

July 18, 2020 – Weekly Review/The Perfect Solution

Gold and silver prices finished higher yet again this week, with gold ending up by \$10 (0.6%) and at fresh 8 year highs and with silver ending 70 cents (3.7%) higher and at 4 year weekly closing highs. Given silver's relative outperformance, the silver/gold price ratio tightened in by nearly three full points to 91.75 to 1.

Over the past 20 weeks, the silver/gold price ratio first exploded by nearly 35 full points to 125 to 1, the highest level since the dawn of civilization and then tightened in by almost that same amount. As someone who pays fairly close attention to these things, I am still unaware of any actual supply/demand fundamentals that could possibly explain these unprecedented relative changes between gold and silver. And for the record, I still believe silver is obscenely undervalued relative to gold, despite what has been one of the sharpest upside revaluations of silver to gold.

As I have intoned in the past, any sharp changes in the silver/gold price ratio are almost always a result of big changes in the price of silver, and this time was no exception. And while the price of silver still has a future date with destiny that will make current prices look puny, I think it's important to take a moment to reflect on just how unusual the price changes in silver have been over the course of the past five months, from late Feb thru today.

In a matter weeks (trading days, actually), silver fell more than \$7 (40%) into mid-March to price lows not seen in more than 10 years and then rose \$8 (65%) thru yesterday's close to multi-year highs. Never in history has any world commodity come close to replicating such extreme price volatility and, as I indicated, I'm not aware of any actual changes in supply or demand that could account this volatility (yes, I am aware of the phony negative \$40 price of crude oil before reverting to a \$40 positive price – an \$80 swing – but let's call it as it is, that was also rig job on the CME, most likely by JPMorgan that the CFTC is supposedly investigating).

My point is that, on its face, the swing in silver prices, from decade lows to multi-year highs with no change in fundamentals leaves only one possible explanation – price manipulation. And we know who the main manipulator is – JPMorgan – since it benefitted more than any other entity by the historic whipsaw in silver prices. Later, I'll introduce some important new conclusions about what I believe is going on behind the scenes in silver by all the main players – JPM, the DOJ and CFTC, as well as the CME and the 8 big shorts.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off, but only slightly, to 5.4 million oz this week, still slightly above the weekly average of the past 9 years. Total inventories fell 0.6 million oz to 324.4 million oz from last week's record levels. No change, yet again, in the JPMorgan COMEX silver warehouse, still stuck at 160.7 million oz.

There are around 1500 contracts (7.5 million oz) still open in the July delivery month, so it wouldn't be surprising to see more silver deposited in the COMEX warehouses. More remarkable is how relatively little metal has come in considering the total deliveries so far this month, nearly 15,000 contracts (75 million oz) and compared to the massive inflows of gold into the COMEX warehouses over the past 4 months or so.

In regards to the COMEX silver deliveries for July, the standout feature to me has been the giant first day issuance of nearly 6000 contracts (30 million oz) by JPMorgan from its house account. This delivery follows a near 10 million oz issuance by JPM in its house account in the May contract, the first such issuances made by JPMorgan in its own name following years of nothing but accumulation. As I'll explain later, the 40 million oz delivered by JPMorgan is part of what I now believe is a negotiated settlement with the Justice Department and CFTC, first hinted at some weeks back. I'm also mindful that nearly 6000 July silver contracts were stopped in the house accounts of several large players - Goldman Sachs, Citibank, Morgan Stanley and Macquarie, which is in conformity with my new thoughts on the matter.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

There was a continued inflow into the COMEX gold warehouses of 600,000 oz this week, which pushed total warehouse levels to 34.1 million oz, another new record and up 25.6 million oz from the 8.5 million oz total 4 months ago. The JPMorgan COMEX gold warehouses accounted for most of the total inflow this week as they increased by 500,000 oz to 13.15 million oz or more than 38% of the COMEX totals. I'm still of a mind that we are nearing the end of the phenomenal gold inflow into the COMEX warehouses as the 25.6 million oz increase over the past 4 months roughly equals the concentrated short position at the outset of the inflow, but that may be a stretch on my part.

There were continued strong inflows into the silver ETFs this week of close to 20 million oz, slightly less than the level of two weeks ago, but still at an amazing one billion oz pace on an annualized basis. The deposits into SLV, the largest silver ETF, came to around 6.5 million oz this week and as surprising as this may sound, I believe more metal is owed to the trust, in a sharp departure from the very rapid pace of physical silver deposits witnessed over the past 4 months.

