May 27, 2020 – Expectations versus Reality

In markets and, I would daresay, in life in general, there is a continuous tradeoff and adjustment between our expectations and reality. Expectations are evolving predictions of what will be, while reality is what exists based on the documented facts. This is very much a continuous process and the measure of whether our expectations are well-founded and in line with reality must remain as objective as possible â?? to do otherwise leads to distorted visions of the future. Of course, facts change and our expectations of the future must change accordingly.

There are two types of expectations â?? collective and personal, which can be in general agreement or disagreement â?? or some measure of each. Sometimes itâ??s good to hold the collective expectation, other times itâ??s better to hold a contrary opinion. Please accept this general philosophical preface in order to segue into a very specific issue I have focused on recently â?? the potential outcome of the US Justice Departmentâ??s ongoing investigation into precious metals manipulation and whether that investigation will lead to the only issue that matters â?? the concentrated short position in COMEX silver (and gold).

Let me be quick to assert that I simply donâ??t know if the Justice Department and CFTC will, at last, focus on the overarching issue of the concentrated short position or not. I can attest to trying to convince the regulators for decades that this is the issue that matters most. While the CFTC responded regularly for a time, it has failed to respond at all since its public letter of May 2008, when it said there was nothing wrong with the concentrated short position in COMEX silver (even though the largest concentrated short, Bear Stearns, went under two months earlier â??most likely due to its short positions in COMEX silver and gold). Twelve years is a long time to hide from an issue this important.

On Saturday, I wrote of what I termed was a leak to the press by the Justice Department, highlighting its ongoing investigation into precious metals manipulation, largely centered on JPMorgan. On Sunday, I happened to do an interview in which I was asked to comment on what I thought was new and of most interest in silver, so I naturally spoke about the Reuters article I wrote about the day before. Please listen to the interview if you choose, but what I would direct your attention to are the comments posted in response.

https://www.youtube.com/watch?v=aeHkk4bdywY&feature=youtu.be

By what I would conservatively estimate had to be a 10 to 1 margin, the responders completely rejected any notion that the US Justice Department or CFTC would do anything of substance in regards to the precious metal manipulation or, specifically, to JPMorgan. To be honest, I understand the skepticism and Iâ??m sure many (most?) subscribers feel the same way. While Iâ??m careful not to assert that Iâ??m convinced the DOJ or CFTC will do the right thing, the issue of the concentrated short position is so specific to the matter of price manipulation that the regulators will have to go to extreme measures to pretend not to notice it whenever the investigation is concluded.

If I were sensitive to the personal insults directed to me, I wouldnâ??t have asked you to read them,but I also understand that the whole concept of a silver price manipulation wouldnâ??t exist if Ihadnâ??t badgered the regulators for decades. I can accept the irony of being accused of over-optimism on a matter that few would be aware of without my work over the decades.

Much more concern should be felt by the Justice Department and CFTC in how a segment of the public views them. The commenters may feel I may be out to lunch to expect anything good from the regulators, but the disdain and utter disrespect displayed towards the DOJ and CFTC should be alarming to the regulators. I feel the disdain is well-deserved, but alarming nonetheless.

A subscriber pointed out something in the Reuters article I had glossed over that stuck with me. It was the point that the DOJ and CFTC had access to detailed trading records that enabled them to go back decades and reconstruct instances of illegal trading activities. Kevin opined that this new-found access might serve as a convenient excuse for the CFTC to now claim to see wrongdoing that it was unable to see before. The whole concept got me to thinking (I know, always a dangerous thing).

It occurred to me that the raw data which prove conclusively that the concentrated short position is the principle, if not sole mechanism by which silver (and gold) has been manipulated and suppressed in price already exists on the CFTCâ??s web site in the form of previous viewable COT reports. All the Justice Department and CFTC have to do is review already published data available to the public â?? no sophisticated data crunching required.

By focusing on the running concentrated short position in silver (and gold) over the decades, the regulators will discover that it always increases on price rises and then falls when prices decline. By measuring the average price at which the concentrated short position was established and the average price at which it was bought back, the regulators will discover the big commercial shorts never collectively took a loss, always making a profit or breaking even. Never did the big commercial shorts ever collectively buy back short positions on higher prices. These are all the hallmarks of a manipulated market and the regulators should be able to see this â?? no sophisticated tools needed.

The question has never been if the regulators were able to see and prove the silver manipulation, but whether they would choose to end it. A large segment of the public most interested in this question has already decided that the Justice Department and CFTC will continue to ignore the illegal price rigging despite the overabundance of evidence to the contrary. I admit to having vacillated on the issue of whether the Feds would ever do the right thing, but I also believe my changing expectations have been influenced by changing facts, although let me be quick to add that all the facts havenâ??t changed.

The facts that have changed include an open admission by the Justice Department and CFTC that they are involved in an active, ongoing investigation on precious metals manipulation on the COMEX, with a principle focus on JPMorgan. Other facts that have changed include pending charges against other big commercial shorts, like Scotiabank, indicating a lack of willing new entrants into the ranks of the 8 big shorts, as evidenced in this new Bloomberg piece

https://www.bnnbloomberg.ca/scotiabank-takes-168-million-hit-as-it-shuts-historic-gold-unit-1.1441129

Unfortunately, the facts that havenâ??t changed include a continuation of the illegal price influence by the 8 big shorts, as evidenced in this weekâ??s smack down in price in which the prime beneficiaries

were none other than the big shorts in gold and silver. Another fact that hasnâ??t changed is the DOJâ??s and CFTCâ??s public insistence that they are most concerned with spoofing, with no mention yet of the concentrated short position. I suppose itâ??s possible for the regulators to attack the concentrated short position from behind the scenes (given its explosive nature), but if the Feds insist on completely ignoring this overriding issue, there isnâ??t much chance they are genuinely interested in ending the manipulation.

