October 17, 2018 – Slow Motion – But For How Long?

While time definitely speeds up as one grows older, a rule that was passed on to me by my father in his very late years, there are always exceptions to every rule. Certainly, an exception for me has been the behavior of silver (and gold) for the past seven or eight years. At a time when actual developments in the silver market have been coming at a breakneck pace, the price action has appeared to have been suspended in some type of slow motion time warp. What was formerly the worldâ??s most price volatile commodity has morphed into a virtual bump on a log.

Most confounding is that the developments I have observed would argue for the opposite of the comatose price action of the past several years, starting with the fact that there is much less actual silver in existence than there was many years ago and much more physical fabrication demand, money and people in the world. Thatâ??s a formula for increased, not decreased price volatility. Fortunately for the sake of mental stability, an explanation has emerged that is not only plausible, but also is the only possible justification for the disparity between what should be and what is.Â When it comes to the prevailing silver price levels and volatility versus actual fundamentals, the only explanation is that silver has been manipulated in price.

Simply put, the price discovery process in silver (and gold and other markets) has been transferred from actual supply/demand developments to paper market developments. What matters now is not actual metal supply and demand, but paper market supply and demand between the managed money traders and their counterparty futures traders, primarily commercials and, particularly, JPMorgan. Silver has been comatose in terms of price volatility and has declined in price these past seven and half years because of paper trade on the COMEX. If silver wasnâ??t controlled by the paper trade, among other things, JPMorgan would have never been able to accumulate close to 800 million oz of actual silver on the down low and succeeded in never taking a loss in paper trade.

As long as the paper dominance of the COMEX has persisted and as impressive as are JPMorganâ??s accomplishments to date, nothing lasts forever; particularly, since the paper market control of a physical market is as artificial as it gets. I know it is human nature to extrapolate all existing trends in force to continue indefinitely, but that must be weighed against the best interests of those truly in control. No one has benefitted more than JPMorgan in silver and gold over the past decade since it acquired Bear Stearns in early 2008, both in terms of the many billions of dollars it made in the paper COMEX trade (with never a loss) and by acquiring absolutely massive amounts of physical metal on the cheap. As such, JPMorgan must be considered to be in control.

While no one has benefitted more than JPMorgan by silver and gold prices being in slow motion, it is also true that no one stands to benefit more than JPM should prices now shift into high gear. The most glaring consequence of JPMorgan having accumulated as many as 800 million ounces of physical silver and 20 million ounces of actual gold bullion (plus perhaps 200 to 300 million oz of silver and millions of ounces of gold OTC derivatives) is that the bank will make an almost incalculable fortune on a price explosion â?? many times more than if it were continue the COMEX paper scam it has run for more than a decade. There has to be a reason JPMorgan accumulated all the physical silver and gold it has and, by far, the most plausible is to score big financially.

Of course, I canâ??t guarantee that JPMorgan is close to pulling the plug on its perfect COMEX paper scam and freely admit to having been wrong to this point about JPM letting it rip before now. Maybe these crooks could do it for another price cycle or two; but thatâ??s contingent on two things â?? the number of contracts JPM will be forced to short to cap prices (and buy back lower) and the ability to continue to pick up actual metal cheaply and without detection. Let me attempt to measure this objectively.

The last time JPMorgan added aggressively to its COMEX silver shorts was into the price top of June 12, when it added 20,000 new shorts to a total short position amounting to 40,000 contracts (200 million oz). The new shorts were added as silver prices rallied from $16.25 on May 1 to $17.25 on June 12. This was a super aggressive addition to silver short sales by JPMorgan on such a minimal price rally; and I still contend JPMâ??s main motivation was to cap and contain the silver price rally so as to enable it to buy back an even larger number of its gold short contracts at that time (my double cross premise).

Following the silver price top of $17.25 on June 12, JPMorgan, in concert with other commercials, rigged silver prices lower by more than $3 into September by succeeding to induce the managed money traders into selling 90,000 net contracts (450 million oz) of COMEX silver futures and more than 200,000 net contracts (20 million oz) of COMEX gold futures, both by long liquidation and new short sales. This was the most managed money selling in history and resulted in the largest short positions in COMEX gold and silver by the managed money traders, something that has been widely written about.

Remarkably, JPMorgan bought nearly half of the total net selling by the managed money traders over this time, amounting to more than 40,000 silver and 100,000 gold contracts, completely covering its short positions in each. As I have written recently, I estimate that JPMorgan made around $300 million profit in buying back the 40,000 short silver contracts it held on June 12 and I would add it made at least that amount on its covering of its gold shorts, perhaps more. So why would JPMorgan walk away from a scam that produced such outsized profits? Â Why wouldnâ??t it continue to milk this cash cow for as far as the eye can see?

I would contend that if JPMorgan could easily replicate its remarkable achievements of the past several months, it would do so. My point is that I donâ??t think JPMorgan can do so. Sure, JPM can sell as many additional short contracts as it cares to and cap the price at any level it desires â?? but can it do so profitably? In other words, selling short is just one part of a two-part equation and for JPMorgan to emerge from yet another successful price capping campaign, it must be able to buy back whatever shorts it added at prices lower than what it sold short at. In order to do that, JPMorgan must sell short at a high enough price to enable it to buy back added shorts at a subsequent lower price. What price would that be?

In the case of silver, we know that JPMorgan drew the line at $17.25 back in June and it then took three months and a drop of $3 for it to buy back its entire short position. The additional silver short sales into the June price top were accompanied and motivated by vigorous gold short covering. Now that JPMâ??s gold short position has been covered, it also removes covering it as a current concern for the bank. This argues for JPMorgan holding out for higher prices the next time it adds aggressively to its silver and gold short positions (if it adds at all).

