

## January 31, 2018 – No Matter What/ Bait and Switch?

No Matter What Happens â??

It Looks Good for Silver

According to everything I know and read, almost regardless of what happens in the future, it seems destined to cause the price of silver to rise sharply. Sound farfetched? Then please hear me out.

Letâ??s take the stock market. Letâ??s say stocks continue to rise and many more trillions of dollars of worth of valuation are added to the equity markets. How could that be bad for silver which just needs the tiniest fraction of the gain in stock market worth to overpower available silver supplies? And if a rising stock market is accompanied by increased world economic production and growth, tons more silver will be industrially consumed. What if the stock market suddenly tanks â?? isnâ??t silver a go-to safe haven asset in times of market chaos?

The same goes for any asset class, be it stocks, bonds, real estate or crypto currencies. If all rise sharply from here, some small portion of the increased wealth created is bound to find its way into the few available assets remaining, which includes silver. After all, one of the cornerstones of sound investing is prudent diversification and itâ??s reasonable to assume should great wealth occur in certain asset classes, a good number of those made wealthy will seek to spread their wealth to other assets, including silver. And the reverse is also true â?? any great decline or dislocation in any major asset class could easily cause enough people to panic and move into safe havens and silver (along with gold) has been fulfilling that role for thousands of years.

In thinking about why silver has become an investment asset that just about canâ??t lose in the coming years, it occurs to me that there is a very simple explanation. At no point in history has silver ever been such a small and overlooked component of the investment world as it is currently. Itâ??s simply a combination of a few things â?? massively valued broad markets combined with an extremely low price in silver along with a very small amount of physical silver available for purchase. This sets up a certain collision of sorts because there is way too much potential investment buying power existing in the world against way too little physical silver available to be bought. Again, should the major markets be massively overvalued and crash at some point, enough of the fleeing funds will find their way into silver.

Figuring out how much silver exists for purchase is fairly straightforward â?? some portion of what exists that its owners are willing to sell at some price, plus newly produced metal. The problem is there isnâ??t much physical investment silver in existence to start with, say one or two billion ounces, worth no more than \$30 billion or so, and we know only a portion of that will be available for sale. As for newly produced silver, because 90% of all newly mined silver is consumed in industrial and jewelry and other fabrication demands, only a very small amount, say a couple of billion dollarsâ?? worth is available to investors each year. Billions may sound like a lot until you realize there are many, many trillions of dollars in buying power lurking in the background.

It comes down to whether the price of silver is too low, which is my basic premise. As you know, I claim the price of silver is so low because it has been manipulated lower by COMEX paper trading. But letâ??s leave that aside for a moment. Hereâ??s something Iâ??ve never seen in the more than 30

years I have closely studied the metal that you can check out for yourself. I can't find a negative article about silver, that is, an article or report that doesn't predict a sharply higher future price for silver. It's not something I've ever witnessed. Even those who are dyed-in-the-wool manipulation deniers (of which there are still a few) are to a man, all predicting higher silver prices. I can't imagine how they might rationalize how silver got so cheap in the absence of a manipulation, but that's beside the point. Unless I'm missing something very basic, the next big move in silver will be higher.

## Bait and Switch?

The big news this week, or so it would seem, was the filing of charges and settlements for price manipulation and "spoofing" brought by the CFTC, in conjunction with the DOJ and FBI, against three banks and a half dozen individual traders; mostly involving illegal trading activities in COMEX gold and silver futures. The announcement set off a debate about whether the filing proved the allegations that gold and silver prices were manipulated as many, certainly including me, have maintained.

<http://www.cftc.gov/PressRoom/PressReleases/pr7682-18>

Put simply, the filings do not prove that silver and gold have been manipulated lower in price over the years. But then again, neither do the filings show that prices have not been manipulated in the manner I contend. What the charges do prove is that spoofing is a corrupt and illegal practice that should not exist in any form and on that basis, my immediate reaction is what the heck took the CFTC this long to act? Regular readers know I have railed against spoofing for many years as being completely devoid of any redeeming or legitimate features while the CFTC stood by contemplating their navels. The practice of placing phony orders to influence price should have been outlawed from day one.

That said, I suppose it is good that the agency finally took action, under the kindest interpretation of the cliché of it's better late than never. Certainly, those banks and traders accused of the practice will likely not do so in the future. And seeing the CFTC actually use the word manipulation in connection with COMEX gold and silver can't be considered bad. Beyond that, unfortunately, the charges and settlements are troubling in that they only scratch the surface of whether silver and gold prices are manipulated.

Truth be told, if the regulators were out to clean up what ails silver and gold pricing, then they didn't come close with these filings. If the CFTC was intending that this week's announcements showed that it was truly cracking down on bad actors in silver and gold, then it failed miserably. This week's "crackdown" was nothing more than a bait and switch intended to give the impression the agency was doing something important when it was continuing to ignore a much more serious matter. And I would remind you that many of the violations announced took place while the CFTC was in the midst of its infamous five year silver "investigation". Who are these guys anyway? Inspector Clouseau?

