February 6, 2019 – COT Report – So Bad, It Just Might Be Good

The delayed Commitments of Traders (COT) report for positions as of December 31 released yesterday was much worse than I had estimated in silver and not as bad as I expected in gold. Back on January 5, I estimated that as of the close Jan 4, there was a two and half week increase in managed money buying/commercial selling of around 12,000 contracts in silver and 70,000 contracts in gold.

The actual numbers for just two reporting weeks (thru Dec 31) in silver indicated more than 28,000 net contracts (140 million oz) were purchased by managed money traders and likely more afterward since prices made new highs after the Dec 31 cutoff. I donâ??t recall making a wider miss. I also missed in gold the other way, as the managed money traders â??onlyâ?• bought around 39,000 net contracts, although the commercials did sell nearly 52,000 gold contracts for the two week period (and probably more thru Jan 4).

Since weâ??re going to be inundated with multiple delayed COT reports for the next few weeks and not, unfortunately, actual current data, let me not drill down too deeply into the report released yesterday and instead take a broader perspective for what has occurred from the recent price bottoms in silver and gold on November 13 thru yesterdayâ??s report, with a particular emphasis on silver. On Nov 13, silver traded and closed below $14 while gold traded below but closed slightly above $1200. On Dec 31, not quite seven weeks later, silver closed at $15.50 and gold closed at $1282.

Hands down, the driver of the $1.50 rally in silver and $82 rally in gold was buying by managed money traders on the COMEX. Based upon COT data from Nov 13 to Dec 31, in silver, these traders bought just under 71,000 net contracts (355 million oz) and in gold, these traders bought just under 130,000 net contracts (13 million oz). Let me try to put these quantities into perspective, zeroing in on silver. 355 million ounces is the equivalent of five full months of world silver mine production. It is more silver than exists in either the two largest visible silver stockpiles in the world, the total holdings in the COMEX warehouses or the holdings in the largest ETF, SLV.

Try, if you would, to imagine the impact on price if a small group of traders bought, in less than seven weeks, five full months of total actual world silver mine production or all the actual silver held in either the COMEX warehouses or the SLV. Wouldnâ??t you envision a rally of more than $1.50 or just over 10%? Remember, the Hunt Brothers and Warren Buffett bought a lot less than 355 million ounces and caused silver prices to rise by seven-fold and 100% respectively. So the question is not why silver prices rose by a bit over 10% in seven weeks, but why did the documentable purchase of 355 million oz of COMEX silver futures not cause prices to rise much more?

The answer, of course, is because the 355 million oz purchased was not actual silver but derivatives contracts on silver. All derivatives contracts must have a seller for every buyer and vice versa. Therefore, the real question is not why the ultra-aggressive purchase, by a relative handful of speculators, of the equivalent of more than 40% of total annual mine production didnâ??t send prices soaring, but why were the sellers even more aggressive? Forgive my language, but letâ??s face it, $15.50 is a crap price for silver. Yeah, itâ??s better than $14, but in the true scheme of things, $15.50 stinks to high heaven.

We know why the managed money traders bought 355 million oz of COMEX derivatives contracts, namely, because a few key moving averages were penetrated to the upside. But why would derivatives sellers sell that same massive amount at such low prices? There is only one plausible reason â?? because the sellers have every expectation of, yet again, succeeding in buying back every contract sold when the managed money traders eventually turn around and sell on lower prices. Thatâ??s the way it has worked for decades. Therefore, letâ??s examine the sellers of the 355 million oz purchased by the managed money traders over the past seven weeks.

The commercials sold 53,000 contracts of the 71,000 contracts bought by the managed money traders since Nov 13, with the balance of 18,000 contracts having been sold by other large speculators and non-reporting traders. Let me stop here to make the important point that virtually none of the 71,000 contracts (355 million oz) either bought or sold involved legitimate hedging on any kind â?? it was a purely speculative play on both the buy and sell side. Certainly, the managed money traders are pure speculators by CFTC classification, as were the 18,000 contracts sold by other large non-commercial traders and non-reporting traders (since both these trader categories liquidated longs).

