

November 2, 2016 – Great Ironies

### Great Ironies

Maybe I need to adjust my medications or some other aspect of my personal life, but it seems that there are more signs of angst, anger and anxiety throughout the country and around the world lately than I previously recall. I'm sure it's related to the highly unusual US presidential election, but there are other factors at work as well, including unprecedented economic and financial conditions, such as near zero interest rates and historic income and wealth inequality. Certainly not for everyone, but there have been tectonic financial and economic shifts that have unfavorably impacted the lives of far too many.

Particularly within the Internet precious metals community, the mood and talk seem to have turned much darker than usual. I've been accustomed to a negative undercurrent concerning the overall future outlook since first becoming a commodity broker some 44 (gasp) years ago. Since one of the main attractions of gold and silver is as insurance against financial upheaval, expectations of bad times to come have always been regularly featured. But unless I'm reading things wrong, more is being written about financial and economic catastrophe immediately ahead than I can recall. I'm even reading about expectations and preparations for the possibility of nuclear war.

Aside from sincerely hoping (and praying) that such extreme talk is misguided, I continue to view the future price prospects for gold and silver in ways along the lines I present in my articles, as involving market structure and all that. I am not dismissive of the recent negative tone, but I also strive to assure myself that I am considering all things in a fair and balanced manner. I know for sure that we are all coming to the end of our days individually, but I don't know if it will prove as collective as currently being advanced. Therefore, I am always, as an analyst, on the lookout for the other side of the negative story.

To that end, I received a video link from the same longtime friend/subscriber who had sent me that futuristic video about electric cars, solar and battery technology which was extremely thought-provoking and upon which so many of you commented favorably. It was sent to Pat as a feature of the current Harvard Business School mailing to alumni and the video he asked me to comment on was an interview by Jamie Dimon, the CEO of JPMorgan.

<https://www.alumni.hbs.edu/stories/Pages/story-bulletin.aspx?num=5873&cid=alumninews-october2016e>

As a forewarning, much of the interview is a tribute to Mr. Dimon and highlights the path he took to his current role. There can be no question that Dimon is revered in the business community at large and this interview reflects that. But beyond that, he does have some very interesting things to say about the US and the world on a variety of important topics. At the very least, he provides a stark contrast to the extremely negative talk going around and this is one of the reasons I've included the link. To be perfectly frank, I hope his optimistic version of the future turns out to be accurate.

All that said, Mr. Dimon is the very hands-on leader of the bank I've consistently identified as the prime manipulator of the price of silver (and gold) for the past eight years and I have sent him every article in which I've referred to JPMorgan as crooked in its silver dealings. Essentially, that means I've sent him close to a thousand articles, although I have no idea whether he or anyone at the bank reads any of them. To be sure, I have no personal animosity towards Mr. Dimon and I can assure you this is all strictly business and nothing personal.

As regular readers know, I believe JPMorgan has been at the core of silver since it first acquired the failing Bear Stearns in March 2008, thus assuming the mantle of being the largest gold and silver short on the COMEX. My discovery of JPM's involvement started with the Bank Participation Report of August 2008, which not only alerted me to the bank's activities, but was why the CFTC opened a formal investigation that lasted for five years (without addressing the core issues). Since acquiring Bear Stearns, JPMorgan has consistently been the biggest silver short on the COMEX, profiting to the tune of hundreds of millions, if not billions of dollars with never a loss. In April 2011, JPM began an epic accumulation of physical silver, now amounting to much more than 500 million oz, all the while maintaining a consistent and separately profitable dominant short position in COMEX dealings. To overlook JPMorgan's involvement in silver, in my opinion, would be analytical malfeasance.

Mr. Dimon restates in the interview his feelings of being betrayed by the government for leveling fines related to what Bear Stearns did in mortgage dealings before JPM took it over, at the request of the government. Previously, I've agreed with Dimon on this issue. But we're all guilty of selective reasoning at times and while JPM may have been misled in this one specific issue, Mr. Dimon is overlooking another aspect of the takeover, namely, the many billions of dollars of profits that accrued to JPM, as a result of acquiring Bear. Had JPM not taken over Bear Stearns, I can visualize no way that the bank would have come to acquire more than half a billion ounces of physical silver.

