

March 4, 2020 – Runnin’ Down a Dream

There are all kinds of dreams, some good, some bad (nightmares). The type we have when sleeping are most difficult to understand, much less control. The type we have when fully awake are at least analyzable and measureable. Sometimes, our real life dreams are fulfilled, oftentimes not. Alternatively, a great deal of time may pass before a dream is realized.

It’s no secret that I have had a dream of seeing the price of silver ceasing to be manipulated and, perhaps, playing some small role in bringing about the price manipulation’s end. My dream started 35 years ago, around 1985, when a now departed friend, Israel Friedman, challenged me to explain how silver could remain severely depressed in price when it was in a documented physical shortfall. My discovery, after a year of searching for the explanation, was that the price was artificially depressed by concentrated short selling on the COMEX futures exchange. Remarkably, this remains the reason silver is artificially depressed in price today.

I’ll not recount all that has transpired over the past three and a half decades, including repeated CFTC examinations of the issue (including involvement by the Justice Department) and just as many repeated denials that a silver manipulation existed. Nor will I rest upon the fact that despite those official denials, more, not less are convinced that silver and gold (and other markets) are manipulated in price through outsized derivatives trading. Instead, I’ll focus on why I see a greater chance than ever that the silver and gold manipulation are about to end. The greater chance revolves around JPMorgan.

I’ve had an extremely myopic focus on JPMorgan ever since late 2008 when it was shown that the bank inherited the concentrated short positions in COMEX silver and gold of Bear Stearns. For the next couple of years, up until late 2010, JPMorgan milked the short side of gold and silver by selling short unlimited quantities of futures contracts as prices rose and then buying back those short contracts when prices fell. But a temporary physical shortage of silver began to emerge in late 2010 to early 2011 and JPMorgan got caught in the price run up to near \$50. JPM hung tough and rode out the price run up and successfully engineered a terrific price smash that would persist for nearly 8 years and on which the bank repeated its sell short on price rallies and buy back on price declines scheme – never once taking a loss and amassing a few billions of dollars in trading profits.

At the same time, since 2011, JPMorgan was smart enough to see its paper short selling successes wouldn’t last forever and put in place a solution so simple and criminal in nature that to this day I am astounded by its genius. JPMorgan decided in 2011 to buy as much physical silver and gold that it could for as long as it could, since it knew prices were depressed by its short selling scheme. Over the next 9 years to the present, JPM accumulated at least 900 million oz of physical silver at an average cost of \$18 and 25 million oz of gold at an average price of \$1200.

There have been many times over the past few years that I believed JPMorgan had enough physical silver and gold in its greedy paws and had reduced its paper COMEX short positions to a level that would prompt it to cease adding new short positions on the next rally and let prices scream higher so that it would benefit on its massive physical holdings. Alas, what would have been enough net long exposure for almost anyone, wasn’t, in retrospect, enough for JPMorgan and the bank continued to add new short positions on rallies which it eventually bought back at a profit, all the while adding to its

physical holdings.

I can hear you saying (completely justified I might add), "OK, Butler, why would these crooks decide now is the time to let prices explode and not simply do it again and add new shorts on the next rally?" First, let me fully stipulate that this might turn out to be the same old, same old in which the crooks at JPMorgan do exactly that – sell short on higher prices and kill the next rally. Then again, I do believe I have some valid reasons for suggesting the moment of true price liftoff is at hand. After all, it is my dream I'm running down and I would ask that you hear me out.

I believe JPMorgan has put in the finishing touches on its monumental double cross of the other big commercial shorts on the sharp price takedown around and including Friday. As I indicated on Saturday, I believe the extreme price smash was singlehandedly orchestrated by JPMorgan in order to allow it to buy back as many of its silver and gold short positions as possible, while the other big shorts may have been reluctant to buy back shorts as aggressively due to that involving the booking of realized losses.

Even though the 7 big shorts did enjoy a substantial respite last week in that the week's sharp silver and gold price declines reduced their total open and unrealized losses by a massive \$2.5 billion to \$4.7 billion as of Friday's close, the price rally through yesterday's close added back \$1.8 billion to \$6.5 billion. (I'll update the figure when I send this article later). Certainly, at this point, the 7 big shorts are still deeply in the red and more underwater than they have ever been, except at the even higher prices of the last week or two.

The still extremely large total open losses of the 7 big shorts certainly make them more vulnerable to a potential overrun and panic short covering on higher prices for the very first time. I was asked if the big shorts have any idea of my contention that they have been double crossed by JPMorgan and my answer is I don't know because my double cross premise is not widely held. I know the big shorts must know of their open losses, since they have had to meet margin calls all along, but I don't know if they fully-appreciate the potential jam they are in. If I am close to accurate in my assessment of the big shorts' predicament, it doesn't matter much whether they appreciate the state of jeopardy they may be in or not – they'll know soon enough.

