not more than 10,000) of managed money buying and commercial selling.

In silver, I have the same bottom line expectations (hopefully no more than 5000 contracts), although prices did rise close to 30 cents over the reporting week and did re-penetrate one of the key moving averages in silver. Trading volume remained light and there was no increase whatsoever in total open interest, as well as no reason for spread trading given that we are not approaching first notice day for another month. Again, I'm not concerned much about the positioning changes in this week's new COT report, save of course, for what JPMorgan may have done.

Finally, even though we re-penetrated to the upside gold's 50 day moving average today, we did so in a manner I find encouraging, namely, without the large net volume indicative of aggressive managed money buying. Same with silver, in that while we made new price highs today, someone forgot to turn on the salami slicing machine usually working overtime on such new highs. We are, of course, still 15 or 20 cents below penetrating silver's 50 day moving average. As long as the managed money traders don't commit overtly to the long side and JPMorgan doesn't commit overtly to the short side, the price explosion equation remains live.

At some point, as and when gold and silver prices move higher, it is reasonable to expect that the managed money traders will crank up their aggression on the buy side and then and only then will we be able to gauge the aggression of the commercials and, in particular, of JPMorgan on the sell side. JPMorgan has always sold short aggressively enough to contain every silver rally over the past 11 years and may do so on the next rally. But more than anyone, it also knows that if it doesn't add aggressively to shorts, silver will fly and it stands to make more money than anyone else in the history of the silver market.

Ted Butler

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Silver – \$15.48 (200 day ma – \$15.22, 50 day ma – \$15.63)

Gold – \$1310 (200 day ma – \$1251, 50 day ma – \$1304)

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