December 1, 2018 – Weekly Review

Gold and silver prices ended lower for the week, gold by $3 (0.2%), with silver down by 13 cents (0.9%). The relative weakness in silver caused the silver/gold price ratio to widen out to 86.3 to 1, the most undervalued silver has been to gold in a quarter century.

Although not by much (as if that's any consolation), this week's close in silver was the lowest in nearly three years, back to the beginning of 2016. Going back to that time, gold had declined to six year lows ($1050) by the end of 2015, while silver slipped to seven year lows ($13.50) back then. Those proved to be significant bottoms and gold rallied by more than $300 into the summer of 2016, while silver added more than $7 into that summer's highs. I did and still would contend that the rallies in gold and silver back then had most to do with aggressive managed money buying following a very bullish COMEX marker structure which is quite similar to the bullish market structure that exists presently.

Will we see a similar bullish resolution to the current super-depressed prices and very bullish market structure? I see no reason why not to expect such a resolution, but I would be negligent not to acknowledge the tremendous financial damage done to silver investors and mining producers since the price tops of 2011. Even though silver prices are substantially higher than when I first became infected with my interest in the market, a price decline of 70% from the top in prices in 2011 has proven devastating to many. How could it not?

I'm convinced that the devastation and great harm that silver investors have suffered can be laid squarely at the feet of JPMorgan and its protectors at the CFTC and the CME Group and believe I have been as vocal and persistent in disseminating this as has been possible. Admittedly, my declarations of just how crooked JPMorgan has been in its silver (and gold) dealings have not appeared to have worked until now, but as you know, a potential breakthrough may be at hand from the involvement of the Justice Department. More on that in a bit.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouse remained elevated as nearly 6.4 million oz were physically moved this week (330 million oz annualized). Total COMEX silver warehouse inventories increased by 2.1 million oz to 295.2 million oz, just a million or so ounces below the all-time record high. This week's increase occurred despite another 0.6 million oz being removed from the JPMorgan COMEX warehouse, bringing silver holdings there to 150.5 million oz.

The first two days of delivery on the big December COMEX gold and silver futures contracts featured some unexpected happenings, but generally nothing of the earth-shaking variety. In gold, 3612 total deliveries have been issued with the two big issuers being HSBC (2384) from its house account and 1000 contracts issued by Standard Chartered, a name form the past, in its house account. I hadn't heard much from Standard since it sold Mocatta to Scotiabank in 1997. Its sudden reappearance in issuing a nice, round 100,000 oz of gold ($120 million worth) strikes me as odd. Rounding out the incestuous cesspool that is the COMEX, the big gold stoppers were Goldman Sachs with 1932 contracts for its own account and 801 contracts stopped by a customer(s) of JPMorgan. The house account of JPM did nothing in gold so far.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

In COMEX silver deliveries, 2512 total contracts have been delivered over the first two days, with the big issuers being HSBC in its house account (1385), FC Stone (408) for customer(s) and Morgan Stanley (406) in its house account. On the stopper side in silver, the two biggest takers were JPMorgan, with 1477 contracts for customer(s) and 382 for itself. I guess I'm more encouraged that JPM is stopping rather than issuing silver, particularly in its house account, but I also get the feeling it is holding back (despite stopping 74% of all silver deliveries issued on a combined basis). Adjusting for deliveries made so far, there appears to be about 4000 open contracts remaining in December gold and around 1000 in silver, not particularly large numbers, but there is still a full month left in the delivery process.

Turning to this week's Commitments of Traders (COT) Report, the changes in positions were not dramatic and only a bit off expectations. Prices ended lower during the reporting week and we did see managed money selling in gold, both of the long liquidation and new short selling variety; as well as managed money long liquidation in silver, but the managed money traders bought back a few more short contracts than longs liquidated providing perhaps the only big surprise in the report. However, I'm hesitant to conclude that the technical funds have wised up to the fact that they are the dupes of the commercials.

