December 18, 2019 – Open Questions About to be Answered

There are two main questions remaining open regarding gold and silver that are likely to be answered in the relative near future. The first is the resolution of the Justice Departmentâ??s criminal investigation, including guilty pleas by and indictments of traders from JPMorgan, into precious metal manipulation on the Commodity Exchange, Inc. (COMEX). The second question is the pending resolution of the unprecedented still-unresolved lopsided market structure on the COMEX between the managed money traders on the long side and the eight largest commercial shorts.

Dealing first with the DOJâ??s case against traders, both former and current, from JPMorgan, much time has passed since the first guilty plea was reached in October 2018. By comparison, less than a year had passed before BankAmerica/Merrill Lynch entered into a non-prosecution agreement with the DOJ as a result of two of its former precious metals traders having been indicted for spoofing and price manipulation. The degree of spoofing at Merrill Lynch was only the smallest fraction of one percent compared to the level alleged at JPMorgan. Importantly, there was not the slightest indication that spoofing at Merrill Lynch had reached the state of the institutional practice alleged at JPMorgan.

But itâ??s not just the passage of time alone that suggests the case against JPMorgan may be reaching a head. While the public has no way of observing the behind the scenes negotiations and drama associated with a major Justice Department case until charges or settlements are officially announced, it is obvious the negotiations and drama are intense between official announcements. Thatâ??s just how these things work. In addition, there are other signs that both sides, the Justice Department and JPMorgan, are maneuvering for the best outcome.

I wrote over the past week how it was beyond curious how the Justice Department brought its first criminal indictment against three JPM traders on the same day as the repo crisis erupted, a sign to me that JPM was fighting back. Then there was the â??60 Minutesâ?• feature on Jamie Dimon, JPMâ??s CEO, on Nov 10, which was more of a public relations infomercial or even a case for canonization for sainthood than it was a balanced review of the man or the bank. It would be naÃ¯ve to think that JPMorgan would not fight back against charges that, quite literally, could put its CEO and even the bank itself out of business.

To be sure, all these matters surrounding precious metals manipulation involve entities at the highest levels possible. Itâ??s not possible to go any higher than the Justice Department, the CFTC, the CME Group and JPMorgan in precious metals matters. And just to kick it up a notch, please know that before the Justice Department even thinks about charging an entity as important as JPMorgan in a matter as important as market manipulation, it would get reviewed by the Attorney General (who in turn would pass it by the POTUS). This whole issue is so significant that only the most plugged-in could even begin to handicap how it might turn out.

What I do know is that, so far, the Justice Department has studiously avoided the most serious crimes that JPMorgan has committed in precious metals, namely, itâ??s never taking a loss when addingshort positions on the COMEX for more than a decade (since acquiring Bear Stearns in 2008) and for accumulating massive amounts of physical silver and gold at prices it caused to be artificiallydepressed by its COMEX short selling. Iâ??m further convinced such charges will never be broughtâ?? because they are so serious that there is no question it would end JPMorgan as a going concern.

But even stipulating that the most serious charges of price manipulation and unlawful acquisition of physical metal will never be brought, the threat to JPMorgan senior management is front and center on just the spoofing charges brought to date. The daily price manipulation and dirty trading tricks by precious metals traders at JPMorgan were ingrained at the bank to the extent that senior management had to know of them. Do a Google search on â??JPMorgan silver manipulationâ?• and set aside several weeks or months to read all the entries. And forget that I sent JPMorgan every private and public article I wrote that referenced the bank. If senior management wasnâ??t aware of the outstanding allegations of precious metals manipulation against the bank, they should be hog-tied and beat with a stick for being incompetent.

If the Justice Department doesnâ??t soon directly address the issue of JPMorgan senior managementâ??s involvement/incompetence in the bankâ??s decadeâ??s long institutionalized spoofing in precious metals, then surely the DOJ will be tarnished. My own feeling is that the Justice Department may have miscalculated the extent of senior management involvement when it first stumbled onto the institutional spoofing at JPMorgan and now is in a quandary about how to resolve the matter. But having brought the spoofing charges (while ignoring the more serious charges), the DOJ is in a box â?? it must resolve the matter by pretending that JPM management was unaware or by ignoring the rank incompetence that would infer.

Certainly, there is no indication that Jamie Dimon is about to fall on his sword and go out without a fight. Letâ??s face it â?? he has attained the pinnacle in terms of reputation, position, power and prestige. He might even resort to threatening to bring the system down (as I speculated in the repo matter) to maintain what he has achieved. How this turns out will be one for the history books.

