Gold and silver prices sold off this week, nearly erasing the sharp gains of the previous week, as gold fell $23 (1.8%) and silver ended 35 cents (2%) lower. As a result of the fairly stable percentage losses, the silver/gold price ratio widened by a fraction of a point to just above 75 to 1, still stuck in a trading range that seems to have lasted forever.

Clearly, both gold and silver are dancing a price tango tied to paper positioning on the COMEX and if you could tell me when the paper music will stop, I believe I could tell you when silver will reflect a much higher valuation, both relative to gold and in absolute terms. I’m going to run through the weekly format in order to spend some time on a new development that could have an important bearing on how much longer the COMEX pricing scam is with us.

Turnover or the physical movement of metal brought into or removed from the COMEX-approved silver warehouses jumped on Friday, but that movement only increased weekly turnover to 2.8 million oz. Most of this week’s movement was of the “in” variety as total COMEX silver inventories increased by 2.2 million oz, to 221.9 million oz, a new 20+ year record. Cobwebs are still the order of the day regarding the silver holdings in the JPMorgan COMEX silver warehouse, which stayed stuck at 115.8 million oz for more than month, but still at a record for individual warehouse totals.

Since I haven’t done so in a while, let me establish that the highest recorded total COMEX silver warehouse totals were around 280 million oz throughout the early 1990’s, to give you the upper historical parameter and since then the lowest level of silver inventories was around 80 million oz in the late 1990’s. Interestingly, total

COMEX silver warehouse inventories were around 100 million oz in 2011, around the same time JPMorgan opened its own COMEX silver warehouse. Now, six years later, total COMEX silver inventories have increased by almost exactly the same amount as the silver that came into the JPMorgan warehouse over that time. Not only is that not coincidental, it’s just another sign of the influence JPMorgan has come to exert in silver, ever since it decided to buy as much physical silver as it could in April 2011.

Another standout physical development in silver this week was the nearly 4.5 million oz withdrawal from the big silver ETF, SLV. Considering that price action was more mixed than anything else, the only explanation I can come up with, plausible or otherwise, is an intentional conversion of shares to metal to avoid share reporting requirements and to conceal a continued accumulation of physical metal by….surprise, surprise….JPMorgan. What’s new?

Sales of Silver Eagles continue to limp along, ever since you know who stopped buying them a while back. Following six or more years of average monthly sales of 3.5 million Silver Eagles, which featured JPMorgan as the very biggest buyer, the sales pace has collapsed to no more than 1.5 million coins per month, if that, since JPM left Silver Eagle town last year. The most remarkable thing is the number of commentators who still refuse to recognize the obvious.

https://www.usmint.gov/about/production-sales-figures/bullion-sales

The changes in this week’s Commitments of Traders (COT) Report were as expected in silver, although much less so in gold, even though I refrained from offering specific contract predictions. You’ll remember is was a mixed price reporting week, first strong as gold and silver prices penetrated important moving averages to the upside, only to fall below the same averages into the Tuesday cutoff.

Knowing that the managed money traders most likely bought on the upside penetration and sold on the subsequent downside penetration, I sensed there would be net managed money buying, despite the sharp Tuesday selloff. That turned out to be the case in silver, but even in gold there were new longs put on by the managed money traders for the reporting week, but also a larger increase in managed money new shorting.

In COMEX gold futures, the commercials decreased their net short position by a scant 1400 contracts to 221,600 contracts. There hasn't been a really significant change in the commercial headline number for gold or silver for almost a month, as gold prices have largely remained in a fairly tight $30 trading range since the end of September. Silver's trading range has been wider, at close to a dollar, but the dominant price feature in both has been the continued crisscrossing of moving average penetrations.

I would point out that the relatively small net change in commercial positioning over the past month in COMEX gold and silver is yet another confirmation that paper positioning sets price. When there are big paper positioning changes, the price changes are big; when paper positioning changes are small, price changes are small. Just more proof of the complete control that paper positioning holds over price.

