March 17, 2018 – Weekly Review/Bear Stearns

A late-week selloff pushed gold and silver prices lower for the week and to multi-month weekly closing lows (I use Friday 5 PM NY prices). Gold ended $9 (0.7%) lower for the week, while silver ended down by 30 cents (1.8%). The relative underperformance of silver caused the silver/gold price ratio to widen out by nearly a full point to 80.6 to 1.

Iâ??ve noticed increasing commentary about how deeply undervalued silver is relative to gold, but not enough pointing to the underlying cause for the deep undervaluation â?? COMEX futures contract positioning. I suppose half a loaf is better than none, but if someone is going to make a point about how cheap silver is relative to gold (certainly Iâ??ve heard no legitimate commentary suggesting silver is overvalued relative to gold), one would think some attempt might be given to explaining why silver is so cheap.

Of course, those with knowledge of how gold and silver prices are set, while they would not be happy with how long the COMEX price positioning process has been in place, would not be mystified by how undervalued silver has become. One look at the respective market structures in each would explain all. Silver couldnâ??t possibly get this undervalued relative to gold if the cause wasnâ??t reflected in the market structures of each. More on this in a bit when I review the latest COT report.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses snapped back this week to 5.2 million oz. Nearly all the movement was of the â??inâ?• variety, as total COMEX silver inventories rose by 4.6 million oz to 256.9 million oz, another new high extending back a quarter century and only 30 million oz or so from all-time highs.

Another 1.8 million oz came into the JPMorgan COMEX warehouse, raising the amount there to 137.4 million oz, another new record. I would imagine this weekâ??s inflow was related to the 2 million oz stopped by JPM on the first day of the COMEX March delivery process, as mentioned in last weekâ??s review.Â JPMorganâ??s actions in acquiring physical metal via COMEX futures deliveries (in its own name), regularly followed by the physical movement of that metal into its own COMEX warehouse, is as precise as a Swiss watch – and ever since April 2011.

Since this is the most transparent means of acquiring physical silver, no one can deny that JPMorgan is the most plausible owner of this 137.4 million oz (more than the Hunts or Warren Buffett ever held). What are the odds that anyone interested in acquiring as much of an investment asset as possible would do so only in the most transparent means available?

My point is simple â?? there is no way in the world that JPMorgan confined its method of acquiring physical silver to strictly the most visible means of all. No one would do that, certainly not the sharks at JPM. Iâ??ll not get into today all the methods they used to acquire the 700 million oz in total that I claim JPMorgan has acquired, but to think the COMEX futures delivery and subsequent warehouse movement was the only way is simply not plausible.

I donâ??t have much to add to Wednesdayâ??s commentary about the possible emergence of Goldman Sachs as a competitor for physical silver, but I would be lying if I told you that my head wasnâ??t spinning with thoughts related to it. Barring any last minute surprises, the COMEX March silver delivery looks finished for all practical purposes. Iâ??ll only be able to judge my new speculation as events develop over time. Believe me that I would put everything on fast-forward if it was within my power.

Turning to the new Commitments of Traders Report, we did see an expected improvement in both gold and silver, in that there was managed money selling and commercial buying in both markets. I passed on contract predictions this week, but would note my miss last week would have been on the mark this week. As has been the case recently, there were some constructive clues under the hood.

In COMEX gold futures, the commercials reduced their total net short position by 16,100 contracts to 188,800 contracts. This is the lowest (least bearish) total commercial net short position since Jan 2 and, undoubtedly, the gold market structure is even less bearish since the Tuesday cutoff; although not yet bullish, but deeper into neutral.

By commercial category, the big 4 bought back 4900 short contracts and were joined in buying by the raptors (the smaller commercials apart from the big 8), which added 14,200 contracts of new longs to a net long position amounting to 44,000 contracts. That left the big 5 thru 8 as having added 3000 new short contracts, somewhat odd, but not overly so.

