May 24, 2017 – The Quants

One of the key recurring questions surrounding the increasingly obvious and distorted price discovery process created by COMEX futures positioning is why do the technical funds insist on serving as fodder for the commercials. Make no mistake, the technical fund traders in the managed money category get skinned and roasted on a regular basis, particularly in silver, so much so that they must be considered the enablers of the ongoing manipulation.

While not the perpetrators of the decades-long silver price manipulation, without the technical funds, there would be no manipulation possible. Certainly, JPMorgan would never have been capable of maintaining the perfect trading record of never taking a loss, only profits, when adding COMEX silver short positions over the past nine years. Since futures trading is a zero sum game (meaning the winners make what the losers lose), the only way JPMorgan could always take profits in COMEX silver futures is if someone else always took losses. The technical funds are the â??someone elseâ?•.

Therefore, it is quite appropriate for market observers to question how and why the technical funds would persist in the apparent folly of, mostly, always losing money when they buy and sell COMEX silver futures contracts. After all, a good definition of insanity is the voluntary repetition of acts that always turn out to be wrong. One would think that the technical funds would simply give up on trading COMEX silver futures, considering their abysmal track record.

The clear connection between technical fund behavior and price movement is why so many have come to incorporate changes in the Commitments of Traders (COT) Report in their market analysis. As you know, such analysis is a big part of what I do. It is precisely the clear connection between managed money positioning and price movement that intensifies the question of why these traders persist in being the punching bags in COMEX silver futures trading.

As a result of this intensity, all sorts of theories have arisen to explain the technical funds persistence at losing and, in effect, donating proceeds to the commercials and JPMorgan; everything from the commercials paying the technical funds under the table to keep losing, to the whole process being secretly run by the US Government or a consortium of central banks. However, for my part, Iâ??ve always seen it as just the way these technical funds operated 30 or 40 years ago, when I had hands on experience as a broker soliciting and handling these types of accounts.

A key question has always been why these funds donâ??t go broke trading silver (and gold and other commodities)? My pat answer is that the technical funds trade in a large and diverse number of markets and what they lose in some markets, like silver, they make up for in other markets. I think there is more to it than that, namely, a growing pool of outside investment money devoted to this type of mechanical and technically-oriented trading; but one thing is obvious â?? the level of technical fund participation has grown markedly in all markets, including COMEX silver.

The simple proof of this lies in COT data â?? in just about every futures market, the percentage of open interest held by the managed money trading category has grown much faster than any other category and is often the largest single category. No one would deny that the managed money category influences prices more than any other category, although not everyone would agree with my contention that the technical fundsâ?? actions, in essence, are dictated by the commercials.

For all those who still question how the technical funds can continue to expand positions in COMEX silver, despite continuing to lose their shirts (and pants) to the commercials, I would direct your attention to a 17-part series the Wall Street Journal is in the midst of publishing, entitled â??The Quantsâ?•. The term refers to the quantitative or mechanical (computer) approach to investing, as opposed to fundamental analysis. The glossary even includes a term I hadnâ??t heard before â?? â??quantamentalistâ?• or someone who uses quantitative and fundamental analysis. Iâ??m not sure if the series is subscription-protected, but sections have already been widely disseminated.

https://www.wsj.com/articles/the-quants-meet-the-new-kings-of-wall-street-1495389163

Basically, the series outlines the tremendous growth in investment assets dedicated to the quantitative, as opposed to the conventional or fundamental approach. Not only is the world moving to mechanical computer trading, it is doing so in dollar amounts hard to fathom â?? many hundreds of billions of dollars. We could debate how constructive this all might be in the end, but the reality is that an ocean of money has flowed into mechanical trading systems, for the better or worse.

The managed money traders I refer to as the technical funds are very much a part of this burgeoning asset class and if you are looking for a reason why these traders have grown so large in COMEX silver futures trading, despite continuing losses, then look no more. But how and why, you may still ask, can these technical funds not see that they are being played like patsies in COMEX silver futures trading and shift to another form of silver or another silver market? Here too, the answer is obvious â?? there is no other form of silver or other silver market that could accommodate the technical funds like the COMEX silver futures market.

It has to do with money, but also how absurdly cheap is the price of silver. Specifically, how much technical fund money exists and the quantities of silver that money can buy or sell. Several technical funds trading silver each have total assets under management (AUM) amounting to tens of billions of dollars or more and even the smallest allocation to silver means buying or selling hundreds of millions of dollarsâ?? worth of silver in short time order.

For example, a technical fund with $30 billion AUM which earmarked 1% of total assets to silver (with the other 99% devoted to other markets) would look to buy or sell as much as $300 million in silver when it received a mechanical buy or sell signal. At current prices ($17), that would amount to 17.5 million oz of silver. The problem is that there is no way in the world that any one trader could buy or sell 17.5 million oz of real silver in a hurry without drastically impacting the price.

