

Despite a sharp selloff from the price highs achieved Friday morning, gold and silver finished higher for the week – gold ending \$14 (0.9%) higher and silver by a sharper 48 cents (2.7%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by a full point and a half to 83.5 to 1. Even though the price ratio has tightened in by a full ten points over the past several months, silver still appears to me to be obscenely undervalued relative to gold by every rational valuation measure that comes to mind.

If there was any particular news accounting for yesterday morning's sharp price rally (gold was up more than \$15 and silver by 50 cents before each gave back most of the gains), the news escaped me. Of course, that leaves only futures market positioning on the COMEX as the price driver – same as always. Changes in total open interest over the past few days suggest aggressive managed money buying (and commercial selling) as being behind the price surge. As such, a number of concerns crop up.

The first is trying to gauge the extent of managed money buying power remaining. Having been close to historical positioning extremes for months, the questions on most minds is how close the managed money buying power is to being tapped out and when and if that buying will roll over and turn into the selling that has always followed extreme bouts of managed money buying.

The second concern is how much pain the 7 big concentrated shorts in COMEX gold and silver can take before some cut bait and rush to buy back short positions on higher prices for the first time ever? While the big shorts certainly appeared capable of beating back prices from yesterday's early highs, for the week they ended \$500 million worse off in terms of their collective open loss, which stood at \$3.7 billion as of yesterday's close. Undoubtedly, the big commercial shorts profited by selling

aggressively at yesterday's early highs, but those gains can be measured in the several tens of millions of dollars range, while the open losses are measured in the billions.

Complicating matters are some highly unusual circumstances, including the possibility of a double cross of the big commercial shorts by JPMorgan, something that has only grown stronger and continued signs of the reappearance of a silver whale in silver, according to yesterday's Commitments of Traders (COT) report. I'll run through the details in a bit after reviewing the week's other developments.

Let me first comment on an article apparently leaked to a reporter at the NY Times (full disclosure – I'm a long time print subscriber to what many refer to as the leading source of fake news, although this story didn't appear in my print version). I'm guessing the source of the leak was JPMorgan itself and would ask you to note how often the bank was said to have been misled by its traders.

<https://www.nytimes.com/2019/10/24/business/dealbook/racketeering-wall-street.html>

The article suggests (between the lines) that JPMorgan has adopted the strategy of throwing its precious metals traders pleading guilty or indicted for spoofing under the bus (big surprise) by alleging that the bank knew nothing of their transgressions (the Sgt. Shultz defense). JPMorgan will attempt and likely succeed in presenting itself as a victim of these very bad traders and that its precious metals desk was the criminal enterprise and not the bank itself. It's not likely that JPM could convince many reading this that it wasn't one big criminal enterprise in everything it does, but the bank only has to convince the Justice Department and CFTC and how hard is that? Since I gave up long ago on expecting the DOJ and CFTC to do the right thing,

JPMorgan squirming off the hook will be no big surprise.

Of course, the real shame will be on the Justice Department and CFTC for failing to uphold the rule of law by refusing to even consider JPMorgan's true crimes – never taking a loss and acquiring the most physical silver and gold in history while being the biggest short seller. It's nothing short of remarkable how a man won't see what he doesn't want to see. Having complained about JPMorgan both publicly and privately to the DOJ and CFTC over the years, at some point I have to admit my complaints have fallen on deaf ears and blind eyes – not exactly why Lady Justice is blindfolded.

The bad news is that it appears highly likely that JPMorgan will escape any real consequence for having manipulated the price of silver and gold for more than a decade. For investors, the good news is that JPMorgan will escape any real consequence for manipulating the price of silver and gold for more than a decade. Huh? As much as JPM should be tarred and feathered for manipulating silver and gold prices non-stop for nearly eleven years, at this point investors should be better off by the regulators looking away and allowing JPMorgan to make the many tens of billions of dollars it will make when prices explode. Hey, it's not a perfect world, in case you hadn't noticed.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained strong, although off a bit from the torrid pace of the past few weeks. This week just over 5.5 million oz were moved, as total inventories rose by 0.7 million oz to 315 million oz, still about 2 million oz less than the record of a month or so ago. The standout feature was the continued growth of metal deposited into JPMorgan's COMEX silver warehouse, which this week grew

by a further 2.2 million oz to 161.1 million oz, another new record. After remaining unchanged for 4 months running, the amount of silver brought into the JPMorgan COMEX warehouse over the past three weeks amounts to just under 8 million oz.

Forgetting that JPMorgan likely holds another 100 million oz in other COMEX warehouses and 900 million physical oz of silver in total, the 161 million oz in its own COMEX warehouse alone is much more silver than any private entity has ever owned in history. JPMorgan is, apparently, so unconcerned about the DOJ and CFTC even noticing its epic accumulation of physical silver, that it continues to flaunt and parade its acquisition in full view. I guess that's what happens when you have the regulators in your back pocket.

The new short report for positions held as of Oct 15, indicated a sharp reduction in the short position on SLV, the big silver ETF, of close to 7 million shares to 14 million shares (ounces). I had been expecting a much sharper reduction than was reported in the previous short report, so maybe this was a case of catch up. In any event, the current short position in SLV, while it is still higher than what it had been months ago, is less than 4% of total shares outstanding and a small fraction of the price-dictating concentrated short position on the COMEX. After all, the 14 million oz short position in SLV is less than 3000 COMEX contracts, around 3% of the short position of the 8 largest COMEX traders

<https://quotes.wsj.com/etf/SLV>

The overall changes in yesterday's COT report weren't particularly significant, as expected, due to the flattish price action over the reporting week, but I was more expecting managed money selling than the modest buying actually reported. Gold prices had remained below the key 50 day moving average throughout the reporting

week ended Tuesday (while silver briefly penetrated its 50 day moving average on Monday).