With the change in the commercial net short position in gold again relatively minor this reporting week, the only notable feature in commercial categories was that the big 4 and big 5 thru 8 added shorts, 1400 for the big 4 and 700 contracts for the big 5 thru 8, while there was buying of 3500 new longs by the raptors, increasing the smaller commercials' net long position to 32,200 contracts..

On sell side of gold, the managed money traders were net sellers of 1815 contracts this week, but as mentioned above, this was arrived at in an unusual manner, as these traders bought 3401 new longs, but they sold 5216 new shorts as well. The new gold shorts are more puzzling than are the new longs, but I do remember commenting recently that the managed money short position in gold had grown unsustainably low and the most plausible explanation to me is that this week’s increase was a normal adjustment.

In COMEX silver futures, the commercials increased their net short position by 4300 contracts to 74,900 contracts. By commercial categories, the big 4 added 2600 new shorts and now hold close to the highest number of shorts going back to April, never a comforting development in the past. The big 5 thru 8 added only 200 new shorts and the raptors sold out 1500 long contracts, reducing their net long position to 22,600 contracts. At least all the silver commercials got the same sell memo, unlike the case in gold.

I’d peg JPMorgan’s short position to be 36,000 contracts, up 2500 on the week. That’s the equivalent of 180 million oz and is still only a couple of thousand contracts away from the highest levels of the year. Unless JPM has something up its sleeves (always possible), past instances of large short positions hasn’t proved particularly conducive for higher silver prices.

On the buy side of silver is was all a managed money affair, as these traders bought a rather hefty 6826 net contracts, including new longs of 3490 contracts the buyback of 3336 short contracts. The managed money traders bought more than the commercials sold by 50%. And remember, we undoubtedly had quite a few managed money contracts sold into the Tuesday cutoff, so the buying earlier in the week was larger than the reported numbers would otherwise indicate.

Managed money longs in silver are now close to 74,000 contracts, about 18,000 contracts above what are assumed to be core non-technical fund longs of 56,000 contracts, not an insignificant amount of potential selling in a price rig to the downside. Then again, there is potential room for perhaps 40,000 contracts of new longs by the managed money traders should they replicate their record long position set earlier this year. Of course, the potential number of managed money long contracts that could be bought or sold is a far cry from what is to be; it's merely an observation of recent parameter extremes. On the other hand, the less than 11,000 contracts of managed money shorts remaining doesn't leave much potential short covering left, but we already knew that the big question is whether the managed money traders will add aggressively to shorts (true in gold as well).

Thus, the overall market structures in COMEX gold and silver are bearish, but can always get more bearish on further managed money buying and commercial selling on higher prices. Strictly in COT terms, it's hard to get bullish, but there is never a guarantee that the price will be set strictly on paper positioning indefinitely and I, for one, am rooting for that day to come already.

A quick mention on COMEX copper, where I came respectably close in the only contract prediction I offered this week. The managed money traders in copper bought 13,581 net contracts, a bit below my 15,000 to 20,000 contract prediction, but still a very large weekly change and the sole explanation for why copper prices rose (along with LME and Shanghai positioning). During the reporting week, copper prices exploded by as much as 20 cents per pound, setting multi-year highs in the process.

It would be an understatement to say I'm quite sensitive to the issue of paper futures trading setting the price of world commodities, so whenever there are big price changes, I look for the cause. When I did this in copper this week, I couldn’t find any plausible explanation offered for the jump in copper prices, aside from the same Pablum always trotted out, namely, weak Chinese demand on lower prices and strong Chinese demand on rising prices. As if Chinese demand could ever change as much and as often as reported. Copper prices are as high as they are because managed money buying has been as strong as it has ever been, or nearly so

More than ever, the evidence of speculative paper positioning is stronger and more obvious than ever before, yet it seems to be somehow more overlooked than ever. How can this be? And if anyone should be raising this issue, it should be the regulators at the CFTC. The problem here, of course, is should the agency ever acknowledge what is really driving prices, it will be asked why it didn’t see so and take action sooner. It’s hard for anyone to do anything against his own best interests.

