Review and Outlook

It's natural to look both back and ahead as the year draws to an end and since I haven't done a formal yearend review in some time, I'll do so today for silver and gold. The only difference for this review is that because this year's price performance and its cause are indistinguishable from silver and gold price performance for the past few years, it is more appropriate to consider this a multi-year review. The bad news is in the review itself; the outlook is all good news.

After making historic price highs in 2011, gold and silver prices chopped throughout 2012, with gold ending 2012 around $1650 and silver around $30. Then came the devastating decline starting in early 2013 and gold and silver prices traded that year below $1200 and $18 respectively. We've made new price lows throughout 2014 and 2015, down to under $1050 in gold and under $14 in silver, but the big price damage came in 2013.

The first point I would make is that the worst 3 years of price performance in the history of gold and silver came against a macro-economic backdrop that featured the most expansive monetary push by the world's central banks ever; and one in which the prices of almost all assets, including, stocks, bonds, real estate, art and collectibles basically surged to new all-time highs. In addition, the growing circumstance of wealth inequality, in which most of the investible wealth is falling into fewer hands has also driven the climb in investment assets of all types. The middle class and the poor have suffered, not so with the well-to-do.

Standing out, like a sore thumb, were gold and silver. Sure, most other commodities were lower in price over this time, but other commodities are not the prime investment assets that gold and silver are. In any case, a zero interest rate environment cannot be considered a headwind for gold and silver prices, with investors on a mad scramble to seek alternatives.

So if an expansive monetary backdrop cannot be used to explain the historic negative price performance for gold and silver for the past few years; then what was the cause? The cause was the same cause I have intoned weekly for years COMEX futures positioning, led by JPMorgan. In fact, one of the biggest developments of 2015 has been the near-universal recognition by those who focus on gold and silver of the price effect of the COMEX market structure, as portrayed in the COT report. That there are still some who refuse to acknowledge that the verifiable documentation of COMEX positioning proves price manipulation, even after discovering and embracing COT analysis, is something that can't last. If you truly understand the COT report, it's impossible not to see the manipulation.

The only thing different about 2015 from the two prior years is that the issue of COMEX positioning became more pronounced. For some reason, the positions of the managed money technical funds and their counterparty price puppet masters, the commercials, grew larger and more dominant than ever before. This resulted in the clearest proof to date of the effect of COMEX futures positioning in manipulating silver and gold prices and was largely responsible for the growing acceptance of the COT analysis. There are not many observers left who don't understand that prices are likely to rise when the technical funds are mega-short and that prices will fall when the technical funds have already purchased massive amounts of COMEX gold and silver contracts.

Questions still abound about why the managed money technical funds persist in plowing good money after bad, while no one questions that the commercials will continue to snooker these dumbbells for as long as they can. I don't spend much time pondering the motives of the technical funds, preferring to focus instead that they established progressively larger short positions in 2015 than ever before.

Aside from decent profits some of the technical funds made in gold and silver on the short side of gold and silver in 2013 and the unusual situation in silver in late 2014 when some long commercials (raptors) got clipped to the down side, I think it's accurate to say the managed money technical funds have been consistent losers over the past few years and longer and the commercials have made out like the bandits that they are. Further, the futures position changes have been so massive and clearly delineated that it's been fairly easy to quantify how much the technical funds have been losing and how much the commercials have been raking in.

However, the single most important feature to what has transpired over the past few years in precious metals pricing is the role of JPMorgan, particularly in silver. It's hard to believe this has occurred when you consider that there was landmark regulatory reform supposedly enacted, in the form of Dodd-Frank and the Volcker Rule, which was designed to get the big banks out of trading commodities, especially for their own trading accounts. There was a time in very early 2013, when JPMorgan went from holding a market corner on the short side of COMEX gold at $1650 and ended up with a long market corner around $1200 by summer time. All this occurred in full view and was verified in CFTC data. The only plausible explanation is that JPMorgan has more, or at least better, lawyers than does the US Government.