There was quite a bit of Internet chatter going into this COT report about the extraordinarily large reductions in total open interest in COMEX gold and silver futures, with the general assumption that something was definitely up. But as I suggested on Wednesday, the sharp reductions in total open interest (which continued past the Tuesday cutoff) appeared to be due to spread liquidation and not anything else. Suffice it to say, this COT report verified that in spades. I will admit that the number of spreads was very large to begin with and I can conceive of no legitimate economic purpose for why they are being traded or allowed to be traded by the CFTC and the CME; but as far as influencing absolute price levels, I don't see any connection.

In COMEX gold futures, the commercials reduced their total net short position by 7000 contracts to 16,100 contracts. The only thing dulling the fact that this is an extremely low and very bullish reading is the fact that we have been similarly positioned for several months (same in silver), with no liftoff in price. I've always maintained that COT market structure considerations mattered little as far as short term timing is concerned, but admittedly, this lack of resolution is wearing thin. On the other hand, gold prices aren't any lower than the lows of August and even in silver, where price performance has been much worse on a relative basis, the same is largely true.

On the sell side of gold, the managed money traders sold 6539 net contracts (nearly matching net commercial buying) and consisting of 4364 contracts of long liquidation and 2175 contracts of new short sales. For all intents, the remaining managed money gross long position (79,992 contracts) is the lowest it has been in a decade and not likely subject to much further liquidation on lower prices, a position I have maintained for months. The remaining managed money gross short position (138,382 contracts), while down from the highs of summer, still leaves many more short contracts to be bought back than added.

In COMEX silver futures, the commercials increased their total net short position by 1900 contracts to 8800 contracts. As was the case in gold, this is a very low and bullish reading, with the only gripe in being that it has been this way for many months. About the only thing that concerns me is what the super crooks at JPMorgan did and while the Producer/Merchant category did indicate net selling of more than 3000 contracts this week, an increase in the number of traders suggests to me that JPMorgan stood pat at near zero short contracts, after buying back 15,000 shorts over the prior two reporting weeks. Next week's Bank Participation Report will, hopefully, help clarify matters.

The key question, as it has always been, is whether the JPM crooks will add to short positions on the next rally, whenever it comes. The question, of course, becomes more critical now that the DOJ may also be watching.

While the managed money traders did sell and liquidate 2644 long contracts, they also bought back 3720 short contracts. Both actions were somewhat of a surprise; the long liquidation because the remaining long position (40,021 contracts) was super low to begin with and because the technical funds don't usually buy back shorts on lower prices (although I'd bet the short covering occurred on the early reporting week rally above the 50 day moving average). With 71,659 short contracts remaining as of Tuesday (and more likely added since the cutoff), there's still plenty of rocket fuel type buying in the silver tank (although nowhere near as much as there was). Here, I go back to the key question – will or won't JPM add to shorts on the next silver rally. If these crooks don't add then we have plenty of managed money buying to cause silver prices to rocket higher. If JPM does add to shorts, then no amount of managed money or other buying will allow silver prices to break free.

Lately, I've been contemplating what I'd be thinking about current conditions in silver and gold if the Justice Department hadn't made the announcement on Nov 6 of a guilty plea by the ex-JPMorgan trader. For sure, I'd be insisting that the market structure was bullish (because it is) and that it was up to JPMorgan to decide when silver and gold would be allowed to rally. But that stance would have grown stale and quite understandably without the DOJ announcement. This despite more commenting on COT market structure and JPMorgan than ever before.

Let's face it, I couldn't reasonably expect that the CFTC (or the CME) would intercede after not interceding for more than 30 years. Admittedly, there were times in the past, like when Gary Gensler was appointed chairman in 2009, when I had raised hopes of something happening constructively. Likewise, I tried to enlist Enforcement Director McDonald when he was appointed in April 2017 because the case and record had become so clear to that point that I had hopes he might remedy the manipulation. But the power and strangle-hold that JPMorgan had on things dashed any hopes the manipulation would be ended.

