August 21, 2019 – What Happened to the Silver Whale?

Like Carmen Sandiego and Waldo, the search is on for the Silver Whale â?? the very large COMEX futures long who added close to 20,000 contracts (100 million oz) from late May to late June. Since June 25, nearly the entire added long position has been liquidated through last weekâ??s Commitments of Traders (COT) report.

Even though the concentration data contained in the COT reports require some simple arithmetic calculations, the data are accurate to the contract. These are the data which lay out the case for the sudden appearance and subsequent disappearance of what was the largest concentrated long position by 4 traders in COMEX history; a history that extends more than a half century.

To be sure, there have been past occasions, starting in April 2018, when the concentrated long position of the 4 largest traders had climbed to then-record levels, but none to the extent of the increase that occurred starting at the end of May this year. One big distinction of past incidences of notable increases in the concentrated long position in COMEX silver futures is that they always occurred when silver prices moved higher and penetrated key moving averages. As you know, this is a hallmark of the technical funds. Also, on all past occasions, after prices fell back below the key moving averages, the buildup in concentrated longs was sold and liquidated at big losses to the technical funds which originally bought (part of the wash, rinse, repeat cycle).

The big increase in the concentrated long position that began in May was not only much larger than previous increases, it began before the key moving averages were penetrated to the upside and was completed at a remarkably low average price â?? around $15. Most unusual of all, the position was subsequently liquidated as silver prices staged a recent rally of two dollars or so, meaning that the position was liquidated (if it was liquidated) at a big profit â?? somewhere between $100 and $150 million.

However, Iâ??m not quite sure the giant concentrated long position was first bought and then sold and liquidated as a plain vanilla purchase and sale. Of course, I canâ??t rule that out conclusively, because it is entirely possible. After all, as a return on the amount of margin required, it would represent better than a 100% return on capital in no more than two or three months. A quick $100 to $150 million profit is hardly anything to scoff at. Still, I remain skeptical the trade was purely a quick opportunistic trading play. Why do I believe the big silver whale didnâ??t just sell and take profits, effectively, just swimming away?

Actually, my skepticism has nothing to do with the mechanics of the trade as regards any data involving the COMEX. The concentration data in the COT report, as I indicated previously, are accurate to the contract and there is no doubt the big position was put on and subsequently taken off as Iâ??ve just described. What concerns me is something quite separate from the CFTC COT data, namely, the unprecedented inflows of physical metal into several silver ETFs, particularly SLV, over the same time that the concentrated COMEX long position was â??liquidatedâ?•.

The concentration data in the COT report cover the COMEX futures market and the physical inflows into the silver ETFs are entirely separate and distinct from one another. One involves derivatives contracts and the other hard metal. In this case however, the amounts are roughly the same (100 million oz) and the timing is also nearly identical. Moreover, the physical deposits of metal into the silver ETFs were not, I repeat not, the result of widespread collective investor buying. How do I know this?

The last time there was a surge in deposits into SLV and other silver ETFs was in the months leading up to the price surge to near $50 into April 2011. In fact, that was the reason silver surged in price. Back then, there was a corresponding surge in the buying of all things silver, including Silver Eagles and Canadian Maple Leafs and all forms of retail silver. This time, there is no similar surge in collective buying. Yet the ETF shares were bought and physical metal has been deposited this time around. By process of elimination, someone had to buy the shares and if it wasnâ??t great numbers of investors acting collectively, then it was something else, namely, a very small number of big buyers â?? the big silver whale.

It would be naÃ¯ve to believe that there was no connection between the sudden concentrated buying of approximately 100 million oz of COMEX silver futures contracts and itâ??s just as sudden liquidation and the near-simultaneous physical deposit of 100 million ounces into a few silver ETFs. More to the point, there was more than a connection â?? this was a well-designed and executed strategy to do something that makes all the sense in the world â?? buying a big chunk of physical silver at as cheap a price as possible. Who among us wouldnâ??t do the same if we were able?

As I previously described, this is exactly what I would do if I had $1.5 billion to invest in silver, namely, first fix the price in the futures market and then convert the paper derivatives into physical silver via a simple arbitrage. The idea is to buy as much physical silver without causing the price to rise sharply. To be honest, I hadnâ??t envisioned the silver ETFs being used as the arbitrage mechanism for converting the futures contracts into physical silver beforehand, but seeing it unfold in full view, it quickly dawned on me what was occurring. The alternative of demanding physical delivery on 20,000 COMEX silver contracts would have subjected the stopper to too much notoriety and regulatory scrutiny.

I would put this recent buying of futures contracts on 100 million oz of silver and its subsequent conversion into physical silver via the silver ETFs as a masterstroke; similar in nature to JPMorganâ??s masterstroke decision 8 years ago to begin accumulating physical silver and gold as a means of immunizing itself against losses on its controlling COMEX short positions in the eventual upward price surge. Of course, JPMorganâ??s genius move is still in a class by itself when it comes to the quantities of physical metal it has accumulated (850 million silver oz and 25 million gold oz).

My point is that I did not foresee either genius move beforehand – JPMâ??s decision to accumulate physical silver and gold or the silver whaleâ??s decision to use the silver ETFs as the physical conversion mechanism â?? but I knew enough to recognize them as they occurred in real time. As far what these masterstrokes mean, itâ??s hard not to interpret each as being extremely bullish for the price of silver, particularly considering just how cheap the metal is by any objective standard available.

