

Two Different Markets

While silver and gold are both similar and different in many important ways, they are identical in one way as I have come to view them – each has two distinct markets. One market is the physical market, which encompasses the production and consumption (including investment) of each metal. The other market is the pricing market, overwhelmingly the COMEX. I think if you come to view silver and gold as I do, namely, as having physical supply/demand fundamentals and a separate pricing mechanism, you'll be better served than by assuming gold and silver prices are the result of physical supply and demand.

Let me be clear in what I'm saying – over the short and intermediate term, physical supply and demand has little, if anything, to do with gold and silver prices. Physical fundamentals, of course, do matter in the long term and the fundamentals, particularly in silver, are super-bullish. But short term prices have nothing to do with physical supply and demand, only with what occurs on the COMEX pricing market. Further, the divide between real fundamentals and short term pricing has never been wider. It should go without saying that this separation between fundamentals and pricing is against the spirit and intent of US commodity law

On Saturday, I reported that in the latest COT reporting week, technical funds bought and the commercials sold more than 52 million oz in COMEX silver contracts even though the world only mined 15 million real oz for a full week. In addition, I pointed out that of the 52 million oz of COMEX silver contracts that changed actual ownership, not one ounce involved a real producer or consumer of silver □ both the buyers and sellers were speculators. (Please note that I am not referring to total volume on the COMEX which was much higher at close to a billion ounces for the week, as 98% of that trading volume was day trading and resulted in no position change for over-night holdings).

In the short to intermediate term, the price function in gold and silver has separated from actual supply and demand and has been assumed by a few large speculators on the COMEX, most notably, JPMorgan. The examples of this abound. For instance, over the past year, there has been record gold and silver physical demand from India and China, yet prices suffered their worst annual fall ever. Some pricing force had to negate the record Asian physical demand and government data indicate the force was the COMEX. Yes, there was selling of gold from Western ETFs last year, but that selling was also generated by prices being first set lower on the COMEX.

A more recent example of the disconnect between physical fundamentals and pricing can be seen in data from the US Mint. While the price of silver has been lackluster compared to gold on a relative basis, the opposite condition exists in the sales of Silver Eagles vs Gold Eagles. For the first two months of this year, Silver Eagle sales have never been higher relative to Gold Eagle sales. And this follows 2013, where the sales of Silver Eagles not only set an all-time record, but also set a record relative to Gold Eagles. So far, this year Silver Eagles are way ahead of last year's record relative pace. For the first time ever, more total money is being spent on Silver Eagles than on Gold Eagles.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I understand that retail demand is different than wholesale and that Eagle sales from the US Mint are mostly retail. But I also believe that the US Mint, by virtue of its booming sales of Silver Eagles the past few years, has become the largest silver user in the world. I'm not sure who exactly is buying all these Silver Eagles, as retail demand has not been robust until the past couple of weeks, but suspect it may be a large entity (like JPM). Certainly, the US Mint has been rationing Silver Eagles, while that has not been the case with Gold Eagles. With such pronounced relative demand for silver versus gold, it's as if the record demand has no bearing on price. That's because the pricing mechanism for gold and silver is separate from actual supply/demand considerations.

How did we get to the point where actual physical supply/demand has little or no bearing on price? I'm not sure, but think it has to do with the acceptance of the COMEX as the legitimate price setter by real producers, consumers and investors, even though none have any real impact on the COMEX's price mechanism. Since COMEX gold and silver contracts have a physical delivery requirement, anyone can make or take delivery on a futures contract.

Therefore, there is not a complete disconnect between the COMEX and the real world of metals, at least in a theoretical sense.

The problem is that few outsiders use that COMEX delivery mechanism; the vast majority of COMEX gold and silver deliveries are made and taken by insiders, such as JPMorgan for their own account. And relative to market structure and position changes (such as last week's), COMEX deliveries are very small compared to the trading of futures. Last week, 52 million equivalent silver ounces changed ownership on the COMEX in silver futures contracts; over the course of a year not even half that amount is involved in total actual COMEX silver deliveries. So while there is a connection between COMEX futures and the ability to make or take physical delivery that gives the COMEX the appearance of legitimacy; because so few avail themselves of the delivery process, the legitimacy becomes moot.

Certainly, the technical funds, which I identify as the enablers of the manipulation and not the perpetrators, never make or take delivery. These funds are only interested in betting on price direction, not in the buying, selling or holding of physical gold and silver. This gives the big commercial speculators, like JPMorgan, an added advantage over the technical funds because the technical funds would never even test the commercial speculators by ever demanding delivery. This means the commercial speculators have an important tactical advantage that I've not pointed out previously.

The main problem is that the real producers and consumers accept the price setting from the COMEX. For industrial silver users, there is little to complain about since they have been generally the recipients of prices set too low because the COMEX commercial speculators have historically been on the short side of gold and silver. But that also means that the producers of metal, the gold and silver miners, have had to suffer because their vested interest is not in depressed prices. What I am suggesting is that it should be the gold and silver miners (along with physical metal investors) most concerned with the separate COMEX pricing mechanism since, at the end of the day, the miners suffer the most because of the pricing separation. Sadly, the miners can't seem to recognize the predicament they are in.

