

May 2, 2018 – The Baby Huey Syndrome

I know I'm dating myself, but when I was a kid one of the cartoons on TV (yes, black and white) was Baby Huey, a giant baby duck who had no concept of how big he really was. The story line revolved around the humorous predicaments he found himself in as a result of him not being aware of his great size; Baby Huey thought of himself as just like any other baby duck.

https://en.wikipedia.org/wiki/Baby_Huey

Aside from reaffirming the perils of letting children watch too much TV (look what it did to me), what does a cartoon baby duck from the olden days have to do with silver or other markets? More than you might imagine at first, as it serves as a graphic example of anything getting so large so as to have unintended consequences. In the case of silver and a host of other markets, the Baby Huey Syndrome exists in the form of the managed money traders; the category of traders that has come to dominate the price setting process in futures markets. This category of traders has grown so large that it has distorted markets to a profound degree.

Not for a minute am I suggesting that the role of JPMorgan, who I call the silver crook of crooks, is in any way different than what I have alleged for nearly ten years, or that the sole price driver is not changes in COMEX futures market positioning. Those findings are as true as ever; but would not be possible if it weren't for the role of the managed money traders, which have grown so large so as to make Baby Huey look like a pipsqueak in comparison. We can debate endlessly how and why the managed money traders have grown so large and whether they realize the distortions they are causing in the price of silver; but we cannot debate that it is occurring – the data are as clear as day.

The data, of course, are the statistics published by the CFTC weekly, in the form of the Commitments of Traders (COT) Report. This report shows just how large the role of the managed money traders have grown in many markets, but none to the extent of COMEX silver. I just reported on Saturday how these traders had collectively bought the equivalent of 300 million ounces of silver over 7 trading days, on what was a 60 cent rally. Stated differently, the managed money traders bought 35% of the world's annual silver mine production in little more than a week; an amount so large that it could not possibly occur in any other commodity. Of course, the reason the price of silver only rose by 60 cents (4%) in the face of such extraordinarily large and documented buying is because all the other traders, including JPMorgan and other commercials and non-commercials alike, sold so aggressively into the fully-anticipated buying by the managed money Baby Huey's.

The problem in silver (and other markets) is that the managed money traders have been allowed to become so large in their collective position-taking that their positions necessarily distort prices. This goes directly to JPMorgan's and the other traders' advantage because they thrive off the managed money traders' lopsided influence on markets, so don't expect any of them to lift a finger to end the distortion. In addition to raking off hundreds of millions of dollars in trading profits by taking the opposite side of whatever the managed money traders buy or sell, JPMorgan even handles the trades for the managed money traders as the prime broker for many of them, collecting millions more in commissions. The same goes for the CME Group which collects untold millions of dollars in

exchange fees from the managed money traders. It's in their self-interest for the managed money traders to continue to speculate excessively. Talk about a racket along the lines of organized crime.

So if the problem is the Baby Huey-like massive collective size of the positions of the managed money traders and those that feed off them, then who, if anyone, is to blame and what is the solution? The blame for allowing this extreme distortion and perversion of the markets sits squarely on the CFTC and the CME Group for not enacting and enforcing the only solution possible – legitimate speculative position limits. Long term readers know I have maintained this for decades. Despite there being no one else to blame and no other possible solution, don't expect the regulators to step up to the plate anytime soon.

The reason the regulators don't respond to simple and highly legitimate questions and allegations is because they can't answer. Those who took the time to write to Enforcement Director McDonald and other officials at the CFTC should not expect the courtesy of a direct response. Perhaps another beat-around-the-bush non-response or intentionally misleading interview, but not a serious or direct response. That's because a direct and genuine response is not possible, since all the allegations are based upon the agency's own data. Certainly, no one from the CFTC can claim its own data is not to be relied upon. But that's all the more reason to press the issue and, at some point, enough will become aware of the real issues to make a difference.

On to developments since the Saturday review. Yesterday, I was quite disappointed, in addition to silver making new price lows for the year, to learn that Goldman Sachs had been the big issuer of silver deliveries on the second day of the COMEX May delivery period, issuing 1751 contracts (plus another 229 today). This dashed my hopeful premise that Goldman may have emerged as a big physical silver accumulator, joining JPMorgan in acquiring the most undervalued commodity in history.

I had maintained from the outset that I would be guided by the data and adjust my analysis as the data changed and I'm not going to backtrack or weasel out on that now. The premise that Goldman Sachs had awoken to the realities in silver and began to accumulate important physical quantities is now by the boards and I'd be lying if I said I wasn't disappointed. However, as they say, that was yesterday and today is a new day and my feelings of disappointment are, well, so yesterday.

