I received a couple of recent comments from subscribers that I would like to discuss. The first has to do with different financial circumstances for how JPMorgan is actually holding the 20 million gold and 700 million silver ounces that I claim it holds on a physical basis. It doesn't change my core premise, but it certainly resonates and is food for thought.

To summarize my premise, I claim that JPMorgan, starting in May 2011 in silver and early 2013 in gold, began to acquire massive quantities of actual metal on the cheap, made possible by its iron-grip control on prices by virtue of its near-monopolistic role in COMEX futures trading. In practically full view, JPMorgan used its dominant short position on the COMEX to depress prices and then used the resultant low prices to acquire physical metal. It did this initially as the only realistic means of covering its controlling paper short position; but JPM continued to prolong the price manipulation even after it had accumulated enough physical metal to offset its paper short positions in silver and gold as it realized the more physical metal it accumulated, the more it would profit when prices surged higher. JPMorgan's strategy and execution have been nothing short of brilliant, but also highly manipulative. Needless to say, if I am correct in my premise, nothing could be more important, or bullish for the price of gold and silver.

Even though I have been reporting on JPMorgan's accumulation of actual metal for years, particularly in silver, I can understand how my claims are disbelieved and even scoffed at, given the size of the acquisition. After all, 700 million oz of silver at an average price of $19 (possibly less) comes to just over $13 billion, while 20 million oz of gold at an average price of $1200 comes to $24 billion or a total outlay of $37 billion by JPMorgan. Interestingly, in terms of blended cost versus current prices, JPMorgan is about even on a combined basis. Of course, this leaves out the many billions of dollars that JPM has made in COMEX silver and gold futures trading over the past decade since taking over Bear Stearns.

In my mind, I have been considering JPMorgan's silver and gold accumulation on a cash basis, namely, that it laid out $37 billion to make what is destined to become one of the most profitable trades in financial history. Certainly, JPMorgan would have no problem affording such an amount, considering that it holds well in excess of a trillion dollars in total assets. And who would ever be able to argue with or even find an investment on JPM's books amounting to 3% of total assets that the bank desired to keep secret? Remember, there is absolutely no reporting requirements on physical assets, just securities and derivatives. But a subscriber's email caused me to rethink my notion that JPMorgan laid out cash for its $37 billion hoard of actual silver and gold.

Turner suggested something that, quite frankly, hadn't crossed my mind, namely, that JPMorgan has financed the acquisition of its massive silver and gold physical hoard. And why not? What entity could be more capable of buying on credit, as opposed to cash, than JPMorgan? To be sure, Turner was making some other points in his email which I tried to address, but my main takeaway was the concept that JPM hadn't laid out cash on the barrel for its hoard of silver and gold, but did it on the chit. Sure, JPMorgan would incur an interest charge, but that would be more than covered by its consistent winnings in COMEX trading.

What dawned on me was that as magnificent an investment that I concluded JPMorgan had assembled in physical silver and gold over the past seven years was made even more magnificent if it was financed. Should gold climb over the next few years by $500 or $1000 an oz (as I think is highly doable), JPMorgan would stand to make a profit of $10 to $20 billion. Should silver spike by $100 or $200 an oz (also as I think is doable, if not sustainable), then JPM could make an incredible $70 to $150 billion. Those would be absolutely, positively incredible returns on a $37 billion cash investment. But if JPMorgan achieved those returns on a zero-cash basis, one's head would explode in contemplating the percentage returns. Needless to say, if any one entity is even remotely capable of pulling off something like this, it would have to be JPMorgan.

Another subscriber wrote about the strange turn in behavior by JPMorgan in recently adding to its COMEX silver short position much earlier and at much lower prices than previously. Shailendra acknowledged that JPM could have established offsetting positions in the OTC derivatives or elsewhere, as I suggested, but he sensed a different motive (one that I considered, but didn't mention for fear it would sound too egotistical on my part). Shailendra suggested that JPMorgan may have added additional short positions with the intent to buy back at higher prices to intentionally show a loss for the very first time.

His reasoning (which I agree with) was that such a loss would go a long way to refuting my otherwise irrefutable allegation that JPMorgan had never taken a loss when adding COMEX silver short positions over the past decade. Certainly, no one – not JPM, nor the regulators or anyone else – has ever challenged my assertion that JPMorgan has established a perfect trading record in COMEX silver (and gold) that would be impossible to achieve in a market that wasn't manipulated. Even those who have difficulty in fully comprehending the nuances of the COMEX silver and gold manipulation understand that there is something seriously wrong with JPMorgan never, ever taking a loss and always profiting when shorting silver (and gold). One would normally think that shorting silver or gold would sometimes result in an occasional loss, but JPMorgan has turned that notion on its head.

To my knowledge, no one writing to Enforcement Director James McDonald (and there have been many) has ever received an answer or rebuttal to my allegations of JPMorgan's impossibly perfect trading record. There's a good reason for that – my allegations are based upon the CFTC's own published data. Therefore, the idea that JPMorgan would try to disprove the allegation by deliberately appearing to take a loss is not that far-fetched, particularly if the "loss" is offset by some hidden profit away from the COMEX.