Another reason for linking the Dimon interview was the written prefacing remarks of praise by Warren Buffett. I'm probably guilty of selective thinking myself here, but I can't help but offer some personal thoughts related to silver. Even though the word was never mentioned in the interview, I can't help but see some great ironies regarding silver. Maybe I'm delusional, but please hear me out. Many have asked over the years as to why, given all the facts, someone big hasn't come to buy all the silver available in order to make a great profit? My answer is that someone has — first, Warren Buffett around 1997 and now JPMorgan. Moreover, I think I greatly influenced both silver buys.

When I started writing on the Internet in 1996, my main topic was the leasing of precious metals. It occurred to me that the leasing of precious metals, as it was practiced at the time, was absurd and manipulative to the price of gold and silver as it resulted in physical metal being uneconomically dumped on the market which artificially depressed the price. As it turned out, Buffett was a significant speculator in commodities at the time and was well aware of silver's structural deficit, in which more metal was being consumed than was being produced for decades, the most bullish condition any commodity could be in. That the price of silver could stay so low (around \$5) despite world inventories being consistently depleted was the great commodity conundrum of the time. It was as if the law of supply and demand had been repealed. This was the enigma that my silver mentor, Izzy Friedman, challenged me with and we weren't the only ones puzzled by it — clearly, Buffett was as well.

I believe my articles on leasing at the time were read by Buffett and they answered his question about how silver could be so low in price and be in a deficit consumption pattern. The timeline is perfect — after reading what I wrote, he bought close to 130 million oz. No, I never received any acknowledgment from Buffett, but I understood why. Besides, I put the information out there in the hopes of convincing people to buy silver, so who was I to complain? Later, Buffett fell into the skin the technical funds game on the COMEX, selling tens of thousands of COMEX contracts short at times, not to hedge his silver (as I'm sure he told the regulators — if they asked), but to buy back those shorts profitably when prices fell.

It worked for many years, but in the end Buffett had his physical silver called away from him around 2006 when the SLV was introduced. If he tried to hold on to his physical silver stash and buy back his COMEX shorts at a loss instead, it would have revealed what he had been up to and that would have reflected badly on his reputation, something he would have avoided at all costs. Shortly afterwards as silver climbed in price, Buffett jokingly observed that he simply sold too soon, which is at odds with the facts as I know them to be. But it doesn't change the fact that Buffett suddenly bought silver shortly after I exposed the folly and scam of precious metals leasing.

It was a little different with JPMorgan, which was thrust into the role of big silver and gold short on the COMEX, not because of anything I wrote but because the US Government asked it to takeover Bear Stearns. JPM was always big in the precious metals business, but the takeover of Bear Stearns put it in unquestioned control. JPM then used that COMEX price control to extract many billions of dollars in COMEX silver and gold dealings to this day. The US Government may have reneged on JPM in Bear Stearns' mortgage dealings, but the same government looked the other way as JPM manipulated the price of gold and silver.

Starting in the fall of 2010, conditions in the wholesale physical silver market became tight enough so as to exert upward pressure on price, despite COMEX paper dealings. The tightness culminated in April 2011, as silver raced towards \$50. Being on the wrong side of the market, JPMorgan arranged, in cooperation with the CME and CFTC, for silver prices to be smashed downward to rescue it from massive losses on open COMEX short positions. It was then and there that JPM made the decision to buy as much silver as it could before the next great silver price run. It has continued to do so until this day. Funny, Mr. Dimon left this out in the interview.

The whole point of this abbreviated walk down memory lane is to make the connection between, Buffett, Dimon, JPM and silver. Having emailed all my articles to Mr. Dimon, with never a one returned as undeliverable, I can't help but feel I may have contributed to the bank buying massive amounts of physical silver. If that's the case, that makes me two for two (Buffett and JPM). I understand that the vast majority of the investment public will never have the slightest inkling of JPMorgan's involvement with silver, but that does nothing to alter the fact that JPMorgan is all that matters when it comes to silver.