Even if a trader chose to trade in the largest and most liquid silver ETF in the world, SLV, there is no way 17.5 million shares could be quickly and efficiently transacted without a profound impact on the price. After all, the average daily trading volume in SLV is less than 7.5 million shares. Trying to buy or sell 17.5 million shares at any one point during the trading day would send the price soaring or crashing. Moreover, there is no way to legitimately short sell such a quantity of silver, either in physical terms or in SLV (emphasis on â??legitimatelyâ?•).

The only way to suddenly buy or sell (or sell short) 17.5 million oz of silver without drastically impacted the price is to deal in COMEX futures contracts, as 17.5 million oz is equal to 3500 COMEX silver futures contracts. As I think you know, trading 3500 COMEX silver futures contracts is generally no particularly big deal and many traders deal in even larger quantities. For instance, the 8 largest shorts in COMEX silver futures hold an average of 11,000 contracts each.

The problem is that 17.5 million oz of actual silver is an enormous quantity, whereas on the COMEX, 3500 futures contracts is not enormous. Because the technical funds are blessed (or cursed) with gigantic amounts of money to manage, they are forced to deal where such large amounts can be accommodated. In silver, that leaves only the COMEX. This explains why the technical funds not only persist in trading COMEX silver futures, but do so in ever-increasing quantities.

I realize that I am just stating in slightly different terms my long-held premise that futures positioning on the COMEX is what sets the price of silver and not changes in real world supply and demand. This creates an unavoidable artificial price in silver, because only large paper traders participate in COMEX and not actual producers or consumers. But please donâ??t think Iâ??m just restating the obvious, as I have a different point to make.

Recently, I have been pounding on the table to buy silver, anticipating that my long awaited expectation of an explosion in price may soon be at hand. I can assure you that my expectation is not based upon some hunch or hope that this may soon occur or based upon some chart development or even a change in actual supply and demand. My expectation is based upon todayâ??s musings on how and why the technical funds came to deal in such large quantities of silver in COMEX futures contracts.

Last week, I wondered out loud how it is that the managed money technical funds came to be so heavily short COMEX silver futures at this time and place. I speculated there may have been some special collusion on the part of the commercials to employ every trick up their sleeves to induce the technical funds to get so heavily short. Whatever the reason may be is secondary to the fact that the technical funds did sell and sell short more COMEX silver futures contracts over the past four reporting weeks than ever before. This is the sole reason behind my contention that we are on the cusp of a silver price explosion.

Yes, it could turn out that on the next silver rally, the commercials and particularly JPMorgan, aggressively add to COMEX short positions as the technical funds rush to buy back short contracts and add new longs. Thatâ??s the way it has been on every past silver rally, so itâ??s certainly not unreasonable to expect that to happen again. Should that occur, the aggressive commercial short selling and technical fund buying will be quite evident in future COT reports.

But since I am certain that one day the commercials and particularly JPMorgan wonâ??t add aggressively to shorts, Iâ??m always on the lookout for signs of a different outcome. While I have seen strong signs in the past, the extremely aggressive technical fund selling and commercial buying over the past four reporting weeks is the clearest possible sign that what we just witnessed was the last roundup of technical fund shorts. Of course, JPMorgan being better positioned for a silver price explosion than ever before is no minor matter. So yes, my silver price explosion flag is still flying.

As far as what Fridayâ??s new COT report may indicate, through yesterdayâ??s cutoff we had fairly strong price action in both gold and silver and big changes in total open interest over the reportingweek just ended. In COMEX gold futures, prices ended the reporting week about $20 higher, althoughprices did finish above the key 50 and 200 day moving averages every day, a key technical fund buysignal. In addition, total open interest rose by nearly 28,000 contracts.

As such, it would not surprise me if Fridayâ??s COT report on gold featured significant managed money buying and commercial selling to the tune of 40,000 contracts or so, which would be the first significant increase in commercial selling in four weeks and the largest weekly increase in commercial selling since late February. An increase in commercial selling in that order of magnitude would likely put the market structure in gold back to neutral.

As is often the case, itâ??s a bit different in silver. Silver prices also rose by 40 cents or so over the reporting week ended yesterday, but unlike the case in gold, silver has yet to penetrate its key 50 and 200 day moving averages, thus delaying the activation of a usually powerful technical fund buy signal. In addition, and opposite to what occurred in gold, total open interest in COMEX silver fell by nearly 12,000 contracts.

The big (near) surprise in silver in the last reporting week is that the technical funds actually added aggressively to short positions despite an increase in prices because the moving averages werenâ??t penetrated. Even though thatâ??s what occurred this week as well, the prior reporting week featured a large increase in total open interest, suggesting something unusual was up. This week, total silver open interest is down, so I feel it would be too much to hope for a repeat of last weekâ??s results (although Iâ??d love to be wrong).

