

## March 14, 2018 – Speculation Based Upon Facts

Trying to guess what the future holds is always just that, a guess; but when that speculation is based upon facts, the odds for success grows. This is true in all aspects of life, including investment markets. And it's just as true that as the facts change, so should one's speculation. With that in mind, I'm going to opine on two current speculations, one fairly new and another quite old. First, in with the new.

As I discussed on Saturday, the taking (stopping) of 2400 silver deliveries so far by Goldman Sachs in the March COMEX futures contract is a standout feature; as was the apparent "backing down" by JPMorgan from further silver deliveries after it stopped 447 contracts on the first delivery day of March. I'd like to dig into this further. But first, let me concede that my speculative premise about Goldman is newly formed and highly dependent on what the bank does from this point on. If Goldman turns around and quickly issues or redelivers its recently stopped silver deliveries, as it did in the December COMEX delivery period, that would cause me to radically alter or abandon the premise I'm about to lay out. In other words, if the facts change, so will my speculation.

A number of things make Goldman Sachs' taking of silver deliveries this month stand out. For one, the 2400 contracts stopped represents 12 million oz of physical silver and you can count on one hand the number of times larger monthly deliveries have been stopped by any one firm for its own account. Only JPMorgan has stopped more silver in any single month, including the largest amount ever this past December, when JPM stopped 2800 silver contracts (14 million oz). Goldman had stopped more than 1600 silver deliveries this past December, but had redelivered more than 1100 of those contracts later that month (keeping more than 500 contracts (2.5 million oz).

[http://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

Another thing pointing to the large size of Goldman's silver deliveries this month is that there is supposed to be a limit of 1500 contracts to the amount any one entity can take in COMEX silver deliveries in any one month. JPMorgan has regularly gone over the limit starting last year and Goldman has now also done so for the second time. However, it's not just size alone that make Goldman's recent silver deliveries unusual.

Goldman Sachs has not been very active in COMEX gold and silver deliveries, or for that matter, in precious metals futures trading. Despite being perceived by many to represent all that's wrong on Wall Street, I've never detected much involvement by Goldman in COMEX dealings. That's further confirmed by the absence of any position in OTC precious metals derivatives contracts by the firm in the OCC's quarterly derivatives report. Goldman may be deeply involved in every other nook and cranny of world financial markets, but when it comes to precious metals, it never seemed to be a leading participant. That's why I'm talking about them now.

Again, if Goldman turns around and redelivers the physical silver it just took delivery of, then perhaps I'm just spinning my wheels here and it may turn out to be a big "never mind." But, at the same time, if there's something new in the air, like another big buyer of physical silver (alongside JPMorgan), then spotting it early on would seem to be worth the effort. Besides, there are some other recent facts that can be drawn on.

As previously reported, Scotiabank had tried to offload its precious metals unit, ScotiaMocatta, for more than a year before throwing in the towel and ending up keeping the unit, which it said it will shrink a failed sale by any account. Goldman Sachs, along with Citibank, were said to be the last two prospective buyers and, in hindsight, must have seen something that they didn't like. Perhaps Goldman uncovered that the purported reason for the unit's sale, an alleged scandal involving smuggled gold from South America wasn't the real reason for the sale.

Perhaps Goldman, in its due diligence review, uncovered that ScotiaMocatta was a big short seller of silver and didn't care for that business model. After all, I did make public an article discussing Mocatta's predicament and it is certainly possible Goldman may have run across it at the time.

<http://silverseek.com/commentary/backing-out-16919>

My speculation is that in reviewing the prospects of buying the Mocatta unit, Goldman Sachs uncovered the essence of silver short selling Scotia was involved in and, rightfully, decided it wanted no part of it and walked away from the unit. But Goldman's due diligence may have led it to discover that silver was manipulated in price and represented the investment bargain of the all-time, just as JPMorgan had discovered seven years earlier.

Armed with this new knowledge, Goldman embarked on the most logical next step, namely, buying as much physical silver as it could without disturbing the price. I may be stretching it, but I further think that Goldman's large stopping of silver in the December contract and subsequent redelivery could have been a "trial run" in which it tested the waters to see how the delivery function worked. Having worked to its satisfaction, Goldman came back for more in March and if any of this speculation is on the mark, will be on the hunt for more silver going forward.

The question is what this new speculation, if accurate, will have on the silver market. If accurate, it's hard to see how the answer would be other than very bullish. Perhaps the single biggest advantage that JPMorgan has had in its epic accumulation of 700 million oz of physical silver over the past seven years is that it had the game to itself with no competition. On average, JPMorgan has acquired physical silver, through various means, on the order of 8 million oz per month over the past 84 months. Goldman Sachs just picked up 12 million oz in the COMEX March delivery period (plus 2.5 million in Dec), which according to my speculation messed up JPMorgan's exclusive silver buying status and caused JPM to back down and liquidate futures contracts on which it planned to take delivery in order to make room for Goldman Sachs.

