

October 10, 2018 – Time to Buy/A Triple Cross

First, here's an article I just wrote for Investment Rarities, followed by today's main feature.

The Time to Buy Silver Is Now

Picking the right time to buy any investment is always a tricky matter according to the advice of those considered most sage. I'm distrustful of those who claim to be all-knowing about the short term. It's far better to focus on the reasons for why to own something for the long term and leave the timing to short term traders. But even the soundest reasons for owning any investment can bring disappointment if an asset is bought at a time of severe overvaluation that corrects downward and adjusts to baseline fair valuation. For example, one can buy the best stock in the world that goes on to perform as expected as an ongoing business, but that goes down in price because it was overvalued at the time of purchase. Overvaluation always gets corrected in time.

Logic dictates that the best approach should be to buy an asset backed by sound underlying reasons for purchase, but that was also undervalued in price at the time of purchase. This has nothing to do with trying to predict short term timing – buying an asset that is undervalued puts time on your side, whereas buying an asset that is overvalued leads to time working against you.

On any objective basis, silver is backed by any number of sound reasons pointing to much higher prices in the future and is also currently undervalued in price to a degree rarely seen in the past. In fact, the biggest knock against silver is that it has gone down for more than seven years while other assets have done nothing but appreciate. But the price decline is precisely what has caused silver to be undervalued, while the appreciation of other assets has caused them to be overvalued. Undervaluation is not created by price appreciation, only by price decline. I understand that investors, collectively, feel better about buying assets that have appreciated; but this is not about feelings – it's about undervaluation putting time on your side.

So what are the reasons, aside from undervaluation, for buying silver now? How about the best COMEX market structure that has ever existed? There has never been a time when the true kingpins of the market, the traders referred to as the commercials and most particularly, JPMorgan, have been less short and are now even net long in COMEX futures. Conversely, there has never been a time when the traders which have no legitimate economic reason to be short are, in fact, now the biggest shorts. Of course, I'm referring to the record short position held by purely technical fund traders. COMEX positioning is the cornerstone of my 35 year study of silver and it has never been more bullish than it is right now.

Such an extremely bullish market structure could only come at a time when silver was extremely undervalued in price, but the combination of the two – structure and price – make for a most compelling case for buying silver now. But wait, there's a lot more. The most dominant force in silver, JPMorgan, has not only eliminated completely its price-controlling COMEX paper short position for the first time in a decade; it has increased its stockpile of physical silver to 775 million ounces, the most metal held by a non-governmental entity in the history of the world.

Common sense would seem to suggest that JPMorgan did not go to the trouble of manipulating the price of silver lower over the past ten years in order to buy more physical silver than anyone else in

history for a quick profitable trade of a few dollars. Reason dictates that JPM intends a major score only selling on a price increase of ten or twenty times or more from current levels. Remember, silver ran to \$50 in 2011, up tenfold from the price lows of several years earlier. I'm convinced that the only reason it then came down was because JPMorgan was on the wrong side of the market in 2011. Now that it is on the right side to a degree never witnessed there is every reason to expect an even greater price surge.

I can't tell you exactly when JPMorgan will decide to help itself to many tens of billions of dollars by letting silver run free to the upside, but it has never been in a better position to do so than now. I can tell you that JPMorgan would much prefer that you wait to buy silver until it is much higher in price and it is looking to sell. Finally, I can tell you that if you are going to buy silver, you will be much better off buying now, while it is undervalued and with time on your side, than by waiting until it is overvalued and in great collective demand.

A Triple Cross?

I'm not quite sure of the exact term to use, but it refers to how many ways JPMorgan has used to set itself up for a major move higher in silver and gold at the expense of other commercial traders. Double cross seems inadequate because I've already used that term to describe JPM's remarkable buying back of COMEX gold short positions starting back in May/June, at the outset of the price decline in gold.

First, JPMorgan bought back at least 90,000 gold short contracts, eliminating its short position completely. Then, after adding aggressively to its silver short position into mid-June (in order to keep prices capped while it bought back gold shorts), JPMorgan then succeeded in buying back its entire 40,000 contract silver short position into September. It almost goes without mention that JPM bought back all these gold and silver short positions at a profit, as it has never taken a loss in COMEX trading for a decade. Certainly, JPMorgan was the largest single buyer of gold and silver on the big price drop from mid-year.

Looming even larger than JPMorgan's remarkable achievements in buying back so many COMEX gold and silver short contracts over the past several months is its absolutely stunning accomplishment over the past seven and a half years of the physical accumulation of 775 million ounces of silver and 20 million ounces of gold. If any other private entity has been a notable acquirer of physical metal over this time, then I have failed to detect it and see not the hint of an alternative buyer or buyers suggested by anyone else. In a very real sense, in accumulating such massive quantities of physical metals almost unknown to the outside world, JPMorgan has pulled off the biggest double cross imaginable.