Slippin’ Out the Back, Jack?

News reports this week indicated that the Bank of Nova Scotia (ScotiaBank), Canada’s third largest bank, had put its precious metals operation, ScotiaMocatta, up for sale. Various sources said the unit had been for sale for a year or so and it was thought (hoped?) Chinese interests might buy the business. It was also reported that the Bank of Nova Scotia would shrink the unit if no buyer could be found. The impetus for the sale was said to be a scandal involving smuggled gold from South America to the US. Somewhat ironic, but interesting nevertheless, was that the sale "listing" agent was none other than JPMorgan.

http://www.reuters.com/article/us-scotiabank-gold/scotiabank-mulls-sale-of-gold-trading-unit-sources-idUSKBN1CN2CN

I believe there is more to this story than meets the eye and which involves the ongoing gold and silver price manipulation. About the only thing I find suspect in the news accounts is the motive for the sale – I was aware of the smuggling story, but ScotiaMocatta didn't seem particularly exposed in this matter. I accept that the unit is up for sale, just not the motivation behind the sale. If my reasoning is correct, this could be a very significant development in the ongoing silver and gold price manipulation on the COMEX; on a par with JPMorgan taking over Bear Stearns in March 2008; which, in my opinion, was the most significant event in the silver market in decades.

In order to make my case, I have to take you on a stroll down memory lane, back 35 years or more to the time of the great silver price run up in 1980, when the Hunt Bros. ran the price of silver to $50 before it collapsed. I was an active participant in that run up and collapse as a commodity broker with customers on both sides of the market (in a limited way) and didn't have any specific interest in silver over other markets at that time. What I came to know developed later, from 1985 onward, as a result of a challenge given to me by Izzy Friedman, as I've recounted on numerous occasions.

One thing that I don't believe I've ever written about before that I learned not only from Izzy, but also from the historical record, was that the big silver short at that time was the metals dealer Mocatta Metals Corp, a firm whose roots dated back for hundreds of years and which was headed then by Dr. Henry Jarecki.

https://en.wikipedia.org/wiki/Henry_Jarecki

Another thing that I don't remember writing about before was that Izzy was (and I became) convinced that Mocatta was the original short silver crook, having been the principal short seller and changer of the COMEX rules that aided in the great silver price collapse of early 1980. When I first started complaining to the CFTC in 1986 about silver being manipulated, my initial contact at the agency was with John Mielke, the long-time surveillance director. I wasn't aware of it until several years later, but one of my very early complaints concerning unusual changes in COMEX silver open interest, led to Mocatta being fined $500,000 for trading irregularities in silver, an enormous sum at the time and well before any whistleblower program. Heck, I didn't even get a thank you from the agency. All this is just an aside to the issue at hand.

Mocatta Metals was sold by Jarecki in the late 1980's to Standard Chartered Bank of London, but still remained a key COMEX short seller in silver and gold. The unit was then sold to ScotiaBank in 1997 and renamed ScotiaMocatta. Now the parent bank is looking to offload its precious metals unit or shrink it in size. Truth be told, I could never figure out why a leading Canadian bank would even want to buy and run a business not remotely in keeping with its core banking businesses – it was like trying to put a square peg in a round hole. The Bank of Nova Scotia has roughly 90,000 employees, whereas the ScotiaMocatta unit has less than 200 employees (soon to be a lot less) and accounts for a tiny fraction of the bank's $2 billion quarterly profits.

I always considered ScotiaMocatta to be one of the silver managers, up there with AIG and JPMorgan. In fact, when I wrote to the six big financial firms I believed were the silver price managers years ago, only AIG and ScotiaMocatta replied, with both denying any wrongdoing. As it would turn out, AIG would later get out of silver and gold trading and transferred its trading unit to Bear Stearns, while ScotiaMocatta has remained intact, at least until now. About ten years or so ago, I publicly wrote to the Bank of Nova Scotia's CEO at the time, alleging that ScotiaMocatta was manipulating the price of silver, but nothing much came of it. I was somewhat surprised the bank didn't threaten me to stop saying bad things about it, but much less so, as it would turn out, than I was by JPMorgan remaining mute in the face of more serious allegations.

