November 7, 2018 – A Crack in the Dike?

Yesterdayâ??s announcement by the Department of Justice of a guilty plea by a former trader of JPMorgan for systemic â??spoofingâ?• and price manipulation of gold, silver, platinum and palladium traded on the COMEX and NYMEX futures exchanges (owned by the CME Group) sure seemed like a very big deal to me for a number of reasons. The infractions occurred from 2009 to 2015 and the trader admitted to engaging in a conspiracy to commit market manipulation on hundreds of occasions, with the knowledge and consent of his immediate supervisors. Please take the time to read this, as it is remarkably plainspoken.

https://www.justice.gov/opa/pr/former-precious-metals-trader-pleads-guilty-commodities-fraud-and-spoofing-conspiracy

First, let me get some personal feelings out of the way. Iâ??ve received a number of comments to the effect of how this vindicates my long held belief that JPMorgan is the silver (and gold) crook of crooks. The truth is that I donâ??t consider it vindication (yet), but I will confess to a feeling of relief upon reading the complaint, as I believe it greatly reduces the chances of JPMorgan suing me for openly calling them the crooks that they are. To be sure, my fear of being sued was never really a personal fear, but how it might affect my wife and family. Correctly or incorrectly, I feel a great burden has been lifted.

That aside, the announcement by the DOJ was remarkable in many ways, not the least of which is that this is a criminal case which involves jail time and not a civil case which only involves monetary fines. Also, the announcement makes clear that this is very much an ongoing investigation and itâ??s hard to see how there wonâ??t be further fall out for JPMorgan, since itâ??s obvious the guilty trader was doing what others were doing at the bank. Itâ??s also hard for me to see how a trader involved in systemic criminal market activity in coordination with other traders at the bank doesnâ??t equate to systemic criminal activity by the bank itself. Notable, of course, is that of all the blizzard of spoofing and short term price manipulation cases brought recently in silver and gold, this is the first to zero in on traders at JPMorgan.

I am struck by the DOJâ??s announcement not mentioning the CFTC, although I may be reading too much into that. Interestingly, the guilty plea covers the time the CFTC had a supposed formal investigation in place into a silver market manipulation as a result of the concentrated short position of JPMorgan revealed in the August 2008 Bank Participation Report; a five year investigation that went nowhere. Thereâ??s no question in my mind that the CFTC handles JPMorgan with kid gloves as a result of some type of free get out of jail card emanating from the Bear Stearns takeover of March 2008. The DOJ, much to its credit, doesnâ??t appear to be part of any such arrangement. Thatâ??s not to say that the CFTC wonâ??t be involved as the DOJ pursues this case, just that itâ??s odd at this point that this is an exclusive DOJ production.

Spoofing is the blatantly manipulative practice of entering large orders and immediately cancelling those orders with the sole intent of artificially moving prices. As far as market crimes go, spoofing is obvious and lacking in any possible redeeming features, much like the mugging of old ladies. Itâ??s a testament to the CFTCâ??s and CME Groupâ??s complete regulatory ineptitude that spoofing has existed for as long as it has. With that in mind, let me point out what the DOJâ??s guilty criminal plea doesnâ??t involve.

As much as the guilty plea points the finger at JPMorganâ??s inherent corruption in its precious metals dealings, unfortunately, it only scratchers the surface. Spoofing and other short term illegal trading tricks are only tools used to enable the real price manipulation that is occurring in full view. The real manipulation is the ongoing fraud of prices being set by paper positioning on the COMEX and elsewhere between the nitwit managed money traders and the corrupt commercials, led by JPMorgan. It is nothing short of infuriating that the regulators â?? and I include the Department of Justice here â?? canâ??t or wonâ??t see that spoofing, as bad as it is, is only an enabling tool to a much larger crime.

