May 6, 2020 – A Changing of the Guard?

It has now been around two years since I began making the case for a double cross by JPMorgan of their former big short compatriots in COMEX gold and silver futures. I noticed it first in gold, around the $1300 price level in May 2018, when JPMorgan emerged as a buyer as other big commercials sold and thought it might be a signal that JPM was about to take its foot off the price of gold and silver. After all, by that time I was more than convinced that by accumulating massive amounts of physical gold and silver, JPMorgan could and would let prices go at any time it decided.

Alas, my expectations were not to be realized, as JPMorgan never abandoned the short side completely and continued to add shorts on price rallies in gold and silver since then. The bank also continued to buyback and cover those added shorts, always at a profit and continued to accumulate physical metal; thus preserving my premise that JPMâ??s prime motivation in manipulating prices was to set itself up for a major payday on the upside. In other words, even though JPMorgan hadnâ??t yet decided to step away from the manipulation, it could still do so at any time it chose.

As recently as February 25, JPMorgan held fairly significant short positions in COMEX silver and gold of 18,000 contracts and 44,000 contracts respectively. As I have been reporting more recently, JPMorgan is no longer short either and is actually long in silver. However, against these recent position changes by JPMorgan, a much broader position change, or lack thereof, has occurred over the past year by the remaining 8 big shorts in both COMEX gold and silver.

Starting last June, when the 8 big shorts in COMEX gold and silver added very significant short positions in COMEX gold and silver futures, these big concentrated short positions have remained, basically, fairly static and intact since then. JPMorgan has been active in adding and closing out short positions over the past year, but thatâ??s not been the case for the 8 big shorts. As to why the big shorts have maintained large open short positions in COMEX gold and silver, my best guess is because the positions couldnâ??t be closed out at no loss or a profit, as had always been the case over the past several decades. To be sure, I have been calculating the open loss of the big shorts in silver and (mostly) gold over the past year and that loss has ranged from $2 billion to just over $7 billion, never providing the big shorts the opportunity to close out their positions at breakeven or better.

Regardless of the reason, the data indicate that the 8 big shorts are still heavily short, to the tune of 75,000 contracts (375 million oz) in silver and 263,000 contracts (26.3 million oz) in COMEX gold futures, as of last Tuesday. The big shorts havenâ??t been punished financially so much in silver given the lackluster price performance over the past year â?? most or all of their open losses have come in gold, which is up more than $400 over that same period. But since the short positions are still open, the prospects of additional losses on higher prices are also still open.

Not only is it unusual that the big shortsâ?? open positions and losses have lasted longer than anytime since Iâ??ve monitored the ongoing manipulation on the COMEX (35 years), a new thoughtoccurred to me, namely, that the nature of the game may have radically changed. Regular readers nodoubt recall me terming the collective and cohesive effort of the commercials in all three majorcategories -JPM, the other big shorts and the raptors (the smaller commercials apart from the biggestcommercials) â?? as being akin to the Three Musketeers; all for one, one for all, in that they alwaysbought and sold in unison against the managed money traders.

So disciplined and coordinated were all the commercials in waiting for the managed money traders to come to them, with the commercials never breaking ranks that it had to be considered pure collusion. The only difference between the Three Musketeers as originally conceived by Alexandre Dumas was that instead of uniting and fighting for the cause of chivalry and justice, the COMEX version involved an underhanded effort to cheat and deceive for selfish and manipulative ends. Thatâ??s not to suggest the Three Musketeers of ill repute on the COMEX werenâ??t successful because they pulled it off for decades â?? up until a year or so ago.

Actually, it was the smaller raptors, at least in silver, that started to break ranks years ago when they stopped adding short positions, but they still mostly went along in increasing and decreasing their net long position in synch with the other commercials. But it has been the recent parting of ways by JPMorgan from the other big shorts that suggest the COMEX Three Musketeers may be a thing of the past. Can I know this for sure? Of course not. And isnâ??t it possible that JPMorgan may rejoin the other big shorts and add new short positions on the next rally, causing that rally to fail in the end yet again? That is also possible.

At the same time, however, circumstances are different than they been in the past, starting with the overall macroeconomic picture, which is more fraught with uncertainty than any of us have ever witnessed â?? an environment historically quite favorable for gold and silver. Beyond that, the recent set up on the COMEX is nearly as unprecedented as is the general world condition. Not only have the COMEX Three Musketeers lost their former leading participant, it is also true that the ex-member (JPM) stands to make a bloody fortune by continuing to go its own way.

JPMorgan is already $10 billion ahead on its net gold and silver physical position and with no COMEX short position stands to make countless billions more by, quite simply, doing nothing (not adding shorts or selling physical). Yes, JPM has been favorably positioned for a price liftoff before, but not as favorably as it is now. Plus, the other big shorts have never been as unfavorably positioned as they are now. Thatâ??s a pretty potent combination.

What makes the big shorts particularly vulnerable currently (as I hope I have been conveying) is the apparent absence of large potential selling from managed money traders and other speculators on the COMEX, particularly in silver, but also in gold. JPMorgan appears to have captured a much larger percentage of the speculative selling to date in buying back its short positions so as to deprive the other big shorts the opportunity to cover shorts. If I am correct and the speculative selling to the downside is â??washed outâ?•, then itâ??s hard to imagine great numbers of big 8 shorts being closed out on the sharply lower prices necessary for the big shorts to exit without incurring large realized losses.

