February 5, 2020 – The First Real Test

The sharp price declines on Monday and Tuesday offered the first real test for a downside resolution of the still-extreme market positioning structures in COMEX gold and silver futures contracts. Up until now, the standout feature since last summer has been the inability of the big commercial shorts to rig a selloff sharp enough to induce widespread managed money and other speculative selling that would allow the big shorts to buy back their massive short positions with little realized loss. There should be no question that what we saw on Monday and Tuesday was unadulterated price rigging to the downside. The only question is will this lead to a more complete downside resolution.

The answer can only be determined with the passage of time, further price action and data flow from future Commitments of Traders (COT) reports, none of which are available at this time. Therefore, we are forced to speculate based upon the information at hand. However, we do know this â?? the big price declines offered significant relief to the 7 big shorts and reduced their combined total open loss by roughly $1.2 billion as of yesterdayâ??s close from Fridayâ??s near-record $5.6 billion open loss. Iâ??ll update the open loss later when I publish this article. Suffice it to say, as well, the selloff this week was not rigged by the many holding gold or silver investments.

Concerning the selloff, since we are forced to speculate, at least letâ??s rely on as many facts as possible before resorting to speculation. First, some general observations. Gold prices have been much stronger than silver over the life of the rally that began last summer, as evidenced in the silver/gold price ratio sticking quite close to all-time highs â?? extremes that go back, quite literally, thousands of years. Goldâ??s move to near seven year highs, while silver has remained far below comparable levels has resulted in a COMEX market structure much more bearishly extreme in gold than in silver, although both are close to all-time record short levels on a concentrated basis.

We also know that the commercials add to short positions as prices rise and buy back those short positions as prices fall â?? this is the rhythm of the market and the basis for the ongoing manipulation. This is particularly true on big price rallies and price declines. Therefore, we almost know for a fact that on the price declines on Monday and yesterday, the commercials were not big net sellers and most likely were net buyers. The commercials undoubtedly sell some contracts short to get prices rolling to the downside (since I would imagine that spoofing, aka fake selling, is largely a thing of the past), but once prices gain momentum to the downside, the commercials are always net buyers for the day. Always. In other words, it would be near-impossible that the managed money traders and other speculators were big buyers over the past two days, and equally impossible that the commercials were big net sellers. Thatâ??s not how things work.

Of course, weâ??ll know for sure (or should know) when Fridayâ??s new COT report is published, along with the new monthly Bank Participation report. There have been substantial reductions in total open interest for both gold and silver through yesterdayâ??s cutoff for the reporting week. For a change, much of the reduction in goldâ??s total open interest does not appear to be mostly spread-related (as has been the case for recent reporting weeks). I have been thinking that some of the new longs, those that came into the market since after late December, might be vulnerable to being snookered into selling on a price rig to the downside and would expect that to be obvious in the new COT report. I would also expect that speculative selling to have been met with commercial buying.

The fly in the ointment on this selloff is which commercials were the biggest buyers. Because gold prices, even after the sharp two-day selloff, are still much higher than what the biggest commercial shorts (the big 7) sold short at originally, any buyback of those shorts would necessarily entail the booking of large realized losses. This is something that has not previously occurred and I will be most interested in discovering if this did, in fact, occur. Iâ??m more inclined to believe that one special big commercial short did a disproportionate amount of buying and that big special short was JPMorgan.

Perhaps this is more of a hope than a prediction, but what Iâ??ll be looking for in Fridayâ??s release of the new COT and Bank Participation reports is how many gold and silver short contracts JPMorgan bought back. Iâ??m hoping for at least 5000 silver contracts and 10,000 gold contracts. While there is a difference between paper contracts and physical metal, there is no difference between the two for JPMorgan because of its massive physical holdings. For JPMorgan, buying 5000 paper COMEX silver short contracts has the same financial results of it buying 25 million physical ounces of silver. Same with gold â?? buying back 10,000 COMEX gold short contracts is the same as buying one million oz of physical gold.

The only difference is that JPM couldnâ??t buy 25 million oz of physical silver and one million oz of physical gold in such a short period of time without driving prices higher; which it could do (and may have done) by sticking to paper contracts. What Iâ??m also saying is that should my hopes pan out, one obvious conclusion is that this weekâ??s selloffs came mostly at the hands of JPMorgan since it would have been the biggest beneficiary.