The other great question about to be resolved is the matter concerning the still-lopsided market structure in COMEX gold and silver futures. For the first time in the more than 30 years I have closely followed the Commitments of Traders (COT) reports in silver and gold, I am observing something Iâ??ve never seen before, namely, the refusal (to date) of the managed money traders to sell aggressively on downside penetrations of key moving averages as they have in the past. To be sure, there has been some managed money selling since the price highs of early September, but nowhere near the level of selling observed in the past.

Up until this point, Iâ??ve tried to be as objective as possible in terms of predicting whether the managed money traders will eventually turn aggressive sellers as they always have in the past or if enough of them will continue not to sell for the first time ever. This is no minor matter since the basis, at its core, for the COT market structure premise is expected managed money behavior. For at least three decades, the managed money traders have always bought aggressively in COMEX gold and silver futures on rising prices and upside moving average penetrations and have always sold (and sold short) aggressively on declining prices and downside moving average penetrations. Always.

But itâ??s now been three and a half months of lower prices and two and a half months in which the important 50 day moving average has been penetrated to the downside in gold and silver and the managed money traders have yet to sell aggressively. Is it possible that the managed money traders will finally sell on lower prices â?? say once the important 200 day moving averages get penetrated? Of course, thatâ??s possible â?? not only because anything is possible, but also because the managed money traders have always sold on such a downside penetration.

Then again, it was possible (and expected) that the managed money traders would sell aggressively when the 50 and 100 day moving averages (and a whole assortment of similar moving averages) were penetrated to the downside this time as well, because they had always done so in the past. Only this time they didnâ??t sell and this is the first time that has ever occurred.Â When you observe something closely for more than three decades that has repeated itself regularly and suddenly there is a stark break in pattern â?? it catches your attention.

I understand that more follow the COT reports than ever before and also know that the reason so many follow the reports is because the managed money traders have behaved so consistently in the past â?? always buying on higher prices and always selling on lower prices. After so many decades of rigid trading behavior, the vast majority of those which follow the COT reports believe the managed money traders will still sell aggressively, even though they havenâ??t to date. And truth be told, those expecting the managed money traders to sell aggressively at some point soon just might turn out to be correct. I am not so arrogant or stubborn to insist on future price movements.

That said, in addition to being a strong proponent and student of the COT market structure premise, I have also been a strong proponent that the same market structure premise was the cornerstone of the manipulation and price suppression premise and that both premises were one and the same. Moreover, I have held over the decades that the managed money traders were, essentially, the enablers of the manipulation and, as pawns for the commercials, these traders were brain dead in their mechanical approach to buying and selling.

From my personal observation, most of those advocating the COT market structure approach currently are not manipulation believers or hold that there is anything wrong with how prices are set. As regular readers know, I believe the opposite, namely, that just about everything is wrong with how gold and silver prices are set on the COMEX and I have spent a good part of my working life petitioning those at the highest levels (as described above) to do something about it. As a result, I have some rather unique beliefs, including that the COT market structure premise that I have developed on my own would someday fail spectacularly – because all manipulations throughout history ultimately fail spectacularly.

Since I am both a COT market structure and manipulation premise advocate, I suppose itâ??s only natural that I would look for signs that the manipulation was coming to an end in conjunction with unusual changes in the market structure. The recent refusal of the managed money traders to sell anywhere near as aggressively as they have on similar price declines and moving average penetrations of the past is such an unusual change. Throw in the massive physical accumulation by JPMorgan over the past now nearly 9 years and its recent pronounced covering of COMEX short positions and you have as good a set up for the manipulation coming to an end as could be imagined. (And Iâ??m not aware of any COT market premise observers who hold that JPMorgan has amassed epic quantities of physical silver and gold or who hold that JPM might double cross the other commercials).

However, if any of the beliefs that I hold to be true (the lack of managed money selling, the accumulation by JPMorgan of physical metal and its ability to double cross the other commercials) that point to a coming end to the long term price manipulation are reasonably accurate, consideration should be given to the counterparties of the managed money traders. Here Iâ??m talking about the 7 or 8 big concentrated shorts which hold most or even more of the entire commercial net short position in COMEX gold and silver.

To this day, I believe most market observers hold that the commercial shorts in COMEX gold and silver are somehow legitimate hedgers and not rank speculators. Most, quite mistakenly, believe that the COMEX commercial shorts are mining companies or those which hold physical quantities of silver and gold that they are shorting against. Nothing could be further from the truth. Any mining company selling short on the COMEX must include that fact in their public earnings reports. Iâ??m aware of no such public data being reported. And with JPMorgan having a death grip on much of the physical silver and gold available, those shorting big on the COMEX donâ??t have a prayer of owning the required physical metal to back up their shorts.