Considering the extent of what I believe JPMorgan has accomplished in buying back so many paper short positions and the accumulation of so much actual metal (all at shockingly low prices), about the last thing I was looking for was another possible third leg to the bank's remarkable achievements outlined above. Looking or not, that third leg seems to have come into focus.

It's been a few years since I've referenced the OTC (over the counter) derivatives market in gold and silver, centered principally in London. Many claim that the LBMA (London Bullion Merchant Association) is the largest gold and silver trading venue in the world, but I don't refer to it much

since it is largely opaque and, in fact, is the least transparent market of all. Once a month, the LBMA, effectively, issues a report claiming average daily trading volumes. The claim is that the trading involves physical metal, but the volumes are so large in relation to the amount of physical metal in existence so as not to be believable. The LBMA monthly report is perhaps as little as one percent as detailed as the weekly COT report from the CFTC and for that reason alone, I don't consider it much.

Nonetheless, there are still some data that can be gleaned from the OTC market in precious metals derivatives. Additionally, there is a quarterly report from the US Treasury Department's Office of the Controller of the Currency covering the OTC derivatives position of US Banks. By far, the largest share of the OTC derivatives market covered by the OCC, said to be over \$200 trillion in total notional value, is in interest rate related derivatives, while gold and silver derivatives make up a tiny percentage of the total amount. Notional value is the total face value of a derivatives contract, not the amount at risk or margin required. An OTC derivatives contract on silver the same size as a standard COMEX contract (5000 oz) would be expressed in terms of the full dollar amount of the contract, or roughly \$72,000 (at \$14.40).

<https://www.occ.gov/topics/capital-markets/financial-markets/derivatives/dq218.pdf>

Complicating matters is that a while back, the OCC chose to include gold in the foreign exchange grouping and not in the precious metals category, making it practically impossible to measure gold derivatives on their own. The metals in the precious metals category in table 9 (page 45) are assumed by me to include silver, platinum and palladium, with two-thirds being silver. While much of the report is sketchy (at least to me), some things can be ascertained. For one thing, among US banks, JPMorgan is by far the leading holder of OTC precious metals derivatives, holding close to 50% of the total, followed by Citibank with just over 25% of the total. Interestingly, both Goldman Sachs and BankAmerica, themselves leaders in OTC derivatives overall, hold no precious metals derivatives.

I've loosely followed the OCC report for many years, well before JPMorgan took over Bear Stearns in 2008. JPMorgan has always been the dominant force the entire time; which is more than fitting since I purport the bank to be Mr. Big in silver and gold. The standout feature to me of who is holding precious metals derivatives is definitely the emergence of Citibank over the past several years. Before then, Citi was always a rather marginal player in the arena, so it's quite notable that it is now the second largest holder, by far, of OTC precious metals derivatives contracts.

At the same time, even though Citibank is clearing member on the COMEX, it rarely gets involved in actual silver deliveries, either for itself or on behalf of clients. That's not to say Citibank isn't active in COMEX trading, strictly on a paper basis. Based upon changes in recent COT and Bank Participation reports I've sensed the entry of a US bank onto the short side of COMEX silver futures, as JPM appeared to be buying back shorts. I've come to believe that other bank in Citibank.

Of course, the biggest knock against the OCC derivatives report is that it provides no clue whatsoever as to the breakdown of JPM's or Citibank's actual holdings or even if either is net long or short. I've seen others try to make a big deal out of this report from time to time, but seeing how little real detail is provided is the main reason I rarely referenced the report. But clearly, I'm doing so now and I would like to explain why. While we still can't tell whether JPMorgan or Citibank is net long or short from the OCC report alone, we can tell (if silver makes up the main portion of the total holdings, as I believe) that the total position closely rivals the overall size of the COMEX silver futures total open

interest. This makes the OTC silver derivatives position quite significant.

Moreover, JPMorgan has been on a tear in buying back COMEX silver and gold short futures contracts these past few months and, as you know, I am more than convinced that it has also picked up unprecedented massive actual quantities of silver and gold for years. So while I can't prove it from the OCC data alone, it dawned on me that with JPMorgan buying back so many COMEX short positions and accumulating more physical metal than any private entity in history, it stands to reason that it has behaved similarly in silver (and gold) OTC derivatives.

Given the overall size of the silver OTC derivatives position and the time (years) in which Citibank has emerged as a leading holder, the amount of OTC paper silver bought by JPMorgan could be enormous. How enormous? I'd say on the order of several hundred million ounces. If my speculation is correct, then that means that in addition to JPM's 775 million oz physical silver position, its effective net long position is well over a billion ounces (physicals plus OTC longs).

Granted, the long OTC silver derivatives position that I strongly suspect JPMorgan has amassed and which Citibank is short is not actual metal; but to JPMorgan that matters little. If Citibank is short, it should be money good for any losses accruing to it and any profits accruing to JPMorgan on a silver price surge. JPMorgan is interested in profits, not the actual ownership of metal and the only reason it accumulated such a massive amount of physical metal, as I've maintained all along, is for a major, major profit score.

