

## January 6, 2021 – Who's In Charge?

A timely email from a long term subscriber this week raised the question as to who was responsible for the long term manipulation of silver and gold prices – high placed government officials or private interests (commercial and bullion banks) operating independent of government edict? To be sure, there are those who reject any talk of price manipulation – officially or otherwise – or disbelieve it exerts any strong influence on price and this discussion naturally excludes them.

Upfront, I'm not sure, based upon the preponderance of documented evidence, whether there can be a definitive conclusion at this point as to which it is among those that do agree that a gold and silver price manipulation, specifically, price suppression, exists. I do accept that it a worthy topic for consideration, so please accept this as an attempt to present my take on the matter.

First, here is the body of the email that I received from Richard –

I wanted to write to you about your 26 December 2020 Weekly Review, and finally bought out some time to do so. Near the end, you begin a paragraph with, "Many have insisted that the decades-old silver and gold manipulation is the work of the US Government (or other governments) to contain prices so as not to alarm currency or other markets." You then focus on your belief that regulators "have dropped the ball" and cannot now "acknowledge the manipulation" because it "would bring certain disgrace on these institutions for MISSING [emphasis mine] it for decades."

The majority of sharp researchers that I follow would counter that argument by saying that the regulators are not "missing" anything. They would say that the regulators do not have to acknowledge anything and that the regulators are merely FOLLOWING ORDERS from their higher-ups. They would state further that the higher-ups are super-intelligent, that the precious metal manipulation is just one part to a much bigger global macro strategy and that only the inevitable physical demand super-spike will end the manipulation.

I thought Richard set out the issue very well and while I did respond to him privately, the more I thought about it, the more I thought it needed a wider discussion. First, I would agree that the federal regulators, specifically, the CFTC and the Justice Department, as well as the self-regulator, the CME Group, are well aware of the manipulation (it is impossible for them not to be), so they are not missing anything in terms of awareness in their continued refusal to deal with it. The "missing" I was referring to concerns the requisite action they should have enacted long ago to eliminate the manipulation. Chalk that up to perhaps a poor choice of wording on my part.

And I whole-heartedly agree that the vast majority of commenters which do believe a gold and silver price manipulation exists also believe it is the result of deliberate US and/or other government involvement as part of a much-wider attempt at financial control and influence, putting me very much in the minority. Finally, I also agree that any shortage of physical metal would cause the manipulation to unravel (although I see that as likelier to occur in silver than in gold).

Those points of agreement aside, I do question the notion of super-intelligent higher ups issuing orders to the regulators, as that runs counter to my half-century of adult observation of how the government functions. Certainly, we could use some of these super-intelligent higher ups in the current handling of the health and election crises. But my disagreements run much deeper than that.

As I explained to Richard, as far as I know, I was the very first to raise the issue of a silver market price manipulation with the CFTC, DOJ and the exchanges some 35 years ago. Of course, that doesn't bestow any infallibility on me, but it is almost eerie how consistent my premise of the manipulation has remained since that time.

My basic premise has always been that a handful of large commercial traders, mostly banks, have succeeded in manhandling the managed money technical traders on the COMEX by short selling in unlimited quantities until the managed money traders exhausted themselves on the buy side and then began selling back to the commercial short sellers. This was evident in COT report data and has come to be adopted in widespread commentary. Later, starting after silver and gold prices declined sharply in 2013, but accelerating around 2017, the managed money traders also began to make things worse for themselves by establishing large short positions on price declines, making it easier for their commercial counterparties to whip them in and out of positions to the benefit of the commercials and detriment of the managed money traders.

Surely, there were times when the commercials' control of the managed money traders on the COMEX ran afoul, such as when the largest silver and gold short seller at the time, Bear Stearns, went belly up in 2008 and needed to be taken over by JPMorgan and again in 2011, when JPMorgan itself was staring down billions of dollars in losses as a result of the run up in silver prices to nearly \$50. But the commercials did maintain control for more than 35 years — that is until the summer of 2019.

Over the decades, the process I've just described was highly rewarding to the commercials, as they collectively extracted a few billion dollars from the managed money traders on the COMEX on a cumulative basis. And therein resides the basis for my conclusion that the COMEX silver and gold manipulation was initiated and run by the commercials because it was so darn profitable. Further, my experience has always been that when private industry is engaged in activities that are extremely profitable, it seeks to exclude or limit any government involvement. It is when private interests run into trouble that they seek government assistance.

Therefore, since my basic premise for how the manipulation originated and continued for decades was based upon a handful of commercial traders (largely banks) collectively taking advantage of other traders on the COMEX, I have concluded it was this profit motive behind the manipulation and not some government-inspired scheme to depress prices. I don't argue that market regulators weren't content to see silver and gold prices suppressed as a result of the COMEX commercial traders' collective control of the managed money traders, just that it wasn't the regulators or anyone in government who concocted the scheme in the first place.

