

## May 29, 2019 – The CFTC's Summer Camp Letter

About 30 years ago, my wife arranged for our then ten-year old son to attend a sleep-away YMCA summer camp in Tallulah Falls, in the Georgia Mountains. While Ross wound up going back to the same camp for several years, eventually serving as a counselor, I knew the first year would involve more than a little concern for his mother (and me) for how he was doing. Since the only communication would be by postal mail (no cellphones or texting back then) and I knew my son was not likely to write without some prodding, I sent him off with a number of pre-printed letters, in which all he had to do was fill in the blanks.

I can't say my mail assistance appeared constructive upon receiving Ross's first letter, as he indicated that he made no new friends, the weather was rotten, as was the food and his camp counselor wasn't nice – all in addition to him having no fun. Fortunately, subsequent letters were progressively better and, as I indicated, the camp turned out to be a great experience for years to come. I also recollect how he told us later about a kid who cried every night going to sleep because he missed his parents. Asked on the last night why he was crying since he was going home the next day, the kid responded because he was going to miss the camp.

Given the CFTC's abject failure to respond to simple questions about how commodity prices are being set through speculative futures positioning, I thought it might be instructive to attempt to make it as simple as possible for it to answer – in a fill in the blank and multiple choice format. The attempt is not to put words in the agency's mouth, but just help it address the important issues at stake. Feel free to send along any you might wish to add.

1. The main purpose of futures trading is to allow (real producers and users to hedge price risk or large paper speculators to make bets). An alternative default answer to all questions is we don't know or haven't looked or JPMorgan told us not to look.

If the answer to #1 is to allow real producers and users and to hedge price risk, then why are there no real producers and users present in COMEX silver futures and managed money speculators are the largest single category?

If the answer to #1 is we don't know or haven't thought about that, then go back to sleep and forget the rest of the quiz. If the answer to #2 is because JPMorgan told us not to look, then proceed.

2. Data published by your agency indicates that JPMorgan has been the biggest short seller in COMEX silver futures since acquiring Bear Stearns in 2008 and, further, that it has never taken a loss, only profits in COMEX silver futures. Is this true?

If the answer to #2 is we don't know/haven't looked, then take an Ambien and try to get back to sleep. If the answer is because JPMorgan told us not to look, then proceed.

3. Since 2011, JPMorgan has amassed, all while remaining the biggest short seller in COMEX silver futures, the largest hoard of physical silver in history, some 850 million oz. Does the CFTC find it all odd or even potentially illegal for the same entity to be both the largest paper short seller and physical acquirer of the same commodity?

If the answer to #3 is we don't know/haven't looked, then take two more Ambien and count backward from 10,000 until unconsciousness sets in. If the answer is because JPMorgan told us it wasn't necessary to ask or look, then schedule another junket to Boca Raton and update your employment application to JPM.

4. Final question - what does the agency do all day? (Try to look relevant, give speeches, make sure we're not deviating from what JPMorgan wishes, try to get some sleep).

I hope no one takes me to mean that any of this is humorous, because nothing could be more serious than if prices of important commodities are being set artificially. And it's not just silver, but many other important commodities, like crude oil, corn, soybeans and cotton, to name just a few. All these commodities and more share a manipulative common denominator, namely, the participation and market share of the managed money technical funds have grown so large that only those not looking (or willfully blind) can fail to see it. A few examples.

About a month ago, the most important US crop, corn, was trading close to multi-year lows (\$3.50 per bushel). At that time, the managed money technical funds held their largest net and gross short position in history (the CFTC began publishing managed money positions in late 2009). The gross short position of the 105 traders on the short side of Chicago Board of Trade (owned by the CME Group) on April 23 was 530,000 contracts or 2.65 billion bushels of corn, an average of more than 5000 contracts per trader (25 million bushels).

As of last Tuesday, May 21, corn had rallied to nearly \$4 per bushel (more since then) as the managed money traders bought back 190,000 contracts of gross shorts (and even more on a net basis). Yes, I'm aware of corn prices declining as a supposed consequence of the trade war and rising because of very late historical planting progress (due to the flooding in farm country). But can anyone seriously doubt the price influence of record managed money shorting at the price lows and the 250,000 net contracts of buying by managed money traders on the rally? I mean, anyone apart from the CFTC and CME Group? And yes, corn prices penetrated the key moving averages on the way down and way up.

In soybeans (another CBT/CME market), prices fell to 10 year lows, penetrating \$8 per bushel earlier this month. As of May 7, the managed money traders held a record net and gross short position in soybeans, with a gross short position of more than 223,000 contracts (1.1 billion bushels) held by 100 traders. Prices have rallied sharply since then but, unlike corn, it's too soon to see how much managed money short covering has and will take place. Yes, I know that soybeans have been at the center of the trade war dispute with China, but can anyone fail to see the connection between record price lows and record high managed money short positions? (Excepting the CFTC and CME).

Finally, cotton is also a very important US crop and has also traded close to multi-year price lows, falling close to 15 cents per pound to 65 cents in early May in a matter of weeks. The managed money technical funds were, of course, the big sellers and short sellers on that price smash and as of last Tuesday, May 13, held their largest net and gross short position in history. Can anyone fail to see the connection between record large managed money short positions and record to near-record low prices? It's not just silver investors and miners taking it on the chin, thanks to the still sleeping, good for nothing regulators at the CFTC, the American farmer is getting hammered as well.

And just so no one thinks I'm just barking at the moon about something that can't possibly be fixed, let me assure you that the solution to the managed money traders building up such massive short and long positions that it distorts prices is quite simple. The solution is legitimate speculative position limits. Let's face it, everyone (including the CFTC) agrees that the managed money traders are speculators, pure and simple. Therefore, the solution is legitimate speculative positions on the managed money technical funds.

