

January 22, 2014 - JPM's Silver Hoard

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I'd like to expand on my comments on Saturday, speculating that JPMorgan has amassed a large holding of physical silver □ some 100 to 200 million ounces (or more). As I indicated previously, my conclusion is a result of the ongoing flow of facts and data. Generally, analysis consists of fitting the various pieces into the puzzle as logically as possible.

From studying the flow of data, I am convinced that JPMorgan had the means, motive and opportunity to acquire the largest holding of physical silver in the modern world over the past three years (since May 2011), surpassing the levels held by the Hunt Brothers and Warren Buffett (Berkshire Hathaway). I realize this is somewhat out of the blue and, if my speculation is correct, should hold profound implications for the future price of silver. So let's see if what I am suggesting is even possible.

The first thing I would ask you to consider is if the known facts about silver supply and demand would even allow for JPMorgan (or any large buyer) to have acquired 200 million ounces of silver over the past three years, particularly at declining prices. I believe the facts do allow for that to have occurred. The past three years have represented a time when upwards of 250 million oz have been

added to world silver bullion inventories (1000 oz bars).

Regular readers know that I have written about the growth of world silver inventories, since 2006, following decades of continuous depletion of those inventories. In this sense, silver has morphed into a profile similar to gold, where world inventories have grown consistently over the past 5000 years. The key difference between growing world inventories of silver and gold is the remarkable comparison in the dollar amounts necessary to absorb each. It takes about \$2 billion annually for investors to absorb the 100 million oz of silver left over after all industrial and other fabrication needs are met; in gold, it takes more than \$100 billion to absorb the 80 million oz of new gold available for investment annually (including investment jewelry).

So with 250 million oz of silver added to world bullion inventories (now estimated by me to be 1.3 billion oz), it is possible for a large buyer, such as JPMorgan, to have absorbed, not all of it perhaps, but a good chunk. Please remember, the last few years have witnessed a cooling off in investment demand for both gold and silver, making it easier for a large buyer to accumulate metal without excessive buying competition.

The second thing I would ask you to consider is that the dismal price performance of the past few years, particularly in 2013, has not only cooled-off

new investment demand, but has caused existing metal holders to liquidate holdings. This is seen most clearly in gold where holdings in the largest gold ETF, GLD, fell by 40% (18 million oz) or \$25 billion in 2013, due to investor selling. Holdings in the big silver ETF, SLV, were largely intact on a net basis, but there was still a large "churn" in the holdings of SLV, allowing for a large buyer to steadily accumulate significant quantities of silver without notice.

I've written of the churn in SLV in the past, noting the 60 million oz that were liquidated in the two months after the May 2011 deliberate price plunge were likely absorbed by a big buyer (with the price plunge orchestrated by that same big buyer). While holdings of SLV have been relatively flat over the past few years (in stark contrast to the plunge in gold holdings in GLD in 2013), there have been times when silver holdings have turned over impressively, allowing for the possibility of a big buyer skimming off some of the turnover without notice. You might want to take a moment and scroll through the big liquidation in SLV in May and June of 2011 and the periods of high turnover of holdings in 2012 and 2013. <http://about.ag/SLV/>

One point that should stand out, even if I'm wrong about JPMorgan being the big buyer of physical silver (I don't think I am wrong), is that both silver and gold have moved from weak hands to strong hands over the past year or so. ETF and COT data clearly indicate a speculative move away from the long side on the COMEX and net selling in the ETFs by investors. The simple truth is that every

ounce of physical gold and silver must have an owner and it appears inescapable that the current owners are stronger than the former owners. JPMorgan has been the single biggest buyer in COMEX gold and silver dealings over 2013 and it seems reasonable to me that the bank has been a big or the biggest buyer in the physical market as well. It also seems reasonable that JPMorgan would better shield its identity as a buyer than could many diverse entities buying at the same time.

So, from both the new amount of silver bullion created over the past three years (250 million oz) and existing investor liquidation and churn (maybe 150 million oz), that created the opportunity for a large buyer, which I identify as JPMorgan, to buy 200 million oz or more at depressed prices. What about means and motive?