Most importantly, please understand that I'm not trying to convince anyone that it has to be my way or the highway, as in the long run it doesn't matter much whether anyone accepts my version or not. What matters is that if I am portraying things most closely to how they actually exist, and what the outcome is likely to be. So let me summarize my take to this point and speculate as to what likely comes next.

There is no change in my opinion that the fate of the 8 or so largest shorts in COMEX gold and silver is the lynchpin for how prices behave in the future and that includes whether JPMorgan comes to their aid. There can be little doubt that the 8 big shorts have suffered unprecedented losses on a massive scale on their documented COMEX short positions in gold and silver, starting in the summer of 2019 and continuing through yearend 2020 and into the first few days of 2021.

At yearend 2020, the 8 big shorts were out \$14 billion, adding a full \$10 billion from the prior year. Some may continue to argue that these are not "real" losses and that the big shorts are fully hedged, but that flies in the face of them never losing in any of the prior 35 years -- all of a sudden, after not being "hedged" over the past three and a half decades, they are now suddenly hedged? Give me a break. Certainly every penny of the \$14 billion in "hedged" losses had to be deposited with the clearing house -- that's the rules. And there is not a shred of evidence or common sense in suggesting the big shorts deliberately intended or somehow benefitted by putting themselves \$14 billion in the hole.

I still maintain that 2020 was the most critical year in silver market history, in that it was basically impossible for free market factors to account for the dramatic fall in March to price lows not seen in ten years only to be reversed to near 8 year highs several months later. The only possible explanation was that something had to override the fundamentals. That "something" did override any free market considerations and can be summed up in a name -- JPMorgan, the acknowledged kingpin of all things silver and gold. What JPMorgan accomplished in 2020 was the culmination of more than a decade's mastery of the silver and gold markets.

After taking over Bear Stearns in 2008 and nearly choking on the run up in silver prices early in 2011, JPMorgan came up with the criminally genius solution of buying as much physical silver and gold as it could (all the while suppressing prices with excessive COMEX paper short sales). I thought many times prior to 2020 that JPMorgan had amassed enough physical metal to let prices rip to the upside, but was wrong at every turn. But events in 2020, almost unbelievable in scope, suggest that JPMorgan may finally be done with its overt suppression of silver and gold prices. What events?

Well for starters, on the dramatic and almost other-worldly price decline into mid-March and shortly thereafter, JPMorgan managed to completely eliminate its COMEX silver and gold short positions, leaving its massive physical holdings completely exposed. At those price lows, JPM's one billion oz silver and 25 million oz gold physical holdings were dead even in open profits. Today, less than 10 months later, JPMorgan is ahead by at least \$25 billion. I'd call that a bit more than a timely coincidence.

Then there's the matter of where the 400 million ounces of physical silver (plus many millions of physical gold ounces) came from that flowed into the world's silver ETFs and COMEX warehouses from the price lows of March over the next few months. Since JPMorgan was the only conceivable source of the physical silver (since it was the only one holding that much silver), it came down to a question of

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the manner by which JPMorgan provided the metal. You'll recall that I first concluded that JPM leased the metal to other big shorts, then suggested it might be part of a settlement with the CFTC and DOJ, before coming back to my original lease explanation (where I still stand).

Subsequent events further convince me that JPMorgan leased out at least 300 million oz of silver (plus millions of gold ounces). Most compelling is that the official settlement with the DOJ and CFTC didn't come until Sep 30, many months after the physical metal actually was made available to the market. I'm convinced that JPMorgan is so far ahead of everyone else the regulators, the other big shorts and all of the rest of us (including me) that that's not even funny. JPMorgan saw (when others weren't even looking) that silver and gold prices needed to be stabilized and made not to explode until after its official settlement with the regulators and by leasing out the metal, price stabilization was achieved.

But now that the settlement is on the books and JPMorgan is completely off the hook, the need for price stabilization may have passed. Then there is also the matter of the coming (in two weeks) change in presidential administrations and with it, a change in the composition of the leadership at the CFTC and DOJ. Not just in the US, but in governments everywhere, there is the phenomenon of NOMW not on my watch. This is the time-honored tradition of the outgoing regime hiding as much bad news as possible in order to put it on the incoming regime and conversely, of the new regime seeking to expose early enough as much as that inherited bad news, so as to lay the blame for it on the old regime. After all, the longer the new regime sits on any bad news it inherited, the more it becomes part of the new regime. What I'm suggesting here is that there might be more chance of an unexpected regulatory surprise should the new regime at the CFTC and DOJ wish to avoid full blame for the silver and gold manipulation it just inherited.

