February 19, 2020 – Blind, Deaf and Dumb

Upfront, I donâ??t have much of a social life. I keep farmerâ??s hours – early to bed, early to rise. I spend most of my time thinking about silver and gold. My TV entertainment time is generally limited to reruns of Law & Order and Blue Bloods, probably because I find the pursuit of justice and upholding of the rule of law an adult escape fantasy, much like a childâ??s interest in cartoons. The other night, I picked up a new theme I heard the expression that â??justice should be blind (applied equally), but not deaf and dumb as wellâ?•.

It occurred to me that when it comes to the silver (and gold) manipulation, the US Justice Department and Commodity Futures Trading Commission are not only blind in the worst way possible (refusing to apply the law fairly and evenly), they are also deaf and dumb â?? refusing to hear or speak about fairly obvious market crimes. These are pretty damning words, but I believe the case can be made.

In many ways, the selective enforcement of the law is worse than no enforcement, because tilting the scales of justice is a greater perversion than no justice. If there is one thing that makes the idea of America the beacon to the rest of the world it is that all are held equally accountable under the rule of law. Thatâ??s certainly not the case when it comes to JPMorganâ??s role in silver and gold and other markets. The DOJ and CFTC wonâ??t even comment on open allegations that are easy to prove based upon the public record (mostly published by the CFTC), like JPM never losing when adding to COMEX silver and gold short positions for more than a decade. Thatâ??s where I get off calling each deaf and dumb. And only the willfully blind could fail to see JPMâ??s epic accumulation of physical silver and gold since 2011.

While justice being denied can result in near-permanent damage in many venues, when it comes to market crimes, like the silver and gold manipulation, in the end the law of supply and demand will supersede any abuse of the rule of law by the highest authorities and that process may be underway. In addition, years and even decades of the regulators looking away will come back to haunt them when the law of supply and demand finally kicks in. I believe this can currently be seen in palladium, where years of concentrated short selling in NYMEX futures has finally resulted in a market plagued by physical shortage and a price gone wild. Iâ??m not predicting where palladium prices go from here; Iâ??m just pointing out the price discovery process has shifted from futures positioning to physical availability. I believe this is a harbinger of what will occur in silver in time.

Currently, I donâ??t sense silver is in a physical shortage, but that can change fairly quickly, unlike how the process developed in palladium. Because there was and is very little physical investment demand in palladium, the current physical shortage was the result of ongoing industrial demand overtaking physical production, which was restrained by concentrated short selling depressing prices for years.

But unlike palladium, silver is a primary investment asset, in addition to being a vital industrial commodity. In fact, silver is the only true dual consumption commodity. What this means is that should physical investment demand for silver kick in, as it has kicked in regularly in the past, that investment demand can trigger a physical shortage (since industrial demand will continue). As far as where physical investment demand will come from, I would look first to the now near 14 year existence of silver ETFs (exchange traded funds). After all, it was largely ETF buying that drove prices to near $50

in early 2011. Considering the explosion in world investment buying power since then, it would be unreasonable to assume investors wonâ??t rush to silver as prices climb. That wasnâ??t the case in palladium.

Turning to other developments and as you might expect, my thoughts are centered on the ongoing financial drama being played out on the COMEX, as concerns the 7 big shorts in gold and silver. Price action this week (mostly confined to yesterday, given the US holiday on Monday) has intensified the drama to being a day to day, if not an hour to hour affair. As of yesterdayâ??s close, the big shorts went deeper into the open and unrealized loss category by a further $700 million (a cool $100 million each on average) to $5.9 billion from Fridayâ??s close. Thatâ??s more than $2 billion greater than the $3.8 billion mark to market loss as of Dec 31. On average, the 7 big shorts were in the hole for nearly $850 million each on average as of yesterday. Of course, Iâ??ll update the financial scoreboard when I send this article out later.

As a reminder, I exclude JPMorgan from the big 7, given its massive physical silver and gold holdings. Plus, JPM is no longer the largest gold and silver short seller on the COMEX, as it had been over most of the past 12 years. As recently as last May, with gold trading around $1270 and silver at $14.50, JPMorgan was in the red by about $1.5 billion on its 25 million oz physical gold and 900 million oz physical silver position (at an average acquisition price of $1200 for gold and $18 for silver). On yesterdayâ??s close, JPMorgan was ahead just over $10 billion on its gold holdings and even on its physical silver holdings. How do like them apples?

As for who the other big shorts may be, Iâ??ve long thought HSBC was a candidate and yesterdayâ??s news that it had disappointing financial results for 2019, seemed to confirm my suspicions. Unlike JPMorgan, whose financial results for 2019 set records, HSBCâ??s results were dismal and included planned layoffs of 35,000 over the next three years. There was no mention of losses for gold and silver by HSBC, but then again, there was never any mention of gold and silver losses for Bear Stearns, even after it went under in 2008, coincidentally while being the biggest short seller in COMEX gold and silver, even to this day. Just sayinâ??.

One thought that many think about (#MeToo) on sharp prices rallies like yesterday is whether the big shorts have begun to buyback and cover their short positions and if that covering is propelling prices higher. Make no mistake, no question could be more important, mainly because collective commercial short covering on higher prices has never occurred in history in COMEX gold and silver futures. But the answer can only be known conclusively when the corresponding COT reports are issued, which is not on the day of the suspected short covering.

The next best indicator for short covering on days of sharp price rallies is changes in total open interest, with the further caveat that spread trading can distort daily open interest changes and camouflage short covering, at least until the next COT report. If spread trading could somehow be excluded, then a sharp reduction in total open interest would be strongly suggestive of short covering. But spread trading or not, there was an exceedingly large increase in total open interest in COMEX gold and silver futures, both for yesterday and for the reporting week that ended yesterday.

