

March 7, 2018 – JPMorgan's Motivation

To be sure, there are many who reject, out of hand, my allegation that JPMorgan has accumulated a massive amount of physical silver over the past seven years, amounting to 700 million ounces or more. That's completely understandable, since I can't document and point out all 700 million oz and few have taken the time to review the basis of my claim. It doesn't matter that I first picked up on JPMorgan's quest to acquire physical silver four years ago, by which time it had already accumulated 300 million oz and have been monitoring and reporting on it ever since – if I can't show every ounce belonging to JPM, some will remain skeptical.

Heck, there are still some who doubt that the 135 million oz of silver that JPMorgan has moved into its own COMEX warehouse since 2011 belong to the bank, despite most of the silver being brought in as a result of JPMorgan taking delivery of that metal in its own name in futures contract deliveries. In this case, even seeing is still disbelieving. And please remember, it is in JPMorgan's best interest that its physical metal ownership remain largely unknown, so the bank can't be expected to confirm its holdings.

The highly visible 135 million oz of silver that JPMorgan holds in its own COMEX warehouse is more silver than ever owned by any private entity in history, eclipsing the amounts held by the Hunt Bros in 1980 or Warren Buffett's Berkshire Hathaway in 1998. To those who wonder how JPMorgan could buy the most silver ever without driving prices higher (as was the case with the Hunt Bros and Buffett), look no further than the fact that JPMorgan was also the largest paper short seller in COMEX silver futures over the entire seven years of its physical accumulation.

Yes, I still believe Buffett came to sell short paper COMEX silver contracts after he acquired physical silver (that's how he came to lose his metal in 2006); the big difference with JPMorgan is that the bank was the biggest paper short seller on the COMEX both before and during its epic accumulation of physical silver. Not only does this answer the question of why prices didn't rise despite JPMorgan buying so much actual silver over the past seven years, it also presents the clearest evidence of commodity market price manipulation, a matter I will avoid today, even though it remains the overarching issue.

The issue today is the motivation behind JPMorgan's epic accumulation of actual metal. To those who will remain unconvinced of the physical accumulation, this will matter little; but among those who accept that JPMorgan owns anywhere from 135 million to more than 700 million oz of silver (in the form of industry standard 1000 oz bars), I've detected differences of opinion as to JPM's motivation for the accumulation.

My opinion, as I've consistently maintained, is that JPMorgan first began acquiring physical silver as the one surefire solution of covering its massive paper short position without driving prices sharply higher. Then, after acquiring enough physical metal to neutralize its dominant paper short position early on (by 2012), JPMorgan continued to accumulate hundreds of millions of physical ounces of metal with the sole intent of someday selling that silver at as high a price as possible.

Just to be clear, I don't think JPMorgan envisioned in 2011 that it would amass the largest stockpile of

silver in history at artificial low prices; no one could be that prescient. But JPM's decision to buy physical metal as the solution to covering its otherwise impossible to cover massive paper short position was nothing less than a stroke of manipulative genius. And JPMorgan was smart enough to realize that once it had effectively covered its paper short position, any additional physical ounces acquired could be sold at a great profit someday.

But even among those who accept that JPMorgan has amassed epic amounts of physical metal, not all agree with my take on the motivation behind the accumulation. Many feel that the main motivation for JPMorgan accumulating physical silver is not to profit by someday by selling at a very high price, but instead to use the physical metal to prolong and extend the manipulation for as long as possible. Invariably, those feeling this way also sense this is related to JPMorgan acting on behalf of the US Government for various reasons, ranging from the US insuring it has adequate supplies of this vital material to keeping the price contained so as not to set off a price disruption in gold and broader financial markets.

I think I do understand why many feel this way and it revolves around the natural fatigue that sets in after years of truly rotten price performance and the very natural tendency to extrapolate current price levels into the future. And just to be objective, let me admit that any single entity holding a large physical position could be considered potentially bearish, since the possibility of sale clearly exists. But the same could be said of the massive physical accumulations of gold by Russia, China, India and elsewhere, where the possibility of sale also exists. But let me deal with the most popular alternative version that has been advanced for the silver manipulation continuing, namely, it is orchestrated by the US Government.

My immediate reaction to JPMorgan running the silver market as a front for the USG is who exactly in the government is running the show? Certainly not anyone I've observed over the past half-century of my adult life. And presently, the USG is more dysfunctional than any time in memory (if not in the history of the republic). But my list of reasons for seriously doubting the US Government is behind the manipulation doesn't stop there. We did run up in silver to \$50 fairly quickly in 2011 and I don't recall any financial market upheaval or even much reaction in gold which rose around \$100 (less than 10%) as silver climbed 250%. If silver's price rise didn't affect other markets back then, why would it in the future?