It seems to me that even though the key moving averages werenâ??t penetrated this reporting week, the one dollar increase in price over the past two weeks should have been enough to have persuaded some technical funds to buy back short positions on a loss-limiting basis. In fact, I think there might have been as many as 10,000 contracts of commercial selling and managed money short covering. I would guess that the commercial selling was mostly of the raptor long liquidation variety and I am not expecting that JPMorgan increased its short selling. Nor do I think many managed money longs were added, just shorts bought back.

Even if the silver report indicates an expected deterioration of 10,000 net contracts or so, itâ??s important to remember that there was an improvement of nearly 80,000 net technical fund contracts over the prior four reporting weeks, so the market structure in silver should still be good to go (for an explosion). Â Â The wonder is that here we are, nestled just slightly below the major technical fund buy signal of upward moving average penetration with a COT setup as good as I can remember. As the Wall Street Journal points out â?? itâ??s increasingly a quant investment world. What it doesnâ??t point out is that the quants are on the wrong side of COMEX silver in a very big way.

Finally, I got a thought-provoking email from a subscriber whose questions might be on othersâ?? minds â??

Ted,

You have often talked about the silver inventory at the JPM COMEX warehouse and seem to refer to all of that inventory as belonging to JPM.Â I do not know how these warehouses work, but have assumed that they were also a storage location for various owners.Â Does all the

silver at the JPM silver warehouse belong to JPM?

Also- Wouldnâ??t JPMâ??s physical silver show up in public reports required of JPM as a public traded company?Â Â I assume that it is in those reports somewhere, but not obvious or discernable?Â Â According to what you have said JPM as spent over 10 billion USD to acquire their silver and it seems that should be able to be â??provenâ?•.Â Â Â

I feel that all silver needs to take off is for more people to understand what kind of investment potential silver has.Â I plan to start calling media to try to find a reporter(s) that is willing to investigate the precious metal manipulation.Â Would you be willing to do an interview with a legitimate reporter?Â Â If I do get a serious reporter on the phone, is there a way they could have free access to your articles?Â Say for 90 days?Â Â I would think that any financial reporter worth their oats would recognize within an hour or two of reading your articles that this could be the next big story.Â

Thanks,

SteveÂ

Dear Steve,

All great points and questions. Yes, itâ??s quite true that normally it might be a mistake to assume all the metal in the JPM COMEX silver warehouse belonged to the bank. After all, Iâ??ve never concluded that the all the silver in the other COMEX silver warehouses, such as HSBC, Bank of Nova Scotia, or Brinks belongs to those institutions. But in the case of JPMorgan, as I hope Iâ??ve covered on these pages, all the silver that has been deposited since 2011 has come to be deposited as a result of JPM stopping deliveries on futures contracts in the bankâ??s own proprietary (house) trading account. And it has been as regular as the seasons over the past few years that after JPMorgan accepts delivery, all that metal is then separately moved into its own warehouse. These are highly unique circumstances, kind of in the category of if it quacks, walks and looks like a duck, then it must be a duck.

As far as finding evidence of the 100 million oz of COMEX warehouse silver or the total of 600 million oz held by JPM in the bankâ??s books, good luck. When a financial entity like JPMorgan wishes to hide the identity of any of its holdings, there are many ways to do so, including special purpose entities. The army of lobbyists and lawyers for JPM exist for that very purpose. And at $12 billion, JPMorganâ??s physical silver holdings are a small percentage of the more than trillion dollars of total assets held by the bank.

But you do ask a question that comes up naturally, namely, where is the incontrovertible proof that JPM holds 600 million oz of silver? There is no such proof. If there was, you wouldnâ??t be asking for proof. However, for more than three years, as an analyst, I have traced the means by which JPMorgan has accumulated the largest (privately owned) silver stockpile in the history of the world. Those means include skimming from the unprecedented weekly turnover in the COMEX silver warehouses, the purchase of Silver Eagles and Canadian Maple Leafs, and share for metal conversions in the SLV. My simple point is that if anyone is looking for more proof than that, then I canâ??t help them. Please keep in mind that JPM dominates silver trading on the COMEX and has engineered the perfect solution to covering its paper short position and will now make bazillions on a silver price explosion.

Finally, as far as me be willing in any way to encouraging any legitimate financial reporter to dig into this story â?? of course, I would do so. But I must tell you â?? Iâ??ve been looking for more than 30 years for such an individual, with no luck and give you no chance. Please prove me wrong.

Best regards,

Ted

One thing I left out is that it is clearly in JPMorganâ??s best interest that it keep its epic accumulation of physical silver close to its vest and confidential. JPM will do what it can to prevent others from seeing what it owns, as that will be to its great advantage when it comes time to sell.

Ted Butler

May 24, 2017

Silver – $17.15Â Â Â Â Â Â Â Â (200 day ma – $17.73, 50 day ma – $17.44)

Gold – $1255Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1249, 50 day ma – $1252)

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