If, in the end, the Justice Department and CFTC conclude their investigation without dealing with the concentrated short position either openly or behind the scenes, then those who are convinced that JPMorgan has the regulators in its back pocket will be proven to have been correct. It will also be a very sad day as it will prove the rule of law in the US has been cast aside. Maybe I am as naÃ¯ve and clueless as most of the commentators claim, but Iâ??m reserving judgement until the investigation is concluded and whether the concentrated short position continues to exist.

Turning to price action this week, there was another spread blowout in COMEX gold futures yesterday, although not quite as intense as the April/June gold spread blowout described in the March 28 Weekly Review, when the spread blew out to more than $30. This time, the June/August gold spread widened out to just over $22.5, still an impossibly large and artificial discount of June to August. Today, the spread tightened back in to $16 or so, still very wide, but suggestive that it was mission accomplished for the crooked shorts. The circumstances Â for the spread blowout yesterday look to be near-identical to what occurred in late March, namely, the extremely crooked big shorts (likely with the help of JPMorgan) forced the large longs needing to roll over from the June contract before Fridayâ??s first notice day of delivery to roll at usurious spread differentials or to outright liquidate longs and not pay way up to roll over.

It does make you wonder how things like this can happen again and again in a market under investigation by the Justice Department and CFTC. It also points to the extreme corruption of the CME Group for allowing this sort of thing to recur. While not as egregious as the last minute before end of trading ambush in crude oil, when prices went extremely negative, I would submit that such events could only recur on inherently corrupt exchanges, which just happen to be owned and operated by the CME Group.

Based upon a conversation with a subscriber, I sense that the matter of silver leased by JPMorgan flowing into the various silver ETFs, including SLV, is still puzzling to many. The confusion is understandable, mainly because the whole idea of precious metals leasing is so darn nutty at its core. Thatâ??s because we all understand leasing to involve productive assets like cars, apartments, equipment and other things that can be put to productive use and then returned at the end of the lease, albeit with depreciation where applicable.

Precious metals are not productive assets in that they canâ??t be used and returned. All you can do with gold or silver is use them up in jewelry or an industrial application, which in essence destroys any chance of return at the end of a lease or sell the metals to someone else at the outset of a lease which makes the term â??leaseâ?• misleading at best. Thus, it is the term â??leaseâ?• that confuses folks from the outset. When used in conjunction with precious metals, lease means something very different than most assume.

What leasing means in precious metals is that someone which owns silver, for instance, and who wishes to retain any future price appreciation will agree to give up physical possession of the metal in

return for a promise of replacement someday (not of the exact same bars, but their equivalent). The party promising to replace the metal someday then turns around and sells the metal to an unrelated third party and receives full payment for the metal from that independent and unrelated third party. That independent third party receives full and unencumbered ownership to the metal, with no obligation to return the metal to the original lender. It sounds nutty, because it is nutty.

The actual lender of silver in this case is JPMorgan and the borrower is someone like Citibank or other financial institution who JPMorgan trusts enough to return equivalent metal someday or be financially capable of making good in the event the metal canâ??t be returned. The independent and unrelated third party is SLV or some other silver ETF. In essence, the leasing of silver or other precious metals is just another layer of short selling on top of what already is an existing short position concentrated enough to choke a horse.

The reason silver prices havenâ??t exploded recently despite many tens of millions of physical ounces being bought by the worldâ??s silver ETFs is because leasing circumvents the law of supply and demand. In this case, silver is being â??dumpedâ?• on the market by JPMorgan, but because JPM is deferring receipt of payment until some future day and Citi or some other institution which sells the leased metal to an unrelated third party (the ETF) in an undisguised short sale, the purchase and sale of tens of millions of ounces of physical silver has no effect on the price.

That the Justice Department and CFTC canâ??t see this is a reflection on their incompetence or malfeasance, but like a jenny mule (which you must smack upside the head with a 2 by 4 just to get its attention), I donâ??t think the DOJ or CFTC is ready to comprehend precious metals leasing as the illegal trade practice it is. After all, Iâ??ve been trying to convince them of the concentrated short position for decades â?? it would surely take centuries to explain precious metals leasing to them. Having used up decades explaining concentrated short selling, I donâ??t have the time to explain leasing in the paint-by-the-numbers method required.

As far as this Fridayâ??s new COT report, gold and silver ended the four day trading week yesterday lower by $40 and 25 cents respectively, so itâ??s easy to envision some managed money/speculative selling and commercial buying (todayâ??s sharp early price declines wouldnâ??t be included in Fridayâ??s report). But considering how little managed money buying and commercial selling occurred in the previous week relative to what I was expecting, I couldnâ??t begin the make a good faith contract prediction, so I wonâ??t try. However, Iâ??m not expecting truly monumental net positioning changes.

As far as the 8 big shortsâ?? financial standing, at todayâ??s price lows, when gold was close to $25 lower and silver 50 cents lower than where they ended at publication time, the big shorts were much better off than where they finished the day. Still, the price weakness in gold and strength in silver since Friday sliced about $550 million off of the $7.6 billion the 8 big shorts were out at weekâ??s end, reducing the total open combined loss to a bit over $7 billion.

Ted Butler

May 27, 2020

Silver – $17.79Â Â Â Â (200 day ma – $16.98, 50 day ma – $15.19)

Gold – $1711Â Â Â Â Â Â (200 ma – $1567, 50 day ma – $1680)

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