

April 18, 2018 – Reasoned Thinking Required At Times

Will they or won't they? Of course, I'm referring to whether JPMorgan will add new short positions in COMEX silver futures to contain and cap the next rally; which may be underway as I start writing this commentary this morning. Things can change drastically over the course of an active trading day, so let me hold off discussion of today's trading activity until later in the day when the dust has settled a bit. Of course, when silver jumps suddenly over its 200 day moving average for the first time in two months, it's hard not to conclude that something may be afoot.

One thing that won't change is that regardless of how this day plays out, the key consideration will be whether JPMorgan ultimately adds to its short positions on the next silver rally. If they do, it is hard to argue that the rally, no matter how far it may carry, will eventually fail and this crooked bank will have maintained its manipulative iron grip control on silver, as it has for a decade. If they don't, then honey, get ready to put on that party dress. In either event, it shouldn't take terribly long to find out.

I thought in the interim I might address a topic I've previously commented on due to recent subscriber emails and growing public commentary; the issue of Exchange for Physical (EFPs) transactions on the COMEX. Over the past few months, there has been an explosion in commentary about such EFP transactions, with the general theme that these transactions represent some great physical demand for gold and silver that is being clandestinely diverted from the COMEX to London. Typical of the commentary, here's a recent example

<http://www.321gold.com/editorials/groenewegen/groenewegen041018.pdf>

First off, I have tried to avoid weighing in on the growing EFP commentary as I don't choose to be a critic of what others may write; I am thankful and content to write my own thoughts. However, at times, it seems counterproductive to hold one's thoughts if a popular conversation in the field of precious metals becomes distorted, particularly when I am asked to comment on it. I remember a few years back, there was non-stop discussion about the supposed great significance of whether COMEX metal warehouse inventories were classified as eligible or registered. Fortunately, such talk has largely ceased, as it was never a serious concern to begin with. Similarly, I believe the current discussion of EFPs will fade in time.

While the author of the article just referenced is absolutely correct when he states that COMEX futures contract positioning sets the price of gold and silver, it seems he and others are misinterpreting the significance of EFP transactions. The primary cause of the misperception is an extreme overreliance on the word "physical". As originally intended, exchange for physical transactions did indeed involve a futures contract settlement involving the physical commodity in some form (away from standardized delivery). But that is no longer the case and the EFPs in question are more akin to block paper swap trades.

It's not just gold and silver involved in EFPs, these transactions have become common place among other CME Group commodities, such as energies and grains. Despite EFPs becoming commonplace in a variety of commodities, it seems the popular interpretation is that the EFPs in gold and silver are being somehow used to divert growing physical demand for metal from the COMEX to

London.

While it is true that the number of COMEX gold and silver EFPs have grown, they have grown so large so as to prove they can't possibly involve actual physical transactions. As referenced in the above article, over less than the past four months, COMEX silver EFPs in the equivalent amount of close to the world's annual mine production of silver have been issued; implying that more than 800 million oz (\$13 billion) have been bought by those wanting physical metal (and sold by those willing to deliver physical metal). That's preposterous and absurd on a number of levels. It just doesn't pass any common sense test because the numbers are so large.

For one thing, it doesn't make sense that there would be such large demands for physical silver (or gold) in a vacuum and if anyone has been buying big quantities of physical silver or gold away from JPMorgan (and perhaps Goldman Sachs in silver) there is zero supporting evidence supporting that. Moreover, the whole idea that physical demands on the COMEX are being mysteriously diverted to London is absurd from the perspective of the buyers. The alleged buyers of \$13 billion worth of physical silver (and countless billions in gold) have been idly sitting by with unfilled orders without complaint for months and continuing to buy despite delivery not being met? Who thought up this crackpot story in the first place?

Anyone desiring big quantities of physical silver or gold have the means of doing so either by buying plain vanilla COMEX futures contracts and standing for delivery or buying one of the big ETFs, like SLV or GLD. The hallmark of traditional EFP transactions is that they are completely voluntary by the buyers. What buyers in their right mind would engage in a transaction where physical delivery wasn't being met and continue to do so after delivery not being met? And if anyone wants to document that 800 million oz of physical silver has been delivered over the past 4 months, whether in London or on the planet Mars, let them step forward.

While I believe the current misguided conversation about EFPs is largely the result of those with no professional futures market experience, the ironic thing is that silver could (and should) easily explode in price for reasons completely unrelated to the EFP transactions and if it does, I will guarantee you that the price explosion will be credited to EFPs. That's just the way it is in this crazy world. Finally, it is simply remarkable how so many are so quick to accept that buyers have tried to buy more than 800 million oz of physical silver in less than four months and find it unbelievable that JPMorgan has amassed 700 million oz of metal over the past seven years. Go figure.

Before commenting on today's price action, let me try to recap the reporting week ended yesterday and that will be featured in Friday's new COT report. Based upon price action and changes in open interest, it's reasonable to expect deterioration in both gold and silver, or managed money buying and commercial selling, although the really big deterioration in silver likely occurred today. Please don't rely on these numbers as precision estimates in any way, because they are not intended as such, but merely as feelings. I'd guess somewhere around 20,000 net contracts of managed money buying in gold and maybe half that in silver in Friday's report (although I would be ecstatic to be too high on my silver guess).

