

## December 29, 2018 – Weekly Review

Gold and silver prices powered higher, gold setting new six-month highs and silver up to four-month highs. Gold ended \$24 (1.9%) higher and silver finished up by 74 cents (5%), its best weekly gain in more than a year. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by more than two and half full points to just over 83 to 1. While this is the most fully valued silver has been relative to gold in three months, the fact is that silver is still dirt cheap relative to gold, as it has been for several years and still offers the opportunity of superior investment performance in the long run.

While the stock market bounced back from steep losses of recent weeks, daily volatility remains very high, in stark contrast to low volatility in precious metals. In fact, when I compare the extreme price volatility in markets that truly tower over gold and particularly silver in total size, like stocks and crude oil, I am left with the thought that we are living in a type of fictional bizarre world where everything is the opposite of what is normal. Usually precious metals, especially silver, are much more volatile in price than much bigger markets, like stocks and crude oil, which are hundreds to thousands of times larger in total size than silver.

Clearly, that hasn't been the case and it's reasonable to ask why. I think it's a combination of things, mainly that the defective price discovery process that I've long described in silver and gold has come to infect stocks and crude oil. Mindless computerized derivatives and index trading is what's accounting for the surge in price volatility in stocks and crude oil. As for why the volatility has left the precious metals, my answer is as a result of long term manipulation. Looking ahead, I would imagine the volatility will remain high in stocks and oil and will return with a vengeance to precious metals, particularly silver. More on this in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX silver warehouses cooled notably this Christmas week, as only a minimum of 2.1 million oz were moved and total COMEX silver inventories fell by a million oz to 292.6 million oz. I say a "minimum" decline because I neglected to record any changes reported on Monday, Christmas Eve, so it's possible there was a bit more movement, but I'm unable to retrieve the data. The amount of silver in the JPMorgan COMEX silver warehouse remained unchanged at 147 million oz.

With the December COMEX deliveries finished, the first day of deliveries for the untraditional month of January, typically a very light delivery month, did feature some stopping (taking) of silver deliveries by JPMorgan in its house account and a higher than usual number of open contracts remaining (around 900, the equivalent of 4.5 million oz). As always, I'm only really only interested in what JPM is up to.

Since there is only one more trading day left for 2018, I suppose some type of yearend review is warranted. Pricewise, it was not a particularly significant year, in that both gold and silver traded within the parameters of recent years, with gold trading within a \$200 price range and silver in a \$3.50 price range. Gold fared much better in that it has nearly recovered to the closing levels of 2017, while silver is still shy of 2017's closing levels by nearly \$1.50. This is reflected in the widening of the silver/gold price ratio from 2017's closing 76 to 1 ratio, to yesterday's 83 to 1.

One thing that worked like clockwork in 2018 was the conformance of price performance in both gold

and silver with positioning changes between the managed money traders and commercials on the COMEX. I say this, not in any sense that the positioning/price changes were predicted (by me or anyone else), just that the positioning changes fully explained, as they usually do, the resultant price changes.

As always, big managed money selling drove prices lower and big managed money buying drove prices higher and we had a number of instances of very large amounts of managed money selling in gold and silver. For example, the managed money traders sold more than 300,000 net COMEX gold contracts (30 million oz) from the gold price highs of \$1360 in January to the lows of \$1170 in August. In silver, the managed money traders sold more than 80,000 net contracts (400 million oz) twice — from \$17.50 in January to \$16 in April and then again from \$17.25 to \$14 in September.

While the sale of such large equivalents of metal fully explained the price performance this year and looks clear as a bell in hindsight, the reason they were not predicted or predictable was because the managed money traders sold more gold and silver contracts at times in 2018 than they ever sold in history. In hindsight, there was no way of accurately predicting that the managed money traders would sell and sell short more gold and silver contracts in 2018 than ever before. After all, prices were contained within the extremes of previous years and the technical funds didn't seem inundated with fresh new money from outside investors. Looking back, I still can't figure out exactly what made the managed money traders move so aggressively to the short side of COMEX gold and silver in 2018.

