October 4, 2017 – Thinking Like a Criminal

Of all the things I believe I learned from my old friend and silver mentor, Israel Friedman, the best may have been his advice to think like a criminal when analyzing a circumstance that had a criminal basis. Despite sounding like a fairly easy thing to do, itâ??s hard for most people; I believe because most are honest and not out to swindle others. But there is a dark side to life in many quarters and in such cases, choosing to judge through a criminal perspective is the only rational approach. Put simply, that has become the perspective by which I analyze silver (and gold).

Not to rehash history, my whole fascination with silver started quite unintentionally some 30+ years ago on a challenge from Izzy to explain why the price was so low in the face of what could only be described as the most bullish circumstance possible in any commodity – a structural deficit in which more silver was consumed than was produced for forty years running to that point. Remarkably, even though the structural deficit ended ten years ago, the fundamentals in silver are still spectacularly bullish in the face of a continued low price and the reason is the same today as it was 30 years ago â?? COMEX positioning. The ability for unlimited shorting of paper contracts on the COMEX by a handful of big banks fully explains why silver prices have remained so low.

It took me about a year to uncover the answer to Izzyâ??s challenge and the only reason I was able to do so was because I just happened to have a deep working knowledge of the futures market at that point, as it was my profession. Certainly, it was more that futures market familiarity than it was being due to any towering intellectual capacity on my part. In fact, Izzy didnâ??t accept my explanation for several years, I think because he didnâ??t have the same professional and technical background (not to take anything away from someone who bought silver at $5 in 1977 and sold it at $40 in early 1980). But when he did come to accept the COMEX positioning explanation, Izzy coined some aspects about it in ways no one else could â?? like â??slicing the salamiâ?• and â??full pants down.â??

Thanks to Izzyâ??s input, more and more I have come to view silver exclusively through the criminal perspective of those controlling the price, particularly JPMorgan and other commercials. To do otherwise would be irrational. In fact, thatâ??s the basic premise behind what I write. The real contest is the money game between a relatively few large paper speculators, mostly banks on one side and managed money technical funds on the other side. Even though the game is all on a paper trading basis, because it has grown so large and visible, silver prices are first set on the COMEX and then dictated to the rest of the world, including real producers and consumers of the metal (which is basically nuts and illegal).

Because I am convinced that the banks (called commercials) control and manipulate the managed money technical funds in and out of the market and not the other way around, my basic market premise is to expect the commercials to prevail against the managed money traders. When big commercials are relatively lightly short and the managed money traders heavily short, I expect prices to rise and when the opposite is true, the big commercials are heavily short and the managed money traders heavily long, I expect prices to fall. Most recently, the commercials had gotten heavily short in silver and gold on rising prices and have now begun the process of buying back those shorts on the price decline over the past few weeks.

Please understand I am concerned with what has the greater probability, the commercials losing collectively to the technical funds for the first time and being forced to close out short positions at higher prices at big loss or a continuation of the commercials remaining in control. I fully admit it is possible for the commercials to get overrun on the upside, particularly now that JPMorgan is protected by its massive physical silver holdings, but in terms of probabilities, that is not the safe bet. I would prefer that the commercials lose control, but my preferences are different from the probabilities. The probabilities favor the criminals.

For the criminals (the commercials) to win this latest round of COMEX positioning, they must generate sufficient managed money selling and the only way for that to occur is with a series of new price lows (aka slicing the salami). There is no particular time period in which this must occur and this allows for intermittent price rallies during a positioning move to the downside. This is one of the frustrations with COT market structure analysis as a timing mechanism â?? the only time basis that matters is what the criminals determine it to be. The only measure of criminal failure is collective commercial short covering to the upside. Thatâ??s coming someday, but not through this day. As and when there is collective commercial short covering to the upside, the silver manipulation will be over.

Over the past three weeks, through today, the 8 largest commercial shorts in COMEX gold and silver have succeeded in rigging prices lower to the tune of largely recovering the entire $2.7 billion they were out in unrealized losses at the recent top in gold and silver prices. I know there is wide disparity between the individual positions held by the 8 largest shorts, but on average, each big short has recouped close to $350 million as a result of the price decline. But simply knocking down the price is not enough, the real task at hand for the biggest criminal shorts is to buy back as many short positions as possible. On that measure, there would still appear to be much work ahead.

This Fridayâ??s new COT report will undoubtedly feature a further improvement in market structure, or commercial buying and managed money selling for the third straight reporting week. But almost regardless of what is indicated in the new report, there wonâ??t be a complete repositioning of the commercial selling of the previous eight weeks. For the 8 big commercials to win this round, just as theyâ??ve always won all previous positioning campaigns over the past 30 years, they have to buy back much more than they have bought back so far. How much more can and will be debated, but they are not in position to declare victory quite yet.