Today, clearly, is a different story, especially in silver as it is certain that there has been massive managed money buying and commercial selling. To be sure, today's jump in the price of silver has to have been the most widely anticipated upward penetration of the last remaining key moving average (200 day) in memory. That the move came with no apparent outside news influence or even a big

assist from gold is not particularly surprising, at least to me.

The move up in silver was preordained by the most extremely bullish COMEX market structure in history and, if anything, was long overdue. The wonder is more still how the market structure got to be so bullish, with record managed money shorting and commercial buying. What in heaven's name persuaded the managed money technical funds to choose this time, place and price to choose to be more heavily short silver than any time in history? As I've indicated previously, it was not likely just a coincidence.

For sure, the technical funds rushed to buy back short positions measured in the tens of thousands of contracts and the commercials which were holding close to record long positions (primarily the raptors) unloaded massive numbers of long contracts for the biggest one-day profits in history. Remarkably, the managed money traders went into today already in the red as far as the average price of their historic short position, meaning they had no cushion to absorb today's losses (as I recently discussed). Not to put too fine a point on it, I would estimate that at \$17.20, the managed money traders lost upwards of \$200 million from the average price at which they were short and on which the raptors gained, the most in history.

The big question, of course, and which I asked when starting this commentary is what, if anything, did the crooks at JPMorgan do today. Did this supremely criminal bank begin to add to silver short positions on today's rally (or perhaps thru the reporting week yesterday)? That's the billion dollar question in silver. A close friend (who had my best interests in mind) chided me on using the word "vermin" to describe JPMorgan and the CFTC and CME Group in Saturday's review, because it was unseemly and over the line. While I understood completely that he had my best interests in mind and didn't want to see me pollute my message with inappropriate words, I ended up nearly biting his head off (although that was not my intention), screaming out a list of profanities prefacing the word vermin that I told him that I should have included.

Only then did I look up the definition of the word vermin on Google and I can assure you that I wasn't referring to JPM, the CFTC or the CME as insects or rodents (although that's getting close) and saw that the definition I had more in mind was "despicable and causing problems for the rest of society". All three fit that description perfectly and please allow me to explain my harsh language.

Last week, I laid out how JPMorgan had never taken a loss when adding COMEX short positions on multiple occasions over the past year, ever since notifying the new Enforcement Director of the CFTC, James McDonald, of JPM's role in the silver manipulation on his first day on the job. It took me all of 5 minutes to compile the accounting of JPMorgan's profits of at least \$400 million over the last year, since I report on this regularly. I figure it might take me an hour or so to recount JPMorgan paper COMEX silver profits over the past 10 years. Of course, it wouldn't take any time to compile a list of JPMorgan's losses when adding new paper short positions because that has yet to occur (since JPM has never bought back short positions at higher prices than it sold short at).

I use "vermin" not to describe JPMorgan's manipulative ways but for it and the CFTC and the CME to refuse to rebut or address the allegations of manipulation. Price manipulation is the most serious market crime possible and the refusal of all three to address the allegations is tantamount to

them hiding under a rock, like insects and rodents. It's not right for me to allege such things if there is any chance I am wrong in my assessment and for that reason alone all three should be making the case why I'm wrong. That they don't makes them, well, vermin (with the vilest string of profanities imaginable as an adjective).

All that aside, it still comes down to what JPMorgan does and it will take some time to get a handle on that. Undoubtedly, the smaller commercials (the raptors) were massive sellers today, booking immense profits and looking to sell more at higher prices, as well as now being in position to buy new longs on any selloffs they can arrange. I would imagine the volatility that erupted today is not likely to be a one day event.

Neither I nor anyone can know what JPMorgan did today until future COT reports are published, but it's not necessarily a foregone conclusion that it has added new short positions yet again or whether it will short on still higher silver prices. Today's price action and trading volume could have served as a perfect backdrop for JPMorgan to cover many short positions to the upside for the first time in history, as I discussed recently. I can tell you what I hope JPMorgan did today, but you already know that.

Considering there was absolutely no outside news (dollar, gold, stock market, etc.) to account for the move in silver, a reasonable person would conclude it could only be due to COMEX positioning. There is no chance that the move today, coming on a Wednesday, the first day of the reporting week was coincidental in any way. That means the key question - what the crooks at JPMorgan did or didn't do - remains unanswered until a week from Friday. And it's entirely possible the data may prove inconclusive even then. While the wait seems interminable at this point, we should all thank our lucky stars that, sooner or later, the data will likely tell us what we need to know about JPMorgan. Imagine how in the dark we would be if there were no such thing as the COT and Bank Participation reports.

Since there is much we both know and can't know, it is important to concentrate on what we do know and that includes how we should position for it. To me, that means all in and then some, seeing just how stupid cheap silver had become, while also recognizing more price volatility lies ahead. I don't believe the managed money traders will ever get hoodwinked and snookered into holding the immense short positions they recently held, but one must never say never.

But with JPMorgan having amassed the largest physical stockpile of silver in history (plus an enormous amount of physical gold), as well as the smallest paper short position in nearly a year, the upside has never been more attractive in silver than it is now. If the crooks at JPMorgan aggressively sell short into the upside yet again, more will come to see just how corrupt this bank is, as well as just what vermin it and the CFTC and CME really are.

Ted Butler

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Silver – \$17.23 (200 day ma – \$16.76, 50 day ma – \$16.50)

Gold – \$1354 (200 day ma – \$1299, 50 day ma – \$1332)

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