

## January 5, 2019 – Weekly Review

Despite a Friday selloff, gold and silver prices finished higher for the week, with silver outperforming for a second week. Gold ended \$3 higher while silver finished 32 cents higher on the week. As a result of silver's outperformance, the silver/gold price ratio tightened in again, this week by nearly one and a half full points to 81.6 to 1. We have a very long way to go before silver could be considered fairly valued on a relative basis compared to gold and truth be told, in terms of predicting what the ratio will look like when we get there, I'd rather not say out of fear it would sound too outlandish.

We appear to have had another week in bizzarro world, where things remained upside down and the opposite to what one would normally expect in terms of volatility. That is, the big markets, like stocks, oil and now copper, demonstrated extremely high price volatility and low liquidity and smaller markets, like silver, appeared as the bastion of low volatility and high liquidity. Of course, that's absurd on its face, but that's what results when you start with actual price movement and form your analysis from there (which is precisely what everyone appears to do).

I remain astonished, not only at the role reversals of volatility between markets that should be behaving opposite to what's occurring, but also of how quickly volatility has changed within the same markets. After all, it was only a year ago when volatility in the stock market was so low it was setting records. For of all of 2017, for instance, there wasn't one day in which the S&P 500 index rose or fell more than 2%. Now we count the days it doesn't rise or fall by that much.

One lesson that I draw from this startling change is that one day silver will suddenly return to being the price volatility monster that is inherent in its essence. And considering how extremely and artificial depressed is its current price, the return of volatility must be to the upside. Let me run through a few things before returning to something I try not to do, namely, attempting to analyze silver's very recent price action.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses turned very strong this four-day reporting week, as more than 6.2 million oz were moved. Total COMEX silver inventories rose by 1.1 million oz to 293.7 million oz, about 4 million oz shy of the all-time record set about a month ago. No change in the holdings in the JPMorgan COMEX warehouse, which remained at 147 million oz.

In rushing through the COMEX silver warehouse review last week, I mentioned some large changes in category shifts, from registered to eligible and suggested this meant that JPMorgan or its affiliates or customers held silver in other COMEX warehouses and not just in the JPM warehouse. However, I neglected to put a number on it, so let me do so now. I would estimate that the JPMorgan criminal enterprise holds at least 20 to 30 million oz of silver in other COMEX warehouses, pushing its total share of the 293.7 total COMEX oz closer to 60% than the 50% in the JPM warehouse.

Another issue that continues to astound me is the lack of metal deposits into the big silver ETF, SLV, in the face of the high volume trading rally over the past week and a half. Even on yesterdays mixed close in SLV, daily trading volume set a three month high. Admittedly, there is more than a bit of subjective analysis on my part, but that is largely unavoidable considering what would constitute "normal" trading volume during holidays. Based upon my best efforts attempt to quantify how

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much silver is now owed to the trust, I think I'm being conservative at ten million oz.

Included in my calculations is that I think the spot is right in GLD and that the recent large inflows of metal into that gold ETF correctly reflect the amount of net investor buying on the recent gold rally. With the metal inflows into GLD seemingly correct, the lack of metal inflows into SLV stand out like a sore thumb. Whether this results in sharp increases in the reported short position in SLV is problematic, as I distrust the recorder of the short statistics (the inaptly named Depository Trust Clearing Corporation) about as much as I distrust JPMorgan. Regardless, I take the lack of metal inflows into the SLV as another very bullish sign because, bottom line, they denote physical silver tightness on the wholesale level the level that matters most to price.

For a second week, there was no Commitments of Traders (COT) report published due to the continuing government shutdown. But just like a tree falling in the forest that no one hears still making a sound, no COT report doesn't mean no positioning changes have occurred. No, I don't believe for a moment that the shutdown was intended in any way to prevent positioning changes from being revealed, but I can't help but note that through yesterday's close, the price action in both gold and silver since the last report as of Dec 18 included a strong price rally and the rare upward penetration of the 200 day moving average in each.

If anything gets the managed money technical funds to buying in earnest, it is a decisive upward penetration of the 200 day moving average, particularly after an extended period and accompanied by a series of new daily price highs, also known as salami slices. Since Dec 18, gold has risen as much as \$50, made nine new daily price highs and closed above its 200 day moving average for ten days. Please remember, there have only been 11 trading days since Dec 18. In silver, prices have risen by a full dollar since Dec 18, new price highs were made on 9 of the 11 total trading days and prices close above the 200 day moving average for the last four days. How could there not be significant managed money technical fund buying, particularly considering that technical fund buying is what has caused prices to rise?