On to developments since the Saturday Review. First, final sales from the US Mint on Monday, indicated that Gold Eagle sales were unusually large, at the second strongest month of the year. Reports from the retail dealer front indicated very weak retail gold sales, suggesting the presence of a large buyer, the most plausible candidate being JPM. Sales of Silver Eagles were much strong than in the immediate four previous months, but not above the 4 to 5 million oz threshold that I previously mentioned that would indicate the complete return of JPM. My best guess is that JPM held back so as not to attract additional attention, but I admit to perhaps looking too closely.

<https://competition.usmint.gov/bullion-sales/>

The big development this week, of course, has been the surge in price for silver and gold. From the close on Friday, gold has surged by around \$30 and silver by about a dollar. After dancing on either side of its 200 day moving average for weeks, gold has bounded up to and through its 50 day moving average. Silver never did cross its 200 day moving average to the downside, but has also penetrated its 50 day moving average to the upside. The sharp rally was not completely unexpected, given the near hundred dollar drop in gold and two dollar decline in silver over the past month, as well as the deeply oversold technical condition of the market.

By all appearances, the sharp rally this week has all the earmarks of an engineered upward move by the commercials designed to induce managed money technical fund buying on the COMEX. The signs of that include increased volume and increases in total open interest in gold and silver through yesterday's reporting week cutoff. There has also been the telltale signs of "salami slicing" to the upside, in which successive new intraday price highs have been recorded this week. Always in the past, these signs are indicative of increased managed money buying and commercial selling. Then again, it is always easier to speak of what has occurred rather than what will occur.

The question of what comes next includes another price decline as soon as the commercials lure as many technical fund buys into the market and then kneecap the funds to the downside, as usually occurs; or a commercial overrun to the upside, for the first time. Since no one can know for sure beforehand, it might be instructive to return to the ongoing financial scoreboard for guidance.

Starting around mid-year, the commercials found themselves in the financial hole to the tune of around \$4 billion on their combined COMEX gold and silver short positions at the price highs of summer. This was the most the commercials had ever been underwater in gold and silver and because of that, the odds ran high that they had miscalculated in shorting so many COMEX gold and silver contracts at prices that proved too low. It had all the signs of a major commercial miscalculation, punctuated by the fact that a large commercial gold short threw in the towel.

On the price decline into early October, the commercials regained and eliminated all the collective \$4 billion in open losses and at the price lows were ahead by \$1 billion in open profits. Importantly, the commercials also reduced their COMEX gold short positions by more than 100,000 net contracts and their silver shorts by more than 30,000 net contracts, booking profits while reducing their short exposure. In a nutshell, the commercials got whole and just about eliminated the threat of being overrun to the upside at the recent price lows.

The sharp rally through today, according to my rough calculations, has eliminated the open \$1 billion profit the commercials held at the recent price lows and appears to have put them back in the unrealized loss column to the tune of half a billion dollars or so. In addition, the commercials appear to have sold aggressively into equally aggressive managed money buying, thus upping the stakes of the COMEX money game.

There was, no doubt, significant managed money buying and commercial selling today as the 50 day moving averages were penetrated in both gold and silver, but the data will not be included in this week's COT and Bank Participation Reports. I would expect this week's COT report to show chunky increases in the total commercial net short positions in both gold and silver, but prefer to concentrate on analyzing the data rather than handicapping it this week, given possible reporting delays due to yesterday being a very active Tuesday cutoff.

The real question, assuming the commercials are still in control, is how far they are prepared to let prices rise from here and how many contracts they are willing to sell to the technical funds, before taking prices lower. Try as I might, I can't see the commercials intentionally allowing themselves to repeat their experience of summer in which they held record extreme open losses. That argues for a relatively quick end to this rally. But if the commercials are not in as strong a financial position as they appeared to be just prior to this week's rally, the price moonshot will take place sooner rather than later. I think the commercials are still in control, but I don't sit in on their collusive strategy sessions.

I'm switching back to the 50 day moving averages from the 200 day moving averages because the 50 day is closer. However, if there is a thorough managed money cleanout at some point (a big if), that cleanout must include a downside penetration of the 200 day moving averages.

Ted Butler

November 2, 2016

Silver – \$18.60      (50 day moving average – \$18.55)

Gold – \$1302      (50 day moving average – \$1301)

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