While JPMorgan still appears to be the kingfish in COMEX gold (and other markets), it is in silver that the bank has truly outdid itself. JPMorgan dominates and controls the silver market to an extent that almost defies description. The operative word is “almost” because it seems I do little else but describe what JPM is up to in silver. Based upon all the data that I sift through, JPMorgan always comes up front and center and ahead of the game

Which leads me to the specific lynchpin of the past few years in silver – JPMorgan's accumulation of more than 400 million ounces of actual metal. Everything that I look at and think about revolves around JPMorgan's decision, in early 2011, to acquire the largest privately-owned stockpile of physical silver in history and how the bank went about doing just that. After acquiring Bear Stearns' massive gold and silver COMEX short positions in 2008, it didn't take long for JPMorgan to master manipulating prices to its own great financial advantage – capping prices with massive short positions on price rallies and then always buying back those manipulative shorts at lower prices and great profits. This worked like a charm for JPM until late 2010, when a developing physical silver shortage drove prices to near $50 in April 2011.

In retrospect, JPMorgan was on the ropes, in a manner of speaking back then. I don't think the bank was facing complete failure in April 2011, given its connections and its importance to the financial system, but it was facing a pretty big potential mess if silver became unhinged to the upside. Coming face to face with a developing silver shortage and being nowhere near prepared position wise for such a development, JPMorgan recognized the scope of the true circumstances in silver and resolved to not only knock the price down and kill investment demand, but also take advantage of lower prices and the resultant loss of investment demand to buy all the silver the bank could get its hands on.

I've described this previously as the perfect crime; JPMorgan profiting mightily on new COMEX short positions with never a loss and at the same time picking up gobs of physical metal on the cheap. And doing so in every manner and form that made sense, including metal from the SLV, from COMEX futures deliveries and even from buying up to half of all the new US Silver Eagles and Canadian Maple Leafs produced over the past 4.5 years.

I fully admit that it took me a couple of years to uncover what JPMorgan was up to in silver, but considering that I rely on public data, I can't analyze until the data are available. I know my finding that JPMorgan has acquired 400 million ounces of physical silver is outlandish in many ways, or at least somewhat out of the blue for most non-subscribers. But I can assure you that I am more convinced than ever that what I allege is reality. I can also assure you that I would never write anything I believed to be wrong – mainly out of my profound fear of publicly embarrassing myself.

While some may doubt my conclusion about JPMorgan accumulating 400 million oz of silver, I would ask them to consider that there is no "position limit" on physical commodities or law restricting ownership. I know there are no position limits, effectively, on many futures contracts either, because the CFTC is dragging its heels on the matter; but the Commission regulates futures trading and has little to no regulatory jurisdiction over physical commodities, except when futures and physicals are intertwined (as is the case with JPM and silver).

My point is that JPMorgan has no legal obligation to disclose its ownership of physical commodities and that includes silver. For those who might suggest JPMorgan has an obligation to disclose this to shareholders, I say good luck in uncovering this in public documents. Not only do big banks in general and JPMorgan in particular, have the best lawyers and lobbyists known to man, their accountants guarantee they don't have to disclose anything they don't want to disclose.

I would estimate that the 400 million silver oz that I claim JPMorgan has acquired comes at an average price of near $20 an ounce (adjusting for the bank's continued dollar cost averaging down), this amounts to around $8 billion (minus the hundreds of millions or billions of dollars JPM has made on the short side of COMEX silver over this time). This makes it highly and easily “doable” by JPMorgan, and considering what I believe the bank will eventually make on its physical silver hoard, that the size of the silver holding fits like a glove in the whole premise.

This is the essence of what took place over the past few years. A continued work out of the price effect that positioning of COMEX futures represents, with the assorted commercial crooks manipulating prices to get the technical funds to dance to the commercials' tune, all under the deft orchestration by JPMorgan, which has not only profited on COMEX trading but has used the years and declining prices to acquire more silver at prices cheaper than most could ever imagine. It's also the end of the bad news of this report.

Because gold and silver prices have declined so relentlessly for years, inflicting untold misery on existing investors, all hope of gain appears to be lost on many. Even if I have described the real story as accurately as I believe I have, the forces behind the price decline over the past few years have taken on the appearance of lasting forever for many. All I can say is that I believe I have described what has occurred to date as good as or better than anyone and that's reflected in the growing acceptance of the COT market structure premise, as I have championed for decades.

I can also say that I have never been more bullish on silver than I am presently and for largely the same reasons that I have used to describe the cause of the price decline over the past four years. Yes, the technical funds have never been maneuvered into and out of positions on the COMEX as extremely as they have been in 2015 and I have to acknowledge that could continue. But even if JPMorgan adds aggressively to silver short positions on the next rally, we must get that rally before that can be determined for sure. And yes, maybe the managed money technical funds will sell even more on lower prices in the very short term, but the existence of near record extremes of managed money short positions argues that can't last for much longer.

