
November 17, 2018 – Weekly Review

Both gold and silver recovered from last week's sharp losses, with gold ending \$11 (0.9%) higher and silver up by 24 cents (1.7%) for the week. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by a half-point or so from last week's 25 year extreme to a still-extreme 85 to 1. Of course, the silver/gold price ratio is every bit as artificially set as are absolute prices, since the price discovery mechanism is so screwed up by speculative paper COMEX positioning.

While gold and silver prices ended higher for the week, it's important to note that prices were first deliberately smashed lower into the Tuesday cutoff for the COT reporting week, with the important 50 day moving averages in each decisively penetrated to the downside. Silver made new yearly price lows and bears were vocal and out in force. My expectations that yesterday's new COT report would indicate aggressive managed money selling (particularly new short selling) were largely achieved and even wildly exceeded in silver. Most importantly, my hopes that the plunge below the 50 day moving averages was largely the work of JPMorgan seemed to be confirmed in spades, as I'll detail in a moment.

By week's end, gold was back above its 50 day moving average and silver was just under its 50 day moving average, after recovering by 50 cents from mid-week lows. Prices had come down on heavy volume and aggressive managed money selling and recovered on light volume, indicative of light managed money buying, just the way I would have ordered it, were I in position to order anything. Not to beat around the bush and risking being called, yet again, the boy who cried wolf; all things considered, this is the very best set up I have seen for a price explosion, especially in silver. I'll also get into this in detail later.

The turnover or physical movement of metal brought into or removed from the COMEX-approved silver warehouses cooled markedly this week to just over 3.7 million oz, as total COMEX inventories rose by 0.4 million oz to 294.2 million oz. A further 0.26 million oz came into the JPMorgan COMEX warehouse, increasing the amount there to 152.3 million oz, yet another record high.

This week's total movement of 3.7 million oz was down by more than 70% from the 12.9 million oz average weekly movement of the previous four weeks, yet not that much below the 4 to 4.5 million oz average weekly movement of the past 7 years. As I have indicated for the past seven and a half years, I know of no way to predict weekly movement in advance and all I do is record and try to analyze the movement as it occurs.

But I do feel strongly that the only reason that the unprecedented physical movement suddenly began in April 2011 and has continued to this day is because JPMorgan was accumulating the metal by skimming off a small percentage (10% or so) of the 2 billion total oz turned over to date. Therefore, as and when JPMorgan decides it has enough physical silver, I would expect the highly unusual COMEX silver warehouse turnover to end just as suddenly as it began 7.5 years ago. I can't predict when that will occur, but I'd be lying if I said I didn't think real soon.

Jumping into the new Commitments of Traders (COT) report, "beyond bullish" is inadequate as an accurate description. I had big numbers in mind (45,000 contracts in gold and 11,000 contracts in

silver) for managed money selling and commercial buying based upon increases in total open interest, volume and price action, but those were educated guesses with plenty of variables, like spread trading, which can mess up one's calculations. A key variable was trying to guess just how brain dead the brain dead technical funds would be in shorting gold and silver, yet again, into a price hole. I'm happy to report that these guys (girls could never be this dumb) are dumber than a bag of rocks.

In COMEX gold futures, the commercials reduced their total net short position by 36,300 contracts to just 1800 contracts; nearly making me a liar when I predicted back a month ago that the gold commercials would never get net long again (after establishing a net long position of 25,900 contracts on Oct 9). I still stand by my original prediction, but after witnessing the amount of managed money selling that enabled the commercials to buy so much this week, I'm not sure of how firm the ground is that I'm standing on. After all, my guess included a limit on the dumbness of the managed money shorts.

While the amount of managed money selling this reporting week was near epic, it was the nature of the commercial buying that most blew me away. That buying was, as fervently hoped for, all JPMorgan, based upon changes in the Producer/Merchant category. JPMorgan had sold short over the month of October some 30,000 contracts of gold and 15,000 contracts of silver and it was that short selling that set up and was behind the price plunge in the reporting week. The good news is that JPMorgan bought back at least 20,000 gold shorts and 11,000 silver shorts over the reporting week and maybe more, largely clearing the decks for a price advance.