[https://en.wikipedia.org/wiki/Inspector\\_Clouseau](https://en.wikipedia.org/wiki/Inspector_Clouseau)

Think I'm being too hard on the CFTC? Then try explaining how the CFTC has managed to ignore the activities of the most prominent gold and silver market crook of all - JPMorgan. It's not as if the agency hasn't been given ample evidence of JPMorgan's dominant role in manipulating prices ever since the bank took over Bear Stearns in 2008. I know because I've done nothing but make the case against JPMorgan for nearly all that time.

And I must say, I am particularly disappointed in the actions, or lack thereof, of the Enforcement Director, James McDonald. Privately, I'm still assured that McDonald is a straight arrow, although lately the question has come up whether what JPMorgan is doing is really illegal if higher ups in the government pecking order have ordered McDonald to keep off JPM's case. To that I say balderdash - in matters silver and gold, JPMorgan is a stone cold crook and no order from above supersedes McDonald's oath to uphold the Constitution and the law of the land. It's disturbing that the agency seems to be going after the little fish, while the biggest market crook of them all, JPMorgan, gets a pass.

It's not as if I haven't gone out of my way to present the case against JPMorgan to McDonald, starting on his first day on the job last April 10. I spelled out in great detail how JPMorgan had never taken a loss on any short position it ever added in COMEX silver in nearly 10 years; a trading record that would be impossible if JPMorgan wasn't rigging prices. And get this - since I wrote to McDonald last year, JPMorgan has added and bought back silver shorts on four separate occasions for more than 10,000 net contracts on each occasion, making close to \$500 million in total crooked trading profits. As a reminder, I base all my calculations on the data published by the agency. What is the CFTC really aiming to do - eliminate JPM's competition to make it easier for these super crooks?

<http://silverseek.com/commentary/another-opportunity-16489>

In that public letter last year, I even spelled out the rationale for why JPMorgan was manipulating silver (and gold) prices, namely, to allow this crooked bank in acquiring as much physical metal as it could get at the lowest prices it could rig. This is the means, motive, opportunity and intent behind JPMorgan's manipulation - to pick up as much cheap metal as it possibly could. In the last 10 months, in addition to racking up massive profits in paper COMEX trading, JPMorgan has added another 100 million oz of silver to a hoard now measuring nearly 700 million oz. And as I have written recently, JPMorgan has been doing the exact same thing in gold, namely, making enormous paper profits by being the largest short in COMEX gold, while picking up boatloads of physical gold on the cheap - at least 20 million oz over the past 5 years.

You can lead a horse to water but you can't force it to drink. I can lay out the crime that JPMorgan is conducting, using the agency's own data and taking the risk of publicly accusing the nation's largest bank of criminality, but obviously, I haven't been able to convince the regulators to do their job or even explain why the agency's own data indicates something other than what I allege. After all, the easiest way to dismiss these very serious allegations would be to openly address them. To be fair, should the CFTC ever get around to doing its job and crack down on the crooks at JPMorgan, I will happily eat my words and sing the regulators' praises; but that's hard to imagine at this point.

On to other matters since the weekly review on Saturday. The first notice of delivery day on the COMEX February gold futures contract does indicate that JPMorgan is, once again, a

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disproportionately large stopper (taker) of gold deliveries in percentage terms; although not yet in terms of total contracts, because only 452 total gold deliveries were issued, of which JPM stopped 182. There still are close to 6000 contracts remaining open in Feb, so I'll continue to monitor this delivery month to see if JPMorgan intends to stop as many contracts as the first day's percentage suggests or whether remaining open contracts get liquidated in futures trading. At least through the first delivery day, JPMorgan is still a taker and not a giver of physical gold.

With yesterday's close of the reporting week, thoughts turn to expectations for Friday's COT report. Based upon price action and daily changes in total open interest, this is a very tricky week to handicap, but let me outline the possibilities and what I'll be looking at. First, total open interest was down about 23,000 contracts in gold but since the reporting week included trading up until the first delivery day, there was probably a large number of spread contracts liquidated, which always muddies the water. Silver's total open interest declined by about 1500 contracts, which doesn't provide much insight by itself.

Price action was also tricky during the reporting week, since we started the week sharply higher on Wednesday on large volume and a big increase in total open interest in both gold (15,000+) and silver (nearly 6000 contracts), indicative of heavy managed money buying and commercial selling. Prices proceeded to hold strong on Thursday early on, but sold off pretty sharply late in the day (on comments by President Trump on a strong dollar). Both gold and silver prices were lower through Tuesday's cutoff, finishing near the lows of the week, but still up slightly for the reporting week (\$5 in gold and 15 cents in silver). What does this mean?

I know it sounds like kind of a sick way of analyzing the market structure in COT terms, but in terms of deterioration in the market structure, Wednesday and early Thursday were bad in terms of positioning in gold and silver, as higher prices infer managed money buying and commercial selling. On the crummy price action starting Thursday afternoon, the market structures in gold and silver likely improved, sort of confirmed by a fall in total open interest since Wednesday. So this week's COT report will feature the net change between Wednesday's deterioration and the improvement thereafter.