When you put the whole wash, rinse and repeat cycle of the technical funds being snookered by the COMEX commercials on fast forward to try to get a sense of how this thing either comes to an end or doesn't, you must step back to see what has transpired to date. Yes, this managed money/commercial positioning on the COMEX has caused silver and gold prices to decline for years, inflicting financial damage to existing investors; but that's not all it has done. Increasingly, it is undermining and altering developments in the silver mining world; including that few primary miners can operate profitably at current prices and the low prices have resulted in a surge of silver streaming deals that likely wouldn't be considered were it not for super depressed silver prices.

The problem with any serious extension of the price cycle of the past few years is that we have largely run out of room to the downside. After being down more than 70% from the price highs of 2011 and being way below the average cost of silver mining on a primary basis, it's not realistic to project serious downside from here. Can I (ever) guarantee new price lows won't be seen? I don't think I ever have. But if there is one sure pattern that has developed over the years, it is when the managed money technical funds get as short as they are currently in COMEX gold and silver futures, the most probable outcome is a rally, not a big leg to the downside.

But if I am correct about what I hold to be the most important development in the silver market, namely, JPMorgan's accumulation of 400 million ounces of physical silver over the past four years, as I am convinced, then there has never been a more bullish factor in place. Discovering that JPMorgan acquired so much physical silver was the difficult and time-consuming task; figuring out from that point what that was likely to mean for silver prices in the future, not so much.

I know some worry that JPMorgan may somehow use its epic silver stockpile to continue to depress the price of silver indefinitely, ostensibly on behalf of the US Government. But it is not, from everything that I see, a case of the US Government telling JPMorgan what to do, but the opposite. Political administrations and bureaucracies come and go, the interests of JPMorgan endure forever. What's good for JPMorgan is all that matters in the end and what's good for JPMorgan now is shockingly high silver prices in the relative near future. Static or lower prices now also benefit the bank since it is still acquiring metal while it can.

One thing that I don't think I've mentioned, at least in quite some time, are the dimensions of the coming price spike I see ahead for silver. Many years ago, with silver priced in the mid-single digits, I was asked what I thought a free-market equilibrium price might be for silver. My typical response was that if there was no price manipulation, I could see around $30 as being reasonable (although I always pointed out this was theoretical since silver was manipulated in price). If I was asked that question today, I'd probably still say $30 or somewhat higher than that.

But more to the point, considering that silver has been more manipulated in price over the past few years than ever before, the whole discussion of what would constitute a free market equilibrium price for silver today becomes so abstract as to become unanswerable. The question of free market, reasonable economic equivalent price terms for silver today can no longer be answered; that ship has set sail, not to return. My point is that, because of the continued price manipulation, the free market economic equilibrium price for silver is not something that should be used as a price target.

Markets as manipulated to the downside as silver has been for years, can't just suddenly stop being manipulated and climb to prices that would have existed if the manipulation never existed. That's not how things work in the real world. An extremely manipulated and depressed price must revert at some point to the opposite □ an extremely overvalued price, not likely to last forever. With a market as manipulated and depressed as silver, I'm as certain as I can be that there will be an artificial overvaluation at some point. The price pendulum swings both ways and an extremely artificial low price must lead to an extremely overvalued price, at least for some short time.

More than ever, considering the shocking facts of how little actual silver exists in the world in dollar terms (owing to the actual amount of silver in existence and its crazy low price), there is no way the price can smoothly adjust upwardly to, but not exceeding, true free-market equilibrium price levels. Instead the price will rip up through those equilibrium levels as if they don't exist. Knowing that is coming provides me with the patience and stamina to wait this out.

Truth be told, I don't think the wait will be much longer, considering how many are wising up to the COMEX scam, how low prices have been driven, how extreme the technical funds are short and how much physical silver JPMorgan has acquired. I was pounding the bullish table when silver was in the mid-single digits and at other times in the past, but this feels much different to me now because none of the things I just mentioned existed back then. As I said, the review is all bad news, the outlook is nothing but good news.

Just like last week, I'll have a weekly review on Saturday and additional COT comments on Monday when the next report is published. The best of health and wealth in the New Year to you and yours. 2016 has to be a better year than the past few years.

Ted Butler

December 30, 2015

Silver – $13.84 (50 day moving average – $14.56)

Gold – $1060 (50 day moving average – $1093)