I suppose those who donâ??t follow these matters closely might assume the 53,000 contracts sold by commercial traders might be legitimate hedging transactions, but a deeper dive would show that not to be the case. Very few, if any actual silver miners trade futures and when they do hedge (which is rare) they hedge by buying put options and not by selling futures contracts short. Besides, even if actual producers arranged for commercial traders to short on their behalf, it must be publicly disclosed and no such public disclosures have been filed or will likely be filed. The bald truth is that the 53,000 contracts of commercial selling since Nov 13 was every bit as purely speculative as was the 71,000 contracts of buying and other 18,000 contracts of non-commercial selling. My point is that virtually every COMEX silver contract bought and sold since Nov 13 was speculative with not a single contract of legitimate hedging. This is so against the premise of US commodity law as to be laughable. Unfortunately, the joke is on all of us in that this is manipulation, pure and simple.

Of the 53,000 commercial silver contracts sold since Nov 13, 17,000 contracts were sold by commercials classified in the Producer/ Merchant/Processor/User category (where JPMorgan is carried) and 36,000 contracts were sold by the commercials classified as swap dealers. Accordingly, I would guess that JPMorganâ??s short position as of Dec 31to be around 15,000 contracts, perhaps 20,000 contracts at the outside. This weekâ??s release of Bank Participation report for the beginning of January may or may not shed a clearer light on the big crookâ??s short position.

While Iâ??d prefer no new shorting by JPMorgan, despite a much larger amount of managed money buying and commercial selling than I anticipated, JPMorgan, at least as of Dec 31, hasnâ??t been anywhere near as aggressive in shorting silver as it was prior to the Nov 6 announcement by the Justice Department. The real question is whether JPMorgan intends to participate in rigging silver prices lower to induce managed money selling so that it can buy back added shorts at a profit â?? just as it has for at least the past 11 years. A broader question is whether the commercials and other traders can succeed in rigging prices lower to induce managed money selling, with or without the backstopping of JPMorgan.

To be sure, there has never been a case when the big commercial shorts have ever had to buy back silver short positions at higher prices than they sold at, thereby incurring losses. In fact, given that perfect track record, it almost appears foolhardy to even consider that the commercials wouldnâ??t succeed again in flushing out the managed money traders to the downside. Therefore, based upon the historical record, the odds-on bet would have to be that the commercials will, indeed, win again and buy back added shorts at lower prices, as the managed money traders capitulate to the downside, same as ever.

Even though the game has become so cut and dry and predictable over the years and decades, a brand new factor has emerged that sets up the possibility that the outcome of the heretofore highly dependable paper scam on the COMEX might play out very differently directly ahead. That factor, of course, was the remarkable public announcement from the Justice Department on Nov 6. Make no mistake, had that announcement not been made, any suggestion that the big commercial silver shorts might get overrun would have to be considered wishful thinking. After all, left to the CFTC alone, the chance of a different outcome would be remote to the extreme.

But the Department of Justice and the Federal Bureau of Investigation are very much different than the CFTC. The DOJ and FBI are the top law enforcement and investigative agencies in the US and, most likely, in the world. They are the front line defense and protection against all sorts of illegalities, from antitrust issues to every manner of crime, even extending to terrorism. I know claims of political bias have emerged over the past couple of years, but the issue of whether silver and gold have been manipulated in price doesnâ??t seem to breakdown along Republican or Democratic party lines.

In any event, the degree of sophistication and expertise that the DOJ and FBI have demonstrated over a vast number of truly complex cases leads me to the firm conclusion that it is impossible for either not to have grasped the essence of the silver manipulation case against JPMorgan. Letâ??s face it â?? there is no one better at painstaking and complex criminal investigations and prosecutions than the DOJ/FBI and once they pick up the scent of wrongdoing, they follow through. In this case, itâ??s also impossible for them not to have reviewed everything Iâ??ve sent them and itâ??s no secret that every article Iâ??ve written since Nov 7 has been written expressly for and sent to the Justice Department, as was my original complaint to it about the CFTC back on April 30.

Since announcing on Nov 6 that there was an ongoing investigation in force, the Justice Department and FBI are now integral observers of the COMEX positioning Iâ??ve described above. Itâ??s not possible, in addition to the key questions Iâ??ve raised that no one has been able to answer, that the DOJ/FBI is not fully aware of what has just transpired on their watch since early November. If there is a legitimate explanation for allowing a relative handful of large, purely speculative derivatives traders on both sides of the market to set prices to the actual world of producers and consumers, then I am certain that the Justice Department will uncover that legitimate explanation. If no such legitimate explanation can be uncovered, then I am certain that the DOJ will remedy the situation.