In COMEX gold futures, the commercials increased their total net short position by 7100 contracts to 295,400 contracts. There was no increase in the concentrated short position of the 4 largest traders, while the 5 thru 8 largest traders did increase their short position by around 4500 contracts. Accordingly, I'd peg JPMorgan's short position to have remained unchanged at 40,000 contracts (4 million oz).

On the buy side of gold, the managed money traders bought 8665 net gold contracts, nearly exactly split with the buying of 4330 new longs and the buyback and covering of 4321 short contracts. The resultant managed money net long position of 184,438 contracts (218,317 longs versus 33,879 shorts) must be considered as bearish as the commercial short position on any conventional historical basis. It's little wonder that so many are expecting lower prices on an eventual flush out of the managed money traders to the downside. Make no mistake, the current market structure is the only reason prices will fall – if they do fall.

In COMEX silver futures, the commercials increased their total net short position by 1500 contracts to 72,000 contracts. While the concentrated short position of the 4 and 8 largest traders increased by around 1300 contracts, I didn't sense JPMorgan added much to its short position and am leaving it at 20,000 contracts

The managed money traders did buy 2384 net silver contracts, but the composition was a bit of a surprise, not so much for the 4228 new longs added, but for the 1844 new shorts added. The resultant managed money net long position of 43,016 contracts (73,855 longs versus 30,839 shorts) must be considered bearish on a historical basis, but still nowhere near as bearish as gold's managed money net long

position.

As I indicated on Wednesday, I was particularly interested in what the concentrated data would indicate on the long side, as regards continued signs of a big whale returning in silver and emerging in gold. The short answer is that my budding premise was not invalidated, in that the concentrated long position of the 4 largest traders grew slightly in gold (by around 700 contracts) and more than that in silver, where it grew by nearly 2600 contracts.

In fact, the concentrated long position of the 4 largest COMEX silver longs grew the most of any of the last five reporting weeks and at 52,774 contracts is now larger by 7900 contracts from where it was on September 17. Over just the past two reporting weeks, the position has increased by roughly 4800 contracts. The standout feature, of course, is that silver prices have been mostly flat to down over the past five reporting weeks, making it highly unlikely that the big concentrated long is a technical fund, even though it appears nearly certain that the big long is a managed money trader.

The 7900 contract increase in the concentrated long position is roughly equal to 40 million oz, a very significant amount of silver. Trying to remain objective, the former big buildup of the concentrated silver long position back in June involved more than double the 40 million oz build up over the same 5 reporting week timeline. Most importantly, it definitely remains to be seen whether the current buildup in the COMEX concentrated long position results in a conversion of futures into physical silver via the silver ETFs, as occurred this summer.

By observing the flow of data, there is no doubt in my mind that some single entity managed to buy 100 million oz or more of COMEX silver futures contracts in June

and was able to convert all 100 million oz into physical silver using a number of silver ETFs. Seeing how that much physical silver came to be owned by a single entity in a matter of months (it took JPMorgan, on average, a full year to pick up 100 million oz each year over the past 8.5 years), I can't help but wonder if we are not that much closer to hitting a physical wall where the market may have trouble providing another 40 million oz of physical silver – assuming the big current buyer desires to replicate the feat of converting futures to physical.

The 100 million oz bought in June cost about \$15 per oz on average. The 40 million oz bought so far over the past 5 weeks appears to have cost around \$17.50 per oz on average. No doubt the buyer will look back one day and marvel at the price bargain he (or she) got. This big buying, perhaps 140 million oz or more at current calculations, is one of the serious impediments to the COMEX commercial shorts being able to yank the price rug out from the managed money technical funds and forcing them to sell on lower prices. As previously explained, not only do the technical funds need to sell out long position aggressively, they need to sell short even more aggressively, particularly in silver. The big buyer away from the technical funds, particularly a buyer looking to convert to physical metal, would seem to make it much more difficult for the commercials to rig prices lower.

The other potential serious impediment to the big commercials rigging prices lower is the role of the biggest commercial, JPMorgan, which stands ready and able to double cross the other commercials, with only the willing part unknown at this time. By being net long 800 million oz of silver (900 million physical oz versus 100 million oz of paper shorts) and 21 million oz of gold (25 million physical oz versus 4 million oz of paper shorts), JPMorgan has nothing to fear from sharply higher prices and everything to gain. JPM's apparent willingness to throw its own long term employees

under the bus should give you some sense of whether it would be willing to do the same to competitors.

Of course, JPMorgan will also stand to gain if silver and gold prices selloff sharply, as that will enable it to buyback even more of its paper short position, thereby increasing its true net long positions. The old heads it wins, tails it wins equation seems to have been perfected by JPMorgan and further enabled by the Justice Department and CFTC looking away. That's just the way it is.

I'm still convinced that a true selloff and technical fund cleanout should be the last such cleanout, but I can't know if we will get that selloff due to the impediments explained above. I also can't know if this will turn into Izzy's full pants down commercial short covering, but it seems it must be one or the other - and soon. Although it can't be too soon for most of us.

Ted Butler

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Silver - \$18.05 (200 day ma - \$16.01, 50 day ma - \$17.84)

Gold - \$1507 (200 day ma - \$1382, 50 day ma - \$1512)