Iâ??ll certainly stipulate that should JPMorgan choose to add as many new short positions in silver and gold to cap prices at say, $16 in silver and $1280 or so in gold, it is capable of doing so. But why wouldnâ??t it let prices run higher? If JPMorgan does add to its silver and gold short positions, Iâ??m confident that will be indicated in the data from the CFTC in the COT and Bank Participation reports, which more follow than ever before. It canâ??t be considered constructive from the perspective of the chief market dominator that more are following its every move. And if JPMorgan does decide to let prices run higher than the mid-year highs, then why not a whole lot higher?

Further, itâ??s not completely up to JPMorgan. In order for JPM to yet again add to shorts on higher prices and then buy back those added shorts at lower prices, the cooperation of the brain dead managed money technical funds is required. Futures trading is a zero sum game, meaning JPMorganâ??s continued profits are contingent on the technical fundsâ?? continued losses. Even though I consider these funds to be intellectually on a par with a bag of rocks for not seeing that they are the suckers sitting at the COMEX poker table, they have to have grown tired of having nothing to show in COMEX silver and gold dealings, aside from temporary unrealized profits.

Itâ??s no secret that what enabled JPMorgan to buy back its entire COMEX silver and gold short positions was, largely, the willingness of the technical funds to establish the largest short positions in history. As expected, nearly all the open and unrealized profits that had accrued to the technical fund shorts have evaporated in gold and minimal open profits remain in silver (as of last nightâ??s close). The final disposition of the record short position remains unknown at this point, but the fact is that despite expected heavy buying by the technical funds in this weekâ??s coming COT report, no more than 20% to 25% of the total managed money selling in gold since the spring has been reversed.

The very large amount of remaining managed money buying potential in both gold and silver is certainly something that JPMorgan is aware of, since it would be impossible for it not to be aware of such a key market dynamic. I would contend that JPMorgan knows better than anyone what the price impact would be if it doesnâ??t sell short aggressively on the next rally (or this rally continuing), but still must weigh the odds on it being able to buy back those added short positions later and how much time it would take to complete another full price cycle.

It goes almost without saying that whether silver and gold prices remain stuck in the slow motion time warp of the past nearly 8 years or suddenly break that yoke is up to JPMorgan. The key is still that if we do bust out of the slow motion mode, no one will benefit more than JPM, which coincidentally, is squarely in control of the price discovery process.

As far as what to expect in this Fridayâ??s COT report, the explosive move higher in gold last Thursday (+$34) looked to involve heavy managed money buying, both short covering and new buying, as total COMEX open interest surged that day by more than 24,000 contracts. Since then, gold prices have remained mostly mixed to slightly higher through yesterdayâ??s cutoff, while total open interest has been reduced to only being up around 9,000 contracts for the reporting week.

Iâ??ve gotten into the habit of not predicting changes in upcoming COT reports and I should probably continue that practice (let them think you know by not saying anything, rather than by openly revealing that you donâ??t know). Still, as I indicated on Saturday, we did bust decisively above the key 50 day moving average in gold on Thursday on heavy trading volume and have remained above that level since. I did throw out an expectation of managed money buying in gold of 50,000 net contracts that still seems reasonable, so let me break it down further to expected ranges. Iâ??d consider more than 60,000 or 70,000 contracts of managed money gold buying to be disappointing, while under 30,000 to 40,000 contracts to be encouraging.

Silver is different in that while we did penetrate the key 50 day moving average, it was nowhere near as decisive a penetration as was the case in gold. In addition, total silver open interest varied little over the reporting week and trading volumes were generally on the light side. I get the feeling that the technical funds are waiting for a more convincing up move, say over the $15 mark before reacting more forcefully on the buy side. Iâ??m expecting moderate managed money net buying in Fridayâ??s report, say 5000 contracts or, hopefully, less.

Regardless of what Fridayâ??s report indicates, goldâ??s move up does open the possibility of a sudden price take down below the 50 day moving average to put as many managed money traders who flipped to the buy side back onto the sell side. One must never forget that gold and silver are highly manipulated markets and until shown otherwise, sudden selloffs designed to hoodwink the technical funds must be expected.

On the other hand, itâ??s also wise to step back and appreciate just how incredibly the technical funds have been hoodwinked over the past several months. The sole purpose of the $150 gold and $3 silver price declines since spring/early summer was to generate as much managed money selling as possible, thereby enabling the commercials and particularly JPMorgan, to buy as much as possible. Itâ??s no understatement to conclude that the commercials succeeded beyond any previous measure, with JPMorgan completely eliminating both its gold and silver short positions for the first time ever.

Moreover, at yesterdayâ??s close, the technical funds had no open profit to show for the still incredibly massive amount of gold selling they had undertaken over the past several months and only a relatively small open profit remaining in silver. Again, the expected managed money buying in Fridayâ??s gold COT report clears the way for sudden price downdrafts, but any such potential selloffs are dwarfed by much larger potential buying still built in. And should we get the possible selloffs, instead of continuing to turn higher, the price downdrafts should prove to be short lived. While one must always be prepared for sudden price selloffs, one must be more prepared for the much larger price rallies to come.

Ted Butler

October 17, 2018

Silver – $14.65Â Â Â Â Â Â (200 day ma – $16.00, 50 day ma – $14.57)

Gold – $1227Â Â Â Â Â Â Â Â (200 day ma – $1280, 50 day ma – $1205)

Date Created
2018/10/17