November 27, 2019 – Additional Speculation

Iâ??d like to continue with a theme discussed on Saturday â?? the lack, to this point, of more substantial selling by the managed money traders to the pronounced selloff in gold and silver over the past couple of months and the unusual parting of ways between JPMorgan versus the other big commercial shorts in buying back short contracts over the past month.

To summarize, it is quite unusual that there hasnâ??t been more significant managed money selling in COMEX gold and silver considering the price declines and especially the persistent downward penetrations of a whole host of moving averages since the September price highs. Of course, much more significant managed money selling might still lie ahead on even lower prices and the plain truth is that no one knows for sure. If we do get that selling, the only question will be what took the managed money traders so long? But since weâ??re not at that point yet, the operative question is why havenâ??t they sold?

Then thereâ??s also the standout buying by JPMorgan of COMEX gold and silver futures contracts, while its commercial compatriots have actually added to short positions over the past month. I started talking about a JPMorgan double cross of the other big commercial shorts in April 2018 when it started buying back gold futures shorts at around the $1300 level, but the confirmation of such a double cross has been lacking since prices have yet to explode. Then again, JPMorganâ??s massive accumulation of physical gold and silver over the past nearly 9 years is more of what puts the bank in a position to double cross the other commercial shorts whenever it decides to pull the trigger. Still, the recent buying by JPMorgan of futures while the other commercials have sold is beyond noteworthy.

In searching for answers to these two themes – the lack of managed money selling to date and the unusual buying by JPMorgan and not the other commercials – a new thought occurred to me that might actually connect the two themes. Admittedly, this is speculation on my part, but based upon the known facts. And now that I think about it, reasoned speculation is akin to analysis, in that in the case of not being able to see all whatâ??s going on behind the scenes, there is little alternative to speculation.

One of the facts that came out of the most recent Justice Department indictment of yet another former JPMorgan precious metals trader was that the bankâ??s traders used spoofing and market manipulation to reward certain high-revenue hedge fund clients by achieving much better order executions than would have been possible through legitimate means. That verified, as I long maintained, that spoofing was an illegal tool used to achieve various end results. This verification by the DOJ got me to thinking further, namely, was there a connection between the lack of managed money selling to date and JPMorganâ??s near exclusive futures contract buying?

Simply put, did JPMorgan whisper in the ear of certain managed money hedge fund clients that something was going to occur in gold and silver that hadnâ??t occurred before – like gold and silver prices about to take off – so donâ??t sell? Certainly, such an expectation would explain JPMorganâ??s own aggressive buying to the exclusion of other commercial buying, but it might be a stretch to include it informing certain managed money clients. Still, since the Justice Department accused the bankâ??s traders of illegally benefitting certain hedge fund clients in obtaining better order executions, is it that much of a stretch to imagine an advance notice of a big move coming? After all, such an advanced notification would surely ingratiate its clients to such a broker.

Whether this is the connection between the lack of managed money selling to date and JPMâ??s unusual buying for its own account or if there is any connection at all remains to be seen, if it is ever seen. Speculation can take you only so far, but is always much better before, rather than after the fact. Something has dissuaded the managed money traders from selling so far and I have not been able to put my finger on it. To be sure, either they will sell or they wonâ??t and at least that much will be observable in time. Again, if the managed money traders do sell forcefully ahead, I believe that will be the last such selloff, but I just donâ??t know if they will sell.

Turning to other matters, yesterday was the cutoff for the reporting week, but the new COT report will not be published until late Monday afternoon because of tomorrowâ??s Thanksgiving holiday. Since I will not be able to analyze the new report until then, Iâ??ll have COT comments late Monday as I usually do on holiday delays, although I will have a weekly review on Saturday.

As far as what Mondayâ??s COT report might indicate, the pattern of mostly price weakness during the reporting week should result in a reversal of sorts for the prior weekâ??s managed money buying and commercial selling. But the standout feature to the trading week has been the unusual heavy roll over of gold and silver contracts from the December contract to the February (for gold) and to March (for silver).

As such, the collapse in total open interest of 50,000 contracts in gold and 12,000 contracts in silver looks to be mostly the result of spread liquidation as opposed to genuine positioning changes. As Iâ??ve intoned in the past, I donâ??t know why so many spreads have been put on, mostly by managed money traders, in the month leading up to first delivery day and then liquidated into the same delivery day; but it doesnâ??t appear to have much real influence on price. It does tend to get some folks quite excited and I suppose, even at this late date, there could be some surprises in Fridayâ??s delivery announcements.

