

## September 21, 2019 – Weekly Review

A late day rally on Friday propelled gold and silver prices higher for the week, with gold ending \$29 (1.9%) higher and silver up by 52 cents (3%). The relative outperformance of silver caused the silver/gold price ratio to tighten in slightly to 84.4 to 1.

My main takeaway from the week's price action was that the 7 big shorts in COMEX gold and silver suffered a slightly larger set back in terms of their combined open and unrealized losses than the \$700 million reprieve of the week before. This week, the 7 big shorts' unrealized loss exposure increased by \$800 million from last Friday, putting them \$4.2 billion in the hole. The average open loss for each of the 7 big commercial shorts (excluding JPMorgan) is now \$600 million per trader.

Because the largest portion of the 7 big shorts' combined open loss is due to gold (more than \$3 billion) versus silver (around \$1 billion), gold price rallies are always greatly welcomed by this silver-centric investor.

I continue to believe the fate of the big shorts lies at the core of how the extreme COMEX market structure gets resolved and, therefore, which way prices move. If the big shorts successfully collude (yet again) and force the managed money traders to sell on lower prices, they may rescue themselves from massive losses, most likely for the very last time gold and silver prices will be manipulated lower. But if the big shorts break rank and begin to cover short positions on higher prices for the first time in history, it's hard to imagine prices not exploding.

Certainly, this week's blockbuster news of the Justice Department indicting three more traders from JPMorgan for spoofing and manipulation must have been noticed by the big COMEX shorts. Admittedly, the price reaction to the news so far has been more muted than I would have thought, but then again, the reason silver prices are so cheap to begin with is because of the extremely large concentrated short position on the COMEX, where 8 traders (this time including JPMorgan) are short nearly 500 million ounces of silver, or 60% of annual world mine production. There was some slight short covering by the 8 big COMEX silver shorts in this week's COT report, but until there is much more, it's hard for prices to advance.

The important point is that none of the 8 big silver shorts are involved in legitimate hedging, as the players are mostly banks, speculating against other long speculators. Not only do the 8 largest silver shorts hold a short position greater than any other commodity when compared to actual world production or consumption, the concentrated short position in COMEX silver is so large that if it didn't exist, the commercial traders would be net long. Markets are considered to be most free where the number of participants are greatest. Conversely, markets are considered to be the most manipulated when the number of participants that matter are fewest. COMEX silver is the poster child for the fewest and most concentrated shorts.

I'll get into more thoughts on this week's DOJ announcement after a rundown on usual weekly developments, including the new COT report.

The turnover, or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses this week came to 4 million oz, the lowest level in four weeks and slightly below the weekly average for the past eight and a half years. Total COMEX silver inventories rose by 1

million oz to 317.2 million oz, another new all-time high. No change in the JPMorgan COMEX warehouse for the 12<sup>th</sup> week, still stuck at 153.8 million oz. After 8.5 years, I remain amazed how little commentary there is about a physical warehouse movement that is documentable and unprecedented compared to any other commodity.

The COMEX September deliveries are winding down and JPMorgan has apparently stopped (taken) an even 1600 silver contracts (8 million oz), as well as 650 gold contracts (65,000 oz) in its own name, making it the largest stopper for the month in both markets.

[https://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

While COMEX silver warehouse inventories have continued to climb, another 4 million oz were removed this week from the big silver ETF, SLV. Last week, more than 7 million oz came out of SLV, plus another 3 million oz from other silver ETFs. I'm still partial to the premise that the big silver whale who bought 100 million physical oz of silver, first by buying COMEX futures and then converting those futures into shares of silver ETFs, may now be converting the ETF shares into metal owned directly. I'll become more convinced if silver ETF metal holdings decline sharply from here.

The positioning changes in this week's Commitments of Traders (COT) report were relatively uneventful, but put to rest any chance there was significant managed money selling and commercial buying in the previous week's report that may have been misreported. To be sure, there was moderate managed money selling in silver this week and some managed money buying in gold, but it now looks like there wasn't the massive selling I expected two weeks ago for the simple reason that the key moving averages (the 50, 100 and 200 day ones) weren't penetrated to the downside.

At the same time, since prices have pulled back and consolidated over the past two months in gold and one month in silver, prices have penetrated some of the shorter moving averages, such as the 20 and 30 day moving averages. For instance, gold has traded below its 20 day moving average for 13 straight days and silver below its 20 day moving average for 6 trading days. I should note that the price of gold traded up to its 20 day moving average on Friday's late rally. With that type of price action, I'm somewhat surprised there hasn't been more managed money selling and commercial buying in both gold and silver than there has been.

In COMEX gold futures, the commercials increased their total net short position by a moderate 12,800 contracts to 318,400 contracts over a reporting week which featured mostly higher prices. The concentrated portion of the short position increased by less than 5000 contracts and I didn't get the impression that JPMorgan reduced its gold short position, which I'll peg at close to 50,000 contracts.

On the buy side of gold, the managed money traders bought 7675 net contracts, comprised of the new buying of 2461 long contracts and the buyback and covering of 5214 short contracts. The resultant managed money net long position of 213,856 contracts (241,936 longs versus 28,080 shorts) is still historically high and bearish (unless the big commercial shorts rush to cover for the first time).

In COMEX silver futures, the commercials reduced their total net short position by 7200 contracts to 77,500 contracts, the lowest short position in 4 weeks. I would point out that the concentrated short position of the 8 largest traders (including JPM) is 20,000 contracts (100 million oz) larger than the total commercial net short position. In gold, the concentrated short position of the 8 largest traders is around 50,000 contracts less than the total commercial net short position. While the concentrated short

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positions of both markets are way too large and manipulative to prices, it's much more egregious in silver.