I don't think there can be much question that JPMorgan has the financial means to have purchased 200 million oz of silver (or more) at what I would estimate an average price of around \$25. That would come to \$5 billion, which happens to equate with JPMorgan's average quarterly net profit. Who couldn't afford to buy the largest holding of silver in the world if it only cost the equivalent of three months net profit?

The real question about means has to do with methodology. Here, JPMorgan

stood alone in the method it deployed to acquire the silver I think it holds. And what a method it was □ causing the price of silver to be depressed via a concentrated short position on the COMEX along with the ability to crush prices in an HFT second, to then scooping up physical metal (and covering paper shorts) at the self-created depressed prices. If ever a scheme could be called a racket, this is it.

Perversely, I would not rule out that one of the reasons the CFTC never forced JPMorgan to desist from dominating the COMEX silver market on the short side the past few years was that JPM could show the agency the growing stockpile of physical silver it held as some type of hedge against their manipulative short position. (I still believe Warren Buffett did the same thing until losing his silver in 2006). But if that was the case, then the CFTC allowed itself to be bamboozled, as can depressing prices through large paper sales in order to buy physical cheaply ever be considered legit?

What about motive? Perhaps I tend to keep it too simple by not imaging a broad conspiracy involving the US Government, but I still think that JPMorgan's prime motive (in everything the bank does) is to make as great a profit as possible. Therefore, I believe JPMorgan has acquired physical silver in order to make an investment score. While I can't determine exactly when JPMorgan first decided to hoard silver, I can't help but think the experience of early 2011 had a lot to do with it.

Into the price peak of \$49 at the end of April 2011, JPMorgan was definitely on the wrong side of the silver market, although its COMEX silver short position was not at record levels. It is interesting that from March 1, 2011 (when silver was around \$34) to the peak at the end of April, neither the total commercial net short position nor the concentrated short position of the four largest shorts (including JPM) increased in any way and, in fact, both began to decline in April, weeks before the price peak. This also means that speculators, particularly the technical funds, not only didn't add to long positions, but reduced long positions on the \$15 price jump from March 1, 2011.

I mention this to set the record straight. It is still widely perceived that frenzied leveraged speculative buying of paper COMEX contracts was responsible for the last \$15 to \$20 price jump to \$49 at that time, driving the price to "crazy" levels and it was perfectly natural for the speculative buying frenzy to blow off and collapse. The only problem is that COT data indicate clearly that speculators didn't rush into COMEX contracts. There was buying in the big silver ETFs, including record short selling in SLV, but not on the COMEX.

I make this distinction to underscore that it was not highly leveraged speculative buying on the COMEX that drove silver prices to the peak, as is still largely assumed to this day by many. Well then, if it wasn't big speculative

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paper buying that drove the last \$15 of the rally, then what the heck caused the price jump? The only answer is that if it wasn't aggressive buying in the paper market, then it had to be buying in the physical market (including the ETFs). Therein resides my conviction that we were on the cusp of the first wholesale physical silver shortage in history in April 2011. And clearly it was the investment side of silver's unique dual physical (investment/industrial) demand that pushed prices higher, as there was no great rush by industrial users into physical silver.

Because it was on the wrong side of the silver market on the run up to \$49 in April 2011, I think JPMorgan came to realize just how tight the physical silver market had become and would, one day, become tight again in the future. Their only choice was to team up with other collusive commercials and the CME Group and arrange for the unprecedented price slam down in May 2011 which resulted in silver prices falling \$15 within a week. That price slam (as well as a similar \$15 slam in three days in September 2011) broke the back of investment demand and allowed for full price control to revert to JPMorgan. But having seen just how tight the physical silver market had become, JPM decided to build a long physical position. After all, no entity is more familiar with the day to day logistics of silver than JPMorgan.

What about JPMorgan's short position in COMEX silver which looked to be in the 16,000 contract range (80 million oz) in the latest COT report? If the bank owns

200 million oz (as I believe) and it holds no other paper offsets, it would still be net long 120 million oz, the amount held by the Hunts and Buffett. It is important to recognize that JPMorgan has trimmed its COMEX short position by 20,000 contracts (100 million oz) from this time last year. It is also important to remember that the big short buyback was accomplished in a time of sharply falling prices, something that could only occur if price manipulation was in effect.

