

October 29, 2016 – Weekly Review

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Gold and silver prices rose for a second week, with gold finishing \$10 (0.8%) higher and silver ending up by 25 cents (1.4%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by half a point or so to 72 to 1, the same small amount it widened out in the previous week. Not much new to see here.

The week's gains, modest as they were, apparently were boosted late Friday by the news of a new email investigation by the FBI related to presidential candidate Hillary Clinton. While I admit to the fact that such outside news can and does influence the price of precious metals and other markets, regular readers are hopefully aware that such news doesn't factor much in my analysis as it is outside the scope of a data-driven approach. I'm not saying unexpected developments won't influence price, just that I don't know how to analyze the unexpected beforehand. Afterwards, of course, is always another matter.

Fortunately, this was a week rich with new data that are worthy of discussion. The turnover or weekly physical movement of metal brought into or taken out from the COMEX-approved silver warehouses amounted to 4.6 million oz, as total COMEX silver inventories fell 1.1 million oz to 173.5 million oz. While still near a one year high, COMEX silver inventories are unchanged from a month ago, as more than 21 million oz have been physically shuffled in and out of those warehouses in the interim.

Annualized, this month's COMEX silver warehouse movement comes to a quarter of a billion oz of silver or 30% of total world mine production. As has been the case for more than five and a half years, no other US commodity warehouse system has exhibited such an unusual physical inventory turnover. As to what's driving this unusual physical silver movement, aside from a tightness in wholesale silver supplies, I believe it has been the second main source in supplying JPMorgan with much of the physical silver the bank has acquired over the past 5.5 years. It can't be coincidental that the unusual COMEX silver inventory movement began at the precise moment I allege JPMorgan began its historic accumulation of physical silver.

Speaking of JPMorgan, another near 500,000 oz were deposited into its COMEX warehouse this week, on top of the 2.9 million oz that came in over the prior two weeks. JPMorgan's COMEX silver warehouse now holds in excess of 80 million oz, towering over any other warehouse's holdings. JPM opened its COMEX silver warehouse with zero silver ounces at the same time I allege it began its silver accumulation, yet few make the connection to this day. Wouldn't the most logical and plausible explanation for the highly unique growth in JPM's COMEX silver warehouse holdings be that the bank was acquiring physical silver?

Perhaps the key data point of the week was the 5.7 million oz reduction in the holdings of the big silver ETF, SLV, following two big withdrawals in the holdings in GLD, the big gold ETF. I'm not in the habit of re-quoting statements I may have made previously (it does seem vain), but I want to make a point that sort of requires it. In last week's review, I wrote this in regards to the then-large withdrawal in GLD and large deposit in SLV Â?

Â?Here's my best guess. The large withdrawal in GLD represented a conversion of shares for metal by a large entity to avoid SEC reporting requirements, the same process JPMorgan has employed regularly in SLV for more than five years. Such a conversion results in a reduction in shares outstanding and a corresponding reduction in the amount of metal held for the trust. By converting shares to metal, the metal doesn't even have to be moved as all the conversion does is put ownership of the metal in a non-reporting status Â? perfect for concealing ownership.

As far as the large deposit in SLV, my best guess is that a large entity (I'll let you guess who) has accumulated shares stealthily which required the big metal deposit and that the transaction will also eventually result in a conversion of shares to metal to avoid reporting requirements. At the very least in both, none of this is related to broad investment buying or selling and is the work of a large entity.Â?

When I read of large withdrawal from SLV yesterday, I nearly fell out of my chair because it fit so closely with what I expected. As such, I can't help but believe that the recent large deposits and then withdrawals in SLV and GLD have occurred for the reasons I explained, namely, as being the work of a large entity with the initials JPM. For the past few weeks, trading volumes and price movements in SLV and GLD have been subdued and featureless, which should have resulted in the metal holdings in each ETF remaining stagnant. Instead, there have been unusually large deposits, followed by equally large withdrawals.

The most remarkable thing is how so few commentators have noticed or have commented on data that are both highly unusual and easily verifiable. Given their large size and completely counterintuitive nature, these deposits/withdrawals should be the talk of the town. They are important to me because they go to the heart of my analysis and core finding that JPMorgan has been accumulating massive amounts of physical silver for years and that the bank is likely now acquiring physical gold as well.

I just mentioned that the unusual COMEX silver warehouse movement and growth in JPMorgan's COMEX silver warehouse as being a main source of the massive physical hoard of silver that the bank has accumulated over the past five and a half years. I have also stated that JPMorgan has accumulated more than 150 million oz of silver in the form of Silver Eagles and Canadian Maple Leafs. But I have always felt that the largest source of the physical silver acquired by the bank over this time was by conversion of shares to metal via the SLV. Clearly, nothing in the recent data dissuades from that view.

