May 8, 2019 – Marching Towards Resolution

It should be clear by now that prices of gold and silver, along with most other markets, are determined by derivatives positioning changes. Itâ??s absolutely crazy that the derived markets set prices for the real markets, but itâ??s crazier to deny that obvious fact. Â Increasingly, the positioning changes that matter the most are the futures market positioning changes between one group of traders, classified by the CFTC as the managed money traders and another group of traders classified as the commercials.

In gold and silver, the managed money traders that matter the most in that they are responsible for the most significant positioning changes are the technical funds and the commercials that serve as their counterparties are mostly banks. The technical funds are quite slavish in buying when prices are rising and selling when prices are falling with particular emphasis on moving average penetrations in either direction. The commercials, fully aware of how the technical funds behave, influence price change to induce desired technical fund behavior.

While positioning changes fully explain gold and silver price movement, because the changes vary in terms of the extent of technical fund positioning on either the buy or sell side and the timing between when these funds transition between buying and selling, positioning changes are not particularly helpful on a short term basis. But when the technical funds establish extreme long or short positions, the resultant market structure usually is a reliable indicator of what prices are likely to do in time.

Because it is known that the technical funds are slaves to price direction, once these funds have established an extreme long (buy) position, it is generally only a matter of time before they will sell en masse, driving prices lower. Once these technical funds have sold en masse and have established an extreme short (sell) position, it is generally only a matter of time before they buy, causing prices to rise. Since most investors are usually interested in buying assets at as low a price as possible, using the market structure approach in gold and silver means buying after the technical funds have established an extreme short position and have already driven prices lower. Allowing for the subjectivity that determining when the technical funds have sold enough necessarily entails, it appears these funds have sold enough to make gold and silver a buy at this time (as I hope I have been indicating of late).

Trying to precisely predict when maximum technical fund positioning and price extremes have been achieved is always impossible in advance (and failsafe after the fact), but it is possible to come reasonably close at times. Itâ??s always possible for the commercials to induce additional technical fund selling after an extreme short position has been established and for the process to take longer than anticipated â?? those are the hazards of the game. Iâ??d like to explain why I believe we are close enough to an extreme in technical fund selling to expect higher gold and silver prices ahead.

Since the price tops in late February, gold prices fell as much as $80, or slightly more than half of the $150 rally from mid-Nov, as the technical funds sold around 100,000 of the 160,000 COMEX gold contracts they bought on the rally. In silver, prices fell more than $1.50 from the Feb highs, erasing 75% of the rally from Nov to Feb, as the technical funds sold around 60,000 of the 90,000 contracts they bought on the prior rally.

Is there room for further gold and silver price weakness and additional technical fund selling? Of course, that is always possible. But it has now been close to three months since the price highs were

put in and substantial technical fund selling has already occurred. That means that substantial time has evolved in which the technical funds have been in sell mode. For instance, silver has been below its key 50 day moving average since March 1 and below its 100 and 200 day moving averages for a month. Along with a series of new price lows (salami slices), the technical funds have had sufficient motivation to maximum sell. Of course, if Iâ??m wrong and prices fall further amid additional technical fund selling, that only improves the bullish market structure (which only partially offsets the personal egg on my face).

Superimposed over current market structure considerations, of course, is the unique role of JPMorgan, by far the dominant force in both gold and silver derivatives and physical metal positioning. Simply put, JPMorgan owns the gold and silver markets and price determination. Therefore, the extent of JPMâ??s positioning matters more than any other factor. And on the gold and silver price retreat from February, JPMorgan has featured mightily in buying a larger share of the technical fund selling than it normally does â?? in addition to amassing more physical gold and silver. In effect, JPMorgan extended its impossibly perfect COMEX trading record of never taking a loss and continuing to acquire physical metal on the cheap.

Based upon the COT and Bank Participation reports since then, I would estimate that JPMorgan bought more than half of the 100,000 COMEX gold contracts and 60,000 silver contracts sold by the technical funds since the February price highs. This heavy buying enabled JPMorgan to establish net long positions in both COMEX gold and silver futures, a rarity of notable consideration. The only questions remaining are what JPMorgan intends to do with both a derivatives and physical gold and silver long position larger than any it has previously assembled.

The questions break down to some variation around will JPMorgan gun for an even larger net long position by rigging lower prices, will it toy with the market by selling quickly on higher prices to buy back on lower prices, extending the manipulation, or will it stand aside from selling aggressively on higher prices and allow prices to truly surge higher? These are all outcomes at the sole discretion of JPMorgan.

Yes, I know that the Justice Department is investigating precious metal manipulation and JPMorganâ??s role in that manipulation, but my initial optimism of the DOJ cracking down on the crooks at JPM has diminished by virtue of the fact that JPM just pulled off another notable chapter of its 11 year manipulation in full view of the supposed DOJ investigation. I know the Justice Department needs to dot all the iâ??s and cross all the tâ??s when going up against a superior legal adversary like JPMorgan, but allowing a crime to continue canâ??t be in any DOJ manual. Let me just say that I hope Iâ??m wrong about the Justice Department not being able to stand up to JPMorgan.

