August 8, 2018 – The Next Run to $50 Silver (and Beyond)

Not once, but twice before has the price of silver risen in a short period of time to $50; in 1980 from little more than $7 a year earlier during the infamous Hunt Bros. manipulation and again three decades later in April 2011, when the price rose to nearly $50 from under $18 eight months earlier. Prior to the price run up in 2011, I recall writing that such a move was more than possible, as something that had already occurred proved such a move wasnâ??t impossible. Let me restate that today to include that something that has happened twice before is even less impossible to occur again.

There was a lot more silver in the world in 1980, when the price hit $50 for the first time than there is today; I would estimate there was more than three times the amount of silver above ground in 1980 than the two billion ounces in the form of industry standard 1000 oz bars of today. This makes another run to $50 all the more feasible. And while there may be several hundred million more ounces in industry standard form today than there was in 2011, the amount of world money creation and buying power has increased exponentially over the past seven years, making the dollar value of any increase in the amount of physical silver not even a rounding error by comparison.

Like any physically-produced commodity, itâ??s a lot more difficult to expand the physical supply of silver than it has been to expand the world money supply and investment buying capacity or even the number of shares of stocks or amount of new debt issued. What this means is that it is nothing short of extraordinary that there is less than a third remaining in bona fide world silver inventories today than there was in 1980, while the price has remained far below the peak back then.

In order to get a sense of what Iâ??m talking about, consider this â?? in 1980, there were less than 3 billion ounces of gold in all forms above ground throughout the world â?? the cumulative production of thousands of years. Today, 38 years later, the total amount of above ground gold existing throughout the world has doubled, thanks to an explosion of gold mine production. While silver mine production has similarly exploded over the past 38 years, there is much less silver around now than there was then. The explanation for why there is so much less silver and so much more gold is that silver is a vital industrial commodity, consumed in a wide variety of applications, while gold is not. In fact, silver lost its previous primary consumption use – photography, due to digital displacement, but despite this loss, a myriad number of new uses powered silverâ??s continued consumption.

Please donâ??t take any of this as a knock on gold, as I couldnâ??t be more excited about its price prospects as I hope I have conveyed recently. Iâ??m just attempting to point out silverâ??s extraordinary inventory circumstances. The fact is that the price of gold is substantially higher than it was at its peak in 1980, while the price of silver is less than a third of its peak. Nowhere in the world of the true and free law of supply and demand is it normal that a drastic decline in world inventories should translate into a dramatic decline in price â??except when the hand of price manipulation is at play.

While it may be enough to point out that silver quickly ran to $50 on two previous occasions over the last 38 years and that there is a lot less of it in existence than there was in 1980 and not much more than there was in 2011; to stop there would be woefully minimizing the powerful dynamics in place for the next move higher. Based upon those dynamics, the next real move higher in silver should extend far beyond the $50 barrier of the past and moreover, when the move does start, it will most likely unfold much quicker than the previous big moves. Particularly regarding the quickness of the big move to come, when it occurs, most observers will be dazed and confused.

The principle dynamic of the coming big move higher is the role of JPMorgan in silver (and gold). Over the past ten years, as a result of its government-assisted takeover of Bear Stearns, JPMorgan has been the dominant futures (paper) short seller on the COMEX, becoming so powerful that it has compiled a perfect trading record â?? never once taking a loss and amassing many billions of dollars of accrued trading profits. As remarkable as this unblemished trading record of the past decade has been, it actually pales in comparison to what JPMorgan has been able to accomplish in the physical market. Not only has JPMorgan compiled a stunningly perfect futures trading record, it has used the highly depressed prices it largely created to accumulate on the cheap 750 million ounces of physical silver and 20 million ounces of physical gold starting seven and a half years ago.

The accumulation of such a massive hoard of physical silver and gold, by far the largest such amounts in history, is the single most powerful argument for the coming move higher in silver (and gold) being one for the record books. Simply put, JPMorgan is the unchallenged master of the financial universe and it didnâ??t go to the trouble of accumulating such massive and historic quantities of physical silver and gold for a quick trade â?? it did so in order to make the largest profit in history.

I understand that many doubt my claims that JPMorgan has amassed 750 million oz of physical silver and 20 million oz of gold. After all, aside from the near 150 million oz of silver that JPMorgan holds in its own COMEX warehouse, all of which it acquired since 2011, documentable proof of the other 600 million oz that I claim JPM owns is notably missing, or so it would seem. Certainly, if the entire 750 million oz could be seen by everyone, there would be no debate and my claims would be pedestrian and decidedly unremarkable. It is precisely because most of the silver held by JPMorgan canâ??t be seen that makes my claim noteworthy.