I can't say I'm particularly surprised by the weak price action in silver today after the recent COT position changes, but neither will I be shocked at whatever prices do in the short term in any direction. It comes down to what JPMorgan wants and can pull off. If anything, JPMorgan's influence matters more than ever. Before the recent silver rally, just like before every silver rally for the past couple of years, I repeated continuously that what JPMorgan did on that rally (whether they added new silver short sales or not) was all that mattered. If JPM didn't add new silver shorts, the price would really fly; if the crooked bank added new silver shorts, it might succeed in capping and eventually causing another decline in price. It didn't take long to uncover JPMorgan sold short aggressively and that it was the only new silver short seller.

Everywhere I look, I find continuous evidence that JPMorgan dominates and controls the silver (and gold) market. The proprietor of the very informative silver web site <http://about.ag/> , Joshua Gibbons, sent me some information I wasn't quite aware of, including a separate analysis that JPMorgan makes up 45% of dealings on the LBMA.

http://www.goldcore.com/goldcore_blog/london-bullion-market-association-june-clearing-turnover-statistics This dovetails perfectly with JPM's OTC share of 60% for gold and other precious metals derivatives among US banks (in the OCC Treasury Dept. report). Remember, in last week's COT report, JPMorgan

accounted for 43% of all commercial silver selling on the COMEX and 100% of all new short sales, plus 52% of all COMEX commercial gold selling. How could such market shares not equate to control and de facto price manipulation?

Joshua also told me that JPMorgan was responsible for 8 million ounces of silver moving into and out from the big silver ETF, SLV, last week. That's a 16 million ounce turnover and only an entity which dominated a market could arrange such a turnover. This info was also highly supportive of my premise that JPMorgan has amassed an unprecedentedly large physical silver position. At some point, JPMorgan's actions should prove wildly bullish for the long run in silver, but who knows what these crooks will do in the short term.

The overriding bullish factor for silver in the long run is how little there is of it available for investment (in dollar terms). There are currently around 870 million ounces of visible 1000 oz bars in the world and maybe another 300 million oz of 1000 oz bars unrecorded, or around \$25 billion worth in total. Even assuming every single ounce was available for sale at close to current prices that is a pittance in current dollar terms. Of course, very little of this metal is available for sale, making the amount of world money flowing into physical silver necessary to move the price a small fraction of \$25 billion. Simply put, this is the bullish argument in silver.

So in essence, it comes down to how long JPMorgan's control and manipulation of the silver price can last until some world entity (or entities) decides to take enough of a position in physical silver that creates a shortage. Not only am I convinced that situation must occur; in fact, it had already begun to occur around April 2011, when the world faced the first silver shortage in history. If you remember, one of the key signs of shortage at that time was that the Sprott Silver ETF had to wait for delivery and when it did receive delivery, many of the bars were manufactured after the original order date, indicating no existing bars were available. One other thing that Joshua pointed out was that of the 8 million oz in 1000 oz bars that came into the SLV last week (to replace 8 million oz that were removed), 82% were manufactured in 2013 and 18% were made in 2014. We may not be exactly where we were in April 2011 in terms of physical tightness, but there does not appear to be many old silver bars available for sale either.

Therefore, we appear to be not that far away from where the physical silver equation was in early 2011. The big difference is that JPMorgan has positioned itself much better than it was back then. I can't deny that this puts JPM in better potential control of prices short term as it has sufficient physical supply of both gold and silver to head off any shortage for the time being should it choose to let loose of some of its metal. The March COMEX delivery period which starts

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Friday should be revealing as to JPM's intentions.

All this adds up to wanting to hold non-leveraged silver positions for the long term as the manipulation plays out. It also means to me that I must continue to exert as much pressure on JPMorgan as I can muster because the quickest and surest way to sharply higher silver prices is to get JPM to end its unnatural market share and price control. It's hard for me to imagine how JPMorgan tolerates being labelled a market manipulator with no blowback: but since I try to be very careful in my presentation of the facts, it's hard for me to see what JPMorgan can do against what I believe is the truth. It's also hard to believe that I have been fingering JPMorgan as the big silver and gold crook for more than five years with never a rebuttal from them. (Yes, I still send them all my articles, but the one board director who hadn't blocked my emailing of the articles for the past few months, blocked me last week).

I think it comes down to how long JPMorgan will allow themselves to be identified as the big gold and silver manipulator by growing numbers of observers. If I thought it could do so forever or indefinitely, I'd say that, but I don't. Not only don't I foresee JPMorgan tolerating being called a market manipulator and crook for long, even if it did it shouldn't be very long before enough physical silver is bought by investors to force the issue. In the

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meantime, I'm still gritting my teeth while waiting for enough producers and market participants to recognize that the pricing function in gold and silver has separated from the physical fundamnetals.

Ted Butler

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Silver - \$21.26

Gold - \$1329