On the sell side of gold, it was primarily a managed money affair as these traders sold 14,841 net contracts, consisting of the sale and liquidation of 10,155 long contracts and the new short sale of 4,686 contracts. There is still plenty of room for additional managed money selling on lower prices, minus what may have been sold since the cutoff. And whereas the 200 day moving average in gold has been far below actual prices for months, it is little more than $20 or so below it as of Friday. Â Unless the managed money traders have radically altered how they operate, it is reasonable to conclude that the commercials will attempt to trigger managed money selling by rigging gold prices below the 200 day ma. The question is whether the commercials will succeed.

In COMEX silver futures, the commercials reduced their total net short position by 2500 contracts to 19,300 contracts. It has now been 5 reporting weeks where the silver market structure has been extremely bullish and thatâ??s the main takeaway. Further improvement is always possible and it seems to me that silver is waiting for the gold market structure to catch up. As it waits, silver appears to be getting even more bullish based upon trading since the Tuesday cutoff.

By commercial category, the big 4 were the big buyers as they bought back 2700 short contracts, while the raptors only added 100 contracts of new longs to a net long position now at 59,700 contracts. The big 5 thru 8 added 300 new short contracts to round out the total overall commercial buying. I canâ??t help but be ecstatic about the standout nature of the big 4 buying. As Iâ??ll show in a moment, there was an increase in managed money short selling in the reporting week, so there can be little question that pure commercial short covering by the big 4 may have been even more than the 2700 contracts bought back.

Iâ??d peg JPMorganâ??s short position to be down to 25,000 contracts as of Tuesday and possibly even less on that day. And I would say that in trading since the cutoff, JPMâ??s short position is probably lower still. This is no small matter and represents the heart of the manipulation. Already near the lowest level of COMEX short positions it has held in many months and because it has continued to acquire physical silver over that time, JPMorgan now holds the largest net long position (700 million oz minus its 125 million oz COMEX short position) ever.

I suppose silver could explode at any time, but to my way of thinking it seems more likely than not that silver will explode when it is most advantageous to JPMorgan. â??Most advantageousâ?• is synonymous with the largest net long position JPM is capable of engineering. Can it get even more advantageous for JPMorgan on still further salami price slices to the downside and an even smaller net short position? You bet.

But looking just past whenever JPM gets to its lowest paper short position, all that will matter for silver is what these crooks do or donâ??t do on the next silver rally. If the manipulators at JPMorgan donâ??t add meaningfully to paper short positions on the next rally, thatâ??s the exact formula for a silver price explosion, also known as, the big one. I think itâ??s better than otherwise that we will likely find out which it will be, one way or another, in the relative near term.

On the sell side of silver, it was all a managed money affair and then some, as these traders sold 5,337 net contracts, including the sale and liquidation of 2771 long contracts and the new short sale of 2566 contracts. As of Tuesday, the managed money long position of 38,265 contracts is only a couple of thousand contracts above the recent washed out core non-technical fund low water mark of 36,000 contracts, implying limited further long liquidation even if new marks are set.

Managed money short positions, at 54,680 contracts as of Tuesday, are now the highest since last December and only 5000 to 10,000 contracts lower than the historical peaks of last year. Because the managed money long position is so low, the net managed money short position is, effectively, at new all-time highs as of Tuesday. In trading since then, itâ??s hard for me to imagine new extremes not having been set. Did I mention how extremely bullish the market structure is in silver?

I know full well that the process of establishing extremely bullish market structures involves salami slices or the persistent setting of new price lows in order to garner the maximum amount of managed money selling. I also know that persistently lower prices drive investors to the point of despondency or anger bordering on madness. But itâ??s important to recognize that investorsâ?? collective feelings have little or nothing to do with the price setting process, which is solely determined by the interplay between the managed money and commercial traders on the COMEX. Feelings aside, we are moving into the best drop dead market structure ever seen in silver, if not already there. The most remarkable feature is how long it has taken to get here.