One thing I havenâ??t been able to draw a bead on is JPMorganâ??s involvement in this silver whale business. Further, itâ??s a bit ironic even talking about a silver whale considering no entity could ever be a bigger whale than JPMorgan when it comes to silver and gold. Iâ??m sure JPM knows as much about the new whale as anyone and has even supplied the metal deposited into the silver ETFs, but I still donâ??t know if that physical metal came via a straight sale or by leasing. The best I can come up with for a JPM connection is that it might have whispered in the ear of a favored party as to what a good deal physical silver is.

An additional point occurred to me as I was thinking about the issues involved here. For some otherwise unexplained reason, Iâ??ve noticed the notion that precious metals trading in London, specifically on the LBMA, is still thought by some to be the world center of such trading. Iâ??ve even heard the preposterous statement that COMEX trading is only 5% or 10% of the real dealings on the LBMA. How this absurd idea came to exist in this day and age is beyond me. Perhaps the LBMA might be a bit more significant than the man behind the curtain in the Wizard of Oz, but not by much.

A case in point is the recent rise and subsequent elimination of the silver whale position on the COMEX. If the LBMA is so much larger than the COMEX then why in the world would the whale choose to establish the position on the COMEX, where it was relatively easy to track (via COT data), instead of the highly opaque LBMA where complete anonymity would be assured? The answer should jump out at you, namely, and pardon my language, because everything about the LBMA is bullshit. The position was put on and converted from the COMEX because the COMEX is 1000 times more real than the LBMA. Donâ??t get me wrong, the COMEX is as crooked a market as can be, but at least itâ??s a transparent and real crooked market. The LBMA is not only crooked, itâ??s a faÃ§ade. Maybe someday Iâ??ll tell you how I really feel about the LBMA.

Moving on, it appears another one bit the dust, as yet another (now) former JPMorgan precious metals trader has pled guilty to criminal charges of spoofing. Christian Trunz resigned his position as Executive Director on Tuesday, the same day he pled guilty. The Financial Times reported that Trunz, age 34 and of London, worked at JPMorgan for 11 years and Zero Hedge reported he worked at Bear Stearns prior to JPM. The Justice Department announcement indicated that Trunz learned to spoof from more senior traders and that he spoofed with the knowledge and consent of his supervisors.

https://www.justice.gov/opa/pr/precious-metals-trader-pleads-guilty-conspiracy-and-spoofing-charges

As was the case with John Edmonds, who also pled guilty to criminal charges back in October, there appears to be the continuous and widespread practice of spoofing and manipulation on an institutional basis at JPMorgan. Since Iâ??ve openly alleged that JPMorgan has illegally manipulated the price of silver and gold for more than a decade, I canâ??t say Iâ??m surprised by the recent guilty pleas. My only surprise is in whatâ??s taking so long for the Justice Department and the CFTC to boot JPMorganâ??s crooked butt out of the precious metals market?

Please ask yourself this â?? did Edmonds and Trunz come into this world as incorrigible criminals from birth with unalterable DNA that led them to engage in spoofing or were they trained and molded as young 20-somethings to behave exactly as JPMorgan intended? Iâ??m not excusing Edmonds and Trunz from engaging in illegal behavior â?? but did they just dream the scam up on their own? Did not JPMorgan train, encourage and reward these traders (and others) for illegal trading activities? Isnâ??t this how the Mafia and terrorist organizations operate â?? by indoctrinating young and naÃ¯ve recruits? Yeah, those are rhetorical questions.

One final point. Of the dozens of precious metals spoofing cases that have been initiated by either the CFTC or the Justice Department and regardless of where the traders were operating from, New York, London, Zurich or Singapore, the spoofing or alleged spoofing took place on the COMEX. Iâ??m aware of no allegations of spoofing on the LBMA. Thereâ??s a very good reason why this is so. In order to spoof a market, there must be some legitimate trading capable of being spoofed. Since thereâ??s no legitimate trading on the LBMA, no spoofing is possible. Try to remember that the next time some clown tries to tell you how big and important the LBMA is.

As far as what Fridayâ??s COT report may indicate, Iâ??m going to take another pass on specific contract predictions. Price action in both gold and silver was choppy, trading both above and below the reporting week close of a week ago and with gold finishing roughly unchanged for the reporting week while silver ended up about 15 cents. Iâ??m much more interested in seeing what JPMorgan may have been up to and whether there will be another surprise in silver, as far as further managed money selling and commercial buying.

Gold and silver prices got thumped to the downside in Mondayâ??s trading, bringing some relief to the big shorts, but by late today prices had recovered from Mondayâ??s lows. At publication time gold was down $10, while silver was about unchanged from Fridayâ??s close. This brought about a $220 million reduction in the $4 billion open and unrealized loss to the 7 big shorts in COMEX gold and silver as of Fridayâ??s close.

It still remains to be seen which it will be â?? a clean out to the downside as is called for by a conventional reading of the COMEX market structure or something else as is suggested by the non-conventional circumstances of the day. All things considered, Iâ??m still resigned to playing it on a non-conventional outcome due to a fear of stepping aside in silver just as things got really interesting.

Ted Butler

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Silver – $17.10Â Â Â Â Â Â Â Â (200 day ma – $15.27, 50 day ma – $15.90)

Gold – $1514Â Â Â Â Â Â Â Â Â Â (200 day ma – $1320, 50 day ma – $1429)

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