Let me confess to something â?? it is the dream of every analyst to uncover something important that has been overlooked by virtually everyone else. In that sense, I feel extremely fortunate for my discovery. The corollary is that absent my claims about JPMorganâ??s massive accumulation of physical silver and gold, the idea simply would not exist. As it stands, JPMorganâ??s accumulation of physical silver and gold is mostly unknown. I think this is a good thing because when silver does fly higher, no one will be pointing the finger at JPMorgan; these crooks will skate undetected to many tens of billions of dollars of profits with the world blissfully unaware of the real story.

Please remember that it would be in JPMorganâ??s self-interest to hide from view as much of its silver and gold accumulation as possible and to assume its COMEX warehouse holdings are the full extent of its total holdings would be playing into JPMâ??s own self-interest. Yet a remarkable number of commentators do just that; even supposing that the metal in JPMorganâ??s COMEX warehouse doesnâ??t belong to the bank, despite it having taken delivery of much of the metal in its own proprietary trading account. In other words, many doubt that the visible silver JPMorgan holds belongs to the bank (or that that the COMEX warehouse data are accurate); is it any wonder they would doubt what they canâ??t see?

Even though the 600 million silver ounces held by JPMorgan are hidden from view, I have described in detail to subscribers (and in public articles) the three main means by which it has acquired the metal on a weekly basis going back at least five years. First was via skimming off a small portion of the unprecedented, yet documented weekly physical movement in and out of the COMEX silver warehouses â?? an inventory movement not seen in any other commodity. Over the past 7.5 years, more than 1.5 billion oz of silver have physically been moved in and out of the COMEX silver warehouses of which JPMorgan has skimmed off at least 200 million oz (apart from the 144 million oz it holds in its own COMEX warehouse).

Next, JPMorgan bought at least 150 million oz of Silver American Eagles and Canadian Maple Leafs from 2011 thru 2016, melting every coin into industry standard 1000 oz bars. JPMorganâ??s buying alone accounted for the string of record sales years and when it stopped buying, sales of these coins collapsed.

Finally, as the official custodian for SLV, the worldâ??s largest silver exchange traded fund (ETF), JPMorgan was ideally positioned to convert shares in the trust to metal and avoid all ownership reporting requirements. This alone is the explanation for the continuous counterintuitive deposits and withdrawals in SLV over the past seven and a half years. All told, JPMorgan picked up at least 250 million oz of physical silver in this manner. All three of these accumulation methods by JPM were reported weekly to subscribers for years, and I suppose anyone not privy to the reporting would doubt it had occurred. Not much I can do about that.

As powerful as JPMorganâ??s massive and historic holdings of physical silver (and gold) is to the coming run to $50 and beyond; remarkably, there is more. Not coincidently, the â??moreâ?• also involves JPMorgan. At this time, it is near universally accepted that the futures market structure in COMEX silver and gold (and other metals) is the most bullish it has been in history. Specifically, the level of short selling by the managed money technical funds is the highest it has been in history. This is clearly bullish as these technical fund shorts have no choice but to buy back their short positions at some point and switch (or try to switch) to the long side. Thus, a massive amount of potential buying is already in place, awaiting only the eventual occurrence of higher prices to be set off.

While the current bullish market structure in COMEX silver and gold is widely known and written about, much less is known about JPMorganâ??s role in forming that bullish market structure. But CFTC data verifies that JPMorgan has been, by far, the largest purchaser of COMEX silver and gold futures contracts over the past couple of months. In other words, not only has JPMorgan been the largest buyer in history of physical silver and gold over the past seven years, much more recently, it has been the largest buyer of COMEX futures contracts on the deliberately-engineered price decline of late.

By my calculations and based upon CFTC data, JPMorgan has bought back 20,000 COMEX silver short contracts (the equivalent of 100 million oz) and 90,000 COMEX gold short contracts (the equivalent of 9 million oz). How many more COMEX futures contracts can be bought by JPMorgan is anyoneâ??s guess, but based upon the record short selling by the managed money traders, it wouldnâ??t appear that JPMorgan can buy many more COMEX contracts. After all, the record managed money selling is what enabled JPMorgan to buy so many contracts in the first place; once that selling dries up, JPMorgan is unlikely to be able to buy many more contracts as a result.

It is the determined and highly concentrated nature of JPMorganâ??s futures contract buying that sets the stage for an upside price jolt that promises to unfold faster to the upside than any previous move. So deft has JPMorgan been in buying gold futures contracts recently that I have taken to describing it as a double cross of other traders. But once the move higher unfolds, it promises to be the largest rally in silver and gold in history by virtue of the massive physical hoard accumulated by JPMorgan.