The question, of course, is how much technical fund buying and counterparty commercial selling has occurred since Dec 18 through yesterday? Another clue is that total open interest has increased by 45,000 contracts in COMEX gold and by around 6500 contracts in silver. Based upon my usual hand grenade-tossing accuracy standards, I would guess that there has been perhaps 70,000 net contracts of gold purchased by managed money traders and sold by commercials and close to 12,000 net contracts in silver over the past two and a half weeks. I am suggesting more net contracts were purchased by managed money traders than the increase in total open interest due the fact that short covering by these traders offsets the increase in total open interest caused by new managed money buying.

Therefore, from the Nov 13 price lows and on the rise of as much as \$100 in gold and \$2 in silver, some 160,000 net gold contracts and as many as 50,000 silver contracts have been purchased by managed money traders and sold by commercials. On a conventional historical standard, this would place the market structure in each at no better (or worse) than neutral, meaning prices could move up or down with equal ease, according to conventional measurements. However, let me be very quick to add that I would be very reluctant to measure the current market structures by conventional standards.

The biggest unknown created by the suspension of COT reporting is the role of Mr. Big JPMorgan. Estimating overall changes in COT positioning is kid stuff compared to estimating specific changes by

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JPMorgan in the absence of the hard data. It doesn't change for a minute my conviction that JPMorgan's actions or lack thereof are the most critical factor in silver or gold pricing; just that without the actual COT or Bank Participation reports, it becomes near-impossible to pinpoint JPM's specific actions. This necessitates more speculative guesswork than typically, but at the same time, other inputs have come into view that aide in the quest to objectively analyze what may be happening in real current time.

Forget other inputs, the one input that matters is the announcement on Nov 6 by the Justice Department that it is investigating JPMorgan for precious metals manipulation on the COMEX. I know full-well that the Justice Department never announces, denies or confirms the existence of an ongoing criminal investigation in its normal practice and a quick reading of the Nov 6 press release (and attachments) would reveal no mention whatsoever of JPMorgan. Undoubtedly, the combination of no clear headline announcement of an investigation into precious metal manipulation and no mention by name of JPMorgan is responsible for the story not being picked up anywhere. Be that as it may, I continue to maintain that this announcement is the most significant in the decades that I have focused closely on silver.

<https://www.justice.gov/opa/pr/former-precious-metals-trader-pleads-guilty-commodities-fraud-and-spoofing-conspiracy>

Leaving aside any possible involvement on my part for interesting the Justice Department to look into JPMorgan's ongoing manipulation of silver, I have maintained for years that the termination of the manipulation would be up to JPMorgan; specifically, the manipulation would end when JPM no longer added aggressively to short positions on the next price rally. I'm sure readers got tired of hearing that premise, along with my continually-flawed predictions that the next rally would be the big one (because JPMorgan wouldn't add to silver shorts), even though we would have to wait and see what JPM did. My premise hasn't changed.

What has changed is the motivation behind JPMorgan not shorting on the next silver rally. Whereas I always assumed JPM's decision not to add shorts would be voluntary and made when it felt confident that it owned enough physical metal to let prices rip higher, I no longer feel that way. I believe the Nov 6 announcement by the Justice Department took the decision away from JPMorgan and that JPM now may have no choice in when it stops adding short positions aggressively.

The surprise (talk about an understatement) involvement of the Justice Department on Nov 6 made involuntary what was completely voluntary by JPM to that point. My reasoning is simple - no one screws around with the Justice Department; not you, not me, not anyone, including JPMorgan. You simply do not mess around with someone who can put you in jail - especially if you know you have been doing that which could put you in jail. It is simply incomprehensible that JPMorgan would not immediately stop doing anything that might further endanger itself or make angry the DOJ after the Nov 6 press release. Now whether that means no new silver shorting at all or no aggressive new silver shorting; I'm not sure. But as far as JPMorgan continuing to be the main silver manipulator and short seller as it has been since March 2008 - no way. The simple equation here is that JPMorgan has the most to lose, to the point of high officials actually going to prison. No one at the Justice Department will go to jail over this.

The great irony to me appears to be that, due to its unbridled greed, JPMorgan overstayed its advantage. JPM was in position to set silver (and gold) prices free for years, by virtue of its then-

enormous physical holdings. But I suppose the game was working so well and JPM was raking in so much in the way of paper trading profits and accumulating physical metal on the cheap that it just couldn't quit - always wanting more.