One of the truly remarkable aspects surrounding the massive physical inflows into SLV and the other big silver ETFs has been in just how quickly the metal has been deposited compared with times in the past, when delays were common. When there were delays in physical silver deposits in the past, this was usually reflected in a growing short position in the shares of SLV. Over the past four months the short position of SLV has grown by around 7 million shares to 17.5 million shares (ounces), but all things considered, this was such a minor increase relative to the 160 million+ oz rapid inflow into SLV, that I didn't bother mentioning the short position.

In addition to being in conformity with my new sense that JPMorgan has been supplying physical metal to the SLV and other silver ETFs under a negotiated agreement with the regulators, I'm also now more sensitive to any inkling of developing delays in physical silver deposits into the silver ETFs and will be awaiting with great interest the new short report on SLV, which is scheduled to be released on July 24.

Turning to the new Commitments of Traders (COT) Report, it came in as close to expectations as is

possible, which I consider good news and not just because I get to pat myself on the back (and not wipe egg off my face), but because the amount of deterioration in the market structures, given the price action was within or below expectations. After all, silver was up more than a dollar during the reporting week and at multi-year highs, while gold closed above the \$1800 level every day of the reporting week.

In COMEX gold futures, the commercials actually reduced their total net short position by a slight 600 contracts to 302,000 contracts. The changes were slight enough on the commercial side so as not to warrant undue attention, but the 8 big shorts did reduce their short position by just over a thousand contracts, to 232,070 contracts. The smaller commercial shorts (the raptors) increased their net short position to just under 70,000 contracts (as hoped for by me). I'd call JPMorgan as still flat, despite some selling by the Producer/Merchants, which saw an increase in the number of short traders.

The managed money traders in gold sold, somewhat surprisingly, 4370 net contracts, consisting of the sale and liquidation of 2410 long contracts and new sale of 1960 short contracts. Net buying of nearly the same amount of contracts by the smaller non-reporting traders explained the difference between the selling by the managed money traders and the lack of corresponding commercial positioning.

In COMEX silver futures, the commercials increased their net short position by 7600 contracts to 60,200 contracts, somewhat less than the 9000 contract threshold I had expected and hoped would come in lower. While this is the highest commercial short position since March 10, just as the rigged silver price smash would take full effect, I am still more relieved that it wasn't higher. The 8 big shorts only increased their net short position by 2300 contracts to just under 74,000 contracts and as hoped for, the smaller commercials (the raptors) did most of the selling, in liquidating 6300 longs. I'm undecided on JPMorgan, as they remained flat or possibly added 2000 new shorts.

The managed money traders did buy 6611 net silver contracts, nearly matching the commercial selling, consisting of new longs in the amount of 3404 contracts and the buy back and covering of 3207 short contracts.

As I indicated on Wednesday, I was impressed by the relative lack of aggressive new shorting by the 8 big concentrated shorts in both gold and silver on the price rally following the deliberate takedown into March and noted how instead there was notable selling from the smaller raptors, with the silver raptors reducing long positions and the gold raptors adding to short positions. That pattern continued to play out in this week's COT report.

In gold, back on April 7, the gold raptors were short 14,500 contracts, while the 8 big shorts held 261,100 contracts short with gold trading around \$1700. Today, 3 months later and with gold \$100 higher, the gold raptors are short 70,000 contracts (an increase of 55,500 contracts), while the 8 big shorts have reduced their net short position by 28,000 contracts -- a net swing of more than 83,000 contracts.

In silver, the raptors were net long 39,800 contracts on May 5 (with silver around the \$15 level) and the 8 big shorts were holding 73,711 short contracts. Today, with silver nearly \$5 higher, the raptors hold 13,600 contracts net long (a reduction of 26,200 contracts), while the 8 big shorts hold the same short position they held on May 5. Stated differently, the entire increase in the total commercial net short position from May 5 (the low point of the commercial position) was due to raptor long liquidation with not a single contract of the increase coming as a result of new short selling by the big 8. I understand that the raptors were taking profits, but that doesn't change the fact that to this point and on the \$8

rally in the silver price from the lows, the 8 big shorts haven't added any new shorts. Ditto in gold, where the big 8 actually covered 28,000 shorts. To me that is profoundly bullish news if it continues, as I hope and expect to be the case.