Turning to recent price action and what might be revealed in this week's Commitments of Traders (COT) report through yesterday's cutoff, I just caught a quick news brief on CNBC about how, despite recent rotten performance, more money seemed to flowing into the Commodity Trading Advisor (CTA) space. CTA's are the more proper term for the managed money traders I refer to as the nitwits which are constantly being hoodwinked by JPMorgan and other commercials in COMEX silver and gold and other markets. So, just as I'm about to describe the latest action by these Wrong-Way Corrigans, I'm treated to a report suggesting investor money is still flowing into these funds.

https://en.wikipedia.org/wiki/Douglas_Corrigan

Apart from the most bullish fact of all for silver and gold, namely, that JPMorgan has accumulated massive physical quantities of each, the second most bullish fact is that the always wrong managed money traders hold an unusually large short position in both markets. So widespread has become the knowledge of the inherent bullishness of having a massive short side bet by the managed money traders, it's hard to find legitimate commentary and analysis to the contrary.

While there can be no doubt that the current market structure in COMEX gold and silver is extremely bullish and must be resolved with the managed money shorts being bought back on higher prices, there is no way of knowing in advance the timing and exact nature of the resolution. For instance, we could continue to see a series of partial resolutions of the kind seen in silver recently, where the managed money traders buy back a chunk of short contracts on an upside penetration of the moving averages, only to be met with aggressive commercial selling to set the process back to slicing the salami to the downside. The recent two-day burst above $17 last month would illustrate this.

These partial resolutions are frustrating and demoralizing for precious metals bulls, but in no way do they refute the underlying premise that the managed money traders are anything but nitwits and dupes. More than anything, however, this shows that these traders are the enablers of the manipulation because without them no manipulation would be possible. Admittedly, I'm speaking in absolute terms here, but even the partial and temporary resolutions, as frustrating as they are, prove the obvious, namely, that the managed money traders are dupes for the commercials and other traders feeding off them. The proof lies in the fact that, collectively, the managed money traders have never bested the commercials on a realized basis in COMEX gold or silver. The next time that occurs will also be the first time.

So while it's possible to see partial and temporary resolutions to the upside where a certain amount of managed money short contracts are bought back only to be repositioned on lower prices thereafter, it is also possible that the next move to the upside is not temporary, but the move up that will not be retraced anytime soon. There's no way of knowing in advance if the commercials and most particularly JPMorgan will opt to sell so aggressively on a rally to cap it, as always, or if the move becomes historical in nature, aka, the “big one”.

I know this is an old story, but just because it’s old doesn’t mean it’s not valid. What would make it invalid would be some evidence that the managed money chumps were not, in fact, being duped by the commercials. Were that to occur, it would throw the whole market structure premise into the toilet. But what has occurred instead proves the premise resoundingly, no matter the level of frustration that the effect is to contain gold and silver prices. Therefore, the extremely large managed money short position in COMEX silver and gold makes the market structure extremely bullish, period.

As to what Friday’s report will show, I’m not sure, away from concluding that the market structure in both gold and silver will remain extremely bullish regardless of this week’s results. In gold, the price action through yesterday’s cutoff seemed to indicate a series of slight salami slices (new price lows) following the price smash on last week’s cutoff day. This would suggest additional managed money selling and commercial buying, despite a reporting week which featured nearly unchanged gold prices on a closing basis nearly every day. I don’t think I recall a reporting week in gold which featured narrower closing prices every day than this week’s.

Therefore I would not be surprised in the least by a further improvement in gold’s already extremely bullish market structure, meaning more managed money net selling. The only thing making me hesitant to offer a prediction by a specific contract amount of managed money selling in gold is my sense that the managed money traders don’t have a lot of selling capacity left in gold, particularly in terms of new short sales. And were we to witness more net selling by the managed money traders in Friday’s report, which would have to be considered the safe bet, then we would have to be that much closer to managed money selling capacity limits in gold. In simple terms, we should see an improvement in gold, or more net managed money selling, but if we don't, then no big deal because the gold market structure is already good to go (to the upside).

In silver, the price action was different than was the case in gold, in that silver prices rose on four of the five reporting days, ending higher for the week by more than 30 cents and in the process challenging silver's 50 day moving average. Therefore, I would not be surprised to see some deterioration in silver, in the form of net managed money buying, perhaps to the tune of 5000 or more contracts. Even if there was more managed money buying than that, silver's market structure would still be extremely bullish. Further, I think today's sudden and high volume selloff in silver probably offset much, if not all of any managed money buying reported in Friday's report.

In a very real sense, we are marking time in gold and silver, waiting for the extremely bullish market structure in each to be resolved; either partially and temporarily, or more decisively. At times like this, it's important to keep the proper perspective in terms of knowing where we are in market structure and the possibilities. Those possibilities include more backing and filling and perhaps some slight new price lows, as well as the passage of time. They also include a more resounding resolution to the upside, all of which it is difficult to handicap in advance. About the only resolution that can definitely be ruled out is one featuring the managed money traders buying back massive amounts of short contracts on lower gold and silver prices.

Finally, as frustrating as the moribund price action has been in gold and silver, it's important to remember that the recent dismal price action is precisely what has brought about the extremely bullish market structure setups that currently exist. The current setups are infinitely better than the bearish market structures seen in the past when prices seemed to be strong amid heavy managed money buying and commercial selling. It’s axiomatic that when prices seem strong, the market structure is invariably bearish and vice versa.

And until quite recently, silver’s market structure was extremely bullish while gold’s was no better than neutral to bearish. Now that gold’s market structure has joined with silver’s in being extremely bullish, a dramatic upside price resolution is much more likely than otherwise, precisely because of rotten overall price action.

Ted Butler

May 23, 2018

Silver – $16.50 (200 day ma – $16.80, 50 day ma – $16.53)

Gold – $1295 (200 day ma – $1308, 50 day ma – $1325)