Certainly, when one subtracts spread volume this week from overall trading volume, the true net trading volume has been extremely small. As a result, the very low true trading volume would argue against truly serious positioning changes (save the unwinding from the previous reporting week). Thus, the main unanswered question for why havenâ??t the managed money traders sold more remains unanswered.

As far as the financial scoreboard of the 7 big shorts, the price changes from Fridayâ??s close through publication time indicate a further reduction in open and unrealized losses to under $2 billion for the first time since July, mostly as a result of gold price weakness. Iâ??d peg the big 7â??s total combined open and unrealized losses to be $1.9 billion.

Returning to an old theme, with the continued buoyancy of world stock markets in response to persistent money and buying power creation, the lack of a similar response in gold and silver (considered quite sensitive to money creation) remains a puzzle. A puzzle, that is, until one considers the role of futures positioning on the COMEX. As I wrote recently, there is no big concentrated short position in stocks or bonds or real estate and even in the world of commodities, most markets are not plagued with the presence of a massive short position held by a handful of traders away from precious metals. Thatâ??s why I focus so closely on the issue.

Take away the concentrated short position, particularly in COMEX silver, and a wholly different price structure would exist. How different? Well try to imagine a silver market where only those motivated by legitimate free market reasons would short COMEX futures contracts. For instance, I certainly could imagine mining companies shorting against future production if they were locking in substantial profits that their shareholders (the true owners) would approve. But that is likely the same price at which direct owners of silver would sell and that price is very substantially higher than current prices â?? otherwise we would see miners hedging with shareholder approval and for investors to be selling their silver.

In fact, I canâ??t recall the last time I even heard of a serious case being made for silver prices to be substantially lower and not higher; perhaps, of course, with the exception of the manipulation remaining in force indefinitely. This is what itâ??s come down to, namely, the complete absence of a non-manipulative reason to expect lower silver prices. And thatâ??s exactly the same for unchanged or only muted price increase predictions.

Think of how absolutely crazy it is that no legitimate explanation exists for why silver prices are so cheap away from COMEX short selling by a handful of banks. I understand how the details of the manipulation evade even those extremely intelligent and well-versed in most topics, due to the lack of professional hands-on futures experience and the lack of answers from those supposedly responsible for addressing such concerns, like the CFTC, the CME Group and now, the Justice Department. But the manipulation has gone on for so long and, therefore, should have been dealt with so long ago that to do so now would bring even more shame on these institutions. But make no mistake, this manipulation must end.

And as time has rolled on, the signs have only gotten stronger that the silver manipulation will end in even more spectacular fashion than would have been the case had it ended decades ago. What signs? Start with the massive accumulation of physical metal that JPMorgan pulled off in full view since 2011. Or the fact that it has never lost when adding new short positions. Or that only COMEX silver has a concentrated short position larger than any commodity in terms of real world production and consumption. These facts have gone unchallenged by all the parties involved â?? JPMorgan, the CME, the CFTC and now the Justice Department.

Have you ever witnessed major financial institutions or regulatory and law enforcement officials refuse to respond to reasonable accusations of illegality? And if anyone questions the reasonableness of the accusations of manipulation, then come up with the reason why silver is and has been so cheap on every absolute and relative measure â?? away from the concentrated and manipulative short selling by a handful of banks. No explanations will ever be forthcoming from the entities involved â?? JPM, as well as the CME, CFTC and DOJ – as that ship has long sailed. If there were reasonable explanations, we would have heard them by now.

Thatâ??s what makes the signs that can be seen so important and encouraging. Signs like JPMâ??s epic physical accumulation and very recent aggressive buyback of futures contracts, as well as the lack of selling by the managed money traders for the first time in memory. There will never be an announcement of an official end to the manipulation â?? it will just end. And when it does end, it will be an end like none other.

In fact, if there is anything to be thankful for in the financial realm is that weâ??ve reached the state we have in silver. Yes, it has been tortuous for long periods of time, so long that many have not survived the journey. But the state of facts currently in place argue that, considering how long the journey has been, its conclusion canâ??t be terribly long in coming at this point. To be sure, whenever we do lift off in price, the real move wonâ??t involve any two steps up, one step back. The power of the move will shock us all.

Happy Thanksgiving to all

Ted Butler

November 27, 2019

Silver – $16.93Â Â (200 day ma – $16.19, 50 day ma – $17.53)

Gold – $1454Â Â Â Â Â Â (200 day ma – $1402, 50 day ma – $1492)

Date Created
2019/11/27