The latest COT report indicates that the 8 largest commercial shorts in COMEX gold futures hold 281, 152 contracts (28.1 million oz) short of the total commercial net short position of 302,300 contracts. Thatâ??s about equal to all the gold in the worldâ??s largest gold ETF, GLD, which holds 28.3 million oz. The 8 largest shorts on the COMEX hold more than 3 times all the gold in the COMEX warehouses. Without the concentrated short position of the 8 largest commercial shorts, there would only be a 20,000 contract (2 million oz) COMEX commercial short position.

In silver, itâ??s a lot more extreme â?? crazily so. The 8 largest commercial shorts on the COMEX hold 97,084 contracts (485 million oz) net short, out of a total commercial net short position of 63,100 contracts. Yes, you read that correct â?? the concentrated short position of the 8 largest shorts (according to the latest COT report) is 34,000 contracts larger than the total commercial net short position â?? meaning if the concentrated short position of the 8 largest shorts didnâ??t exist, there would be no net commercial short position at all â?? just a 34,000 contract net long position.

The 485 million oz that the 8 largest shorts hold on the COMEX is larger than the 317 million oz in the COMEX warehouses (of which JPM owns or controls 260 million oz) or the 365 million oz in SLV, the largest silver ETF. Itâ??s even worse when you subtract JPMorgan from the 8 big shorts because then the remaining 7 big shorts donâ??t have a prayer of holding enough physical metal to make their paper short positions look remotely legitimate.

What Iâ??m leading up to is this â?? if the managed money traders continue not to sell (on which they are doing an awfully good job to this point), then what are the 7 big COMEX gold and silver shorts (leaving JPM out) going to do? In fact, the most obvious conclusion is that these 7 big shorts are trapped. If the managed money traders donâ??t sell (or continue not to sell) then how can the 7 big shorts buy back the roughly 250,000 gold and 90,000 silver contracts that they are short (after removing JPMâ??s positions)?

I know all this might sound outrageous, but at the same time itâ??s just simple arithmetic and market reality based upon government published data. If the managed money traders continue not to sell â?? or heaven forbid (for the big shorts) â?? decide to buy more then what? If the 7 big shorts decide to turn tail and rush for the exits to buy back, that just amplifies their financial predicament. And this is where the financial scoreboard comes into play. How much financial pain can these 7 big traders take? Yes, if they can convince and hoodwink the managed money traders to sell aggressively on lower prices, the 7 big shorts will have saved their skin and rescued the day. Â But what if they canâ??t?

As far as the current financial standing of the 7 big shorts, at publication time today, there was not much net change from Fridayâ??s closing prices, so Iâ??d peg the 7 big shorts to be out $2.4 billion in total combined open and unrealized losses.

As far as what to expect in Fridayâ??s COT report as of yesterdayâ??s cutoff for the reporting week, trading volumes have not been heavy (due the holiday season I believe), but there has been an upside price tilt over the reporting week, with silver ending the week higher by more than 35 cents and gold up by $12 or so. Gold did penetrate its 50 day moving average on a number of occasions during the reporting week, but has yet to close above it. Gold has upwardly penetrated its 20, 30 and 40 day moving averages on a closing basis and silver likewise for its 20 and 30 day moving averages.

Total open interest for gold increased by a hefty 27,000 contracts over the reporting week (4000 in silver), but I canâ??t tell how much may have been spread related. There would appear to have been managed money buying and commercial selling in each, which if true, only intensifies and amplifies the pending resolution. I feel I have no choice but to remain fully-committed to the price explosion outcome, but I am making plans to come up with more speculative funds (for options) in the event of a selloff.

Hereâ??s an audio interview I did over the weekend with Dunagun Kaiser from Reluctant Preppers, who I must say asks (or his listeners) some pretty good questions. I did send him my recent article speculating about a connection between the repo crises and the DOJâ??s indictment of the three traders from JPMorgan, but none of the questions asked were known to me in advance.

https://www.youtube.com/watch?v=THk4eavRrKU&feature=youtu.be

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December 18, 2019

Silver – $17.05Â Â Â Â Â Â (200 day ma – $16.28, 50 day ma – $17.29)

Gold – $1479Â Â Â Â Â Â Â Â (200 day ma – $1412, 50 day ma – $1482)

Date Created
2019/12/18