Total open interest in gold was up a near-astounding 27,000 contracts yesterday and 57,000 contracts for the reporting week as a whole, while total silver open interest was up around 7000 contracts on yesterdayâ??s trading and 16,000 contracts for the reporting week. Itâ??s hard to conclude there was any commercial short covering with numbers like that and it would be most reasonable to assume big

increases in managed money and speculative buying and commercial short selling. After all, gold rallied more than $33 over the 4 day trading week, while silver was up more than 50 cents. I donâ??t think the net positioning changes were anywhere near as large as the total open interest increases, but it would be a stretch to conclude big commercial short covering.

Given all the above, what is most astounding is the lack of obvious concern from the CFTC about what appears to be a growing market crisis. I suppose I shouldnâ??t be surprised, given the agencyâ??s apparent lack of concern in the gold and silver price run up in early 2008, even after Bear Stearns went under in March 2008. In fact, the CFTC had the unmitigated gall to publicly report in a 16 page letter that there was no problem with the concentrated short position in silver, even after the largest short, Bear Stearns, failed and needed to be acquired. Â Any federal agency that went that far out of its way to flat out lie to the taxpayers which fund its existence cannot be relied on, either to regulate properly or to ever tell the truth.

In a nutshell, the problem today is the same problem that existed in 2008 and for the past three and half decades, namely, the concentrated short positions of a handful of financial firms, mostly banks, in COMEX gold and silver futures. The concentrated short positions of 8 traders makes up nearly 90% of the total net commercial gold short position and more than 100% of the entire net COMEX silver commercial short position. In other words, 8 traders hold the entire short position in basic terms.

Why this is a problem is because what happens if one or more of these 7 big shorts (excluding JPM) runs out of money to fund growing margin calls, just like happened to Bear Stearns? If you trust that the CFTC or the CME Group would never allow any of these traders to get into such a position, then you must explain why that exact circumstance happened to Bear Stearns. And while you are at it, try to come up with a legitimate reason why these 7 traders would be short so massively in the first place.

The concentrated short positions of the 7 big shorts in COMEX gold and silver futures represents a clear and present danger to the orderly functioning of markets. If the big shorts are able, they will shoot to engineer a sharp and manipulative decline in prices to save their hides. If they are unable to rig a big enough decline and gold and silver prices continue to rise, they stand likely to fail completely, just like Bear Stearns. Faced with such a black or white outcome, how can the regulators (the CFTC, DOJ and CME) not be blamed for whatever occurs? Iâ??m not talking about the deaf, dumb and blind kid playing pinball in the Whoâ??s Tommy; Iâ??m talking about those we trust to make sure that all is on the up and up in our important markets. Shame on them all for violating that trust.

The situation is so extreme now given the financial plight of the 7 big shorts in COMEX gold and silver that itâ??s hard for me to imagine what I would do if I were somehow given responsibility of the problem as it now exists. For decades, I openly offered the only constructive prevention of the problem in the first place â?? legitimate speculative position limits (not the whacky limits proposed by the CFTC recently). But itâ??s too late for prevention once the forest fire is raging, as it is now raging in gold and silver. I suppose the temptation might exist to shut down the COMEX to shield the big shorts from further losses, but nailing the barn door shut after the horses have run out will cause more problems than it will solve. As I said, I donâ??t know what I would do.

I do think I know that there has not been the slightest indication that any short covering by the big shorts has occurred to this point and I shudder to think what the commencement of such short covering would mean for higher prices. Obviously, I donâ??t fear higher gold and silver prices, my concern is that the regulators may not even comprehend the magnitude of the problem. Should any of the big

shorts move to buy back positions how can that not be mega-explosive to prices?

I also have been meaning to mention how ironic it is that gold prices are hitting new 7 year highs as the dollar has also been strong. If there has been one consistent theme over the years it has been that dollar weakness will provide the boost needed for gold to rise. As regular readers know, that has never been my mantra. No doubt all currencies, including the dollar, will lose purchasing power â?? thatâ??s the definition of inflation. But I never understood why the dollar would weaken against other currencies and it was never part of my thinking â?? regardless of what the dollar does from here.

As far as what Fridayâ??s new COT report might indicate, as I mentioned above, the most plausible expectation is for a substantial increase in managed money and other speculative buying and commercial selling, although itâ??s hard for me to imagine any net positioning being as large as the increases in total open interest might suggest. Silver is in roll-over season, so much of the increase in total open interest might be related to spreads, but gold is not quite as deep into roll-over season. In any event, predictions for what the next COT report may indicate have become much less important than it once was (due to the distinct change in managed money behavior) and I am more anxious to dissect the data whatever they show.

As far as the financial standing of the 7 big shorts as I prepare to hit the send button, it has not been a good time for the big shorts since Fridayâ??s close. And I should mention that while I concentrate on COMEX gold and silver, there is also a significant concentrated short position in NYMEX platinum and palladium, most likely held by many of the same crooked characters that are short gold and silver. Taken as a whole, the running financial results I report on for the 7 big gold and silver shorts are necessarily understated when factoring in platinum and palladium. And another knock on the regulators for ignoring whatâ??s right in front of them.

In any event, at publication time the 7 big shorts in gold and silver ended the day $900 million worse than their $5.2 billion open loss on Fridayâ??s close, or more than $6.1 billion in total. Thatâ??s more than $870 million each on average and the most they have been in the hole to date.

Ted Butler

February 19, 2020

Silver – $18.30Â Â Â Â Â Â Â Â Â Â (200 day ma – $16.83, 50 day ma – $17.65)

Gold – $1610Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1465, 50 day ma – $1538)

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