
March 27, 2024 – Selective Law Enforcement

It is no secret that public opinion has turned negative on our major institutions, including congress, the administration and the judiciary, particularly the Supreme Court. Almost all of the swelling negative opinion runs along political lines, reflecting the great political divide of our time. It would seem to follow that with both the right and left having different reasons to be negative, the net result is an automatic bent towards overall sentiment turning negative. It's my opinion that in the absence of our great political divide, current overall negative opinion wouldn't be nearly as negative as presently.

One institution, the US Department of Justice, has also been subject to the same overall negative public opinion and for the same underlying reason, the political divide. Mainly, the right believes the DOJ has been unfair and too harsh in its dealings with former president Trump, while the left feels it has been too lenient – hence, an overall negative opinion. My own view is that the DOJ is an important institution that we are lucky to have and that it does incredibly good work overall. Take a gander at the press release or news section on the DOJ web site to get an idea of the cases that it is involved in and ask yourself that if the Justice Department didn't exist, who or what could replace it? The DOJ deals in everything from acts of terrorism, sex trafficking, Medicare and tax fraud, police and prison brutality, cyber-hacking, corporate fraud and antitrust matters, etc.

That said, the Justice Department is not without criticism. And my criticism specifically concerns silver and JPMorgan, and it extends for at least 15 years, shortly after JPMorgan took over Bear Stearns in 2008, inheriting Bear's massive short position in COMEX silver (and gold). There was a formal investigation by the CFTC's Enforcement Division that began as a result of my request to readers to write to the CFTC about the massive short position held by a large bank (learned to be JPMorgan shortly thereafter), but in due course (5 years later) the investigation concluded with no definitive findings. But thanks to the deathbed revelations of former commission Bart Chilton, we learned that the Justice Department was involved in the many meetings convened then over what to do about JPMorgan's recalcitrance in reducing its COMEX silver short position of some 40,000 contracts (200 million oz). Thus, in essence, both the CFTC and the DOJ, looked the other way and let JPM skate on its clearly manipulative silver short position. Strike one against the DOJ (the CFTC has so many strikes against it for its handling of JPMorgan over the decades, that it's pointless to count).

The next known instance of Justice Department malfeasance in regard to silver and JPMorgan occurred starting in 2018, when I complained to the FBI (part of the DOJ) about JPMorgan and silver. Later that year, it was revealed that the DOJ had "flipped" a former JPM trader and was involved in investigating JPMorgan for precious metals manipulation. Given my complaint earlier in the year, I thought for sure, it was my complaint that spurred the investigation, but whether it was or not, that mattered little, as I quickly learned that the DOJ wasn't pursuing JPMorgan's suppressing of silver prices and its illegal accumulation of a billion oz of physical silver at the artificially low prices it created, but the relatively minor charge of spoofing, on which it was able to extract \$920 million and a deferred criminal prosecution agreement (DPA). It was a wrist slap to JPM, but allowed the DOJ to walk away looking like the tough guy law-enforcer. To me it was strike two against the DOJ.

This brings us to the present. On Nov 13, I wrote to the CFTC and SEC about the possible double-counting of the recorded silver inventories in the COMEX silver warehouse controlled by JPMorgan and in the big silver ETF, SLV, also under the direct control of JPMorgan. The SEC responded within

two weeks, but avoided the question of double-counting completely. But the CFTC took more than three months before also essentially ducking the answer and, in fact, effectively confirming that the two inventories were double-counted. Before receiving the CFTC's delayed response, I complained to the DOJ that it strongly appeared that the two recorded silver inventories controlled by JPMorgan were being double-counted, the result of which was that JPM was sending false price signals to the market, which happened to be the precise violation cited in the 2020 deferred criminal prosecution agreement for spoofing.

Whereas I originally thought the spoofing charges against JPM were a slap on the wrist, I also believed that a reasonable person would agree that the double-counting of silver inventories under the control of JPMorgan would also meet the definition and standard of the sending of false price signals and such false price signals existed for every day of the three-year existence of the DPA, and that formed the basis for my complaint to the Justice Department. A short while later, after I discovered the unmistakable pattern of large one-day deposits into SLV, only to be followed by the complete withdrawal of those large deposits, it dawned on me that only JPMorgan was in position of making such large deposits for two reasons; one, it was the official metal custodian of the trust, and two, it was the only entity capable of making such large deposits, courtesy of its decade-long illegal accumulation of a billion oz of physical silver. So, I added this complaint to the Justice Department.