On the sell side of gold, the managed money traders sold 31,748 net contracts, consisting of the sale and liquidation of 2659 long contracts and the new short sale of 29,089 contracts. The managed money gross long position is now down to 79,529 contracts, very much into the getting blood from a stone state as far as further liquidation is concerned, as I've maintained for some time. The managed money gross short position of 158,723 contracts, while still close to 40,000 contracts less than the extreme peak of Oct 9, is much larger than I would have expected at this stage and extraordinarily bullish. All the newly added managed money shorts are (as of Friday's close) already in the red. If they ever come out with a third sequel to the movie, "Dumb and Dumber", I have some suggestions for who to cast.

In COMEX silver futures, the commercials reduced their total net short position by 14,300 contracts to 4900 contracts. As I just indicated, the really good news was that JPMorgan accounted for at least 11,000 contracts or nearly 77% of the total commercial buying, an extraordinarily large percentage and a clear indication of the bank's dominant role in all things silver. Make no mistake, the price takedown into the reporting week's cutoff was an exclusive JPMorgan production, designed and executed for the sole purpose of the bank buying back as many shorts as possible. With less than 5000 contracts (25 million oz) still short and more than a billion oz long (800 million oz in physicals and as many as 300 million oz in long OTC derivatives), one might say JPM is good to go to the upside in silver (and gold).

On the sell side of silver, the managed money traders must have drunk some wicked dumb poison, as these nitwits sold just under 20,000 net contracts or the equivalent of 100 million oz this reporting week, consisting of the sale and liquidation of 3950 long contracts and the new short sale of 16,035 contracts. For anyone offended by my calling the technical funds nitwits, I promise to cease doing so whenever they first record a collective profit on a realized basis in shorting silver (or gold).

While I was surprised (but pleased) by the number of managed money long contracts liquidated, the remaining long position of 43,546 contracts is so low as to practically defy further liquidation. But it was the increase in managed money shorting that caused my heart to skip. The total gross managed money short position is now up to 84,379 contracts or more than 420 million oz for a handful (58) of traders who have about as much chance as coming out ahead on this position as hitting the Powerball lottery for three weeks in a row. The only real question is how much these traders will lose on this position; which, by the way, is already showing losses for contracts sold this reporting week.

Another way of stating this real one billion+ dollar question is what JPMorgan intends to do on the next rally, which appears to me as already having started. Specifically, will JPMorgan add to COMEX silver and gold shorts on the (developing) rally? Yes, I know how many times (a gazillion, at least) I have expected JPMorgan to refrain from adding shorts on the next rally, only to have these crooks add shorts and eventually cap and kill all the rallies to date. Regardless, the formula for a price explosion remains whether JPMorgan adds to shorts or not. I'm speaking in mechanical, not predictive terms.

Despite JPMorgan always adding new shorts on every silver and gold rally over the past ten years that doesn't change the mechanical formula, it only confirms it. The moment JPMorgan doesn't add to short positions, the price will fly. I guess we'll only know whether my mechanical contention is true, as and when it occurs. Up until now, I've based my (continually flawed) predictions of JPMorgan stepping aside and not adding to silver shorts on the sense that it held enough physical metal to garner enormous profits. In retrospect, I suppose I'm not the one to determine what is enough metal for JPMorgan to hold before it lets it fly - only JPMorgan can and will answer the question of what's enough.

However, a new factor has suddenly emerged that might have rendered the question of what's enough as moot. Of course, I'm speaking of the Justice Department's announcement of a guilty plea not yet a fortnight ago, an occurrence that still consumes my every waking moment. If, as I believe, the guilty plea caught JPMorgan by surprise (as indicated in published reports), it is reasonable to conclude that the basis for when the bank might cease manipulating the price of silver and gold might have changed from continuing to accumulate as much metal as possible for profit purposes to something more pressing, like avoiding criminal charges from the DOJ. If anything can suddenly change one's outlook from making money to something else entirely, the thought of suddenly dying or going to jail would certainly qualify as something else entirely.