I was confident that the managed money traders would not profit from their historically large bets on the short side and that certainly turned out to be the case; although I fully admit that I expected their losses to be much greater than actually experienced. There was no way the managed money shorts were going to put it to the commercials which bought all the managed money traders cared to sell. As to why the commercials let them off the hook so easy, I think it's because the commercials looked on this as a case of just taking more golden eggs from the goose (the managed money traders) in the continuing game of scamming the tech funds, rather than in outright cooking and eating the goose.

That's the topical and on the surface review of positioning on the COMEX in gold and silver in 2018, but it is far from what I believe is the real story. The real story involves the positioning of JPMorgan, lord and master of all things gold and silver. The real story includes the epic short covering in gold by JPMorgan which began in the spring and eventually eliminated a 100,000 contract short position as the dust settled into the end of the year. Along the way, JPMorgan covered and partially re-shortened a silver short position from as high as 40,000 contracts (200 million oz) to negligible amounts currently. All along the way, JPMorgan added to physical silver positions.

The biggest story of 2018, not yet in focus by most observers, was the remarkable development that burst onto the scene on Nov 6, when the Department of Justice announced that it had secured a criminal guilty plea from a former JPMorgan trader for manipulating COMEX precious metals futures. The guilty plea was recorded on Oct 9 and sealed until Nov 6, meaning no one had any idea about the plea until then — and not just you and I, that includes JPMorgan itself.

It's now going on two months that the cat is out of the bag; with the bag being that the Justice Department is investigating JPMorgan for precious metals manipulation on the COMEX. I know that there has been no other news, aside from the original sentencing date of Dec 19 being pushed off indefinitely and even that postponement was filed under seal. I know that virtually no one has been writing about what I consider the most remarkable development in silver in all the decades I have

followed it closely. I also know that the lack of follow up news has tended to persuade those initially enthused about the development (mainly due to my enthusiasm) to come to doubt how significant it might be. If anything, the recent government shutdown has also contributed to a lack of new news.

Be that as it may, according to my understanding of such matters work (and, unfortunately, I do have some first-hand experience), there is no way that there isn't a swirl of activity occurring behind the scenes between the Justice Department and JPMorgan. No market crime is more important than manipulation and you can rest assured this matter is occupying the very highest levels of both organizations. We can only speculate as to the details of the ongoing discussions, but not to the fact that there are discussions and at the very highest levels. That virtually no one has picked up on this general theme is both mystifying and suggestive that when something does come out, it's likely to have a profound impact on the market.

Admittedly, I have been obsessing on this issue and truth be told, my obsession is only growing more intense (although I didn't think that was possible). Therefore, it's only natural to relate this obsession into actual and expected price action. Over the month of October, JPMorgan had added 15,000 new silver shorts and 30,000 new gold shorts from what had been a flat (zero) short position at the beginning of that month. When the DOJ announcement of Nov 6 was made, I believe JPMorgan quickly engineered the prices of both silver and gold to fall below their 50 day moving averages for the purpose of setting off managed money selling, so that JPMorgan could quickly buyback and extinguish the shorts it added during October. In little more than a week, JPMorgan succeeded in buying back the shorts added during October (and, of course, at the obligatory profit it has taken for more than ten years).

I don't think it's a coincidence that Nov 13 (a week after the DOJ announcement) marked the price low of just under \$1200 in gold and just under \$14 in silver, from which gold has gained more than \$80 and silver nearly \$1.50. The only question is how much, if any, new shorts JPMorgan has added on the rally since Nov 13. There is no question that there has been substantial managed money buying and commercial selling since Nov 13 and if I had to guess how much through yesterday's trading, I'd venture perhaps as many as 150,000 net contracts in gold (15 million oz) and 40,000 contracts in silver (200 million oz).