The fact that the other 7 big shorts still sport such large open collective losses, despite the sharp selloff, likely made them reluctant to buy aggressively into this selloff so as to avoid the booking of large realized losses. In a very real sense, this may have enabled JPMorgan to have a distinct advantage in being able to buy back large numbers of its short contracts without the usual buying competition from the other big commercial shorts. And it fits perfectly with my long-held double cross premise. We should know a lot more on Friday.

Of course, it is also possible that this weekâ??s price decline is only the start of a much larger and protracted decline in which many more managed money and other speculative traders sell on lower prices and in which all the big commercials get to buy back most or all of their remaining shorts at breakeven prices, as has always been the case up until now. But that would require quite deep price drops, well over $100 from here in gold and two or more dollars in silver. I donâ??t think that will occur, but this extremely large commercial short position, particularly the concentrated nature of it, makes this one of only two ways it can be resolved. The other way, of course, is a short covering panic on higher prices and the prospects for that have been enhanced if JPMorgan did what I hope it did this reporting week.

Therefore, we have the makings of very significant positioning changes this Friday, potentially more significant than are widely perceived. And while the wait seems interminable between now and then, weâ??re only talking about two days, not a particularly long time generally (unless, of course, you are being tortured).

In other developments, a just-released article on Bloomberg Law suggests the Department of Justice, in a previously undisclosed investigation (their words, nor mine), is considering levelling criminal charges against JPMorgan as an outgrowth of its previous actions against six traders from the bank for spoofing in COMEX precious metals futures. Unfortunately, the article is behind a pay wall, but the gist of the article is clear.

https://news.bloomberglaw.com/banking-law/jpmorgans-role-in-metals-spoofing-is-under-u-s-criminal-probe

While it remains to be seen if the DOJ will take action against the bank itself, one quick reaction I have is how JPMorgan might itself react against the US Government in retaliation. It seems to me that the last time the DOJ stood up to JPMorgan, by charging three of the bankâ??s traders for criminally manipulating the prices of COMEX precious metals futures on Sep 16, JPM immediately responded by throwing the repo market into disarray that very same day. What might JPMorgan do if the bank and not just its traders are criminally charged?

While I still doubt very much whether the Justice Department will ever investigate and charge JPMorgan with the far more substantive crimes it has committed in manipulating silver and gold (depressing prices through COMEX paper short sales, while scooping up massive amounts of physical silver and gold on the cheap), even if the DOJ wimps out by sticking to spoofing and charges the bank accordingly, it would be pretty big news, worthy of serious penalties. Ironically, I can envision one specific penalty that we can only hope the Justice Department might bring about, namely, the banning of JPMorgan from dealing in precious metals futures. It is something that should have been enacted long ago, but if enacted now would prevent JPMorgan from adding new COMEX short contracts and would seal JPMâ??s double cross of the other big commercial shorts and cause gold and, in particular, silver prices to soar. Itâ??s not something Iâ??m counting on, but hey, canâ??t a guy dream?

In summary, we just got our first real test for whether this weekâ??s selloff was the start of much more protracted downside resolution of the extremely bearish COMEX market structures in gold and silver or whether it was mostly JPMorgan putting some finishing touches on what has looked to me to a masterful double crossing of the other big commercial shorts. The good news is that we shouldnâ??t have to wait very long to see which it will be. I continue to play it as a resolution most likely to occur to the upside. There should be a decent improvement in the COT report on Friday, with the most critical question for me being what exactly did JPMorgan do?

As far as the financial scoreboard for the 7 big shorts as I hit the â??sendâ?• button, the open collective loss has been reduced by just over $1 billion from Friday, to $4.6 billion. Thatâ??s still $800 million more than the record marked-to-market yearend loss of $3.8 billion, leaving the big shorts still in harmâ??s way.

Finally, I did an interview with Reluctant Preppers on Jan 26, in which some pretty good questions were asked.

https://www.youtube.com/watch?v=qQc0AoJp-Q8&feature=youtu.be

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Silver – $17.62Â Â Â Â (200 day ma – $16.70, 50 day ma – $17.53)

Gold – $1562Â Â Â Â Â Â (200 day ma – $1452, 50 day ma – $1519)

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