What makes today a new day is the second thing I was looking for in the May deliveries, namely, what the big silver crook, JPMorgan might be up to. As I reported on Saturday, JPMorgan was a no-show in its proprietary or house trading account on the first delivery day (along with Goldman Sachs), but turned minor stopper of 108 contracts on the second delivery day. Not much of a sign, but at least JPM hadn't turned issuer, as had Goldman. Today, however, JPMorgan stopped another 243 contracts in its own name and that made me sit up and take notice for a number of reasons.

For one, there was an unusually large number of new contracts opened in the May contract yesterday, 643 to be exact. Generally, only a few contracts are added once a delivery month enters the delivery process, with it more common for there to be liquidation as the delivery month progresses. Based upon how the CME apportions and assigns deliveries, the most probable (and perhaps only) explanation for the identity of the big buyer of the added May contracts would have to be JPMorgan in its own house account. What has me encouraged today, where I was disappointed yesterday, is the relative aggression of JPMorgan to continue to accumulate physical silver. Again, I will remain a slave to the data as they develop and will report and analyze accordingly.

As much as I try to avoid reading too much into daily price action for analytical purposes, for the simple reason you end up mostly chasing your own tail; I must say today's relative strength in silver compared to gold may be noteworthy, considering the silver delivery circumstances described above. Most of all, the circumstances pointing to a severe undervaluation in silver due to the artificial price discovery process in COMEX futures positioning has me very sensitive to the likelihood of a price explosion with virtually no clear advanced notice. So any time the silver price behaves unusually perky, my sensory antennae are raised.

That's particularly true when there have been important changes to market structure, as I feel have been the case in the reporting week ended yesterday for both gold and silver. In COMEX gold futures, there were five clear salami slices to the downside or successive new price lows made on every day of the reporting week, culminating with yesterday's intraday downside penetration of the important 200 day moving average for the first time since December. Silver had four distinct salami slices to the downside, as new price lows not seen since December were established yesterday in both gold and silver.

Of course, this is the type of price action which essentially guarantees significant improvements in market structure, or notable managed money selling and commercial buying. The only questions are how much managed money selling occurred and how much more is likely to occur. In terms of how much managed money selling occurred through yesterday, I would guess around 40,000 net contracts in gold and around 20,000 net contracts in silver. Whether that results in an equal amount of commercial buying depends upon how many contracts the other non-commercial traders buy. As you know, these other traders have been taking a bigger piece out of the managed money traders' hides, making the net change of the managed money technical funds the go to headline number.

Should my expectations be close to the mark (never a guarantee), it will establish the most bullish market structure in gold since December and possibly back as far as August. It's going to be hard for the silver market structure to get as bullish as it was a month ago, but please remember that the market structure on April 3 was the most bullish in the history of the silver market.

Also please remember that perhaps the biggest obstacle preventing a true liftoff in silver prices despite the background of an extremely bullish market structure for much of this year may have been the lack of a corresponding bullish market structure in gold. As you may recall, gold's market structure has been no better than neutral to bearish until very recently. With silver's market structure very likely back to extremely bullish and gold now joining in with a bullish market structure, the odds for a joint rally have been measurably improved.

Does this mean the chance of further structural improvement on still-lower prices has been eliminated? You should know that the answer is that it is always possible for the Baby Huey managed money traders to be tricked into selling even more contracts to the downside and that we can only identify the bottom in price and end of managed money selling after the fact. However, I would imagine additional managed money selling is more likely in gold, given that we are not yet at extremely bullish market structure readings there, as we appear to be in silver and the short period of time gold has spent below its 200 day moving average.

Whereas gold has spent one day below its 200 day moving average in the past six months, silver has spent more time below its 200 day moving average than above over this same period of time. The 200

day moving average doesn't mean squat to me, but it sure seems to get the 800 pound Baby Huey's into thrashing about. The important point is that they have apparently mostly already have sold in silver, certainly compared to gold.

On Saturday, I closed with a phrase I originated many years ago, namely, how I believed the sum total of what I saw in silver had warranted the bringing back of the term, "dimes to the downside, dollars to the upside." At yesterday's lows, two trading days later, we were five dimes to the downside; not exactly what I had in mind, to say the least and reminding me of the perils of short term price prognosis. Please consider me to now be thoroughly chastened; but I am also highly encouraged by what I perceive to be the significant improvement in market structure on those two stressful days.

Ted Butler

May 2, 2018

Silver – \$16.53 (200 day ma – \$16.80, 50 day ma – \$16.53)

Gold – \$1313 (200 day ma – \$1304, 50 day ma – \$1331)

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