I always approach the start of articles on Wednesday with some trepidation when they coincide with Fed announcement days, because the finish to the day can look markedly different than the beginning. Not that I ever understood the remotest connection between what the Fed might say or do and the path of gold and silver prices. Short of changing my writing schedule, I guess it's just one of the hazards I guess I'll continue to live with. Today, we're starting off on a weaker tone to gold and silver prices.

It does still seem to me that we are facing another moment of resolution given the current market structure in COMEX futures positioning. While I'm certain the ultimate resolution will be upward in price, I'm less sure whether that move might be preceded by a deliberate takedown first designed to induce further managed money selling. I realize that is like talking out of both sides of my mouth and often times I sense it is used by some intentionally to appear correct no matter what unfolds. That's not my intent here, as I fully intend to ride out any short term weakness because I am convinced the coming upside move will be many times greater than any possible downside move that may first appear. When it comes to short term price predictions, I've found it wise to believe no one.

That said, there have been some unusual developments in the world of COMEX futures contract positioning and beyond (including the DOJ ongoing investigation) that lead me think there will be price fireworks ahead, particularly in silver. The old saw "never short a dull market" comes to mind, but it is much more than that. I'm not one to place great emphasis on near term price action, but I do see the recent low price volatility as being in conformance with some remarkable positioning changes to come, as I hope I have been conveying. As has been my custom, allow me to reconstruct the current situation in gold and silver from the last most significant starting point.

Back on Nov 13 (using COT report dates), we established the last important price lows in gold and silver, with gold dipping below $1200 and silver below $14. At that time, the COMEX market structure in each was exceptionally bullish, with the managed money and commercial net positions at or near record extremes. There was also the matter of the Justice Department announcement of a guilty plea by an ex-trader from JPMorgan and a continuing investigation.

From the November price lows, gold advanced by more than $150 and silver by more than $2 until mid to late February. On the rallies, there was significant market structure positioning deterioration, as the managed money traders bought (as always), driving prices higher, while the commercials sold into that buying (also as always). From the price peaks in February, gold has declined as much as $70 (to $1280), while silver has declined by more than a dollar to as low as $15, with each metal giving up around half of the prior gain.

In positioning terms, after buying as many as 180,000 net gold contracts (18 million oz.) on the rally, the managed money traders have sold around 65,000 contracts on the selloff since the Feb price highs. In silver, after buying nearly 90,000 net contracts (450 million oz) on the $2 price rally, the managed money traders have sold 40,000 net contracts on the selloff. Those are the hard numbers and they show, once again, what has driven gold and silver prices. Now to the subjective analysis of what might occur from here, both in terms of price and positioning.

Should we get a complete unwinding of the futures positioning that drove gold and silver prices higher from the Nov lows, there is the chance for a complete retracement of the rally. I don’t think that will be the case, but no one can rule it out.

There could be a further price decline below recent lows, as the positioning numbers would indicate and therein lies my uncertainty about whether we face a price selloff before a move to the upside. But since we are a long way from the price lows and positioning extremes of Nov 13, why would I begin think in terms of a much bigger upside move to come?

The answer to that question resides in what I see as the unusual role of JPMorgan in all things important to the world of gold and silver, including physical metal matters and futures contract positioning. As far as physical metal, JPMorgan appears consistent in continuing to acquire physical gold and silver. In terms of futures contract positioning, there is positioning and then there is positioning by JPMorgan. One thing I’ve observed about JPM’s futures contract positioning is that it involves both short term and long term considerations.

In COMEX gold futures contract positioning, I noticed about a year ago, JPMorgan making a decisive move to rid itself of its decade-long profile of being the largest COMEX gold short of all (although it had moved to the long side for a spell back in 2013). Starting last April, I noticed (and wrote about) JPMorgan double crossing the other commercials by going out of its way to reduce its COMEX gold short position by 100,000 contracts or so, to near zero. JPM subsequently added to its gold short position over the last year at times to coincide with and help guide gold prices in its desired direction, but never to the point of being short as much as previously. At the present time, I think JPMorgan might be slightly net long COMEX gold. All in addition to it owning at least 20 million oz of physical gold.

In COMEX silver futures, JPMorgan did add significantly to its short position on the rally from the Nov lows, although not as significantly as it had added in the past. In recent years, JPMorgan had brought its silver short position as high as 40,000 contracts (200 million oz), but on the rally from Nov to the end of Feb, JPM appears to have topped out at 28,000 contracts. While I was disappointed in seeing this crooked bank add that many new silver shorts, I've come to rationalize its short selling as the lesser of two evils it faced. Had JPMorgan not added so many new silver shorts, the price would have surged much more than the crummy two dollars it did advance and that might have revealed to all, especially the DOJ, just what a stranglehold JPM held on silver. Therefore, I believe JPMorgan added silver shorts out of the necessity of not exposing that it controlled silver prices.

However, after adding 28,000 new COMEX silver shorts into the end of February, JPMorgan appears to have worked overtime in buying back as many of its added shorts as quickly as possible. As of the last COT report (March 12), I believe JPMorgan has bought back at least 18,000 silver shorts in only two reporting weeks, out of the 32,000 commercial contracts bought. This is an unusually large amount, both in raw quantity and in percentage terms of total commercial buying and represents a type of commercial double cross JPMorgan had exhibited previously in gold. Also of notice is that JPMorgan didn't achieve the degree of profits it normally has in the past by buying back its added silver shorts.