With that historical background, let me tell you what I think is the Bank of Nova Scotia's real motivation for seeking to offload or otherwise make go away its ScotiaMocatta precious metals unit after 20 years of ownership. In a word, liability or the fear of what is to become of a major short seller in silver (and gold) on the COMEX. By every count, ScotiaMocatta is one the 7 potential dead men walking who hold large concentrated short positions. That, not some alleged smuggling ring that only tangentially involved ScotiaMocatta, is what is motivating the bank to dump the unit. The only wonder is what took the bank so long to come to this conclusion.

When it comes to the 8 largest concentrated shorts in COMEX silver and gold, JPMorgan, alone, is protected against financial ruin due to its massive physical silver position whenever silver prices explode. I see no evidence that any other entity has accumulated enough physical silver away from JPMorgan. Because JPM was so far ahead of the pack in recognizing that silver will soar in the future and began buying as much as it could starting six and a half years ago, it's too late for the 7 others to jump onto the buy side now. That's because such buying would set off a price spiral – about the very last thing a big short would want or do. JPMorgan has played this masterfully.

The best thing the Bank of Nova Scotia could hope to achieve now is to unload the problem on someone else, say an unsuspecting Chinese entity. The problem is that you can't go from being, most likely, the 2nd largest silver short on the COMEX for years running, to suddenly closing out your shorts or getting long in a flash. You can't just blink your eyes or click your magic ruby slippers and have the short position closed out – you must buy back the position or deliver physical metal, no easy task when you are talking perhaps upwards of 75 million oz held short in COMEX silver futures (15,000 contracts). And just in case anyone is wondering – there is also no way that the Bank of Nova Scotia could ever admit to this and hope to unload the unit on anyone else. Hence, the BS smuggling cover story.

As to what has finally awoken ScotiaBank to the potential liability inherent in being a large short seller in silver and gold, there a number of explanations. The most plausible to me concerns the ongoing big money scoreboard that I've taken to compiling since the summer of 2016. My money scoreboard involves the 8 largest shorts in COMEX gold and silver futures pitted against the manage money traders. I started keeping this calculation because I felt it went to the heart of the COMEX price manipulation.

Back in the summer of 2016, the open and unrealized losses to the 8 largest shorts in COMEX gold and silver combined amounted to $4 billion. By the end of last year, the 8 big shorts had succeeded in rigging gold and silver prices lower and with the price decline, the $4 billion open loss was extinguished. Still, at the gold and silver price highs of 2016, the collective $4 billion open loss had to be dealt with by the 8 big short crooks. This meant that the unrealized loss had to be deposited with the clearing house by all shorts who were underwater, including the 8 big shorts (of which ScotiaMocatta was a card-carrying member).

This meant that ScotiaMocatta had to have deposited anywhere from $500 million to $750 million in unexpected margin calls in the summer of 2016, the most ever (except perhaps for April 2011). Where did the margin money come from? In ScotiaMocatta's case, from the parent bank. But since the demands for margin were so outside the bounds of what the parent bank was used to providing to its precious metals unit, it had to raise some eyebrows at the Bank of Nova Scotia. Large bank CFO's and treasury officials tend to become concerned when they are pressed for sudden demands for many hundreds of millions of dollars where they have never been pressed before. There is no way that the chief financial officer for ScotiaBank didn't investigate why the ScotiaMocatta unit was hemorrhaging hundreds of millions of dollars. If he or she didn't, it would be grounds for immediate dismissal.

