

September 6, 2017 - Eight Crooks Against the World

I'd like to share what may be a different way of looking at the gold and silver market, but still remain focused on what has been the primary driver of price - changes in the COMEX futures market structure. It has become fairly common knowledge that prices rise when the managed money traders buy and prices fall when these traders sell. So great is the effect on price of this COMEX derivatives positioning that it is discussed in more commentaries than ever before. And that is due to what has become a clearly observable pattern of cause and price effect.

Let me first quantify the amount of gold in existence throughout the world in all forms as 5.6 billion ounces, an amount on which there is near universal agreement. Not all of this gold is thought to be available for sale at some price, such as religious and other artifacts and some jewelry, but much of it could find a way to the market depending on price. Quite arbitrarily, let me assert that 4 billion ounces of gold might find its way to market at some point, including all government holdings and the amount held by the earth's 7.5 billion inhabitants. Don't get caught up with the precise amount, as it doesn't make much of a difference whether the number is 3 billion or 5 billion oz.

Just like in any investment asset, those entities and individuals which hold gold would prefer and would generally be benefited by a rise in the price. Conversely, all the holders of gold would generally be adversely affected by lower prices. This is very basic stuff and in no way is intended to trick anyone; I'm just speaking in very simple terms. In addition to all the existing physical gold in the world, there is a large gold mining and production industry that extracts 100 million oz of new gold each year; which in turn, is owned by all types of investors, all of which would prefer

to see rising gold prices for the obvious reasons.

In summary, the holders of 4 billion oz of gold, as well as those who own the mining companies that extract 100 million gold oz annually, all have a vested interest in higher gold prices and virtually all would be financially damaged by lower prices. This is exactly the same point that could be made in any investment asset, from stocks and bonds to real estate - up in price is good for holders, down in price is not so good. Of course, it's not simply a matter of good versus not so good, as investment assets and markets can get overpriced or underpriced, depending on collective investment behavior and other factors.

The difference between gold (and silver) and all other markets is that what determines price going up or down has already been established as positioning in COMEX futures. I'm not saying that futures positioning doesn't exert pricing influence on stocks and bonds, because it does - just nowhere near the extent as in gold or silver. I'm not aware of any influence futures positioning has on real estate, or collectibles, but its influence is rampart among commodities.

Against all the holders of the existing gold in the world, as well as all the owners of the mining industry that extracts 100 million new ounces annually are configured those who stand to benefit should prices decline and who are worse off should gold prices rise. These are the short sellers, or those who bet on a price decline by selling that which they don't already own in the hopes of buying later at a lower and more profitable price. Of course, if the short sellers guess wrong and prices rise instead, losses begin to mount as the buyback price rises.

While short selling in gold and silver takes many forms, such as short sales against mining company shares or metal ETFs and the buying and selling of options, the key

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form of short selling is the shorting of COMEX futures contracts. No need to reinvent the wheel here - it has already been stipulated by now that COMEX futures positioning is the main (if not sole) gold and silver price driver. Having established the physical market parameters of gold - 4 billion oz in existence and 100 million new oz produced annually, let me do the same with the COMEX futures positioning opposed to the physical market. In doing so, we happen to be blessed by exquisitely detailed and reliable data from a federal agency, the CFTC, in the form of COT and Bank Participation Reports.

Since COMEX futures contracts are derivatives contracts that means there is both a long and a short for every open contract. Up front, we know that the long futures contract holders' interests are aligned with the owners of physical gold and its producers, as all benefit on higher prices and suffer on lower prices. The only entities not aligned with the interest of higher prices are the short sellers of COMEX futures contracts. Here's where the CFTC's reports are quite revealing.

The basic glaring fact is that the short positions in COMEX gold and silver futures are incredibly concentrated; meaning they are quite large and held by just a few traders. In both versions of every COT futures only report (legacy and disaggregated), the long form report gives detailed concentration data on the 4 and 8 largest traders' holdings to the nearest contract. Let me make my point using the 8 largest traders, but I could do so just as easily with the 4 largest traders.

A quick word on the concentration data. As regular readers know, I've harped on the concentrated short position in silver for years and even decades. It is the key to manipulation, for without an extremely concentrated position, manipulation is impossible. And while I could never get the CFTC to admit that they monitor and

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publish concentration data as the best early warning sign of potential price manipulation (out of fear they might appear to agree with anything I wrote), there is no other plausible reason for the Commission to collect and record such data.

But as important as the concentration data is to the silver (and gold) manipulation, it is not just the CFTC that continues to ignore this vital information. Despite the literal explosion in the amount of interest now focused on the COT market structure approach, I can't recall a single independent reference or article on the concentration data (not quoting me). That's a shame, because the concentration data always provide insight vital to understanding what makes these markets tick. Not to consider changes in concentration data, particularly in COMEX gold and silver, is a waste of epic proportions.