Since the technical funds operate as one, buying and selling when prices penetrate moving averages, those traders abiding by this particular strategy, must be consolidated and assigned position limits that reflect the aggregate position of the technical funds. The problem is not that many individual managed money technical funds build up long and short positions that are far in excess of what would be considered excessive on an individual basis. The problem is that collectively they build up such large collective positions that do distort prices as outlined above.

Assigning individual position limits doesn't do much good if there are many traders following the exact same strategy as is evident from the record collective positions. The solution is to assign speculative position limits that apply to the technical funds collectively. Sure, the CME Group will scream because this might cut into its trading revenue, but what's more important profits for the CME or the financial well-being of real producers, like the American farmer? It's mindboggling to me that I believe I am the only one pointing this out. And not for a minute am I forgetting that the massive and excessive managed money positions are put on and taken off with a large measure of influence from their commercial counterparties. That's little solace to a real producer whose cost of production exceeds a corn or cotton price driven down by record managed money shorting.

Of course, as egregious and manipulative as the collective managed money positions have become in just about every commodity, none compare to COMEX silver futures. As of last Tuesday, May 21, the gross short position of the managed money traders in COMEX silver futures was 81,988 contracts, just shy of 410 million oz, and held by 47 traders or more than 8.7 million oz per trader. I would not at all be surprised if this short position is even larger when the new COT report is published on Friday, but I doubt it will exceed the record managed money gross short position of 104,482 contracts of last Sept 4, held by 62 traders. It is interesting that last week's managed money short position was larger per trader than back on Sept 4.

410 million oz is roughly half of total world annual silver mine production. No other commodity, not crude oil, corn, soybeans or cotton come close to rivalling the amount of managed money buying or selling in real world terms as exists in silver. For instance, the recent record gross short position in corn is less than 10% of world corn production and extreme managed money long or short positions in crude oil rarely exceed a percent or two of annual world oil production. Purely speculative traders shouldn't be allowed to hold such large positions which clearly affect prices, but COMEX silver

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futures positioning is in a league of its own.

What makes the situation even more egregious is that of the 47 managed money traders holding 410 million oz of silver short, half the world's annual mine production, not a single ounce represents a legitimate hedge of any kind, just a rank speculation. For the umpteenth time, I am not opposed to speculation (I'm a speculator myself); I'm opposed to speculators dictating prices to the world's real producers and consumers. I'm not trying to trick anyone when I ask this simple question - would the price of silver be higher or lower if there didn't exist 47 speculators holding 410 million oz short? I'm not asking you to pick a specific price, just whether the price would be higher or lower. Only a wise guy (or a drug-induced sleeping regulator) would fail to conclude higher prices. That, my friends, is conclusive proof of manipulation.

To complete the story, the prime counterparties to the managed money traders in COMEX silver (and gold) have been commercial banks, led by JPMorgan. But based upon Bank Participation report data, these commercial banks, particularly U.S. banks, are not especially prominent players in crude oil, corn, soybeans, cotton and most other commodities - just precious metals. Therefore, while I publicly assail JPMorgan as being the big silver and gold manipulator and crook, I see scant evidence of JPM's involvement in other commodities. No doubt that the managed money traders are being led by the price nose into and out from the extreme positions they hold by traders called commercials - just that the commercials in this case are not primarily banks and JPMorgan. Fair is fair.

On the other hand, I doubt JPMorgan could have effected its brilliant stroke of (criminal) genius in other commodities that it has pulled off in silver and gold. Of course, I'm referring to JPM's almost unbelievable physical accumulation of 850 million oz of silver and more than 20 million oz of gold. It would be impossible to amass anywhere near equivalent physical quantities of any other commodities. For starters, there would be no place to store such quantities - not a problem for silver or gold. And make no mistake, JPM's physical silver and gold holdings will make all the difference in the world at some point, particularly considering that JPMorgan has now completely eliminated its COMEX silver short position.

As for what to expect in Friday's COT report, the price action over the four day trading week ended yesterday makes this week's guesses more difficult than usual, particularly in gold. There was a high-volume rally of \$13 or so in gold last Thursday and although no key moving averages were penetrated, I did sense managed money short covering and new buying. There was a pretty sharp selloff on yesterday's cutoff, but trading volumes weren't high, after roll over spread volume was subtracted. Just a WAG (wild-assed guess), but I'd expect net managed money buying/commercial selling of perhaps 15,000 contracts.

Silver looks a bit different. There was a fairly sharp and high volume rally last Thursday of nearly 20 cents and while no key moving averages were close to being hit, I did sense notable managed money buying, particularly of the short covering variety (seeing how the technical funds always seem to lose whenever they put on big short positions and must be sensitive to getting clipped again). However, unlike gold, yesterday's sharp silver price smash took out all previous year to date lows and occurred on very high volume not impacted by heavy spread trading. Therefore, I'm of a mind that envisions that all the managed money silver shorts that may have been bought back last Thursday, were re-shortened and perhaps then some yesterday.

Bottom line is that I see no net managed money buying in silver (as I do in gold) and perhaps 5000 net

contracts of managed money selling/commercial buying, and more than that will not break my heart. I'm still concerned about gold's 200 day moving average looming as a final wash out target by the commercials to induce managed money selling, but also feel so much has already been thrown at silver that such a gold flush out might not matter that much for silver at this point. In fact, yesterday's silver price smash had all the earmarks of a final price bottom (he said, after reminding himself not to say that).

Ted Butler

May 29, 2019

Silver – \$14.42 (200 day ma – \$14.93, 50 day ma – \$14.94)

Gold – \$1281 (200 day ma – \$1260, 50 day ma – \$1291)

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