Amazingly, all it will take for this price explosion scenario to unfold is for JPMorgan not to add aggressively to short positions when the inevitable rally begins. You heard me right â?? the silver price explosion to $50 and beyond, along with a commensurate move in gold is only contingent on JPMorgan doing nothing on the next rally. On the scale of difficulty to accomplish, what JPMorgan has to do to ensure an explosive silver and gold rally is on a par with falling off a log.

Admittedly, JPMorgan has been in many similar set ups in the past and has always added aggressively to its COMEX silver and gold short positions on all previous rallies, eventually capping all those rallies. This has prompted many to assume that JPMorgan will always sell short aggressively on all future rallies as well. But itâ??s important to note that the current set up has never favored JPMorgan not adding to shorts as much as the current set up.

Maybe the simple extrapolation of what JPMorgan has always done holds true yet again. If thatâ??s the case, we will get a rally of some significance anyway, just not the big one. But if JPMorgan doesnâ??t add to short positions on the next rally, the third run to $50 silver and beyond should be at hand.

On to other developments since the Saturday review. I ran across an enlightening interview of Paul Tudor Jones, the legendary trader, hedge fund icon and philanthropist. In a world where I have come to admire and look up to leading financial figures less and less, Jones has always been an exception â?? which is somewhat ironic since heâ??s a devout technical analyst, while I am not. However, one thing we do share is an appreciation for market infrastructure and I found myself in complete agreement with his take on just about everything discussed, which ranged from the disaster of portfolio insurance in the stock market crash in 1987, to the effects of electronic trading in basically eliminating hundreds of thousands of local floor traders by a few large high frequency traders. There are two versions of the interview and while I will link only the shorter version, there was a lot more market structure discussion in the longer version, which is featured at the end of the shorter version.

https://www.youtube.com/watch?v=sqABjATznhA

My biggest takeaway from the interview was the vital role of derivatives and market structure in all major market moves. Of course, this is at the heart of how I currently view the exceptional set up in silver and gold and other metals. Jones never specifically mentioned the metals, but he didnâ??t have to. What he did state was that behind every major market move there was a derivatives imbalance of some sort. That is precisely the case in COMEX silver and gold (and other metals), where a relative handful of managed money technical funds have sold record amounts of short derivatives contracts to the point of lunacy.

Many pundits have observed the record managed money short positions in silver, gold, copper and platinum (and near record-low long position in palladium), surmising that these market structures will lead to higher prices. But few, if any have concluded that the now-extremely bullish set ups were deliberately constructed. The general understanding seems to be that it was just happenstance or some innocent set of outside circumstances that just happened to find the managed money technical funds more heavily short today than ever in history. I find that widespread understanding to be absurd. Nothing this extreme ever happens by accident.

The fact is that the managed money technical funds are as short as they are because they were lured into these positions by the commercials, especially JPMorgan. The commercials know just what makes the technical funds tick and that includes a pronounced series of new prices lows (salami slices) designed solely to induce technical fund selling. But the real proof that the commercials are snookering the technical funds is in the fact that while the commercials buy just about every contract sold by the technical funds, the commercials never reach up in price, they always wait (for weeks and sometimes months) for the technical funds to come to them. The only word to describe this hard and fast commercial rule of letting the technical funds come to them is collusion; the commercials collude because they know the technical funds are, well, brain dead mechanical traders.

I suppose all is fair in love and war and commodity trading, but collusion is still collusion and the fact that we have a federal regulator, the CFTC, and a self-regulator, the CME Group, sanctioning the blatant commercial collusion is an outrage â?? a pox on all their houses. But now that the collusion has likely run its course, or nearly so, my outrage is more outweighed by the prospects of what happens on the flip side, namely, when the brain dead technical funds look to buy, as they must at some point. Say what you will, but the commercial snookering of the technical funds, particularly by JPMorgan, has been nothing less than masterful.

As far as what Fridayâ??s new COT report will indicate, price action over the reporting week featuring generally lower prices, with gold off as much as $20 and silver by 30 cents at the extreme lows and with both metals finishing lower thru the reporting week ended yesterday. That suggests further managed money selling and commercial buying, but against any expected further improvement in market structure must be weighed the incredible improvement to date. But I remain confident that whenever the final managed money technical fund contract is sold and the process begins to be reversed to the upside, it will be a very long time before the technical funds are as short across the metalsâ?? board as they are now.

Ted Butler

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Silver – $15.42Â Â Â Â Â Â Â Â (200 day ma – $16.52, 50 day ma – $16.08)

Gold – $1221Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma â?? $1298, 50 day ma – $1260)

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