In trying to understand why there is continued aversion to pondering the concentration data in gold and silver, despite the explosion of COT commentary overall, the only explanation I have been able to come up with is that getting the concentration data requires the additional step of doing a simple calculation involving multiplication in order to get a very precise contract amount. It's certainly not a case of the calculation being difficult (although I do use a \$3 solar-powered calculator that has to be 20 years old), I think it's more a case of a lack of awareness about how to derive the concentration data. Let's face it, when someone first observes the COT report, it looks like a mumbo jumbo of incomprehensible numbers; now I'm telling you to whip out your pocket calculator to create more numbers. Be that as it may, that's the way it is.

The way the CFTC presents the concentration data, in percentage terms of total open interest, mandates one additional calculation and, quite frankly, I believe this

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prevents many from considering the data. And while I am not shy about criticizing the agency on a variety of matters, having considered this issue for many years, I'm convinced the CFTC is presenting the data efficiently. I suppose I would prefer the concentration data be presented in contract terms, but personal preferences aside, there is no real barrier to arriving at the data. Only two numbers matter, the net short positions of the four and eight largest traders; disregard gross completely and the concentrated long positions, as they don't matter.

For positions held in the latest COT report, as of August 29, the percentage of total open interest (538,875 contracts) held net short in COMEX gold futures by the 8 largest traders was 48.7%. Simple calculation gives a very hard number - 262,432 contracts. That is the number of contracts held net short by the 8 largest traders in COMEX gold futures. From other current data points, it can be deduced that these big shorts are commercials, although that is not always as obvious as it is now. Interestingly, the short position of the 8 largest commercial traders in gold has been and is larger than the total commercial net short position, because the smaller commercials (which I refer to as the raptors) have been net long gold futures. That will likely change if gold prices continue to rise, but is not germane to this discussion.

The important point is that the concentrated net short position of the 8 largest gold traders in COMEX futures is 262,432 contracts, the equivalent of 26.2 million oz (there are 100 oz in a COMEX gold contract). I just explained that the owners of the 4 billion+ physical oz of gold in existence, plus the shareholders of the companies that produce 100 million oz of new gold annually and all the long holders of COMEX futures contracts have a vested interest in higher, not lower prices. Against all those longs, the main opponent are 8 big COMEX traders holding a paper short position of

26.2 million oz. Yes, there are some other traders holding much smaller COMEX paper gold short contracts, but none influence price like the big 8. Let me restate all of this.

There is a 4 billion oz (4,000 million oz) physical long position in gold against a 26.2 million oz concentrated paper short position on the COMEX. Even though the concentrated paper short position is less than one-tenth of one percent (0.1%) of the physical gold in existence, the evidence is clear that the paper short position has and does determine gold prices. There are 100 million oz of newly produced gold each year, also against the same 26.2 million oz COMEX paper short position and the price for gold is set by the much smaller concentrated paper position held by only 8 traders. Additionally, while there is just as large a long position in COMEX paper futures contracts (by definition), it is not as concentrated as the short position which most determines price.

What kind of rational market system would pit and favor the short paper positions of just 8 traders, holding less than 0.1% of the position held long by all the gold holders in the world, to continually set the price? Sadly, this is the market system in place. And here's another oft-asked question of mine - what would the price of gold be if these 8 paper shorts didn't hold such a large concentrated short position and needed to be replaced by many others convinced the price of gold was high enough to be shorted?

The numbers in silver are even more startling. Eight large commercial traders held 48.2% of total open interest (182,823 contracts) net short, or 88,121 contracts, the equivalent of 440 million oz. Not only is this more than 50% of world annual mine production (870 million oz) compared to 26% in gold, the concentrated net short

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paper position of just 8 traders is around 25% of the world's physical silver inventory of 1.5 to 2 billion oz (in 1000 oz bar form). Where the concentrated gold short position was ridiculous in that it was only 0.1% of the total amount of physical gold in the world, yet still dictated prices; the concentrated short position in COMEX silver is much more manipulative in that it is much larger and even more ridiculous.

I hold that "ridiculous" is the correct word in this case because what else could describe a circumstance where 8 large market crooks, acting in obvious collusion, could come to control and dictate prices to the rest of the world? What makes these traders crooked is that they have never collectively bought back short positions on higher prices, only added more shorts until prices finally top out. This is the key price control mechanism behind the manipulation.

I'm not saying that the 8 big shorts in COMEX gold and silver are completely alone or independent in their continued fleecing of the managed money traders, but the big 8's short position is the glue that keeps the manipulation intact. For instance, the raptors, the smaller commercials in gold and silver which built up very large net long positions into the price bottoms of early July, have been aggressively selling and liquidating those long positions into the price rally, reaping windfall profits along the way. I'd estimate that the gold and silver raptors have booked at least \$800 million in collective profits on the move up to date.