All this plays into my revised take on what's really going on in silver and gold.

The Perfect Solution

Back on December 26, 2018, I published an article titled, "The Solution" in which I opined how the Justice Department might conclude its newly-announced investigation into COMEX precious metals manipulation by JPMorgan, with suggestions on how to deal with the bank's then-accumulated 800 million oz of physical silver. In a nutshell, I argued that the DOJ should confiscate the physical silver stash accumulated by JPMorgan for the benefit of the public and ban the bank from dealing in precious metals thereafter.

<https://www.butlerresearch.com/december-26-2018-the-solution/>

My solution was based upon what was right and fair as far as the investing public and the silver mining industry were concerned. However, and simply put, my solution was a pipedream – something that would never occur. I did include in my article the possibility that given the realities of the circumstance, the Justice Department would opt for a political remedy that fell far short of finding JPMorgan actually guilty of what it most certainly was guilty of. Needless to say, what I held out as a possibility was a certainty – no way was the Justice Department about to truly crack down on the nation's most systemically important financial institution.

I'd like to explain why my original solution was a fantasy and then segue into what I believe is the most practical solution; a solution that I believe has been, effectively, already executed or nearly so. First, a brief explanation for why my original solution was simply pie-in-the-sky. What I originally proposed was certainly equitable and just from the investing public's point of view, but so what? It was anything but acceptable to those who would be deciding on the solution to the ongoing manipulation – JPMorgan, the CFTC, the CME Group and even the Justice Department itself. Certainly, the public's best interest didn't have a place-setting at the table of who would decide the solution.

Any real solution to ending the silver manipulation would be decided by entities other than the public and would be in these other entities' best interest. That's just the way it is. There's no way that the CFTC (or the DOJ and CME) would ever admit to decades of malfeasance in not ending the silver manipulation sooner or JPMorgan ever admitting to gaming the silver market for more than a decade. The downside for all of them would be too severe to contemplate. Therefore, the most practical solution must be one in accordance with their interests, not that of the public.

What prompted this whole new line of thought was a question from a close associate a week or so back. The question set me back so much that I told him I had to think about it before responding. I've thought of little else since. The question that set me back was whether the big buyers of the

225 million ounces over the past four months in the silver ETFs was by the big concentrated shorts in COMEX futures? At first, I initially rejected the idea (probably because it never occurred to me), but quickly came to see it as not only feasible, but something that checked off all the boxes and then some.

As regular readers know, I try to rely on the published and verifiable hard data and then apply the most plausible explanation to that data. By doing so for many years and decades, I've been able to maintain broad and fairly consistent themes, such as the silver manipulation being rooted in the concentrated short position on the COMEX and how JPMorgan became the ringleader of the big COMEX shorts upon its takeover of Bear Stearns and then parlayed that price control into accumulating close to a billion oz of physical silver (and 25 million oz of gold).

A few weeks back, I first raised the possibility that perhaps, instead of JPM leasing out the silver that has found its way into the silver ETFs, it was selling the silver under orders from the US Government. I presented it as a simple black or white situation, JPMorgan was doing one or the other, although I still felt it was likely that JPM was leasing, not selling under duress. After contemplating my associate's (Jim Cook) question, I am now inclined to believe JPMorgan is selling (or has sold) some of its silver under orders. Please allow me to explain and also know that I am not easily disposed to coming up with completely new theories of the case. It's just that the big shorts being the big buyers of the shares (and metal) in the silver ETFs fits better with JPM selling under duress and not leasing.

To be sure, I am as convinced as ever that the silver manipulation is very close to coming to an end and that termination will send prices sharply higher. But, as I indicated above, any negotiated solution to the decades-old silver manipulation would include input from all parties at the negotiation table, of which the public and mining companies are not included (although silver investors will prosper upon the termination of the manipulation). The entities at the negotiation table are everyone else - the DOJ, CFTC, CME, the absolute master of all negotiations, JPMorgan, and even the big shorts (because it's more practical and advantageous to the other parties that the big shorts be included).

What I am suggesting is that an agreement has been reached and largely already put into place whereby JPMorgan has agreed to relinquish a chunk (say around 250 million oz of its one billion oz silver stash) of its physical holdings and agreed to no longer overtly manipulating the price of silver. By doing so, JPM gets the feds off its back and escapes completely any criminal findings. It also gets to reap the rewards of sharply higher silver (and gold) prices. Sure, JPM cops to spoofing and throws a few of its traders under the bus, but that was going to happen anyway. And while 250 million oz is a lot to give up, not when you still have 750 million oz remaining.