Since futures market positioning is all that matters for gold and silver prices, all eyes naturally turn to this Fridayâ??s release of the both the COT and Bank Participation reports for positions as of the close of business yesterday. This was an unusual reporting week in that prices ended little changed when the dust settled, but within the week gold and silver prices sold off sharply on the first two trading days, setting new year-to-date lows, before recovering sharply on Friday. Best I can tell, there wasnâ??t much positioning change on Monday and Tuesday in silver, although there may have been some managed money buying on those two days in gold.

Iâ??m pretty sure there was heavy managed money selling in both gold and silver on the Wednesday and Thursday selloff, followed by managed money buying on Friday. Compounding matters is the

recent tendency of the managed money traders to have an itchy trigger finger in which they buy and sell in larger quantities on smaller price moves than previously. I guess thatâ??s a roundabout way of saying Iâ??m not too sure what Fridayâ??s reports will indicate. To be sure, Iâ??ll be highly interested in what the reports may reveal about JPMorgan, since thatâ??s the key feature in gold and silver.

Maybe Iâ??m reading it all wrong, but despite the going on three month price decline and series of fresh new price lows last week, it seems both gold and silver are â??snuggingâ?• the key moving averages for an upside penetration. The simple mathematics of moving averages is that they decline over time on price falls and, at some point, the smallest rally will cause an upside penetration which has always triggered technical fund buying in the past. Mathematically speaking, it is inevitable that prices will penetrate all moving averages in time (unless prices fall to less than zero or rise to infinity). Therefore, even if we move to new lows first, there will be an eventual upside penetration of the key moving averages in both gold and silver.

In fact, we traded up to the remaining key moving averages is gold this morning that still could be penetrated to the upside (the 50 and 100 day moving averages), before turning lower. In silver, we touched but did not penetrate the 200 day moving average before retreating in price, with the 50 day and 100 day moving averages only 15 cents and 30 cents above todayâ??s early price highs. Yes, it is possible for the commercials to instead rig prices lower, seeking to induce technical fund selling in gold below its 200 day moving average, some $30 lower, but even if they do, we will likely face upside penetration levels shortly thereafter.

The sad truth is like it or not and whether one chooses to participate in the COMEX price rig, all investors, as well as producers and consumers in gold and silver are held captive to the COMEX rig. Thatâ??s why manipulation is the most serious market crime of all â?? it affects everyone.

As I have stated on many previous occasions, reliance on moving average penetrations for investment decisions is whacky and not something grown men should do. Unfortunately, the grown men and women running the technical funds insist that moving average penetrations are the be-all and end-all and because they are collectively so large a market factor, we all must live with that. Even worse is that the commercials (JPM) know full-well the technical fundsâ?? addiction to moving average penetrations and deliberately rig prices to generate buying and selling from the technical funds.

Worst of all is that the regulators at the CFTC and now, apparently, at the Justice Department have turned a blind eye to the commercialsâ?? deliberate rigging of prices to induce technical fund behavior. Itâ??s almost inconceivable that the Justice Department could go so far as extracting a criminal guilty plea from an ex-trader of JPMorgan for spoofing and conduct an ongoing investigation of same without discovering that the real intent of spoofing is to rig prices so as to generate technical fund buying and selling. What the heck does the DOJ think is the prime purpose of spoofing if not to induce technical fund buying and selling? How else does the Justice Department think it was possible for JPMorgan to achieve only profits and never a loss when trading COMEX gold and silver futures over the past 11 years?

Look, I know Iâ??m only a private citizen and not in charge of the Justice Department, but a manâ??s gotta do what a manâ??s gotta do and if the stone cold crooks at JPMorgan add aggressively to shorts on the next rally with no action from the DOJ, I do intend to formally complain to its Office of Professional Responsibility and/or Inspector General. Thatâ??s not a threat, just a promise.

In the meantime, there is little choice but to position ourselves as best as possible and await the bloodless verdict of the market. The only reason silver prices are as cheap as they are is because of paper positioning on the COMEX. The good news (and it truly is good news) is that those holding the biggest short positions are not the commercials (and certainly not JPMorgan), but the nitwit technical funds. There is absolutely no chance that the technical funds can close out their open short positions by delivering physical metal; their only option is to buy back their short positions. At some point the technical funds open short positions must be resolved. The question is at what price will the commercials and JPMorgan choose to sell.

When I first uncovered the COMEX silver manipulation nearly 35 years ago and for many years after that, I never conceived that the technical funds would grow so large that they could, essentially, replace the commercials on the short side of COMEX silver. Neither could I have imagined that the biggest short, into which JPMorgan evolved, would end up net long in COMEX futures and come to accumulate more physical silver (and gold) than ever held by any single non-governmental entity. But this isnâ??t about imagination or what one can conceive â?? itâ??s about observation and analysis.

Considering the current positioning of the managed money technical funds and, particularly, the positioning of JPMorgan, the most reasonable way of playing it is to expect an upside breakout. Even if JPMorgan is able to rig prices lower first, it shouldnâ??t be terrible long before we get an upside penetration of the moving averages and concerted technical fund buying.

Ted Butler

May 8, 2019

Silver – $14.86Â Â Â Â Â Â (200 day ma – $14.99, 50 day ma – $15.15)

Gold – $1282Â Â Â Â Â Â Â Â (200 day ma – $1256, 50 day ma – $1295)

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