Spoofing does artificially move prices in the very short term and should have been banned outright many years ago; but to stop at spoofing is to miss the real crime. Spoofing isnâ??t responsible for the long term suppression of prices that has absolutely devastated precious metal investors and mining companies. But spoofing has been an integral tool in inducing the managed money technical fund traders to buy and sell because it gives the commercials the ability to rig prices up or down through the moving averages that dictate the technical fundsâ?? behavior. Thatâ??s evident in the observation that the vast majority of spoofing cases involve traders for the banks. As dumb as I believe the technical funds may be, theyâ??re not dumb enough to spoof and set off phony moving average penetrations to induce themselves into buying or selling.

The ability to spoof prices through moving averages and get the technical funds to buy and sell on command is a key ingredient by which JPMorgan has never suffered a loss in trading COMEX silver and gold. I think I know why the CFTC wonâ??t touch this, but I believe that the only reason for the Justice Department not seeing it is because they donâ??t know enough to look at it. Similarly, I donâ??t believe that the DOJ knows that JPMorgan has accumulated massive amounts of physical silver and gold. (I will try to inform them again).

The real manipulation involves the crooks at JPMorgan acquiring 800 million ounces of physical silver and 20 million ounces of physical gold at prices made artificially low by JPMorgan maneuvering the managed money traders into and out from positions on the COMEX. Yes, JPMorgan used spoofing as indicated in the plea deal to accomplish the maneuvering, but to leave it at spoofing is a gross miscarriage of justice. Itâ??s like the police pulling over a serial killer and letting him go after citing him for a few traffic violations.

All it would take for the DOJ to see the real market manipulation is to step back a bit and consider things in a slightly different perspective. Yes, by all means continue to go after the spoofers, but try to consider that spoofing is only a tool that enables a much deeper price manipulation run by JPMorgan. As much as I am trying to not to get my hopes up that the DOJ might stumble upon the real crime in silver and gold, I do confess to sensing a slight crack in the dike. Coupled with other things, like JPMorgan having now accumulated more physical silver and gold than I could ever have imagined a few short years ago and the incredible physical movement in and out of the COMEX-approved silver warehouses, itâ??s hard for me to see how there wonâ??t be a resolution of the ongoing price manipulation in the immediate future.

A few thoughts on the continued frenzied movement of silver in and out of the COMEX warehouses. Over the past three weeks and including the first two days of this week, there has been an average daily movement of 2.5 million ounces, the most ever over the 7.5 years that I have been reporting on the movement. Thatâ??s the equivalent of 80% of total daily world mine production (adjusting for silver being mined seven days a week and the COMEX movement reported five days weekly â?? just so Iâ??m not overstating the data in any way).

Iâ??m not saying the COMEX movement will or wonâ??t continue as there is no way of knowing that. Iâ??m just saying that the equivalent of 80% of world mine production has come in and out of the COMEX silver warehouses over the past three and a half weeks. One would be hard-pressed to come up with a physical warehouse movement of even 1% or 2% of world production in any other commodity. This is a phenomenon that exists only in COMEX silver. Letâ??s see what else we can say factually about this physical silver movement.

One thing we know is that since the six COMEX warehouses accounting for the movement are located in and around the NYC area that 80% of the actual silver mined in the world over the past three and a half weeks didnâ??t get moved in and out of the COMEX warehouses. Thereâ??s no way silver mined over the past three and a half weeks in China, or Russia, or Australia, or Poland or even South America got shipped in and out of the COMEX warehouses. The equivalent of 80% of the silver mined in the world got shipped in and out from the COMEX warehouses, but not 80% of the actual silver mined. Therefore, we can say that the silver being moved involves mostly or exclusively silver already mined and existing in other non-COMEX warehouses. The turnover involves, largely, existing stock.