I should also mention that the unusually large physical silver movements and ownership changes in COMEX silver inventories and changes in holdings in SLV are not the only big silver goings-on. Over the past four weeks, some 5 million ounces have been deposited in the silver ETF, SIVR (PHAG), now the third largest physical silver holding in the world with 81.5 million oz (after SLV and the COMEX warehouse holdings). Five million ounces here and five million ounces there and pretty soon you're talking about serious amounts of silver.

Sales of Silver and Gold Eagles have one more day of possible reporting by the US Mint on Monday, so I must wait until then for the final numbers. But there's no question sales picked up this month for Silver Eagles (but not enough to signify the complete return of JPM) and remained strong for Gold Eagles. In fact, Gold Eagles sales in ounces for

October are already at the second largest monthly sales for the year. Silver Eagle sales are such that I can't tell if JPM has returned in force and my sense is that the bank may be laying off a bit to avoid being identified as the big buyer. After all, JPMorgan has just about completely hoodwinked everyone in its silver acquisition via the COMEX and, particularly, through the SLV, so why make it more obvious by buying all the Silver Eagles it is capable of buying as well?

<https://competition.usmint.gov/bullion-sales/>

The changes in this week's Commitments of Traders (COT) Report weren't super dramatic and I split on my predictions, missing on silver but coming fairly close on gold. You'll remember that it was a fairly quiet reporting week in each, with the main feature being that gold crossed back above its 200 day moving average after trading below it in prior reporting weeks. I always seem to learn something new in each COT report and this week was that I was off in silver because I didn't place enough emphasis on the fact that silver never penetrated its 200 day moving average, like gold did, and that resulted in my miscalculation.

In COMEX gold futures, the commercials increased their total net short position by 14,900 contracts to 217,600 contracts (I had guessed an increase of about 10,000 contracts). As expected, this was the first increase following three weeks of substantial reductions. By commercial category, it was all the raptors (the smaller commercials apart from the eight largest traders) and the big 5 thru 8 traders. The raptors added 7600 new shorts and the big 5 thru 8 added 7700 new shorts, leaving the big 4 as buying back 400 short contracts. A key feature of my brand of analysis is what the four largest traders are up to, and I read this as mostly good.

On the buy side of gold, the managed money traders bought nearly 13,000 net contracts, including 9086 new longs and the short covering of 3870 contracts, demonstrating yet again that COMEX price setting is an affair confined to the commercials versus the managed money technical funds. Based upon yesterday's high volume price advance, it appears to me it involved additional managed money buying and commercial selling – otherwise, prices would have truly exploded if the commercials had been buying. Ditto in silver, although not to the extent in gold.

In COMEX silver futures, the commercials reduced their total net short position by 1500 contracts. to 73.400 contracts (I had guessed an increase of 5000 contracts. the

equivalent of beaming an onlooker with an errant toss of a horseshoe). I do see the error of my estimate in that silver, never have penetrating its 200 day moving average as was the case in gold, never was as liquidated as was gold and, therefore, didn't attract the commercial selling that occurred in gold.

By commercial category in silver, it was all a raptor affair as the smaller commercials accounted for all the net commercial buying in adding 1500 new longs to a net long position now totaling 21,400 contracts. The big 4 bought back 200 short contracts and the big 5 thru 8 sold as many, resulting in no net change for the 8 largest short traders. Accordingly, I'd leave JPMorgan's short position at 24,000 contracts, while awaiting next Friday's Bank Participation Report for recalibration.

On the sell side of silver, the managed money traders came fairly close to matching the net commercial buying, as these traders sold nearly 2700 contracts, which consisted almost entirely of long liquidation. In summary, this week's report was not of the blockbuster variety.

I'd like to return to the issue of JPMorgan continuing to accumulate physical silver. Based upon my earlier commentary about the methods that the bank has employed in its acquisition of metal (COMEX deliveries and warehouse movements, Silver Eagle and Maple Leaf buying and conversions of shares for metal transactions in SLV), I would now estimate JPM's silver holdings to be around 550 million oz, and if I'm off, it's likely to be that the bank owns even more silver than I claim. On that basis alone, JPMorgan's physical ownership of silver is, by far, the key feature for silver and as such is bullish beyond description.

I also maintain, based upon the public data, that JPMorgan has been the largest short in COMEX silver futures for nearly every day of the past five and a half years it has been acquiring physical metal. As I have long maintained and as seems to becoming more widely accepted, futures positioning is the main price driver. This has put JPMorgan in the price driver's seat, enabling it to suppress the price of silver via its dominant COMEX short positioning for the simple and express purpose of buying as much metal as it could as cheaply as possible.