I am beyond certain that JPMorgan knows full-well the incredibly advantageous position it is in, as it would be impossible for it not to be. Friday's new COT and Bank Participation reports promise to reveal just how many silver and gold shorts the bank may have covered on this reporting week's price smash. I think there's an outside chance that JPMorgan may have bought back, essentially, all its silver and gold shorts or thereabouts. If so, considering its massive physical holdings, that would mean JPMorgan has never been better positioned for a price blastoff. It's that combination, the extreme vulnerability of the 7 big shorts and the equally extreme advantageous position of JPMorgan that creates the best set up to date.

Throw in the extreme financial and economic set ups suddenly surrounding us, due to a potential pandemic, stock market volatility and insanely low interest rates, and it's hard to imagine a better macroeconomic backdrop for a rush to precious metals. Trying to time one's dream down to a single day may be – well, a pipedream – but it's hard to imagine a much better all-around set up than what is right in front of us.

As far as Friday's COT report, it's expected there will be substantial positioning changes

featuring massive managed money selling and commercial buying. As already indicated, I'm most interested in how much JPMorgan may have bought versus the other commercials, although the overall net positioning changes will, undoubtedly, be dramatic.

Gold prices only closed down by \$6 over the reporting week ended yesterday, but had been down by as much as \$85 at the price lows on Friday. Silver closed the reporting week a full dollar lower and had been down as much as \$1.80 at Friday's lows. Trading volumes were enormous in both gold and silver and total open interest was sharply reduced by 41,000 contracts in gold and 42,000 contracts in silver (although spread liquidation was featured in silver).

In other matters, there has been much commentary on the increases in the initial COMEX margin requirements for gold and silver futures, but the increases look subdued to me relative to price volatility. I believe the significance of increases in initial margin requirements is overstated for the simple reason that to the largest and most influential traders (the managed money and commercial traders) changes in margin matter little.

In years past, when smaller traders were more influential than they are today, perhaps changes in margin requirements had more of an impact, but the big traders of today are generally not affected by initial margin changes. Of course, changes in initial margin requirements are separate from the total margin required by the big commercial shorts which are deeply underwater. And yes, I suppose a case could be made that COMEX initial margin requirements may be subdued because they are protecting the big shorts from further damage, but that's a far cry from the proposition that the margin changes to date have been meaningful.

There was a very large withdrawal of metal from the big silver ETF, SLV, on Monday as some 5.6 million oz were withdrawn. This looks directly related to the absolutely enormous trading volume of 68 million shares traded on Friday and makes perfect sense. The way it works, as always, is that prices are set on the COMEX and that price is reacted to everywhere else. The sharp price decline on Friday undoubtedly prompted short term price-sensitive stock traders to sell shares in SLV, shares no doubt purchased recently as prices were moving higher.

I suppose this could be held out as contradicting my previous statement that real holders of gold and silver didn't sell as prices were crashing lower. However, I always maintained that most traders in shares of metal ETFs are primarily interested in price movement and couldn't care a whit whether the ETFs held real metal or not. As more net investment is made in these ETFs as prices climb, the more physical metal must be deposited, regardless of whether the new investors care about metal deposits or not. The same thing works on the downside - when investors sell ETFs because prices are falling, metal is withdrawn from the ETFs.

The big difference is that there is a heck of a lot more potential room for new investors coming in to buy the shares as silver prices move higher than there is for net investment liquidation on lower prices. Friday was an aberration, so to speak. Certainly the silver departing the SLV wasn't cast out on the streets of London, un-owned and unloved. Somebody now owns it and if I have to tell you who that new owner most likely is, then you haven't been paying close enough attention.

As I get set to send this missive out, gold is trading a bit lower than yesterday's close, but is still up sharply from Friday's close. I would calculate the total open and combined losses to the 7 big shorts to be \$6.3 billion, up \$1.6 billion from Friday's \$4.7 billion total open loss. You can count on one

finger the number of weeks the 7 big shorts have finished the week more than \$6 billion in the hole in open losses and with a very substantial price decline now in the rear view mirror, it's hard for me not to feel a sense of dread may be creeping into the big 7. Certainly, a sense of dread would seem to be warranted.

The thought occurred to me that the big price smash last week culminated at month's end and with that may have involved some mark to market reporting considerations, like the big selloff at the end of the September which marked the close of the third quarter. But February is generally not a quarter end and I still feel JPMorgan arranged the selloff on Friday and as a result is perfectly positioned for an explosive up move. The dream keeps runnin'.

Ted Butler

March 4, 2020

Silver – \$17.20 (200 day ma – \$16.98, 20 day ma – \$17.84)

Gold – \$1638 (200 day ma – \$1482, 50 day ma – \$1569)

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