I'd peg JPMorgan's silver short position to be down 3000 contracts for the week to 23,000 contracts (115 million oz). On a true net basis, JPMorgan is long 735 million oz (850 million physical oz minus 115 million oz of paper shorts). In gold, JPMorgan is net long 20 million oz (25 million physical oz versus 5 million oz of COMEX paper shorts).

On the sell side of silver, the managed money traders sold 6966 net contracts, comprised of the sale and liquidation of 6172 long contracts and the new sale of 794 short contracts. The resultant managed money net long position of 52,620 contracts (77,640 longs versus 25,020 shorts) must still be considered bearish historically, but not as bearish as in gold. The key question, of course, is if the bearish market structures get resolved as they always have in the past, with the commercials fully flushing out the managed money traders on lower prices or if there's a different outcome for the first time.

That question, it seems to me, is very much related to the news of the JPMorgan trader indictments announced by the Justice Department earlier in the week. You'll recall that the first guilty plea by a former JPM trader was announced last November by the DOJ and was followed by a second guilty plea 9 months later in August. Barely a month later came the blockbuster indictments of this week.

The first point I would make is that the number of actual announcements from the Justice Department has been quite limited as is typically the case. That's because the investigations and legal negotiations are kept private as the case proceeds and the DOJ's interests are not served by providing a running public commentary. Therefore, it's quite normal for there to be sudden explosions of commentary when an announcement is made, followed by long periods of little to no commentary. In actuality, however, things have progressed behind the scenes all along, unbeknownst to most.

For instance, DOJ charging documents indicate that a grand jury voted for the indictments announced this week back in May. Therefore, four months had transpired from the vote by the grand jury until the indictments were announced. Over that 4 months you can be certain that many high-level discussions took place between the Justice Department, JPMorgan and the traders involved in the hopes of reaching some type of settlement, in lieu of an actual trial. And I would be very surprised if such negotiations aren't still ongoing. After all, a settlement would be attractive to all the parties involved.

In other words, we all get a sudden flash of what may be going on when the very infrequent public announcements are made – but between those very few public announcements we can only surmise at what's going on behind the scene. That's where analysis and speculation come in.

For my part, I have been alleging a silver (and gold) price manipulation by JPMorgan ever since it took over Bear Stearns in 2008. Before that I had been alleging a COMEX silver manipulation since 1985 for largely the same reason all along (concentrated short selling), so my allegations against JPMorgan were, at first, just a lot more specific. Later, around 2013, I discovered that JPMorgan was clandestinely accumulating physical silver and gold and in the process of always adding to its short positions on rallies and buying those shorts back at lower prices, had amassed a perfect trading record of never taking a loss.

As I think you know, I have always taken what I believed to be the high road and communicated my allegations to the highest authorities, including the CFTC, the exchange, JPMorgan and, at times, the Justice Department. I did succeed in getting the CFTC to publicly respond to some of my allegations and was instrumental in it initiating a five-year formal investigation by its Enforcement Division in 2008, but all the CFTC did was deny anything was amiss in silver. But mostly over the past decade, I received no response (or rebuttal) to any of my allegations.

This has put the CFTC in a real bind because how the heck does it now come out and admit something is truly rotten in silver, along the very lines I have maintained for more than three decades after denying it at every turn? And the last interview by the now-deceased CFTC Commissioner Bart Chilton indicated clearly that the Justice Department was well-aware of JPMorgan's excessive concentrated short position in 2008 and like the CFTC, did nothing about it. Certainly, I contacted the Justice Department more recently (the last couple of years) about JPMorgan's impossibly perfect trading record and massive accumulation of physical metal while being the largest COMEX short seller.

Make no mistake, this is a giant problem for the CFTC, the CME Group, and JPMorgan and to a lesser extent, the Justice Department. While all the attention is on spoofing and the very short term and fleeting impact that has on price, the real story is something very different. It concerns JPMorgan's impossibly perfect trading record (along with the other large commercials on the COMEX) and JPM's illegal accumulation of physical silver and gold while it has suppressed the price for the past 8 years with overpowering COMEX short sales.

If JPMorgan were ever found to be guilty of what I know it to be guilty of, the repercussions and reparations (including punitive damages) could completely overwhelm the bank's ability to survive. For instance, every miner who produced silver for the past decade would have a claim against JPMorgan, as would just about every silver investor of every stripe. Therefore, some alternative resolution must be devised that doesn't fully acknowledge all that JPMorgan had done wrong for more than a decade.

I'm inclined to believe that is what lies behind the current Justice Department attack on JPMorgan, namely, get JPM to end its evil ways, but not in a way that would put it out of business. Stop short of acknowledging all that I allege, and go after spoofing as the prime evil, even though it's not. But if the end result does not disallow JPMorgan from adding new shorts on future price rallies, the DOJ will have accomplished little. Take away the ability of JPMorgan and the other large COMEX commercials to add new shorts to cap prices and a new day will dawn. I'm hopeful the DOJ will succeed in this mission, because if it doesn't, it too will be dragged into the miasma of becoming distrusted.

A number of people have asked why the DOJ is moving now to crack down on JPMorgan. Since I can't read minds, I can't answer that, although a better question might be what took it so long? I am most encouraged by the inability of any of the entities involved, the CFTC, the CME Group, JPMorgan and now the Justice Department to answer or even acknowledge on a straightforward basis the allegations of JPMorgan never losing and accumulating the most physical silver and gold in history while depressing prices via excessive short sales. These are issues infinitely more important than spoofing that must be addressed in time. While the price reaction to the very big news from the Justice Department has been decidedly underwhelming to this point that can change in a New York minute.

Ted Butler

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Silver – \$18.05 (200 day ma – \$15.69, 50 day ma – \$17.22)

Gold – \$1524 (200 day ma – \$1353, 50 day ma – \$1489)

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