Therefore, itâ??s much easier to envision the big shorts giving up the ghost at some point and trying to exit on higher prices. Should that occur, of course, then weâ??re talking about a price sea change none of us have ever experienced and one that promises to establish historical records that will endure, particularly in silver. Yes, I know that silver has been a price dog, but also believe I know why it has been such a dog, namely, because it has been the most manipulated market in history and that we may be on the cusp of that manipulation ending if the COMEX Three Musketeers have disbanded permanently.

Before moving on to other metal matters, Iâ??d like to comment on the sharp recent rise in crude oil prices. A couple of weeks ago, on the occasion of the May NYMEX crude oil futures contract plunging by $58 to settle at minus $37 per barrel on April 21, I wrote how this was basically impossible and was the result of phony manipulative trading, largely at the hands of JPMorgan. The next day, the June NYMEX crude oil contract traded as low as $6.50, amid reports it, too, was headed for negative prices of as much as $100, according to an analyst quoted by zero hedge.

https://www.zerohedge.com/markets/analyst-who-first-predicted-negative-oil-prices-sees-oil-hitting-negative-100

Instead of falling sharply into even steeper negative numbers, the June contract more than quadrupled from its low on April 22, despite, I would submit, not that much of radical change in oil fundamentals. Yes, oil production is falling and we are slowly eliminating the surplus in oil; but storage capacity is still restrained and the world now has to work off a supply glut of epic proportions. My point is not to handicap future oil prices, as I continue to avoid that like the plague. My point is to highlight the crooked nature of the CME Group and JPMorgan in rigging prices any which way they choose. There was never any legitimate reason for oil prices to go negative, certainly not $40 negative, and the fact that was what occurred is just conformation of a rigged market. The subsequent sharp rally is just a re-confirmation of how crooked futures trading is on CME Group exchanges.

As far as what to expect in this Fridayâ??s COT report (there will also be a Bank Participation report), gold and silver prices were mostly lower over the reporting week that ended yesterday; with gold ending about $12 lower after being down as much as $45, while silver ended the reporting week lower by 21 cents after being down as much as 50 cents. Volume was low as it has been for some time and total open interest declined by about 10,000 contracts in gold and nearly 6000 contracts in silver. Further muddying the waters this week is that deliveries in the May contract of 4700 contracts in gold and nearly 7000 contracts in silver automatically result in reductions in open interest.

Simply by sticking to the way things usually work when prices move lower, I would expect some managed money and other speculative selling and commercial buying in both gold and silver, although itâ??s hard to predict by numbers of contracts. Such an outcome would indicate an even more washed out market structure in both gold and silver. Of course, Iâ??ll be paying close attention to what clues emerge concerning JPMorgan.

Iâ??m still most focused on the great divergence between the behavior of JPMorgan and that of the 8 big shorts. While itâ??s always possible for JPM to come to the aid of the 8 big shorts on the next rally, itâ??s just as possible that it wonâ??t. I would point out that on the few recent occasions when JPMorgan was as little net short as it is now,Â price rallies of no small significance always resultedand such a rally soon would seem to be in the cards. Therefore, the only â??iffyâ?• outcome istheÂ Â Â extent of the coming rally, not whether there will be a rally. On the coming rally, shouldJPMorgan refrain from adding aggressively to shorts, the rally should be one for the record books.

As far as the financial standing of the 8 big shorts, through todayâ??s prices at publication time, they continued to enjoy a further respite in terms of lower open losses due to continued price weakness in gold. At todays close the open loss to the 8 big shorts was $500 million less than the $6 billion they were out last Friday, or $5.5 billion.

I continue to be mindful of the juxtaposition in gold and silver in terms of eachâ??s key moving averages. Since upwardly penetrating its 50 and 200 day moving averages in late December, the price of gold has remained above those moving averages, save for the sharp 8 day downward penetration of mid-March. That deep and deliberate $200 selloff did result in close to 100,000 contracts of net managed money selling and commercial buying, but gold prices and positioning have now been fairly static for nearly two months.

In silver, after upwardly penetrating its 50 and 200 day moving averages in December (same as in gold), the rally in silver was not only much weaker than the rally in gold, but silver prices downwardly penetrated both of its key moving averages at the end of February and have remained below those averages, essentially, since. So while gold has largely remained above its two key moving averages for close to five months, silver has remained below its key moving averages for the past two months.

In basic terms, this juxtaposition between the recent moving average experience in gold and silver accounts for the blowup of the silver/gold price ratio to all-time relative silver undervaluation. I have looked hard and deep for any legitimate explanation for why silver would be so cheap relative to gold and have found none. Therefore, I would conclude that the shocking relative and absolute undervaluation of silver could and should disappear in a flash, most likely on the next genuine upward penetration of silverâ??s key moving averages, which in the case of the 50 day moving average is now less than 20 cents away. I would point out that silverâ??s 50 day moving average was a full two dollars higher two months ago and has all the attributes of being deliberately arranged. JPMorgan certainly appears to have taken full advantage of the recent silver (and gold) selloff, and itâ??s hard to come up with any reason why everyone else shouldnâ??t as well.

(As I was finishing this piece today, I got an unexpected phone call from my brother-in-law, who had nasty fall a few months back and who I asked that you keep in your prayers. His recovery has been remarkable, no doubt in great measure to those prayers. Thank you.)

Ted Butler

May 6, 2020

Silver – $15.05Â Â Â Â (200 day ma – $16.98, 50 day ma – $15.28)

Gold – $1690Â Â Â Â Â Â (200 day ma – $1548, 50 day ma – $1653)

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