As far as the US Government using JPMorgan to build up a strategic stockpile of silver for the future collective good of the country, the same government spent 50 years, from 1950 to 2000, disposing of our existing national stockpile of silver and removing it from strategic status, thanks to the underhanded efforts of the Silver Users Association. Suddenly and with absolutely no public notice, the US Government secretly began stockpiling silver? Such an initiative would have had to have started in the Obama administration and have been fully embraced and continued by the Trump administration. I don't think so.

It is unrealistic, in my opinion, to believe that the US Government would single out silver as the one commodity it should be stockpiling without any apparent reason or evidence it was doing so. That's the problem with conspiracy theories – once you go down that path, it never ends and you have to suspend rational thinking to explain everything. As I said, I understand the need to rationalize the rotten price behavior of silver over the past 7 years. Further, I have gone on record stating that the USG did make a secret agreement with JPM on the occasion of its takeover of Bear Stearns, but if the

USG has been calling the shots in silver over the past 7 years then I'll go out and buy a hat and eat it.

As far as JPMorgan accumulating 700 million oz of physical silver for the purpose of continuing the manipulation indefinitely, I can't see why. For one thing, JPMorgan certainly hasn't had any need for physical silver to this point to continue the manipulation; it has been doing just fine in capping prices with paper short sales alone. There has been no big physical silver buying from anyone other than JPMorgan, so one has to accept the notion that JPMorgan is prepared to sacrifice and sell at a loss or little profit the 700 million oz it holds. Does that sound like JPMorgan to you? I see a giant financial institution on the constant move, like a great white shark, seeking to maximize profits in any manner possible, from (over) charging folks on checking accounts and credit cards and mortgages to playing every nook and cranny of our capital markets in order to make a buck. Suddenly, JPM is going to forgo and pass up making a giant profit on its accumulated silver so that the price will never go up? Again, I don't think so.

JPMorgan's prime reason for existence, just like any for-profit organization is to make profits and that automatically becomes the default motivation behind its massive accumulation of physical silver over the past 7 years. In fact, because JPMorgan has been able to accumulate silver to this day and is not in the slightest conceivable way unable to continue that accumulation because it is running out of buying power, this is also the prime reason why the silver manipulation has lasted for so long. The price of silver will explode when JPMorgan decides it will explode and that won't come until there is not enough physical silver for it to buy. I admit the timetable has lasted much longer than I (or you) would have preferred, but so what? Who has always gotten whatever he wanted when he wanted it? Not me.

But it's not just that the profit motive is most likely behind JPMorgan's massive physical accumulation of silver, it's much more than that. JPM's accumulation provides the one critical ingredient missing over the past 33 years in which I have studied silver closely. The accumulation creates something heretofore always lacking for a great run up – that someone very large was in position to profit immensely on an explosion in the price of silver. Warren Buffett wasn't interested in a silver price explosion because he had sold short an amount equivalent to Berkshire's physical holdings in COMEX futures contracts and was largely fully-hedged. As such, he wouldn't have benefited from a silver price explosion.

JPMorgan's physical position is far larger than its paper COMEX short position and, therefore, it is the first big entity fully prepared for a dramatic liftoff in price. I'm not kidding when I say that JPMorgan's massive physical position is the single most bullish factor I've run across in silver in all my studies over the past three decades.

Turning to other developments since Saturday's weekly review, I believe I have read more COT-related commentaries over the past few days than ever before, with most of them squarely focused on the extremely bullish market structure in COMEX silver futures, as well as the less bullish structure in gold. This is as it should be, given the very reliable cause and effect connection between past record-large managed money net short positions and an eventual price rally.

The increased commentary is further confirmation of the growing awareness of what drives prices, namely, futures contract positioning changes. I think this is important because at some point the growing awareness will lead to changes in market participant behavior. It certainly is consistent with my

“big one” premise in silver when the biggest short, JPMorgan, refrains from adding to its short position on a coming silver rally (which I always hold to be the next rally). This is at the very core of my analysis that the positioning on the COMEX is manipulative to price. Not all the commentary equates futures positioning with price manipulation, but it sure seems headed in that direction on balance.