The fact that JPMorgan is still short 16,000 COMEX silver contracts highlights one difference between paper and physical. Each market has its own internal characteristics and participants. In physical, JPMorgan buys what new silver becomes available, either from mining or recycling or as existing holders sell. On the COMEX, it is a game between the commercials and the speculators (tech funds). There are different dynamics and different players in each market.

Even though JPMorgan was never able to get its net short position in COMEX silver futures below 10 to 12,000 contracts over the past six years because of a limit to technical fund selling and raptor buying competition, it looks to me that the bank has been able to accumulate physical silver because there are different participants in physicals than futures. What this also highlights is the madness and illegality of having the paper price on the COMEX setting the price in the physical market. If JPMorgan hadn't been capable of rigging silver prices lower in 2013, it would never have been able to buy back 100 million ounces of

short paper contracts and buy many tens of millions of physical silver as well.

Last year, I first discovered and reported that JPMorgan had succeeded in closing out a 75,000 contract net short position (7.5 million oz) and short market corner in COMEX gold futures and flipped it into a long market corner in gold of as much as 85,000 contracts (now closer to 60,000 contracts). The closing of the gold short position, as well as the 20,000 contract reduction in the silver short position, netted JPM more than \$3 billion.

Later in the year, JPMorgan took ownership on close to one million gold ounces via futures delivery (in August and December), confirming that the bank was the dominant long in COMEX gold (if COT and Bank Participation Report data weren't enough proof). One very interesting thing to me is that JPMorgan appeared to act independently from any other commercial or speculative trading entity in the bank's large accumulation of COMEX gold futures and in taking COMEX gold deliveries; a lone wolf, if you please. I can't help but think JPMorgan has also acquired much more metal from the GLD liquidation and elsewhere. In the gold COT and Bank Participation Reports, I detect no big buyer of gold other than JPMorgan.

It is JPMorgan's role as a lone wolf in gold that carries over to my conclusion that the bank is now the largest holder of physical silver. JPMorgan's flip from

big short to big long in COMEX gold over the past year or so represented more than 75% of all the commercial net buying in COMEX gold futures - a truly astounding percentage share. In COMEX silver, JPMorgan was the largest buyer as well. When you think about how much COMEX buying JPMorgan accounted for in gold and silver, it is easy and reasonable to conclude JPM was a big buyer in physical silver.

As I reported on Saturday, the rapid growth of metal in the JPMorgan COMEX silver warehouse (45 million oz) over the past three years, as well as the recent 15 million oz delivery stopped by the bank in Dec/Jan COMEX deliveries do not detract from the conclusion that JPM is the big physical silver buyer. That said, I believe most of JPM's silver holdings are stored in London.

It's hard not to conclude that JPMorgan's ownership of physical silver and gold (futures and physical) will be bullish for the price; in fact, it looks to be the single most bullish factor of all. That's because the most logical end game is for JPMorgan to cash out at much higher prices. Of course, no one knows JPMorgan's timetable, except the bank itself. If JPM is determined to buy more, lower prices can't be ruled out in the short term. But having suffered through what it has meant having the bank heavily configured on the short side, I have to believe it will prove better having JPM as the big buyer in the long run.

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I continue to be amazed at the amount and level of commentary in gold and silver that centers on manipulation. While I don't agree with everything that is being said, there is no denying that the commentary about price manipulation in gold and silver is intensifying to an extent never witnessed previously. Hardly a day goes by when someone new doesn't raise the issue, either pro or con. Further, the subject of manipulation appears to be unique to gold and silver, as I am unaware of any similar discussion in any other market. What does this mean? Since this is a highly unusual circumstance, there is no sure way of blueprinting how it turns out. But something tells me that the more widespread the subject of gold and silver manipulation becomes, the greater the likelihood it will end.

Ted Butler

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Silver - \$19.85

Gold - \$1239