Bear Stearns â?? A Different Opinion

No doubt that the ten-year anniversary of the failure of the prominent investment bank, Bear Stearns, and its takeover by JPMorgan is cause for reflection. Bear Stearns was a force to be reckoned with and held a storied past on Wall Street and its fall was a seminal financial event. To that end, there have been any number of retrospective articles, most often offering the perspective of the major players involved and what the takeover meant to the acquirer, JPMorgan. This article from the Financial Times is representative of the general theme.

https://www.ft.com/content/6e488a94-270a-11e8-b27e-cc62a39d57a0

The general theme is that Bear Stearns failed because of mortgage securities gone bad and that JPMorgan, had it realized the enormous legal fees and fines it would be forced to pay as a result of the takeover, would not do so again. Like many, I was transfixed by the daily events that led up to that fateful weekend ten years ago when Bearâ??s failure and JPMorganâ??s acquisition occurred. About the very last thing on my mind at the time was any direct connection with silver or gold. It would be months before I came to realize that JPMorganâ??s takeover of Bear Stearns would be the most important development in the modern history of silver.

To this day, I have never seen any mainstream media article even mention silver and gold in connection with the takeover of Bear Stearns, and after ten years, I wouldnâ??t expect that to change. Never mind that Bear Stearnsâ?? failure coincided, to the day, with gold hitting all-time highs (over $1000) and silver hitting 30 year highs ($21). Even though itâ??s easy to calculate that Bear lost more than $2 billion in being short gold and silver from yearend 2007 to mid-March 2008, never is that fact mentioned in any mainstream account.

In a turn of events quite personal, but supported by any number of verifiable facts, a completely different picture emerged to me. In fact, there were a series of events that would follow JPMorganâ??s takeover of Bear Stearns in March 2008 that made it clear just how important the takeover was in the history of silver.

On May 14, 2008, barely two months after JPMâ??s takeover, the CFTC issued its second 16 page public letter in four years; denying there was any problem with a concentration on the short side of COMEX silver by large entities. Both public letters were in response to numerous complaints by readers received by the Commission about a silver price manipulation alleged in articles I had written. The public letters were widely trumpeted as proving there was no manipulation (mostly by those previously convinced there was no manipulation to begin with). Naturally, I was disappointed and disagreed with the agencyâ??s findings, but at that point, I was still completely in the dark and unaware of any Bear Stearns connection.

http://www.cftc.gov/idc/groups/public/@newsroom/documents/file/silverfuturesmarketreport0508.pdf

All that changed a few months later when I happened to check on a report regularly issued by the CFTC in the form of the monthly Bank Participation Report of August 2008. The BPR was hardly followed by anyone at that time and, truth be told, in all the years I had reviewed this report, I never learned much from it (other than knowing that banks were generally on the short side of COMEX gold and silver futures). So when I first reviewed the Bank Participation Report of August 2008 (about two weeks after it had been published), I expected a rehash of what I had always experienced before, namely, a report that added little to my understanding of silver and gold. Instead, what I discovered would change my understanding of silver and gold tremendously.

Having first reviewed the report early in the evening, what I found was so confounding that I wouldnâ??t sleep at all that night, made worse by not being able to bounce my findings off anyone, given the late hour. What I found was a shockingly large increase in the short positions in COMEX silver and gold futures by one or two US banks from the July (and previous) Bank Participation Report(s). I took the shockingly large increase at face value, namely, that a big US bank (or banks) had sharply increased its gold and silver short positions over the prior month. Since this was at the heart of what I had been alleging for more than 20 years to that point, I concluded that the CFTC had a good deal of explaining to do.

http://news.silverseek.com/TedButler/1219417468.php

As a result of the article and the attention it received, the CFTC announced it had opened an investigation into an alleged silver market manipulation by its Enforcement Division in September 2008; even though it had concluded just two months earlier in its second public letter in four years that no manipulation existed. The new investigation would last five years before it was closed in 2013 (no, I was never contacted in connection to that investigation).

http://www.cftc.gov/PressRoom/PressReleases/pr6709-13

As luck would have it, a number of readers were concerned enough about my allegations in the â??Smoking Gunâ?• article that they took it on themselves to write to their elected officials who, in turn, wrote to the agency seeking comment on my findings. The CFTC responded to the various congressmen and senators that I had it all wrong, in that there was no big increase from July to August in the US bank category for short positions in COMEX silver and gold. Instead, the increase in the 2008 August Bank Participation Report represented the finalization of a merger earlier in the year of an investment bank by a commercial bank. Bingo! – Another Eureka moment.