Today, JPMorgan delivered 200 silver contracts (one million oz) from its own house account, an event while not totally unprecedented has been quite rare in recent years. I can't help but feel this further confirms my backing down premise, as well my sense of tightness in physical silver. Silver town is way too small for more than one big buying hombre. Of course, JPMorgan is more than capable of supplying Goldman or anyone else with hundreds of millions of physical silver ounces (700 million to

be precise) should it so decide to part with its methodically acquired stash and at giveaway bargain prices. Somehow, this is not in keeping with JPMorgan's one driving force of making as big a profit as it can on everything it touches. Therefore, JPM's continued accommodation is not thought by me to be long lasting. And if Goldman is in on the silver hunt, the minute JPM stops being accommodative prices head higher in a hurry.

Along with that new speculation, I've been thinking about a much older premise that involves market structure. I'm hoping they may be related. Currently, the COMEX market structure is, as I hope you know, extremely bullish in silver. This means that the total net commercial short position is low and the managed money short position is high. Embedded in that bullish structure is a fairly low short position of JPMorgan (around 28,000 contracts) and a very large raptor (the smaller commercials) net long position (around 60,000 contracts).

We know, pretty much for sure, that on higher prices the raptors will sell off their big long positions at profits and that the managed money traders will be buyers, both in establishing new long positions and the buying back of previously sold short positions (at a loss). While we also know that JPMorgan has always added to short positions on every silver rally over the past decade and longer, I would submit that this is also the key factor in the ongoing silver manipulation. Of the three outcomes on higher prices, I would submit that the first two - raptor selling and managed money buying - are baked into the cake and can't change. That leaves it up to JPMorgan.

If JPMorgan adds significantly to its silver short position on the next silver rally, then the likelihood of yet another failed rally looms large and I go back to spitting, cursing and kicking the dog (actually, I don't have a dog, but you get the drift). But if JPMorgan doesn't add to its COMEX silver short position on the next rally, then praise the Lord and Honey, put on that party dress. Wait a minute, I can hear you saying, what's new about that? That's been the deal for ten years and longer.

What may be new is an old premise. If JPMorgan does ever decide to end their evil and crooked ways and no longer manipulates the price of silver, it would most likely occur under the most advantageous circumstances it could arrange. That would include the smallest possible short position it could engineer. At this particular point, JPMorgan may be able to arrange a further buyback of its short position on still lower prices and that, quite frankly, is the basis for being cautious in the very near term. But if JPM were to decide now is the time to let silver go, then it might be interested in buying back as much of its COMEX paper short position as it could regardless if that resulted in higher prices.

The current silver market structure has a lot (maybe 50,000 contracts or more) of raptor selling on higher prices already baked into the equation. Should JPMorgan decide to step ahead of the certain managed money buying to come on higher prices, it could potentially buy back much of its existing short position quickly. It would definitely cause silver prices to jump more sharply than otherwise, but it would be all sweetness for the crooks at JPMorgan. What could be better than holding 700 million physical ounces with as small (or no) paper short position as possible? Yes, this does require thinking like a criminal, but what's new? In any event, this is an old speculation of mine, but I bring it up because of current market conditions, another fact. And yes, last week's COT report did indicate all raptor selling and big 4 and big 8 short covering, an unusual circumstance that got me to thinking about my old speculation.

Turning to other developments, this week marks the ten-year anniversary of the failure of Bear Stearns and its takeover by JPMorgan. An article in the Wall Street Journal commemorating the event pointed

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out how JPMorgan was the banker of last resort for Bear, providing day to day liquidity for the failing investment bank in the days immediately preceding the US Government's intervention in asking JPM to take over. You or I may not have known Bear Stearns was the biggest short seller in COMEX gold and silver at the time, but it would be impossible for JPMorgan not to have full knowledge of this fact. And despite Jamie Dimon's (JPM's CEO) protestations that he would never do it again (take over Bear), I'm more inclined to believe, based upon subsequent events, that JPM helped kick Bear down the stairs at the time.

As far as what to expect in this week's COT report, gold and silver prices spent almost the entire reporting week below key moving averages in each; the 50 day in gold and both the 50 and 200 day averages in silver, after briefly penetrating those same moving averages in the prior reporting week. Therefore, some improvement in market structure would be expected, namely, managed money selling and commercial buying, but that doesn't translate into a specific number of contract prediction by me.

Yesterday's big jump in gold open interest is probably related to spread activity, but is still unusual given overall price action, while overall price volatility in both gold and silver is so low as to be eerie. Particularly when considering what may be developing behind the scene as described above, while the probability bet is still more flush out in gold weighing on silver, the chance of an upside eruption in price looms large in my mind. Accordingly, while I won't be shocked by a final flush out to the downside, I continue to buy kamikaze call options in SLV (mostly to replace dear departed expiring options that have, sadly, ascended to money heaven).

Ted Butler

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Silver – \$16.55 (200 day ma – \$16.83, 50 day ma – \$16.82)

Gold – \$1326 (200 day ma – \$1290, 50 day ma – \$1331)

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