Can JPMorgan continue to buy back silver shorts positions? Of course, but not to the extent, in percentage of total commercial buying terms, as it has so far. In order for JPMorgan to buy back significantly greater quantities of COMEX silver short contracts, it would take a wholesale flush out by managed money selling and decisive new price lows. While that may be the outcome that lies ahead (as acknowledged above), there may be one thing standing in the way of such a development, namely, the ongoing investigation by the Justice Department.

It occurred to me early on that the Justice Department might be focusing solely on spoofing and not the real heart of JPMorgan's ongoing COMEX silver manipulation and I must confess I have seen no real evidence to the contrary that my early concerns were misplaced. For a while, on the rally from the announcement, things started to appear differently in that no significant selloff developed, but that went out the window since the price top in Feb.

Trying to remain objective, the selloff that developed since last month has all the appearances of being the same old, same old. While all of us have experienced enough of the engineered price takedowns to last more than a lifetime, this is the first real and deliberate takedown since the DOJ's announcement on Nov 6. The first time the managed money traders were induced (tricked) into buying great quantities of COMEX gold and silver contracts, generating significant prices rallies in gold and silver, only to be followed by the commercials then inducing those same managed money traders to sell on engineered lower prices, while the DOJ was supposedly investigating. That makes this developing selloff different.

I don't have a law enforcement background, but I am fairly certain that the nation's premier law enforcement agency (the DOJ, including the FBI) doesn't have official processes and procedures that include the same criminal activities being allowed to be repeated in order to make a legal case. Yet by allowing another wash, rinse and repeat cycle of manipulation to occur in COMEX gold and silver that is exactly what the Justice Department is overseeing. The most plausible explanation to me for such an occurrence is that the DOJ doesn't grasp the fundamentals of the manipulation (despite my efforts to inform them). Therefore, should the current selloff continue, as every past market cycle would suggest, I'll endeavor to inform the Justice Department in less respectable terms than I have used to date.

As I have indicated previously, while the Justice Department may still be out to lunch in terms of grasping the full scope of What JPMorgan is up to in gold and silver, there can be no doubt that JPMorgan knows full well what it is up to. And with or without prodding from the DOJ, JPM knows there is an end game ahead. I can't see how that end game won't be highly profitable for JPMorgan, seeing how it has amassed such staggering quantities of physical gold and silver. I also can't see the probability of a contained and orderly price rise, particularly in silver, once the end game commences. Either JPMorgan will continue to suppress prices or it won't – a gradual and orderly price rise would work against all that JPM has managed to achieve over the past decade.

Therefore, it comes down to a question of timing, which, admittedly, no one can know in advance. The three possible outcomes include a complete flush out and dramatic new price lows, a quick selloff followed by a much bigger rally or a rally forthwith. I think the first outcome is unlikely and am divided on the other two.

After plunging below its key 50 day moving average nearly 3 weeks ago, gold has been acting more like it wants to decisively re-penetrate that average to the upside (although its 200 day moving average, some $50 lower would need to be penetrated in a full downside flush out). If (or when) we bust out to the upside in gold, I would expect significant managed money buying to kick in after new highs (over $1350) are achieved.

It's a bit different in silver, in that prices have been below one or both of silver's key moving averages for the past three weeks. That's not to say that silver can't be more thoroughly flushed out to the downside, just that it appears to be more flushed out than gold on the selloff so far. JPMorgan appears to have bought back significantly more silver shorts than it has in gold on a relative basis and its double crossing of other commercials is fresher in silver than in gold.

I’m still of the mind that JPMorgan would much prefer no one notice or openly talk about what it may be up to, as that might complicate its plans. It would much prefer to pull off the metals scam of all-time in complete obscurity. Since more attention seems to be focused on JPMorgan and its dealings in gold and silver as time progresses, that’s an argument for it choosing a quicker end to the game than otherwise.

As far as what lies ahead in this week’s COT report to be issued on Friday, price action doesn’t suggest significant changes, although there is typically a surprise or two “under the hood”. In gold, we ended the reporting week about $8 higher and total open interest was lower by about 16,000 contracts. Gold prices rose strongly on the first day of the reporting week, closing above the 50 day moving average for the first time in more than a week, but sold off sharply the next day on even higher volume, followed by three days of range-bound trading. In silver, prices ended a few cents lower for the reporting week and total open interest was largely unchanged. The standout feature was the sharp selloff on Thursday, the second day of the reporting week that produced no further selloff. My attention will be focused on what I might uncover about JPMorgan’s activities, as always.

In summary, we still appear to be in a critical potential set up in market structure, based principally upon what I surmise JPMorgan has been up to. The bigger move, whenever it comes, will be to the upside, regardless of the near term path. Accordingly, I still retain a fully-invested posture with far too many kamikaze call options that have resulted in only losses to this point. Today’s Fed announcement appears to have turned prices higher by the publication deadline – just as I predicted. Just kidding. However, I'll take it (as if I had any choice).

Ted Butler

March 20, 2019

Silver – $15.48 (200 day ma – $15.19, 50 day ma – $15.60)

Gold – $1313 (200 day ma – $1251, 50 day ma – $1305)