

March 28, 2018 - What I Know and Don't Know

Unless you've been trekking through the wilderness or otherwise cutoff from the Internet world of precious metals commentary, you are aware of the barrage of articles pointing to the unprecedented bullish market structure in COMEX silver futures. The unusually intense focus on the extreme level of managed money shorting is both expected and deserved, given the facts of the COT report. That is visible and known.

In some ways we have come full-circle in the amount of attention paid to the COT report. There was a time not that long ago, when the study of futures contract positioning as a means of deciphering the actual workings of price change was widely overlooked or even disparaged. If there was a most common theme to the inevitable and largely unsolicited advice from readers over the years as to how or what I should write, it would have to be the advice to drop my emphasis on the importance of the COT report. Although such advice has ceased recently, there was as much a chance of me looking away from COT analysis as voluntarily giving away one of my arms or legs. It just wasn't going to happen.

As to empathize the point, I received back to back emails from two old silver friends, one whose relationship extends back 40 years, commenting on the widespread sudden interest in matters related to the COT report. Both remarked that it seemed more are channeling my long-held findings (most often without proper attribution). While the attention now paid to the COMEX market structure would appear to be at a fever pitch, representing a great advance in the general knowledge of how silver and gold prices are determined, there is still much unknown, not the least of which is how this whole thing ends.

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To be sure, as much as COMEX futures positioning is the prime, if not sole force in the price-setting process currently, it is almost impossible for it to remain that way indefinitely. That's because the price setting process depends upon the continued financial viability of the side of the equation that must continue to lose, the managed money traders, if the market structure premise is to keep working. It has gotten to the point where it's not just the commercials skinning the managed money traders, other traders have joined in on the feasting of the technical funds. Case in point is that the large speculators in the non-managed money category (Other Reportable Traders) are now holding a near-record net long position against the well-advertised record managed money short position. Everyone seems to have learned the lesson of taking the other side of the managed money technical funds.

Of course, the commercials (both the big shorts and the raptors who are long) still remain the main counterparties to the managed money traders, but my point is that the game has become so obvious that more are reacting to the predictable behavior of the technical funds. That behavior includes the rigid adherence to selling and selling short as prices decline and buying as prices advance, with particular emphasis on moving average penetrations. The whole premise of market structure analysis is dependent upon the managed money technical funds continuing to do what they've always done. But how can they continue if, effectively, they always lose in COMEX silver and gold? That's the key to almost everything.

As I have stated in the past, JPMorgan has never taken a loss, only profits, whenever it has added new COMEX silver short contracts over the past ten years. Let me add to that that the raptors, the smaller commercials apart from the big commercial shorts have also, effectively, only taken profits for many years, except on the most rare of past occasions (I can remember only one instance a few years back, duly

commemorated by a Easter Bunny costume in my closet). The fact is that the raptors have been killing it - making larger and quicker collective profits on the COMEX than JPMorgan. (Don't feel sorry for JPM, because while they have still made substantial profits when shorting COMEX silver futures, their main objective of accumulating more and more physical silver at dirt-cheap prices has continued flawlessly).

So how long can the managed money technical funds continue to provide reliable profits to other traders, commercials and non-commercials alike? I would have thought these funds would have wised up or run out of money long ago, but to this point neither has occurred. My explanation has been in how these funds operate and the flow of investor monies into them. That they always seem to lose in silver can be partially explained by offsetting gains in other markets, as these managed money funds are always well-diversified.

But more recently over the past few years, overall technical fund performance has also become lackluster (see AQR and Winton Capital for examples). The main reason the technical funds still persist in, basically, donating money to other traders in COMEX silver is because they had been flooded with outside investor money in a world of unlimited investment money - attracting hundreds of billions of dollars. Losing a few billion in silver gets lost when you are speaking of hundreds of billions of dollars, at least for a while. At least, that's been the case up until now. Eventually, investors will abandon poor performing assets (silver is a prime example) and the technical funds overall performance has not been good.

Still, investor holdings in these managed money technical funds are quite large and we may be waiting a long time before they withdraw enough money to crimp the

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technical funds' moronic ways. I'm more inclined to think it will end suddenly in silver, with JPMorgan finally not adding to its COMEX silver short position. I know what JPMorgan does or doesn't do is the central feature, but I can't know what they will do, just as I can't know when the managed money traders will wise up.