Such an agreement would afford the Justice Department and, particularly, the CFTC to gracefully conclude and exit from a quagmire that would have eventually engulfed them both. As silver prices climb, the frustration and anger at silver being manipulated for so long will dissipate and be forgotten in time. After all, it's hard to be angry when you are making money. Ditto for the CME Group. On a personal basis, I suppose I'll miss out on the satisfaction of having the silver manipulation openly proven once and for all, but my main goal was to see it ended, not bask in glory. Oh well, boo-hoo.

By including the big shorts and allowing them to be the well-informed "friends and family" of JPMorgan on the buy side of the ETF shares bought and metal delivered by JPM on the COMEX, all prospects of financial ruin and potential disorderly markets are conveniently sidestepped. By allowing the big shorts to be the buyers of the roughly 250 million oz sold by JPMorgan to the silver ETFs and in recent COMEX deliveries, the concentrated short position is neutralized. One thing I may have to

backtrack on is that there is not enough physical silver to come into the COMEX warehouses to cover the short position as has occurred in gold, as it now can come from the silver ETFs although that isn't necessary.

By getting JPMorgan to cough up a chunk of its accumulated physical silver holdings (I don't see why it would have to cough up gold) in the manner I just described, basically solves everything. Of course, there may still be some more metal to come, but it still looks to me like enough metal has been provided to this point to call it complete. Again, this was never about what is just and fair, but in satisfying all those at the negotiation table. Under this solution, everyone that matters wins that's what makes it the perfect solution.

True, we would apparently lose the firepower of desperate short covering since the big shorts have already covered by now holding ETF shares and physical silver offsetting much of the concentrated short position. But it also means the big shorts could buy back their COMEX short positions, driving prices higher and still be protected with growing profits on their ETF and physical metal long positions. Besides, there is still a lot of potential short covering from traders not in the big 8 agreement.

Playing devil's advocate to my own premise, the real key is in the big shorts and JPMorgan not adding aggressively to shorts on rising prices, same as ever. And if the perfect negotiated solution has been hammered out, there is little reason for these big traders to put their heads right back into the lion's mouth after executing such a perfect escape. Simply not adding aggressively to the short side on rising prices should be enough to allow silver prices to soar. The big shorts not adding to short positions is exactly what has occurred over the past 2 to 3 months, as I've just described above.

The timing of this perfect solution would appear to be impeccable. The financial world at large, already off the charts in terms of looney tune valuations and endless buying power and with a speculative bent never before witnessed, appears set to alight on silver as the world's last remaining investment bargain. And that's true whether the stock market continues to surge or collapses instead. It would appear a wall of money is about to discover silver just as the single reason for what made silver so cheap the concentrated short position may cease to exist and no one will be blamed for soaring prices. If every data point didn't confirm everything I just wrote, it would be a story impossible to invent, as no one would believe it.

For the week, the 8 big shorts finished where they were on Wednesday, namely in the hole for \$10.3 billion, or \$500 million worse off than they were last Friday. This is, once again, their worst weekly showing ever. Of course, in light of the perfect solution I just wrote about, it's quite likely that this measurement has become moot; but at the same time, there's good reason to suspect that the growing disastrous financial performance of the big 8 over the past year had a lot to do with the enactment of a perfect solution.

Finally, a subscriber sent me what has to be the most egregious example of plagiarism I've seen in years, with the most extreme example being a number of years ago when a commentator put up one of my articles and the only thing he changed was my name to his. This time, Alex jokingly asked me if I was now writing under a pen-name, as it was pretty close to a copy and paste.

<https://gsiexchange.com/with-jpmorgan-back-in-the-mix-the-hammer-is-now-about-to-fall/amp/>

The most unfortunate aspect to all this is that plagiarism is both stealing and then lying about it, two of

the most despicable characteristics possible in a person and the absolute last qualities we would want to see in our children. Worse, in this case, is that I'm certain that any outfit that resorts to such plagiarism is sure to steal and lie to anyone who does business with them. It makes me sick to think my stuff is being used to cheat the innocent.

Ted Butler

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Silver – \$19.75 (200 day ma – \$17.07, 50 day ma – \$17.90)

Gold – \$1812 (200 day ma – \$1612, 50 day ma – \$1754)

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