To be sure, these are significant positioning changes and predictions of a short term selloff are quite reasonable considering everything we've experienced over the last decade and longer. No one can deny that the chance for a typical price takedown exists. According to the tried and true wash, rinse, repeat cycle such a selloff is more than possible and expectations of same are more than understandable. The only thing that may be different is JPMorgan's customary role. Up until now, JPMorgan appears notably missing or very light on the commercial selling front since Nov 13.

With no Commitments of Traders (COT) and Bank Participation reports published until the government shutdown is ended, the weekly and monthly data are simply unavailable. This is somewhat ironic, because in the case of the most important functions of the CFTC, I would have to rank the publishing of the positioning data to be its most important function (it certainly wouldn't be the agency's publicly stated most important mission of cracking down on manipulation). In the very short term, the unavailability of the COT report is not terribly troubling, since I've gotten into the practice of measuring changes daily. But it is much more difficult to break out JPMorgan's participation without the hard data.

This is a critical issue due to JPMorgan's role in positioning over the past nearly eleven years. Ever since JPMorgan took over Bear Stearns in early 2008, it has always been the short seller of last resort on each and every silver (and gold) rally and at the conclusion of each and every rally, JPMorgan would always hold the largest COMEX short position — always. If anything, JPMorgan's dominant shorting role in silver had intensified in 2018, even as it was eliminating its gold short position mid-year. On the silver price high of \$17.50 in January, JPMorgan had been short as many as 33,000 contracts and on the subsequent \$17.25 high into June 12, JPMorgan had increased its short position by 20,000 contracts since May 1 to 40,000 contracts. By September, JPM had bought back its entire 40,000 contracts silver short position.

Whatever JPMorgan may have added on the silver and gold price rally since Nov 13, it would appear to be nowhere near the amounts added earlier, even as recently as over the month of October. On its face, JPMorgan's behavior on this current rally appears to be different. Of course, I reserve the right to revise that statement if, as and when newly published CFTC data indicate otherwise. Please allow me to explain why I think this is potentially so important.

For many years, I have predicted that on some forthcoming rally, JPMorgan would not, as it had always done in the past, add new shorts on a developing rally. The mere act of not selling and instead just keeping its hands in its pockets or going on vacation would be enough to allow silver (and gold) to race upward like never before. Not being able to read JPMorgan's (crooked) mind as to when it intended to end the price manipulation and suppression of silver, I had no rational alternative than expecting whenever the market structure suggested the next rally to be in place that the next rally would be the "big one". Time and time again, JPMorgan, instead of keeping its hands in its pockets and doing nothing, would always add to its short position, invariably absorbing managed money buying pressure until it could rig lower prices eventually.

The good news, for a very long time, was that there was usually ample warning as JPMorgan added new shorts and most typically, those who did position for the big one to erupt were able to adjust positions and prepare for the inevitable selloff. This reliable pattern gave birth to the now widely-followed COT market structure body of analysis. However, more recently, the ability to adjust one's added long positions under the idea that there would be ample warning has proved ineffective, given two developments — the consistently low silver prices and the growth in both managed money positions and JPMorgan's increasing share of the short side of commercial shorting, through the end of October. In other words, silver prices got so low that it didn't seem worth the effort to abandon added long positions when JPMorgan did add aggressively to shorts. For my part, I adopted a (consistently losing until now) approach of buying kamikaze call options.

One of the hallmarks of the past decade and longer was the idea that at some point the commercials

could get overrun to the upside at a time they held excessive short positions. My old friend and silver mentor, Izzy Friedman, had started calling this his "full pants down" premise some three decades ago and in more recent years, others began referring to it as a commercial signal failure. Both described the same thing, namely, after loading up on the short side on rising prices, instead of prices then declining as always happened, the commercials would get caught in the mother of all short squeezes and be forced to buy back short positions on higher prices for the first time ever and lose their shirts (and pants), thus driving silver (and gold) prices higher still.