Since Bear Stearns was classified at the time as an investment bank, not a commercial bank, its massive short positions in COMEX silver and gold were never included in the Bank Participation Report and I had no idea that it was the big short seller (same with AIG Trading which was the largest short seller before Bear Stearns). Of course, I knew there was an unusually large concentrated short position in COMEX silver for many years, but I could only guess at who the biggest short might be. But all that changed when JPMorgan took over Bear Stearns, although I would have to wait until the Bank Participation Report of August 2008 and the subsequent letters from the CFTC to various lawmakers confirming it was JPMorgan who was now the big silver crook and manipulator.

The revelation that JPMorgan was the biggest COMEX silver and gold short from March 2008 changed everything. No longer would I have to confine my allegations of manipulation to some unnamed financial institutions; now I could point to JPMorgan as the big silver and gold market crook of crooks. Not only could I now provide the name of the biggest market crook, I could do so with complete immunity from blowback from JPMorgan, arguably the most powerful financial institution in the world (although I wasnâ??t so sure of no blowback at the time). I certainly didnâ??t waste any time in pointing the finger at JPMorgan in the fall of 2008 (a year before I started this subscription service) and I have continued to point the finger at these crooks for almost ten years non-stop.

The discovery, in September 2008, that JPMorgan was now the largest short seller in COMEX gold and silver made it clear that the CFTC lied in its previous public letters denying there was any problem with big shorts in the silver market. In the two months since the CFTC said there was no problem, the biggest short went under and needed to be taken over, most likely because its big silver and gold short positions moved drastically against it. No problem indeed.

So clear was the proof that JPMorgan was now the central precious metals manipulator that I took to looking at the market through the eyes of JPM. In doing so, I believe I have come to look at silver and gold in the most practical manner possible. Without the CFTCâ??s letters to lawmakers confirming both Bear Stearnsâ?? previous role and JPMorganâ??s subsequent role in silver and gold, Iâ??m not sure if anyone, including myself, would be aware of what JPMorgan has wrought over the past ten years. I suppose I would have picked up on JPMorganâ??s massive accumulation of physical silver which started in early 2011 at some point, but nowhere near as quickly as I did.

My version of what really occurred in the takeover of Bear Stearns by JPMorgan includes JPMorgan being subsequently caught off guard by the big run up in silver prices into April 2011, which I contend was as a result of a physical market tightened by investment buying and not by positioning in COMEX futures contracts. With JPMorgan caught short on COMEX contracts and facing severe potential financial damages, it set about to do two things; one, extricate itself from the silver run up by setting off a series of price smashes starting on May 1, 2011, designed to kill off physical investment buying (mostly in silver ETFs) and two, insuring it never faced a similar predicament by buying as much physical silver as possible as a means of covering its massive COMEX paper short position. That JPMorgan accomplished both of its objectives, starting in May 2011 is now a matter of public record.

Only after JPMorgan bought enough physical silver by 2012 to 2013, did it realize it didnâ??t have to stop accumulating metal as a defensive measure; but that it had the means, motive and opportunity to turn what was a highly defensive motive into a highly offensive one in terms of an unprecedented pure money making opportunity. Not that it may matter much when JPMorgan switched from defense to offense, but none of this would have probably occurred had JPMorgan not taken over Bear Stearns. Thatâ??s why I feel the takeover is the most important development in the modern history of silver.

Ted Butler

March 17, 2018

Silver – $16.30Â Â Â Â Â Â (200 day ma – $16.81, 50 day ma – $16.78)

Gold – $1314Â Â Â Â Â Â Â Â Â Â (200 day ma – $1291, 50 day ma – $1331)

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