Not having heard anything from the Justice Department for these two quite specific complaints, it's getting close to the point of calling strike three. But before I do and in the spirit of my genuine high regard for the institution – political disagreements aside – I'd like to explore the possible reasons why the DOJ may be reluctant to crack down on JPMorgan. This is nothing new to regular readers and reflects my own opinion. I certainly agree that it's impossible at this point for the Justice Dept not to be aware of everything I wrote above and accordingly, it is now fully involved in no small way in the ongoing disposal and dumping of physical silver now coming from JPMorgan. I may be allowing my high-regard for the DOJ as the premier law enforcement institution to cloud my judgement, but I still believe the DOJ's action have been well-intended, if not mistaken, to this point. Then again, the road to hell is paved with good intentions.

It all revolves around JPMorgan's importance as the most systemically important financial institution in the US and should the DOJ crack down too hard on JPM, the ramifications of a failure of JPM to exist as a going concern would devastate the economy and many tens of millions of ordinary citizens and businesses – a take-off on killing the goose that lays golden eggs (even if the goose is a crooked son of a gun). So, I still believe it is JPMorgan's importance in the overall scheme of things that prevents a vigorous crackdown for its serious misdeeds in silver. Alternatively, I suppose it's possible that the DOJ might be looking to avoid a direct court showdown and possible humiliating defeat against JPM's vaunted legal team. Regardless, I see valid reasons for the DOJ to avoid directly accusing JPM for what it should by all rights be accused.

But the main problem is that, for whatever well-intended reason, the DOJ finds itself fully-involved in the ongoing silver manipulation and in complete violation of everything it stands for. There can be no possible legitimate defense for the Justice Department to be in a position of furthering a crime in progress, of which the silver manipulation is undeniable. So, not only is the DOJ guilty of delaying and thereby denying justice by not cracking down on JPMorgan, it is actively participating in furthering a crime in progress. At the risk of hyperbole, it appears to me to be the most serious violation of Justice Department protocols in history (and this coming from someone who holds the institution in high

regard).

I admit that the DOJ finds itself in this position somewhat by accident and as a result of failing to deal with the remarkably-unique predicament of the criminal behavior of JPMorgan over the ten years leading up to the deferred criminal prosecution agreement in 2020 – which, ironically, resulted from the DOJ also doing nothing about JPM’s criminal behavior back in 2008-09. Had the DOJ and CFTC dealt with JPMorgan appropriately shortly after it took over Bear Stearns in 2008 and disallowed JPM from dominating the short side of silver and illegally accumulating a mountain of physical silver, the Justice Department wouldn’t find itself in its current predicament. But that’s the quirk of payback.

Up until now, it appears to me that the Justice Department, finding that its involvement in silver not what it intended it to be, is somewhat frozen in place, not sure of what to do next. It can afford this luxury, as it sits at the very top of the law enforcement hierarchy, meaning no one can challenge it. But the luxury of being at the pinnacle of law enforcement in this matter is temporary – not because a greater legal authority exists, but because of the law of supply and demand, which lords over all things in these matters. The Justice Department is designed to apply the rule of law impartially and in a timely manner. In silver it is doing neither.

Because the silver manipulation has been so successful and efficient over the last few years, the artificially suppressed price has finally resulted in what is mandated by the law of supply and demand, namely, a physical shortage. And once such a physical shortage has been created, brought about by insufficient current supply and too much current demand, the only way for supply to increase sufficiently and for demand to be reduced is by higher prices. In other words, the law of supply and demand mandates silver prices must be substantially higher than the prices that have prevailed over the last few years in order for the physical shortage to be eliminated, as it must be. How long until we get those higher prices is the only unknown.

In essence, the law of supply and demand will overwhelm any efforts of the Justice Department to continue to look the other way and ignore the increasingly obvious silver manipulation in which it finds itself inexorably involved. The longer the DOJ ignores its involvement and pretends all is well, only draws it deeper into this mess and increases further the threat to its reputation, already at the lowest level on record. My advice to the DOJ is that when you find yourself in a deep hole, stop digging. No big and dramatic announcements need be made, just work behind the scenes to get silver prices higher, as that is the only solution possible in current circumstances to the deepening physical shortage.