I know many believe the DOJ's guilty plea is just another case of the authorities going after the small fry, while leaving the big crooks alone, but the good news in this case is that we should soon learn which it's going to be - more of the same minor league wrist-slapping or a decisive move to reform. The wording of the DOJ's announcement argues clearly for more shoes to drop and genuine reform, but I could be reading things wrong. However, some things already seem to be falling into place, starting with this week's COT report.

If the DOJ announcement did catch JPM by surprise, even if it had a few days' notice, what would JPM's reaction likely have been? At the first sign of serious trouble (and one of your former long-time traders pleading guilty to criminal activities commonplace to the bank would seem to qualify as serious trouble), it should be expected that JPMorgan would take emergency measures. Let's face it – the bank is not going to just sit around while the DOJ puts its metal traders in jail one by one until there are no traders left.

So what's the most immediate actions that JPMorgan would undertake in reaction to a very negative surprise concerning it manipulating the price of metals? Number one would be to minimize market exposure as much and as quickly as possible. And that's what I had in mind when I hoped for immediate and pronounced short covering in this week's COT report and which is what the data clearly indicated. If you are about to refrain from adding new shorts for the first time in a decade, it would seem to be fitting to make a concerted effort to buy back as many existing shorts as possible beforehand.

Look, if JPMorgan does add new shorts on the next (this rally), then that will quickly be revealed in price action and coming COT data and we'll consign the premise of DOJ involvement to the junk heap. But not to wait for such evidence could be fool hardy, because whether JPM adds to shorts or doesn't is all that matters. I'm playing it like JPM won't add to shorts, as I always do and this time the chance that the DOJ means business matters greatly – at least to me.

Yesterday, another rather strange official podcast was released from the CFTC, featuring James McDonald, the Director of the Enforcement Division. I say strange because the podcast was sort of like a dud when compared to a podcast of McDonald done last April which I specifically mentioned in my complaint to the FBI about public corruption at the CFTC. Back then, I couldn't help but think that McDonald was reacting to my public criticism of him ignoring explicit warnings of manipulation by JPMorgan in silver, as he tried to assure the public everything was hunky dory when it clearly wasn't. This time, McDonald goes on and on about what great cooperation the agency is getting from the DOJ and cites as examples several cases back last January (which as I recall ended in acquittals, constituting abject failure). Even though the recent DOJ announcement constitutes the most important regulatory development ever to my mind, McDonald never mentioned it. WTF?

https://www.cftc.gov/Media/Podcast/index.htm?utm_source=govdelivery

I have raised the issue of whether the Justice Department is really cooperating with the CFTC in the recent guilty plea announcement, alternating between the CFTC turning to the DOJ to help it take on JPM because the CFTC's hands were tied, to the DOJ taking on JPM independently (perhaps in response to my complaint six months ago). In the end, all that matters is whether the DOJ is serious, regardless of whether it is really working with the CFTC or not. I can even see where the DOJ, if it took on JPM due to no real input from and thanks to the CFTC, would not seek to necessarily highlight the inherent weakness and deficiency of the CFTC for the greater good. We need another scandal and even less public trust in our institutions like we need a hole in our heads. The CFTC doesn't need to be disgraced – JPMorgan needs to stop manipulating silver and gold prices.

The prospect of the DOJ doing just that, at least exists today, whereas it didn't prior to November 6. Maybe I'm making too big of a deal about this than is warranted, but then again, maybe I'm not. The real question is what, if anything, JPMorgan intends to do about it. So far the bank seems to be

taking it seriously, both by virtue of its market behavior during the just completed reporting week and its silence on the matter to date. The good news is that we should know in the very near future which the DOJ announcement will be – a big nothing burger or a genuine game changer. Again, I’m playing it like it’s a game changer.

Finally, I did an interview with James Anderson yesterday that you might find of interest.

<https://www.youtube.com/watch?v=wLqH12A9UT0&feature=youtu.be>

Ted Butler

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Silver – \$14.39 (200 day ma – \$15.70, 50 day ma – \$14.45)

Gold – \$1222 (200 day ma – \$1268, 50 day ma – \$1214)

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