I know many insist that there are various more complicated explanations behind the COMEX price manipulation, but I'm a sucker for accepting the simplest and most plausible explanation when such an explanation is available. I don't know how a more plausible and direct explanation could be available than JPMorgan depressing the price of something it wants to acquire to make an obscene profit when sold.

Even the recent backing off by JPMorgan in buying Silver Eagles and demanding delivery on COMEX futures contracts over the past few months (until very recently) has a simple explanation. I've long held JPM's average price on its now more than 500 million oz holdings is around \$20. Is it just a coincidence that the bank stopped buying aggressively as silver exceeded its average price this summer and JPM's aggressive buying has recommenced as the price fell below its average price? Why wouldn't the bank adhere to dollar cost averaging in its manipulative accumulation of metal?

The fact that all the available data currently and for the past five and a half years conform to this JPMorgan/silver story line would seem to confirm my findings. It's greatly in JPMorgan's interest that so few seem to see what the bank is up to, giving JPM an advantage in continuing what is destined to be the market swindle of the ages. That's a big reason the bank continues to accumulate silver and raises the question of how much is enough, even for JPMorgan?

The answer, I believe, revolves around how much money JPMorgan has at its disposal and how much physical silver exists for it to buy. As far as timing, JPM has all the time in the world, so the time remaining between now and the final price liftoff can be anywhere between immediately to sometime from now. Let me give you an example of what I'm talking about.

Imagine, if you would, that you had a good-sized amount of money (say several hundreds of thousands of dollars or more) to invest in speculative securities and you ran across a cheap silver mining stock that discovered a massive silver ore body guaranteed to propel the stock to the heavens when the news of the discovery emerged. At this point, the discovery was largely unknown. The price of the stock was 5 cents a share and as the news came out, as it surely would, the price would jump to many dollars per share. I'm talking "what if?" but let's stipulate everything I've said was, in fact, true. Wouldn't you rush to buy as many shares as you could before the

price took off? Of course, you would.

Now let me give you the qualifier Â? because the stock's story was completely unknown, there was no investor interest in it, which was why the price was only 5 cents a share and no more than \$500 worth of stock changed hands on an average trading day. Here you are, with hundreds of thousands or millions of dollars to invest in a sure hundred-bagger score of a lifetime and you would be lucky to buy \$500 worth on any given day. If you tried to buy more, you would send the price up by yourself and defeat the opportunity of buying it cheap. Therefore, you couldn't just buy hundreds of thousands of dollars' worth of stock all at once. Your only chance was to buy as much as you could each day without moving the price drastically and hope you could do so for as long as possible.

What I just described, I believe, is the dilemma that JPMorgan faced five and a half years ago when it first decided to buy as much silver as it could. The problem for the bank was not then or now how much silver it could afford to buy, because I don't think I'm exaggerating when I say JPM has access to nearly unlimited amounts of money and buying power. JPM's problem, if you can call it that, was there not being enough metal to buy all at once. So it had to space out its silver buying Â? which it has done for the past five and a half years.

In addition, JPMorgan had the clear and distinct advantage of being able to manipulate the price of silver to its advantage via its large short sales on the COMEX; something that couldn't be done in my hypothetical penny stock example. Not only have the sons of guns (other words to come to mind) at JPM been able to manipulate silver prices lower in order to buy massive amounts of physical silver on the cheap; they have also succeeded, up until this point, of cashing in any newly shorted COMEX silver contracts at profits with never a loss. This is like having your cake and eating it too and when you are done eating it, you get paid for that as well. This is the scam of all scams.

With all this in mind, what happens next? First, please know that while I believe everything that I have related to this point to be 100% accurate; I am speaking of what has already transpired and because I'm looking back, I don't think I've missed a thing. But by definition, looking ahead is a different matter and one can never assume the degree of certainty about what's to come than what has already occurred.

With that disclaimer fully disclosed, it still appears likely to me that JPMorgan will still orchestrate one final selloff in silver in order to buy back as many of the 24,000 open contracts (120 million oz) as it can before allowing silver prices to surge higher. If JPM can buy back as many as 10,000 contracts (50 million oz) or more in paper short covering that might be enough, although you must know I'm making a best efforts supposition. What I described is wildly bullish for the price of silver beyond any short term selloff, but having focused on JPM for more than 8 years, I keep waiting for that final shoe to drop. If I am going to be proven wrong in my premise of what the future holds, it's likely to be on my short term predictions rather than my long term expectations.

Ted Butler

October 29, 2016

Silver – \$17.80 (200 day moving average – \$17.37)