Overall, I'm not expecting very large changes, but if I had to guess I would expect some increase in managed money buying in both gold and silver, but nowhere near as much had prices not sold off after Thursday. If the silver COT is unchanged, that would be great. It's important to keep in mind that gold's market structure was pretty bearish to start with, particularly relative to the market structure in silver and I don't think this week's report will radically alter that. And when I say gold's market structure is bearish, that does not automatically translate into lower prices ahead; just that if prices selloff, we don't have to look far for an explanation afterwards.

One thing I am suggesting is that, in terms of relative market structures, silver should outperform gold, although that has not been the case to this point. And while this just concerns COMEX futures positioning, every possible market fact away from the COMEX has been screaming about silver's relative undervaluation to gold for so long and so loud that I believe the world has grown deaf to it.

I ran across a data blurb about gold and silver in regards to China that I found interesting. I'm not quick to rely on the various statistical reports pertaining to China and India and gold and silver because there are wide inconsistencies and questions of accuracy; but this report seems at least to be in keeping with international GDP data. It concerns gold and silver imports into China over the last year.

<https://www.scrapregister.com/news/44002/chinas-silver-imports-shoot-up-in-2017-gold-imports-plunge>

Leaving aside the overly dramatic headline, the article asserts that China imported close to 140 million oz of silver and 20 million oz of gold last year. We know that China uses most of the silver it imports in its manufacturing process for various applications, from solar panels to I-phones. Given China's share of the world economy and its well-known capacity to manufacture, there's nothing out of bounds with 140 million oz being imported annually for this purpose. Gold, of course is not used extensively in manufacturing processes, but China's appetite for gold as jewelry and investment is well-known and I'm sure some would say the gold net import number looks low.

Separately, reliable world mine production data indicate that China mines more gold than any country in the world, producing some 15 million oz a year, close to 15% of total world mine production (100 million oz). In silver, China is the third largest producer in the world, mining more than 110 million oz annually. It is also well-known that China does not export any of its gold or silver (except where included in exported manufactured goods). What this means in simple analytical terms is that, effectively, China accounts for (and takes off the market) 30% of the total world silver mine production (250 million oz out of 850 million oz) and 35% of total world gold mine production (35 million oz of 100 million oz), truly remarkable percentages.

With China accounting for such a large share of total world silver and gold mine production, it is even more remarkable what JPMorgan has been able to buy in both physical silver and gold over the past 5 to 7 years; some 700 million oz of silver and at least 20 million oz in gold.

Since I'm obviously focused on JPMorgan today, let me comment on two recent news items related to the bank. A Wall Street Journal article today indicated that Stephen Cutler, former head of the Enforcement Division of the SEC, and longtime general counsel for the bank (although not since 2015), has decided to return to private law practice. I mention this because a few years back I contacted Mr. Cutler and all the then-members of JPMorgan's Board of Directors about the bank's illegal activities in silver. Not only did I hear anything back, but all had my emails to them blocked. To this day, this strikes me as unusual in that no legal threats or rebuttal ever came my way.

Finally, yesterday's blockbuster announcement that Amazon, Berkshire Hathaway and JPMorgan were cooperating on a joint health care initiative got me to thinking. What are the odds that two of the three were or are involved in silver in a big way? Berkshire having purchased (and sold) 130 million oz 20 years ago and you know who today. Yeah, I admit I tend to see things through a special silver perspective, but if Amazon now gets into silver, I think my head will explode.

For what it's worth, I thought it wise to restate my current personal investment posture, since I do tend to get so caught up in the details that this can be unclear at times. And besides, I'm not encouraging anyone to do what I do. Following my refusal to lighten up at the silver price peaks of April and July when the COT market structure was extremely bearish (mainly thanks to JPMorgan) and taking the full elevator down on the subsequent price rigs to the downside; I decided (and fully

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disclosed) to lighten up when the same bearish structure developed in mid-September.

It took a number of anxiety-filled months, but prices finally got rigged lower over a couple of weeks into December. At that point, I went back to being all in and used the cash proceeds left over from replacing positions at lower prices to buy kamikaze short term call options. I've already had a number of option expirations expire worthless, but have continued to maintain a full option position, although I am down to only 30% or so in "mad money" remaining (but still with a full silver investment position.). If we do experience a big price takedown from here, I will be going down with a full investment position. I'm also planning to spend the rest of my "mad money" as time erodes option premiums and/or silver prices stagnate or move lower.

I suppose if the market structure in silver gets extremely bearish again (at higher prices) and JPMorgan's short position gets extremely large again, I may change my mind, but not before I see that set up. If I run out of option mad money in the interim, I'll have to get inventive or finally grow up and swear off options for a while as this approach is way too speculative for those of sound mind.

Ted Butler

January 31, 2018

Silver – \$17.20 (200 day ma – \$16.90, 50 day ma -\$16.74)

Gold – \$1336 (200 day ma – \$1280, 50 day ma – \$1298)

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