Then, quite literally and apparently out of the blue, the Department of Justice made its announcement, instilling new hope that something might be done on the regulatory side. And while I can't proclaim that I had anything to do with any possible DOJ involvement, the fact is that I did write to them about this matter on April 30 (Another Possibility). Certainly, had anyone at the DOJ taken the time to read and comprehend what I had written, some action on their part would be expected given the gravity and clarity of my allegations.

Therefore, I can't help but wonder if I'm imagining things and if I am latching onto to the DOJ announcement as a false flag of hope in an otherwise hopeless situation. This feeling is compounded by the fact that so little has been written about this in the mainstream media and there has been absolutely no public comment by JPMorgan, the CFTC or the CME, even though the announcement is approaching the four-week mark. Even on the Internet, the only comments on the announcement seem to have been made by the few commentators who follow my work closely. Suffice it to say that this has not been a widely reported or commented on development. This only adds to my anxiety about whether I'm chasing something imaginary.

On the other hand, I do have a record of seeing some things before others, even if those things have been observed far sooner than even I would have preferred – like the COMEX manipulation first discovered more than 30 years ago or JPMorgan's leading role beginning 10 years ago. Let's face it, I don't have another 30 years for sure and would hate to make book on another ten.

Maybe I'm still imagining things, but if the DOJ has sunk its teeth into the matter, then there is no way it will take them very long to deal with it, judging by their actions to date. What actions, you may ask? Well, for starters getting a guilty plea from a long time trader at JPMorgan, where the CFTC never attempted any charges against the bank for precious metals wrongdoings of any kind – and for illegalities while the CFTC was formally investigating a silver manipulation to boot.

The only thing I can't know is if the DOJ is looking deeper than spoofing alone, but if they are it will be hard for them not to notice that JPMorgan has hit .1000 ball for ten years running in trading COMEX silver and gold, never taking a loss. (Ted Williams hit .406). How could that be legitimate? And how the heck could JPMorgan be allowed to simultaneously be the biggest paper short and physical metal accumulator since 2011? I know the DOJ won't uncover any legitimate answers to these questions, I just don't know if they will know enough to ask.

I mentioned recently how the Justice Department just might be the only entity able to stand up to JPMorgan. This was reinforced the day after I wrote those words in Wednesday's article. With my newfound and hopefully not misplaced interest in DOJ developments, I've taken to reading Justice Department announcements daily. It truly is amazing both how many bad players are out there and how many the DOJ goes after. Anyway, on Thursday, Nov 29, the DOJ announced a third distribution of recovered assets from civil forfeitures to victims of the Bernie Madoff Ponzi scheme, separate from the court-ordered Irving Picard recovery effort.

https://www.justice.gov/opa/pr/department-justice-begins-third-distribution-funds-recovered-through-asset-forfeiture

Buried in the announcement was reference to prior recovery efforts, which including a $1.7 billion settlement with JPMorgan in 2014, as well as criminal charges against the bank. The settlement was the largest by the DOJ against any bank to that time and the criminal charges against JPMorgan were deferred (which I think means are dropped if JPM behaves itself for a while – or at least doesn't do exactly the same thing within a proscribed period of time). Here's a link to the complaint against JPM in 2014 –

https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-and-fbi-assistant-director-charge-announce-filing-criminal

I believe this confirms and substantiates my point that only the DOJ has the power to stand up to JPMorgan. The only question is if the DOJ fully comprehends JPMorgan's role in the silver and gold manipulations. To those who might point out that it took six years from the time Madoff was exposed to the time JPMorgan settled with the DOJ, while I would agree, I would also point out that the day Madoff was exposed was the day his scam ended. The day that the silver manipulation is exposed is the first day of the manipulation's unwinding. That's a very big difference.

(On a housekeeping note, I'm switching from COMEX December pricing to February for gold and March for silver to reflect the new active trading months. This adds about six dollars to the price of gold and 12 cents for silver, based upon yesterday's settlement prices and makes this week's performance highlighted in the opening paragraph necessarily off by a bit)

Ted Butler

December 1, 2018

Silver – $14.25 (200 day ma – $15.60, 50 day ma – $14.46)

Gold – $1226 (200 day ma – $1266, 50 day ma – $1217)

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