Therefore, there's no way that the parent bank didn't come to realize what a pig in the poke and potentially ruinous liability its precious metals unit was. Not only does the timeline fit regarding how long the unit has been up for sale, but I'm sure the parent bank came to appreciate the regulatory and general liability risk of being found to have manipulated the price of gold and silver for many years.

In some ways, the reported proposed sale of ScotiaMocatta reminds me of Deutsche Bank's proposed sale of its interest in the London Silver Fixing some time back. After a short time, when Deutsche Bank recognized it owned a pig in the poke which no one (in a sane state of mind) would touch, it just quit the London Fix unilaterally. I'll be interested in seeing if ScotiaBank finds a buyer willing to step into harm's way.

As I have been reporting, the big 8, JPMorgan aside, haven't been having the best of times recently. Sure, they have escaped having to buy back and cover short positions at the price highs, avoiding having to convert unrealized losses into realized losses to date, but there's more to it than that. While their trading record is still impossibly-perfect, in reality it hasn't been particularly profitable for the big 8 the past couple of years. The big profit takers have been the raptors, who have been the commercials most taking advantage of the managed money traders. I has been the raptors knocking them dead, not the big 8. To be sure, the big 8 have been the enablers of the COMEX silver and gold price manipulation, but have not been ringing the cash register like the raptors. It is possible senior management at ScotiaBank reached the same conclusion. What would you do if you were faced with unlimited risk and potentially catastrophic liability and limited profits? Would you not look to dump this pig ASAP?

There is another possibility for what motivated the Bank of Nova Scotia to decide to seek to part ways with its precious metals unit and involves giving credit where credit is due. Ever since I discovered JPMorgan was the supreme market crook in silver and gold, I have concentrated my efforts on exposing this big crook. However, the big 8 are just that; the eight largest crooks and all should be condemned. I have been content to focus on JPMorgan because they are the biggest market bully, but that's not to suggest the others should get a pass. In any event, here's a tip of the hat and kudos to Ed Steer who has zeroed in on ScotiaMocatta for years.

The funny thing is, I never asked Ed about his preoccupation with Scotia, but now that I think about it, it might have something to do with a Canadian being personally offended that a Canadian bank is involved in the COMEX silver and gold manipulation. Lord knows, as a US citizen, it is deeply and personally offensive to me that the leading American bank is the silver and gold crook of crooks. Of course, if either JPMorgan or ScotiaBank take issue with any of this, they can give their version of things whenever they desire. The problem, as I've explained, is that banks nowadays don't seem to care much about being called crooked in silver and gold dealings.

So what does all this Mocatta business mean? Only time will tell, but ScotiaBank trying to slip out the back wouldn't seem to strengthen the dominant hand of the 8 big shorts in COMEX silver and gold. And it is upon the 8 big COMEX shorts that the price manipulation has always been based. I'll make it simple – without the concentrated short position of the 4 and 8 largest traders in COMEX silver and gold, no manipulation would be possible. So any time a whiff of distress or disunity emerges from the big 8, it's wise to sit up and take notice. Anything that might change how the real game has been played is, by definition, a potential game changer.

Bringing you up to date on the current big money game on the COMEX, this week's price decline brought relief to the big 8 amounting to $580 million in gold ($23 x 25.4 million oz held net short by the big 8) and $170 million in silver (35 cents x 487 million oz), for a combined total of $750 million. This reduces the open and unrealized loss of the big 8 to around $250 million, down from last Friday's $1 billion open loss.

Finally, we just passed the six-month anniversary for how long the CFTC's Enforcement Director, James McDonald, has been in office. Having written to McDonald on his first day in office (April 10), laying out the particulars of the silver manipulation, with special attention on the role of JPMorgan, I can't say I'm happy to see the manipulation continue to play out exactly as I warned him. Then again, Rome wasn't built in a day, so perhaps all hope is not yet lost.

Ted Butler

October 21, 2017

Silver -$17.05 (200 day ma – $17.17, 50 day ma – $17.22)

Gold – $1281 (200 day ma – $1257, 50 day ma – $1303)