Had JPMorgan called it a day and allowed silver (and gold) prices to rise before the Department of Justice picked up JPM's illegal scent earlier this year, the bank, in my opinion, would have been home scot-free - pulling off the financial crime of all-time. Who was going to stop JPMorgan - the CFTC or the CME Group? Heck, they were JPM's enablers. In retrospect, only the Justice Department could possibly stand in JPMorgan's way of pulling off the perfect financial crime. And while I did write to the FBI with those hopes back in April, my expectations were essentially non-existent. And if my take is correct and JPMorgan screwed itself by overstaying its hand due to greed, then it couldn't have happened to a nicer bunch of guys.

Finally, let me return to the topic that should most usually be avoided, namely, trying to read meaning into recent short term price movements. Regular readers know that I find it generally unproductive and a waste of time to try to decipher deep meaning out of short term price movements. To be perfectly honest, however, this is usually a case of -do as I say, not as I do- , as I'm always trying to figure out what short term price movements may signify. It's just that there are too many variables for what may be responsible for price movements, particularly in markets that have been heavily manipulated, such as silver or gold, so I usually remain mute on the issue.

But since I've been steadfast in my assertion that JPMorgan has controlled silver prices for the past near 11 years and that the Justice Department may have broken that control with its announcement on Nov 6 - how could I not read some special significance into price changes since that date? I believe I have done that recently, in describing the price fall from Nov 6 to Nov 13 as JPMorgan making a final attempt to buyback silver and gold short positions by rigging prices lower and the subsequent price rally through yesterday as JPM refraining from aggressive new shorting.

So what makes the recent silver and gold rally, especially since the blackout of published COT data from Dec 18, so special is not the price action itself, but the likelihood that the underlying premise of strict control by JPMorgan may have changed radically. In other words, in the absence of any reason to believe that JPMorgan may have changed its usual evil and illegal ways, I would have approached analyzing the recent rally differently. Most assuredly, I would be sensitive to JPMorgan perhaps not adding short positions aggressively, as that's been at the heart of my analysis all along. But I would wait for hard evidence of that, in the form of COT and Bank Participation report data.

What's changed is that the Nov 6 announcement by the Justice Department makes it easy to assume that JPMorgan has changed its behavior because they would be fools if they hadn't. Therefore, the rally, accompanied by a series of new highs, makes it easy to imagine that it is the result of JPM standing aside, at least on a relative basis. In that case, there is plenty of room left to the upside. At least, that's the way I'm playing it.

And while I know there has been commercial selling on the rally so far, much of that selling has been in the form of long liquidation (by the raptors) and not pure new short selling. Such commercial long liquidation is not something that concerns me as far as the rally continuing and strengthening. Neither does new short selling by commercials away from JPMorgan. The commercials, both those liquidating longs and those establishing new shorts have been conditioned to coming out ahead when selling into price rallies for many years. Therefore, it shouldn't be surprising to see the commercials (ex-JPM)

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do what has always worked for them.

But just because it is natural to do what has always worked before, that does not guarantee it will work again, particularly if underlying circumstances have changed radically. To that end, I would definitely include the commercials apart from JPMorgan, including both the smaller raptors and the larger commercials which populate the ranks of the concentrated shorts, as also being completely unappreciative of the seismic shift that has occurred in the announcement by the DOJ on Nov 6. The simple proof of that lies in the fact that no one would sell out long positions so cheaply had they expected an explosive move higher; to say nothing of no one standing in harmâ??s way by actually shorting into such a possibility. I know JPMorgan knows whatâ??s up, but not the other commercials â?? otherwise there would be very little selling.

Despite what must be interpreted as an extremely bullish take on my part, short term price prognosis by anyone should not be relied upon if it were to cause the loss of long term positions should it turn out to be incorrect. In other words, I may turn out to be wrong in the very near term, despite a best efforts attempt to highlight the most important factors. In the longer term, however, I fail to see how silver wonâ??t move substantially higher.

Ted Butler

January 5, 2019

Silver – \$15.76Â Â Â Â Â Â Â Â Â Â (200 day ma – \$15.43, 50 day ma – \$14.65)

Gold – \$1286Â Â Â Â Â Â Â Â Â Â (200 day ma – \$1256, 50 day ma – \$1240)

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