Despite the increased commentary, one large segment of the precious metals analytical community refuses to consider the existence of price manipulation, even if they do acknowledge the influence of positioning changes. I’m speaking of the establishment analytical community or those who work for a financial institution of some sort; as opposed to those independent, or not working for such an institution (like me).

Over the years, I don’t recall any attention ever paid by the established analytical community as to whether a price manipulation exists in silver or gold, despite the matter being publicly commented on and investigated (not recently) by the CFTC. Many of these analysts have come to follow the COT report and comment regularly on positioning changes, but all scrupulously avoid any mention of possible manipulation. In many ways, it strikes me as if they are avoiding at all costs, any mention of manipulation as if that would represent an acknowledgement that it might exist.

What brought this recurring theme to mind was a recent poll in the LBMA’s publication, “The Alchemist” featuring past and future price predictions for the precious metals, by mostly establishment analysts. Truth be told, the LBMA is itself establishment, so no big shock there. What always stands out to me in these polls is how closely to current prices most of the predictions are centered, either just a bit below or above current prices.

http://www.lbma.org.uk/assets/Alchemist/Alchemist_88/Alch88Complete.pdf

Such closely bunched predictions are, in effect, a declaration that gold and silver prices are not manipulated or that the manipulation will never end. While I rarely make price predictions of the sort in the poll that’s because I know that future price depends on whether the manipulation continues or not. Guessing the future price of silver, for instance, is rather cut and dry to me – if the manipulation remains in force, prices won’t move much; but if the manipulation ends, then pick a very high price and then double or triple that.

My point is that there is a growing gulf between how the independent (Internet) analytical community and the established financial community view the gold and silver markets. It’s as if the focus was on different markets completely. I think I understand why this is, having experienced it personally. Many year ago, when I first discovered the COMEX silver manipulation, I was working for an established financial institution (Drexel Burnham). Naturally, I first brought my findings to those at the firm who I thought would have an interest in it. To say the least, my findings were not warmly embraced. It didn’t take long for it to dawn on me that this was just the way it was and would always be.

I don’t find fault with any of the analysts working for established financial institutions for avoiding the discussion of manipulation because it would be at odds with their continued employment. Manipulation is the most serious market crime of all and any suggestion that it existed would reflect badly on the firm employing the analyst and all such firms for continued participation in or connection to the manipulation. It’s best a topic left undiscussed. But it tends to make the resolution, whenever it comes, all the more dramatic – that’s my main point.

Turning to price action this week, it's been a bit of a rollercoaster, down slightly on Monday in gold and silver, followed by a sharp Tuesday rally and a sharp fall today. The sharp price rally yesterday, seeing as it was on the Tuesday cutoff for this week's new COT report, makes predictions for positioning changes difficult and less reliable. At the risk of embarrassing myself, I'll venture specific contract guesstimates and hope for the best.

Despite Tuesday's rally resulting in a price gain over the reporting week of around \$17 in gold and 35 cents in silver, I still sense that price weakness earlier in the reporting week will result in another week of net managed money selling and commercial buying or a further improvement in the market structure for both gold and silver. With one final caution that yesterday's price rally involved managed money buying in gold, I would still expect net managed money selling in gold of around 20,000 contracts for the reporting week. In other words, I'm expecting that the managed money gold selling earlier in the reporting week (which decisively penetrated its 50 day moving average) was much greater than the buying yesterday which penetrated the same moving average to the upside.

While similar to the action in gold, I'm less sure about yesterday's rally in silver triggering much managed money buying since we hit, but did not decisively penetrate silver's two key moving averages. And even if there was more managed money buying than I detected yesterday in silver, today's decline would appear to have negated the buying. For the reporting week to be published Friday, I'd expect a further 5000 contracts of managed money net selling on the conservative side, but I am hoping for more than that. Friday's Bank Participation Report will help clarify what JPMorgan held short as of yesterday and I am still hoping for a positive surprise.

Almost regardless of what Friday's reports will indicate, silver's market structure will undoubtedly remain extremely bullish, while gold's market structure will most likely remain in the neutral state. That would still leave the most probable outcome to be more of a flush out to the downside in gold which may bring about the finishing touches of more managed money shorting in silver. But seeing how extremely bullish the market structure already is in silver, I'm getting an itchy trigger finger for deploying the last of my funds in kamikaze style call options.

Ted Butler

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Silver – \$16.48 (200 day ma – \$16.84, 50 day ma – \$16.83)

Gold – \$1325 (200 day ma – \$1289, 50 day ma – \$1327)

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