On Saturday, I commented on the recent deposits of gold in the JPMorgan COMEX warehouse following its taking (stopping) of 552,000 oz of gold in the December COMEX delivery period. Last week also featured the deposit of 450,000 oz of gold into the big gold ETF, GLD, and I speculated that was likely linked to JPMorgan acquiring the metal through a share conversion into actual gold; a practice JPM has employed regularly in SLV over the past seven years.

I also touched on the unprecedented price declines in gold and silver over the first six months of 2013, laying the blame on JPMorgan's concentrated short position in late 2012 of 75,000 net COMEX gold contracts and how, by engineering the big price collapse, JPMorgan had not only made $1.5 billion on its gold short, but had also managed to convert its short market corner of 75,000 contracts (7.5 million oz) into a net long market corner of that same amount. I commented that I didn't have the time to go into it in detail in the weekly review, but I had intended to look further. That, plus some timely questions from a subscriber, asking how much physical gold JPMorgan may hold in total, prompts the following.

Over the weekend, in response to the question of how much physical gold JPMorgan may hold, I answered without deep reflection, saying perhaps 3 million oz or more. I was basing that on events over the past year or so. In reviewing past articles at the time and the extraordinary events of 2013, I need to up that figure substantially to JPMorgan holding at least 20 million oz of actual gold bullion, perhaps much more. Yes, I am aware that in dollar terms I am saying that JPMorgan holds at least $26 billion in physical gold. I am also aware that, in dollar terms, this is about double what I claim JPM holds in physical silver (700 million oz x $17). I'm more of a silver guy than a gold guy, but here's an example of what I was writing about JPMorgan and gold back then –http://www.investmentrarities.com/ted_butler_comentary101-07-14.shtml

Rereading what I was writing about JPM and gold in 2013, in addition to the severe downturn in prices what stood out most was the unprecedented event of close to 20 million oz of gold being liquidated and redeemed out of the big gold ETF, GLD. All told, from the start of gold's price decline in early 2013 to the very end of 2015, some 23 million oz of gold was liquidated from GLD, reducing holdings from 43 million oz to 20 million oz. Most of the historic liquidation occurred in the first six months of 2013.

This was a very big deal, as the principle driver of gold's historic price advance from under $700 in 2008 to over $1900 in 2011 was the purchase of roughly 25 million oz of gold deposited into GLD as a result of net investor buying of GLD shares. Not for a minute am I backtracking on my claim that COMEX futures contract positioning is the price driver in the short to intermediate term for gold and silver (and other commodities), but the purchase or sale of 25 million physical gold ounces supersedes COMEX paper positioning when the dust settles.

The real story, as I've contended all along, is that the price influence of COMEX positioning drives prices higher and lower and those price movements can and do result in accumulation or distribution of GLD and SLV shares. This is not that complicated; COMEX positioning sets the price, but the price then motivates investor behavior in the ETFs and when strong enough can reinforce big moves. We saw this in gold on the great price trip up into 2011 and the great price trip down from early 2013 to early 2016. It was no coincidence that the inflow of 25 million oz into GLD more than helped drive the rally, just as the 23 million oz liquidation drove the decline.

This same phenomenon occurred in SLV. Silver prices surged to near $50 in April 2011 as the purchase and deposit of some 70 million oz in SLV tightened physical supply which coincided with the price rise. The price smash into May and June 2011 coincided with 60 million oz being liquidated and redeemed. It was the liquidation in SLV which provided JPMorgan with its first big purchase of physical silver in 2011 and the bank has kept up its physical silver accumulation to this day. It was the same thing in gold, but the big price smash didn't start until 2013, so the timetable was somewhat different.

How the heck did JPMorgan buy 20 million oz of physical gold with hardly anyone noticing? The short answer is that it did it the same way it acquired around 700 million oz of physical silver; principally via COMEX deliveries and metal for share conversions in GLD. The epic liquidation in GLD in 2013 and COMEX deliveries gave JPMorgan around 12.5 million oz by the end of that year and I would estimate JPM has picked up an additional 2 million oz annually since then. If anything, I think my estimate of what JPMorgan has bought is probably on the low end.

Now that I think of it, JPMorgan's accumulation of 20 million oz of physical gold meshes perfectly with its accumulation of silver. In fact it would be much odder if JPM bought physical silver and didn't buy gold. No two commodities are as closely linked as gold and silver and since JPM has positioned itself to profit mightily when silver explodes in price, it would be almost negligent on its part not to seek to profit on a gold price which will most likely move higher in tandem with silver.

Certainly, JPMorgan has employed the same basic and, I would say, manipulative methodology in acquiring physical gold as it has in silver, namely, by buying both metals as it maintained the largest and most dominant paper short position on the COMEX. Based upon current COT and Bank Participation report data, I would estimate JPMorgan's net short position in COMEX gold futures to be at least 75,000 contracts.

To be clear, I don't lament JPM accumulating as much physical gold and silver as it has, because this is the most bullish factor I can imagine and in a sense, I applaud the bank for having the foresight to do so. What I object to is that JPMorgan manipulated the market at the same time it was acquiring the physical metal. That makes them market crooks in my eyes and if the bank has any objection to me calling them crooked, it should let me know. I am aware of no objections to my characterization of it over the past 8 or 9 years, despite sending JPMorgan more than a thousand such allegations.