But what do the raptors' profits have to do with the big 8 shorts never covering but always adding to short positions in gold and silver on rising prices? In a word, everything, for without the core and expanding concentrated short position, the raptors wouldn't have enough firepower to stand up to and take advantage of the managed money traders. The concentrated short selling by the largest 8 traders is

the glue that keeps the manipulation intact.

On the other hand, should that glue not remain adhesive in the future, the manipulation would come apart at the seams. One of these days, that is precisely what must occur, as more wake up to the scam that 8 traders are perpetrating against, quite literally, the rest of the world.

Who are these 8 big trading crooks that have dictated gold and silver prices to the rest of the world? Most are banks, led by JPMorgan and the Bank of Nova Scotia, among other household banking names. JPMorgan is in a crooked class of its own and has used its control over prices to accumulate the largest private stockpile of physical silver in history, some 650 million oz, over the past six and a half years. This epic physical accumulation has insured the bank against loss anytime the concentrated selling scam comes apart.

The rally to date has been created and propelled by the massive managed money technical fund buying of the past two months, in which 200,000 net contracts have been purchased in gold and nearly 60,000 net contracts in silver, truly enormous quantities in such a short time. As such, the possibility (some would say strong probability) of a selloff has increased if past patterns are borne out and the technical funds get the price rug pulled out from under them, once again. Already I'm seeing some proclaiming a top in price or near top. Others are still quite bullish, but not based upon COT market structure considerations.

For my part, I am decidedly unsure as to how the market structure issue gets resolved this time around. I do know that potential long liquidation and new short selling by the managed money traders will be the cause of any selloff, should we get one. But I also know that should the iron grip of the 8 big shorts become unglued in

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any way, the potential for a price melt up increases proportionately. While either circumstance will determine the short term direction of price, silver is so darned cheap as a result of the precipitous drop in price over the past six and a half years that the pain of not being positioned for sharply higher prices far outweighs any pain and risk that a short term selloff would bring.

As far as what this week's COT report will look like, I would imagine there will be a deterioration similar to what we've experienced on average over the past six reporting weeks. Through yesterday's cutoff, gold and silver prices rose to new highs, with gold up as much as \$25 and silver by more than 60 cents on heavy trading volumes and with the emotional state of the world and financial markets on the frazzled side. This is a formula for continued managed money buying and commercial selling. As far as specific numbers, I'd guess an increase in managed money buying/commercial selling on the order of 30,000 net contracts in gold and the same 5000 to 10,000 contract amount in silver I've used for the past couple of weeks.

In very late-breaking news, the CFTC just announced what strikes me as a long overdue, but major enforcement case against Monex of Newport Beach, CA for a long-running leveraged precious metals fraud, in which thousands of customers were defrauded out of more than \$290 million from July 2011 to March of this year. (Be sure to read the full complaint alongside).

<http://www.cftc.gov/PressRoom/PressReleases/pr7609-17>

In my opinion, the CFTC should have moved against Monex decades earlier, as the company represented everything bad and nothing good in its dealings with the public. Privately, I cautioned many not even to do business with the company on a

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cash and carry basis, due to the risk it would turn into a leveraged Atlas account for which it is being charged. I made it a point to make sure I was never featured in any promotion by the company, although plenty of silver analysts and commentators were featured by the company. Even the thought of accepting a promotional fee from Monex was and is repulsive to me.

Most importantly, the charges against Monex can't help but bolster my opinion of the agency's Enforcement Director, James McDonald. I admit to recently losing confidence that McDonald would stand up to the super crooks at JPMorgan and the CME Group, based strictly on the fact that JPM had once again increased its manipulative short position in COMEX silver futures. It still bothers me tremendously that nothing has seemingly changed with crooked JPM and silver to this point, but allow me to set that aside today with the CFTC's charges against Monex.

It was an open secret that Monex was running a massive fraud and ruining customer finances and while the charges should have been brought long ago, better late than never. Clearly, this gives a boost to hopes that the agency and McDonald will move against JPMorgan and the COMEX someday and, hopefully, soon. Monex is exactly the type of case the agency should be bringing and both the Commission and McDonald deserve our highest compliments for doing so. There's also no question that the case against JPMorgan and the CME Group for the continued price manipulation of silver (and gold) is many thousands of times more important because it represents the most serious market crime of all - manipulation.

Finally, unlimited thoughts and prayers for the victims of Hurricane Harvey and the potential victims staring down the gun barrel of Irma, including close family members and friends. Best wishes to all.

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Silver - \$17.94 (200 day ma - \$17.06, 50 day ma - \$16.64)

Gold - \$1339 (200 day ma - \$1236, 50 day ma - \$1267)