However, Iâ??m much less certain about the timeline and the actual steps the Justice Department and FBI might take against JPMorgan and the ongoing silver manipulation. JPMorganâ??s activities have been so egregious that Iâ??m convinced the Justice Department could, quite literally, put the bank out of business. But that would be such an extreme step, replete with unintended and unknown consequences and collateral damages that the search for some other less draconian solution must be considered. One thing remains clear, namely, that things cannot be allowed to continue as before.

So, while the previously certain outcome of the big commercial silver shorts hoodwinking and inducing the managed money traders to dump positions on lower prices may be the odds-on safe bet, a powerful wildcard has been slipped into the deck in the form of the DOJ/FBI investigation. Certainly, ever since the Nov 6 announcement, spoofing seems like a thing of the past and the loss of this important manipulative tool may prove critical to the commercialsâ?? ability to lead the managed money traders by the nose in and out of positions. But either way, commercial success yet again or failure for the first time ever, will be under the watchful attention of the Justice Department.

Thereâ??s one other thing Iâ??d like to mention. Iâ??ve brought up on numerous past occasions, just how unusual it was for me to openly and publicly proclaim that JPMorgan was engaged in criminal behavior for the past decade (along with the CME Group for enabling it) and never to have experienced the slightest push back from the bank. Prior to this, I was always under the impression that if you openly raised issues that threatened to damage any financial institutionâ??s reputation, you would be hearing from that institution and it wouldnâ??t be pleasant. However, even though Iâ??ve sent, basically, every article in which I have identified JPMorgan as being engaged in criminally manipulative activities in silver (and gold), Iâ??ve never heard a peep from the bank. All told, I had to have sent JPMorgan well over a thousand such articles.

I bring this up at this time because since Nov 7, Iâ??ve also sent to the Justice Department every article Iâ??ve written, seeing as it has been the intended audience of what Iâ??ve written. All told, including this article, Iâ??ve sent the DOJ 27 articles (as hard as that is for me to believe). I send all my articles via email to the Assistant Attorney General who leads the Criminal Division (occasionally also by US postal mail) as a forward from the same email I send to Jamie Dimon and the Board of Directors at JPM (to two addresses provided to me by Mr. Dimonâ??s secretary ten years ago). Other email addresses on these articles include all the Commissioners and key staff at the CFTC, as well as the CEO and chief regulatory official at the CME Group. I canâ??t assert that any read my articles, but I can assert none get kicked back as undeliverable.

My point in bringing this up is that I canâ??t help but wonder what the Justice Department thinks of me accusing JPMorgan (and the CME Group) of illegal behavior with neither ever raising the slightest objection. I wonder if the Justice Department and FBI find this as strange as Iâ??ve always found it. Finally, I wonder if the DOJ would ever ask JPMorgan or the CME why neither ever objected to my characterizations.

In summary, the commercials are going to succeed in flushing out the managed money traders to the downside yet again or they will fail as a result of the investigation by the Justice Department. Either way, Iâ??m riding it out, as either outcome is way too lopsided (potential downside versus potential upside) to risk missing an upside resolution.

One last thought. Iâ??ve noticed, since the price bottom on Nov 13, a good number of articles and interviews extolling all the many reasons for why silver and gold should move higher over time. Most of the articles are quite well-written and presented and make a convincing case. However, I canâ??t help but observe that the real reason for why silver, in particular, appears positioned for an upside move is because it is so attractively priced â?? meaning way too cheap. Being so cheaply priced, it would appear incumbent on those writing the articles or conducting audio/visual presentations to explain why silver is priced so cheaply to begin with. The only answer, as Iâ??m sure you are aware, is because paper positioning on the COMEX has set silver prices at artificially low levels. Not to mention this leaves a big hole in most such otherwise good commentary.

Ted Butler

February 6, 2019

Silver – $15.66Â Â Â Â Â Â Â Â Â Â (200 day ma – $15.34, 50 day ma – $15.17)

Gold – $1311Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1251, 50 day ma – $1272)

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