Speaking of JPMorgan, if there is something that I don't know, then surely it is the lack of public reaction by the bank to the growing attention to its activities in silver. Not quite as ubiquitous as the attention to the COT report and COMEX market structure, JPMorgan's growing stockpile of silver in its own COMEX warehouse is attracting more attention. I believe JPM's COMEX physical silver holdings are only the tip of its 700 million oz total holdings iceberg, but I'll not litigate the issue today. Instead, I caught a brief interview on CNBC last week of Jamie Dimon, CEO of JPMorgan, that only amped up my question about how the bank could avoid the growing allegations of serious wrongdoing in silver. Please fast forward to the segment covering Mr. Dimon, which starts shortly after the 44 minute mark, with particularly attention from the 50 minute mark forward.

<https://www.youtube.com/watch?v=Ak7cjz-1Iv4>

I've always found Dimon to be a straight shooter and were it not for what I have learned in silver over the past ten years (plus my inherent distrust of banks in general), he would be my pick for best bank CEO today or even ever. But, as you know, JPMorgan's activities in silver have become the central focus of my work and never have I been more convinced that the bank has been the principle silver price manipulator and accumulator of physical metal than now. Because of this, I find Mr. Dimon's words completely incompatible with JPM's lack of words when it comes to silver.

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Mr. Dimon preaches openly embracing any complaints the bank might receive as being a favor to the bank in making sure it is doing the right thing. And how he reads everything he can get his hands on, including four or five newspapers a daily, as well as any emails he may receive. Or Mr. Dimon's insistence of dealing with the cold hard facts. None of that is compatible with me never hearing anything back from the twice-weekly articles I have sent him and to the CFTC and CME for the past ten years. It is also not compatible with my emails being blocked by JPM's Board of Directors and General Counsel when I wrote to them more than five years ago about JPMorgan's misconduct. Why would JPM's top lawyer refuse to hear about potential wrongdoing by the bank?

At the very least, one would think any legitimate financial institution would seek to shut down false allegations of serious misconduct, if not investigate and root out any violations. Clearly, the allegations of market manipulation could hardly be more serious, so something is missing here. I have a sense of why JPMorgan and Mr. Dimon have looked the other way and that revolves around not being able to adequately rebut and deny what I allege, but that's not the same as knowing for sure. It was never my aim to falsely accuse JPMorgan of manipulating the silver market; my goal has always been to see the manipulation end. Listening to Mr. Dimon, it would seem JPMorgan would take the allegations seriously, but that sure hasn't been my experience.

Turning to developments since the weekly review, the new short report on securities indicated reduced levels of short positions in the big silver ETF, SLV, and in GLD, the big gold ETF. For positions held as of March 15, the short position in SLV dropped by 2.1 million shares to just over 9.2 million shares (ounces), while the short position in GLD fell by a much steeper 4.7 million shares to 9.7 million shares (950,000 oz). My

takeaway is that this seems normal and somewhat overdue and fully in keeping with the reduced commercial net short position on the COMEX. And bullish in the whole scheme of things.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

After continuing last week's late rally into Monday, gold and silver fell back in trading yesterday and today. Obviously, this complicates estimates for what this week's COT report will indicate (although many markets are closed for the Good Friday holiday, there will be a COT report issued, since it's not an official government holiday). Working backwards, none of today's fairly heavy managed money selling will be included through yesterday's cutoff for the report, but that selling undoubtedly occurred and should be kept in mind.

I'm more interested in examining the coming COT report rather than in handicapping it, but my sense in gold is that there will be a deterioration along the lines of what I outlined on Saturday, with Monday's and Tuesday's action largely cancelling each other out. In other words, I would still look for managed money buying of around 40,000 contracts, with a decent chunk of that negated in today's trading.

It's kind of the same thing in silver, inasmuch as yesterday's selling likely negated managed money buying on Monday and how there was more managed money selling today that won't be reflected in Friday's report. The difference with gold is that I'm not sure of how much managed money buying occurred in silver on the rally from last Wednesday thru Friday. There was no upward penetration of silver's key moving averages thru last Friday and, therefore, the question is whether the managed money traders bought many or any net silver contracts thru Friday. I believe there must have been some managed money buying on Monday, but that buying was largely

negated on Tuesday's selloff and if not then, surely thru today.