Potential regulatory surprises aside (I'm certainly not holding my breath), there is the financial consideration of the metal leased by JPMorgan. As previously explained, if JPM did lend out 300 million oz of its one billion oz silver stash, this doesn't increase JPM's holdings, but it does increase the potential liability of those borrowing the metal. If, in fact, JPM did lease the metal, as I believe to be the case, the metal was leased at the then price of \$18 or so and was most likely lent to the same entities which are most heavily short on the COMEX. That means, should the metal be called in today and the borrowers had to buy or settle at current prices, they would be out an additional \$3 billion or so from what I calculate to be the running losses on COMEX short positions alone.

Therefore the stakes have never been greater for the big shorts on the COMEX and it must be expected that they will continue to fight back, as is occurring today. Certainly, I haven't seen any evidence that the big shorts have moved to buyback any quantities of their position through trading as of yesterday, the cutoff for Friday's new COT report. I would agree that some short covering likely took place today, but probably not much more than was put on over the reporting week ended yesterday.

Today's price selloff does suggest that the moderate deterioration (managed money buying and commercial selling) likely to be seen in Friday's COT report has been already largely unwound and the question remains how much more outside selling the big shorts can arrange. Obviously, the clear breakout above gold's 100 day moving average did involve managed money buying and that buying is most at risk for being sold, with the question of how much additional selling the big shorts can arrange. I don't have the answer to that question, other than, aside from the deterioration that

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occurred this reporting week, the market structure in gold was far from bearish to start with.

The critical question remains how will the big shorts resolve their massive concentrated short positions, particularly in silver and will JPMorgan aid the big shorts by adding to short positions on rallies. Neither the big shorts nor JPMorgan will likely add new short positions on price declines, with the only logical sellers on lower prices being those technical type longs who bought on the way up.

It's kind of funny (no, I'm not laughing) that had you asked me, given the political events of the day (the senate election in Georgia and the certification of the electoral college results later today), I would have anticipated higher gold and silver prices and lower prices in other markets. Instead, the opposite has occurred. What gives?

What gives is this – only in gold and silver is there a pronounced and documented concentrated short position and that becomes the de facto wild card. There's no equivalent short position in stocks, bonds, real estate, crypto currencies or any other commodity away from precious metals traded on the COMEX/NYMEX. This is what accounts for the counterintuitive price movements in gold and silver.

A little while back, I did explain that the basis behind the 25-fold increase in the stock of Tesla was short covering, as the short position on the stock fell from 20% of total shares outstanding to 6% or so, a reduction and short covering of 70% of the former short position. To be sure, I believe the overvaluation in Tesla stock is beyond absurd – I'm just explaining how short covering is how it got to be so absurdly overvalued.

Any gains in gold and silver over the past year or so have come with no notable covering of the concentrated short position on the COMEX (save for JPMorgan's short covering). Therefore, if pronounced short covering was behind the rise in Tesla shares (as I believe to be the case), then the full force of an equivalent short covering in gold and silver hasn't even started yet.

Yes, there will be sharp price selloffs, as the big gold and silver shorts will not and cannot be expected to just roll over and play dead. There's just way too much at stake. But at the same time, it's hard to see how the big shorts can avoid covering in the future, since short positions are, by definition, open positions that must be closed out at some point.

Going back to the question who initiated and is in charge of the manipulation – the government or the commercial shorts on the COMEX – the answer to how this all gets resolved is the most important of all. After observing in real time how close the silver market, in particular, has come to exploding due to short covering and how many equivalent times that inevitable short covering has been postponed (but not eliminated), I've become accustomed to looking over my shoulder for what could possibly bailout the big shorts yet again. As a result, you'll never hear me say – this is it – beforehand.

On the other hand, when I look at what I have observed and recounted over the past, particularly the unprecedented events of 2020, I'm more convinced than ever that a short covering event along the magnitude of what occurred in the stock of Tesla lies ahead, regardless of who may have run the manipulation from the get go. Even if I'm wrong and some unnamed higher ups in the government has concocted the manipulation I've complained about for decades and far earlier than anyone else, at this point I fail to see how these higher ups (should they exist) can resolve the situation without sharply higher prices in the end.

At publication time, today's sharp selloff eliminated much of the financial damage incurred by the 8 big shorts over the first two trading days of the New Year and leaving them down this week by more than \$800 million, bringing the total loss to the 8 big gold and silver shorts to \$14.8 billion.

Ted Butler

January 6, 2021

Silver – \$27.33 (200 day ma – \$21.73, 50 day ma – \$24.70, 100 day ma – \$25.26)

Gold – \$1922 (200 day ma – \$1836, 50 day ma – \$1872, 100 day ma – \$1902)

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