Since there are two components to the movement, the in and out movement, letâ??s examine each separately. Iâ??ll start with the out movement, since that is rather straightforward. Those taking silver out from the COMEX warehouses either need it (for consumption or utilization purposes) or want to hold it elsewhere. Further, since we are talking about fairly immense quantities, anyone taking silver out from the COMEX warehouses for investment (want) purposes is likely a very big player or players, as opposed to the metal being moved by many smaller investors. After all, one contract (5000 oz) is roughly $73,000 in dollar terms. As Iâ??ve contended all along, I believe that JPMorgan is responsible for much of the out movement over the past several years and has taken more than 200 million ounces from the COMEX warehouses to deposit elsewhere in depositories not openly visible. This, of course, in addition to the 150 million oz JPM holds and moved into its own COMEX warehouse.

While the â??outâ?• movement is straightforward, the same canâ??t be said for the in movement. This is the movement I have trouble with. The silver is certainly being brought in and because it is needed or wanted it is being shipped out, but that leaves the question for why is it coming in? I canâ??t quite put my finger on the motivation for so much silver being brought in. I canâ??t imagine it is part of some conspiracy where several separate entities are colluding to bring so much physical metal in just to make it look like thereâ??s plenty of silver since the warehouse totals have remained steady or increased. Or that thereâ??s such a surplus of physical silver that it is being brought into the COMEX warehouses because thereâ??s no place else to put it. The key to unlocking the mystery of why so much silver is being moved in and out of the COMEX definitely centers on the in movement, but it is there I get stuck. We know the COMEX silver warehouse movement is occurring and that it is unprecedented and specific to silver and recently has increased tremendously. We also know that JPMorgan is at the center of it, just like everything else in silver. What we (I) donâ??t know is why so much is coming in.

Another announcement this week deserves mention. Iâ??m speaking of the sudden bankruptcy of a major US gold and silver refiner, Republic Metals Corp of Miami Florida. Republic, founded in 1980, is said to have an annual production capacity of roughly 80 million ounces of silver and 10 million ounces of gold. Privately-held, Republicâ??s move to Chapter 11 bankruptcy this week stems from the revelation, in April, of missing inventory with a dollar amount of around $100 million. How inventory can suddenly go missing implies suspicious, if not potential criminal activity, although few hard details are known at this time. Hereâ??s a good source for data â??

http://about.ag/RMC.htm

Itâ??s quite possible that no criminal activity was involved, but time will tell. Should Republic cease operations, even temporarily, that can hardly be considered as likely to increase gold and silver supplies. Missing inventory leaves a potential supply disruption or hole, not a surplus. How much more tightening the physical supply lines can bear before it is reflected in price, particularly in silver, is the question. Certainly, the frantic physical COMEX silver warehouse inventory movement would suggest supply lines are already extremely tight.

As far as recent market activity and what to expect in Fridayâ??s COT and Bank Participation reports, gold and silver prices ended on yesterdayâ??s cutoff roughly where they ended the prior reporting week. Of course, prices fell fairly sharply on Wednesday, the first day of the new reporting week, before rebounding even more sharply on Thursday. The next three trading days (Friday thru yesterday) were down days erasing Thursdayâ??s gains. This makes contract predictions suspect, but I do sense moderate overall net managed money buying and commercial selling; although the managed money traders should still be pretty big net short in both gold and silver in Fridayâ??s report â?? the opposite of what they were on Election Day 2016.

Iâ??m still bothered that JPMorgan added at least 10,000 net contracts of silver shorts the past few weeks, as what these crooks do in silver matters more than anything else. As a result, Iâ??ll be closely monitoring Fridayâ??s reports. Now that Election Day is behind us, leaving the country about as divided as it was beforehand, please allow me to throw out a suggestion which Iâ??m pretty sure will garner bipartisan support from readers. How about having Robert Mueller appointed special counsel to investigate JPMorgan in silver?

Ted Butler

November 7, 2018

Silver – $14.57Â Â Â Â Â Â Â Â (200 day ma – $15.82, 50 day ma – $14.48)

Gold – $1228Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1273, 50 day ma – $1213)

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