That's a long and convoluted way of saying that I am unsure, but think the silver COT report on Friday will show no big increase in managed money buying and possibly a decrease, unlike what I expect in gold. Regardless of what this week's silver COT report indicates, there was managed money selling today, improving the market structure from whatever the new report indicates.

The real wonder, of course, is how the market structure could possibly improve in silver after last week's stunningly bullish report. The short answer is that it is always possible for new managed money selling to emerge, no matter how much has already occurred, as long as prices can be sliced lower by the commercials and fresh managed money selling can be lured into the market. Just because we have seen a record amount of managed money selling through the last COT report, does it mean that even more selling can't be induced. That's just the way it is.

In somewhat of a delayed reaction, I've been thinking more about last week's COT report in silver and would like to discuss my findings. I noticed it when first reviewing the report last Friday, but by the time I wrote Saturday's comments, it slipped my mind (Hey, I'm an old man). What I forgot to report was that not only were the net and gross short positions of the managed money traders at all-time extremes, this was also reflected in the number of managed money traders reported.

Simply stated, in last week's silver report, I believe there has never been a report featuring fewer managed money traders on the long side (27) or more managed money traders short (50). In fact, over the past couple of reporting weeks, it is quite clear that a good number of managed money traders, around ten or so, completely abandoned the long side and switched over to the short side. Given all that is known

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about silver, why in God's world would anyone remain long in silver for years, only to suddenly sell out those long positions now and rush to the short side? The most plausible explanation is that these were technically oriented traders all along and somehow became suddenly convinced that the short side was the place to be; but I have to tell you that it has me scratching my head.

What I'm not scratching my head over is the true net effect of the record managed money selling in silver. I don't know how the heck the commercials induced so many managed money traders to join in on selling the large quantities of COMEX silver contracts as have been sold, all I know is that the selling has occurred and has occurred without dramatic new price lows in silver. Yes, the price action stinks and if I had a dog, he would likely stay clear of me. But to focus on the obvious and emotional negative side of the story is to miss the big picture.

If you had told me before last week that more managed money traders would have sold more COMEX silver contracts than ever before and asked me what the price of silver would likely be, I would have guessed a lot lower than where we've been. I'm not saying we can't go lower in price on still more managed money selling; I'm saying something else entirely, namely, that the focus should be on the buyers, mostly commercials (big shorts and raptors alike) and other non-commercial buyers. The real story is not how many managed money contracts have been sold, but how many silver contracts have been bought and by whom.

Let's face it, the managed money traders are the chumps, most always ending up with the losing hand. To believe that the managed money traders are running the price show is to believe that the moon is made out of green Velveeta cheese. It's impossible and absurd. To believe the managed money traders are in charge is to

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believe that they have somehow maneuvered JPMorgan and the other commercials and non-commercial buyers alike into a position of great vulnerability. While no one can rule out still lower silver prices in the very short term, one must rule out the likelihood of the managed money traders setting up the buyers, commercial and otherwise, into some type of trap. The commercials are going to suddenly cave in and begin to sell at still lower prices so that the managed money traders can buy back all their short positions at a profit? Yeah, when pigs can fly.

The great takeaway here is the masterful con job the commercial buyers have pulled off in getting so many brain dead managed money traders to sell and sell short as many COMEX silver contracts as have been sold. That's the real message behind the record managed money selling in silver; it's not the amount of the selling that matters, it's the buying that it has enabled. The only question is how this historic mismatch gets resolved. Will JPMorgan and the other commercials be content to book profits and reestablish short positions on a moderate rally or will they hold the managed money traders' feet to the fire and let the price of silver rip towards the heavens? Because someday they are going to let it rip and there will be no low price buying do-overs, it's unwise to assume the final liftoff can't happen soon.

Ted Butler

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Silver - \$16.25 (200 day ma - \$16.78, 50 day ma - \$16.68)

Gold - \$ 1326 (200 day ma - \$1293, 50 day ma - \$1332)