Yes, the 8 big commercial shorts in COMEX gold and silver would appear to be in the cat birdâ??s seat in terms of erasing the big open losses they held just three weeks ago, but they havenâ??t bought enough short positions back at this point for me to call the market structure bullish. It may turn out that buying competition from the raptors (also commercials but separate from the big 8) and other traders may thwart the big 8â??s ability to buy back all the new shorts added on the two month rally from the COT report of July 18. Or that the managed money traders donâ??t add the massive numbers of new shorts they held on July 18 and if they donâ??t, that would deprive the big 8 from buying back their own shorts aggressively, as I wrote about on Saturday. Finally, it is always possible that JPMorgan double crosses its big 8 criminal brethren, also discussed previously.

All that aside, it still appears most probable to me that the big 8 and JPMorgan continue to assist in slicing new prices lows in gold and silver in order to induce further managed money selling. Thinking like a criminal, it would appear to me that JPMorgan stands to gain more in buying back as much of its recently-added paper short position on the COMEX than any other action it could take. Then again, no one could be privy to everything another is thinking, criminal or otherwise and my assumption on what is best for JPMorgan in silver at this point is subjective. Based upon objective data to be sure, but subjective, nonetheless.

Even if JPMorgan is successful in buying back â??onlyâ?• half of the 23,000 new short silver contracts it added on the recent rally from July 18 that would come to 11,500 COMEX contracts or 57.5 million oz. It would be impossible for JPMorgan to buy that much new physical silver in the time it might take to rig prices low enough to induce the quantity of technical fund selling needed for JPM to cover many paper shorts. Therefore, it would appear that would be the best course for JPM. Please donâ??t take that as a precise prediction, as all I can do is monitor and judge as time progresses. My best guess is that there is more salami slicing ahead because that would be in the best interest of the criminal commercials running the show.

As far as what to expect in Fridayâ??s COT report, before I give some predictions in terms of numbers of contracts, allow me to offer some background as to the thinking that goes into making predictions currently; the methodology as it were. For the reporting week ended yesterday, gold prices fell by around $30 and silver by a bit less than 30 cents. Importantly, both gold and silver made successive new price lows over every day of the reporting week (obvious salami slicing) and gold spent each trading day below its key 50 day moving average for the first time in months; while silver finished below both its 50 and 200 day moving averages every day of the reporting week. For inducing technical fund selling, this is the equivalent of not only waving a red flag in front of an angry bull, but also smacking him in the testicles. It would be shocking if the new report didnâ??t feature managed money selling and commercial buying.

As for how much that gets complicated because the managed money traders were probably selling out longs and adding to shorts, which would show up as total open interest being unchanged, if done in equal amounts and all other factors remaining equal. Likewise, commercial buying could take the form of new raptor buying which would increase total open interest or big 8 short covering which would reduce total open interest. For the reporting week ended yesterday, total gold open interest dropped by more than 24,000 contracts, while the total open interest in silver fell by 3500 contracts.

Adding all these factors together, I would guess there was more managed money long liquidation in gold than there was new shorting and would guess a headline number decline of around 35,000 contracts in gold and maybe 10,000 net contracts in silver featuring relatively more new short selling by the managed money traders. Please remember that the contract predictions are less important than the actual changes. Of special interest, of course, will be Fridayâ??s release of the monthly Bank Participation report, which should help clarify JPMorganâ??s silver short position. Truth be told, if I could I would delay the Bank Participation Report for a couple of weeks in order to get a better read on JPM at that time rather than as of yesterday.

While nowhere near the scope of the natural and man-made tragedies of late, I must note the passing of rocker Tom Petty yesterday for the simple reason Iâ??ve used his songs as titles in more of my articles than anyone else. I confess to engaging in a quirky personal game of using song titles as article titles (thereâ??s no law against having a little fun). The very first may have been in early 1998 about the coming end of the line for precious metals leasing, patterned after the Traveling Wilburyâ??s classic hit, of which Petty was a member.

http://www.gold-eagle.com/article/end-line https://www.youtube.com/watch?v=cwqhdRs4jyA

Now that he has passed, I thought I might share the line from a Petty song I planned to use when the great day arrived when the silver manipulation was ended and prices exploded. Iâ??m more convinced than ever that day is coming and when it does arrive the line I planned to use (God willing) came from Pettyâ??s â??Last dance with Mary Janeâ?•â?¦. â??Oh my my, oh hell yes, honey put on that party dress.â?•

Ted Butler

October 4, 2017

Silver – $16.62Â Â Â Â (200 day ma – $17.12, 50 day ma – $17.11)

Gold – $1277Â Â Â Â Â Â (200 day ma – $1249, 50 day ma – $1298)

Date Created
2017/10/04