Turning to other developments, last night the new short report on SLV was released and it was a doozy. I had expressed fears that this particular short report might indicate a sharply higher increase in short selling on SLV, and my fears were exceeded. As of March 15, the short position on SLV more than doubled to just over 30 million shares (27 million oz). Thus, in a two-week period, the short position on SLV went from close the lowest it has been over the past year, to the highest it has been. Just to put things in greater perspective, even with the doubling on the short position, it is still less than half of the 60 million shares held short in August 2022, at the peak of my campaign to the S.E.C. about the excessive short position.

Normally, I would rant and rave about how the short position on SLV, now about 6.5% of total shares outstanding, deprives that same percentage of shareholders the full backing by physical metal required

by the prospectus and sets up another round of criticism from those who sell alternative forms of metal storage programs. But today, I'm going to skip that discussion, as I believe there is a more important takeaway. The large increase in the short position on SLV, some 16 million shares (14.4 million oz), looks to be profoundly bullish to me. To be sure, any sale, whether it be a sale and liquidation of something already owned or a short sale, does have a price-depressant effect when the sale takes place — just like a purchase has an immediate price-enhancing impact when it occurs. But after the sale or purchase is made, the price effect ceases to exist.

However, in the case of a short sale, because all short sales are "open" transactions, meaning they have to be closed out someday, the price impact of short sales, then switches to a bullish state, because a purchase of some type must be made in time. Therefore, the big increase in the SLV short position has become bullish on that basis. But wait, there's more than that in this particular case. Let's face it, since silver is so insanely cheap by every objective measure available, it is preposterous that anyone would seek to establish a long-term short position at this time and price. So, the question turns to why the large increase in the short position on SLV?

There are only two possible explanations. One, as an attempt to intentionally depress the price. In this case, the 14.5 million oz increase would serve as a supplement to the 150 million oz increase in commercial selling on the COMEX, over roughly the same time period. Two, because 14.5 million oz of physical silver was required to be deposited into SLV, according to the prospectus, and that metal simply wasn't available and short selling shares of SLV evades the burden to deposit metal, that's the more compelling reason according to the never-ending signs of physical shortage. And this reason is undeniably bullish, exceptionally so. Therefore, the large increase in the short position on SLV is not to be feared, but embraced.

As far as what might be indicated in Friday's new Commitments of Traders (COT) report (it's always a quirk that the COT report is published on Good Friday, while markets are closed), the short answer is that I don't know. Silver prices fell as much as 50 cents over the reporting week, so that suggest some improvement in the market structure (managed money selling and commercial buying). However, there was that big up, then down following the Fed's announcement last Wed-Thur. My attention will be on the details of the big 4 and 8 and the raptors.

In gold, prices exploded by as much as \$60 during the reporting week, but only finished \$16 higher on yesterday's cutoff. Such upward price action would suggest managed money buying and commercial selling, but I'm not sure of how much. Complicating gold prices is the switch to the June COMEX contract as the lead month from April, which effectively adds \$22 to the price of gold.

As far as where we go, price-wise, from here, it still looks like my â??drop first, then pop or pop with no dropâ?? premise is in play. The drop first premise is based upon the collusive commercials pulling off a selloff below the key moving averages in order to reverse the massive managed money buying over the past month or so (since Feb 13) of some 46,000 net contracts, the equivalent of 230 million oz, or more than 27% of world mine production. The pop with no drop premise revolves around the raptors and the other large reporting traders and smaller non-reporting traders doing almost all of the selling and with the big 4 only adding 1400 short contracts over that time. Should silver prices get above \$26 or \$27 and the big 4 continue to not add aggressively to short positions, silver could fly. It still looks like either we drop first or not. Should we drop below the moving averages, it will be another load the boat opportunity.

Ted Butler

March 27, 2024

Silver – \$24.70 (200-day ma – \$23.52, 50-day ma – \$23.47, 100-day ma – \$23.67)

Gold – \$2190 (200-day ma – \$1998, 50-day ma – \$2081, 100-day ma – \$2061)

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