If JPMorgan could have gone out and from the get go just bought as many COMEX silver futures contracts or OTC derivatives as it desired and could afford it would have done so straightaway. But, as I hope I've explained previously, that was not possible without driving prices skyward. Instead, JPM devised what can only be described as a (criminal) genius solution that I had never considered before first observing it. After experiencing the historic run up in silver prices to \$50 in April 2011 by being on the wrong (short) side of the market, JPMorgan devised the perfect solution of not abandoning completely the paper short side, but use its dominant paper short position to continue to suppress prices, while beginning to acquire enough physical metal to eventually offset its paper short position (at suppressed prices).

Within two or three years from the start of its accumulation solution in early 2011, JPMorgan did acquire enough physical silver (200 million oz) to offset its paper COMEX short position, although perhaps not its OTC derivatives short position. But the physical silver accumulation genius solution had worked so well to that point that JPMorgan made the conscious decision to turn what had originally been strictly a defensive remedy into an offensive, profit-oriented strategy that began to include the accumulation of physical gold as well. You may remember me writing about JPMorgan switching from holding a bearish market corner in COMEX gold futures at the start of 2013, to a bullish market corner by the summer of that year and for it to go on accumulating millions of ounces of physical gold by that year's end.

<http://www.kitco.com/ind/Taylor/2014-01-14-2013-Was-the-Year-of-JPMorgan-in-the-Gold-Silver-Markets.html>

Clearly, the single biggest factor in JPMorgan's remarkable achievements was its ability to crush silver (and gold) prices for years in its role as price manipulator-in-chief. There's no way JPM could have accumulated its massive piles of physical silver and gold, its complete buy back of all its COMEX

short positions and, now, it's getting net long in OTC dealings in circumstances that didn't feature a complete annihilation of the price. If the price hadn't been annihilated, there would have been competition for physical metal and the technical funds and now Citibank would have never been snookered and double crossed. JPMorgan, knowing full-well why silver and gold prices were declining (due to its own actions) and having unlimited buying power had the patience and discipline and insider knowledge to pull off a scam that has taken many years to execute.

When JPMorgan has had what it feels is a sufficient enough triple cross to satisfy itself, then it will reap what it has sown to the upside in prices. I think we have to be extremely close to that time, but it isn't up to me (or you or anyone else). It is up to JPMorgan and it alone. But more than ever, I'm convinced when that time comes, it will be best to be in position beforehand rather than try to jump aboard once the move has commenced.

In developments since the Saturday review, gold and silver prices got slammed out of the gate starting Monday morning and have remained on the defensive through today, particularly in silver. While I didn't expect the price slam, considering that we closed last week right at the key 50 day moving averages in both gold and silver, there can be little question that this week's selloff was designed to keep the managed money technical funds on the short side of the ledger and for them to add short positions.

It is simply amazing how egregious and blatant has become the role of futures market positioning in the (illegal) setting of price, not just in silver and gold, but other commodities as well. A week or so ago, I referenced a Reuters article on zinc about how prices seemed completely disconnected from actual supply/demand fundamentals. Here's a Bloomberg article parroting the same theme in copper. What's amazing to me is how so few have made the connection that futures market positioning is what's setting prices; none more so than the regulators.

<https://www.bloomberg.com/news/articles/2018-10-08/from-blenheim-to-blackrock-here-s-why-everyone-s-bullish-about-copper>

As far as what to expect in this Friday's COT report, the price drop over the reporting week, pushed prices not only down from the 50 day moving averages in gold and silver, but also below the 20, 30 and 40 day moving averages in each. As such, the as much as \$20+ price drop in gold and 40+ cent price drop in silver through yesterday's cutoff featured heavy managed money selling and commercial buying. How much is still hard to gauge since managed money short positions are still quite close to historical extremes; but I'm hopeful that much of last week's managed money buying in silver was reversed. There wasn't that much managed money buying in gold (around 4000 net contracts) last week, so I'm hopeful there was more than a reversal of managed money selling in Friday's gold report.

These sudden selloffs, with no apparent justification from real world developments remind us, first and foremost, that gold and silver prices are strictly set by paper dealings and are, therefore, manipulated. Further, as tiresome and redundant as it is to hear, the selloffs almost always improve the market structure.

Finally, the sharp selloff this week pushed the open and unrealized profits of the newly added (since June 12) technical fund short positions sharply higher through today's close. At today's close, the new technical fund shorts have gained back \$220 million, pushing their total open profits to \$800

million, about \$150 million off the \$950 million in peak profits when I started this version of the money scoreboard about a month or so ago. I still believe these profits will evaporate and turn into realized losses when the dust settles, but will nonetheless attempt to record the results objectively in the interim.

Ted Butler

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Silver – \$14.33 (200 day ma – \$16.06, 50 day ma – \$14.65)

Gold – \$1195 (200 day ma – \$1282, 50 day ma – \$1205)

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