Certain to be big questions on my contention that JPMorgan has picked up at least 20 million oz of physical gold since the beginning of 2013, is how they could afford to do so and how could they not show it on their books. First, JPMorgan holds more than $1 trillion in investment assets and the roughly $40 billion I calculate that it has spent on buying physical gold and silver is less than 4% of its total investment portfolio. And the $40 billion must be reduced by the many billions of dollars that JPM has made in its always profitable and never losing paper trading on the COMEX. Again, JPMorgan is the absolute master of reporting what it wants to report publicly. If it doesn't want anyone to see what it holds, no one will see it, period. As a reminder, there is no public or regulatory reporting requirement for physical metal ownership; as there is in futures and share ownership.

JPMorgan buying massive quantities of physical gold and silver makes perfect sense because the bank is super-exposed to stocks, bonds and real estate and has profited greatly from that exposure over the last several years, enjoying asset appreciation amounting to hundreds of billions of dollars. When an inevitable downturn in the general markets occurs, what better hedge than a big position in gold and silver? If you are one of the world's largest equity, debt and real estate investors, wouldn't you need a massive position in gold and silver to serve as an effective hedge?

Just as I would calculate that JPMorgan stands to make more than $500 million for every dollar advance in silver (netting out its COMEX short position with its physical position); I would calculate that JPM's net long position in gold at 12.5 million oz (20 million oz of physical gold minus its 7.5 million oz paper short position) to result in a $12.5 million profit for every dollar advance in gold. A one hundred dollar move in gold would bring JPM a $1.25 billion profit and a $500 move in gold would be worth more than $6 billion to JPM. The potential profits in silver are much greater for JPMorgan, but why wouldn't it seek to capture additional billions in gold as well?

The most important point is that JPMorgan has adopted in gold the very same near-genius solution of neutralizing its dominant paper short position that it devised in silver. Instead of worrying about buying back its paper short positions in COMEX gold and silver, JPMorgan, effectively, completely covered its short positions by buying physical metal. Once it actually owned more physical gold and silver than what it was short in COMEX paper contracts, JPMorgan was off the short hook. And every additional physical ounce it bought only juiced up its exposure to the upside. I never said these guys were dumb; they are the smartest guys in the room. They're also crooks, but that's almost beside the point.

In fact, the large paper short position that JPMorgan holds in COMEX gold and silver has turned into a potential win-win for it. JPM could decide at any time it desires to move to buy back its paper short positions to the upside in price, something it has never done before. The effect on price would be like an electric shock – JPMorgan buying back its paper short positions as prices rose is the surest guarantee for sharply higher prices. But wait, I think I hear you say – wouldn't that result in big losses on its short position? Heck yeah, but those paper losses would be far outweighed by the even greater profits on its physical positions and JPMorgan would be rolling in massive net profits. And get this – the paper losses it takes on its paper shorts can deducted against other income and it wouldn't have to report any profits on its physical positions until it sold that metal. Yes, this is having your cake and eating it too – multiplied by billions.

While it seems inevitable that JPMorgan will let gold and silver prices rip higher at some point, only it knows and controls when the inevitable will occur. It could come after it has whittled its paper short position down to a minimum, as I've always speculated or it could come while it holds a hefty paper short position, ala the full pants down premise of my mentor, Izzy Friedman. You know the theory – the big shorts get caught in an upside move when least expected. One thing Izzy never imagined was that the biggest paper short would end up being a much bigger net long due to a massive physical position. No one ever imagined that, including me. But now that that has occurred, it adds powerfully to the full pants down scenario in that it won't be JPMorgan's pants that will be pulled down, just the other big shorts'.

On to developments since the Saturday review. I'll save the details until the next weekly review, but metal is still coming into the JPMorgan COMEX gold and silver warehouses and metal is being redeemed from the silver ETF, SLV, most likely due to JPM's continued physical accumulation. This is important to the price of metals going forward, but at this point, it's still mostly a COMEX positioning affair.

With yesterday's cutoff for the reporting week to be released in the COT report this Friday, I'm not expecting dramatic positioning changes. In gold, the total open interest over the reporting week hardly changed at all, no key moving average penetrations occurred and price movement was mostly unchanged overall.

The price action in silver was decidedly weaker, ending with a loss on the reporting week of 30 cents. There were a couple of fairly shallow downside penetrations below the 200 day moving average, suggestive of manage money selling and commercial or other trader buying, as occurred in the prior reporting week. Silver's total open interest rose by around 3500 contracts over the reporting week and I'm hoping to see an increase in managed money short selling. But as has been the case over the past month or so, I get the feeling that the nuances in the silver report will be of interest.

The positioning changes occurring on today's price breakout won't be available until the following week's COT report and undoubtedly, there has been managed money buying today. However, in light of what I had to say about JPMorgan and gold earlier, I can't help but want to down play the bearish market structure in gold and the neutral structure in silver. I won't be stricken with shock should JPM and the commercials rig a selloff, although I'll sure be disappointed. The only reason a selloff may occur is if JPMorgan tries to reduce its short position to the downside and/or stalls for time to acquire more physical gold and silver. At the same time, JPM can decide to let her rip given its pronounced net long position in both silver and gold. After all, this is their world and we can just hope to be aboard when they say time's up.

Ted Butler

January 24, 2018

Silver – $17.55 (200 day ma – $16.92, 50 day ma – $16.71)

Gold – $1359 (200 day ma – $1277, 50 day ma – $1291)