For my part, while I always fully acknowledged the possibility that the commercials could get caught with their pants down and be forced to buy back short positions driving prices to the moon and beyond, I was always much more partial to the big move up occurring when the commercials were very light on the short side and the managed money technical funds very light on the long side, since that was what the whole COT market structure premise was about. As it turned out, seeing as we've yet to witness the big move higher, neither premise of what would cause prices to explode could be considered to be correct to this point.

But having observed what has transpired over the past eleven years, I'd like to drastically revise what I see ahead. And this is not conditioned or dependent on whether we see a short term selloff or not. Since the data have indicated that JPMorgan's role on the short side has been the most critical issue in why the commercials have always prevailed against the managed money traders, JPM's retreat from that role should change the game radically.

Simply put, it has been JPMorgan's backstopping of the commercials as the short seller of last resort that has enabled the commercials to never having had to buy back short positions on higher prices. If you take JPMorgan out of the equation, the formula for continued commercial success changes radically. Without JPMorgan's implicit guarantee on the short side, I believe the commercials are extremely vulnerable and as and when push comes to shove, the commercials will fold at some point like a cardboard shack in a heavy rain.

I suppose it's always possible for the commercials, with or without JPMorgan's backstopping, to rig a selloff at times like now, after much managed money buying. But even if we do get a short term price smash ahead, if JPMorgan has abandoned its former role of short back stopper of last resort, then it's only a matter of time before excessive commercial short positions blow up in their faces. A quick look at the remaining commercials sans JPMorgan is hardly the murderers' row it formally was. Scotiabank would give anything to abandon precious metals and Deutsche Bank is a basket case on any variety of issues related to derivatives. I don't think anyone is capable of replacing JPMorgan if it has abandoned its former role - not HSBC, not anyone.

And it's not as if the managed money technical funds have somehow wised up and changed their braindead ways. To everything under the sun, things change and what was formerly an idiotic strategy of selling as prices fell and buying as prices rose when the commercials were fully in control may turn out to be a genius strategy as and when the commercials, sans JPM, get overrun.

Clearly, my new-found take on what is to come is highly dependent on JPMorgan quitting its evil ways of adding to short positions on rising prices, or at least not adding enough new shorts at the margin to sop up all managed money buying. As to what would possibly convince JPMorgan to stop adding manipulative shorts as it has for nearly eleven years running, then the answer is in three initials - DOJ. Here, we've just come full circle - this discussion started with the Department of Justice and

JPMorgan and ends with that as well.

I suppose my new-found belief in a drastically modified full pants down premise would be invalid if the news to date about a criminal guilty plea for manipulation and an ongoing investigation of JPMorgan was somehow bogus or if one thought that the Justice Department was somehow just fooling around. I don't think they are and I don't think JPMorgan believes that the DOJ is fooling around either. In fact, I can't imagine JPMorgan looking to do anything that might piss off the DOJ and that definitely should include no longer loading up on the short side.

Accordingly, I would expect a sudden and fairly quick liftoff in price ahead, either with or without one last attempt at a commercial rig job lower. In no way would I reduce positions in the expectations of such a selloff, which may or may not materialize. Instead, I would look to really load the boat should that selloff come, even though my silver boat is already loaded up to the waterline.

One last note. Silver prices have been, on balance, below the key 200 day moving average for perhaps 90% of the time over the past two years and have been consistently below that same key moving average for the past six months. Having closed right at, but not yet penetrating that average to the upside as of yesterday, it seems likely the average will be penetrated in time and perhaps quickly. As I've long indicated, such moving average penetrations matter little to me, but they do seem to matter a lot to the managed money traders and at some point, an upside penetration is likely to set off significant managed money buying.

Ted Butler

December 29, 2018

Silver – \$15.44 (200 day ma – \$15.44, 50 day ma – \$14.56)

Gold – \$1283 (200 day ma – \$1256, 50 day ma – \$1236)

**Date Created**

2018/12/29