September 19, 2018 – The Real Silver Story

Rarely have there been times in the financial world when entire asset classes have been at valuation extremes as seen currently. Most asset classes, certainly in the US, but also elsewhere, have been at historic highs, including stocks and real estate; largely attributed to accommodative monetary policies since the start of the financial crisis a decade ago. Interest rates, while higher over the past year or so, are still much closer to historic lows, pushing bonds to extremely high valuations. Thatâ??s not to say stock and real estate values canâ??t climb higher still, but there are few objective historical metrics that would term financial assets and real estate as cheap.

Certainly, there can be little question that the worldâ??s total investment holdings, despite record inequality in who owns the holdings, are at levels never before witnessed. In addition and as a testament to the high level of total world investment buying power that exists, there have developed any number of unique asset class valuation extremes in asset sub-categories, like cryptocurrencies and marijuana stocks. If ever there has been a time for extremely high asset valuations and the propensity to speculate, then surely that time is now.

The main problem with extremely high asset valuation levels is that such occasions typically coincide with historical instances of great risk. No doubt current conditions explain the current extreme level of valuations in general, but conditions can and do change and that can result in radical changes in valuation. In times of prolonged high valuation, the admonition of buy low, sell high too often gets cast aside; most often with eventual regret.

Most unusually, even in an age of greatly extended asset valuations, there exist some examples of severely undervalued assets; none more extremely undervalued than silver. This is unusual because the same conditions behind the overvaluation of other assets, principally unprecedented monetary accommodation and the willingness to speculate, have long been considered as the main price drivers for silver and other precious metals. Not this time. A simple mathematical calculation shows that silver has never been more undervalued relative to the stock market index of your choice than it is presently. Simply put, silver has never been cheaper relative to financial assets or real estate that it is currently.

And itâ??s not just relative to financial assets that silver has become ultra-cheap; measured against the one precious metal standard that has endured for hundreds, if not thousands of years – gold, silver has rarely been cheaper than it is now. Given the extreme relative undervaluation of silver to just about every comparable asset, a number of thoughts should spring to mind.

First and foremost, of course, is why is silver so darn cheap? Letâ??s consider the possible answers. As a vital industrial commodity, where 90% of total new supply (including recycling) gets consumed in industrial and other total fabrication demands, has there been a notable falloff in demand? Not according to any published statistics; if anything silver consumption has increased, following general economic activity. As a mineral mined and produced throughout the world, has there been any dramatic spike or increase in the amount of silver produced? Again, not according to any legitimate published source and, in fact, total production has remained stagnant or fallen over the past couple of years.

Silver is also an investment asset, with investment demand generally accounting for about 10% of total new production and while it is true that investment demand has flat lined, there is no evidence that existing holders have been net sellers on balance. Certainly, the growth in the two largest stockpiles of silver in the world, the holdings in the big silver ETF, SLV, as well as the holdings in the COMEX inventories, have increased to near record levels, strongly suggesting net investment demand. Recent sellouts of US Silver Eagle coins, as well spot shortages in other retail forms of silver also strongly suggest no investor net dumping of silver.

So, if there are no visible signs suggesting more supply and less demand, what could possibly be responsible for the current extreme undervaluation in the price of silver? Having studied silver for most of my adult life and having contemplated this question from every possible angle, I can guarantee you that you wonâ??t find a legitimate explanation for the price quandary in silver, namely, why is it so undervalued when it should be overvalued and at the top of the speculative boom list? I didnâ??t say there wasnâ??t an explanation, I said there wasnâ??t a legitimate explanation. The only possible explanation for silverâ??s extreme and historic undervaluation is the same illegitimate explanation Iâ??ve given all along – paper trading on the COMEX.

Iâ??m going to dispense with my recent commentary pointing to the incredibly bullish circumstance of the brain dead technical funds having been hoodwinked into shorting massive and unprecedented amounts of COMEX silver and gold contracts; which both explains why prices have dropped over the past few months and why prices must rally strongly when the inevitable buyback occurs. This circumstance is already the subject of widespread coverage, so Iâ??ll not discuss it now.

Instead, Iâ??d like to focus on what I consider the real silver story, which commenced in March of 2008 when JPMorgan took over Bear Stearns. Not for a minute am I forgetting that my journey in silver began in 1985, with my discovery that excessive and concentrated short selling on the COMEX was manipulating the price. And while I certainly stand by everything I introduced prior to 2008 (and since), the world of silver changed dramatically and irreversibly when JPMorgan was thrust into the role of chief silver and gold market manipulator. Fortunately, I was quick to recognize that the world of silver and gold had changed just months later in an article with a title nearly the same as this one.

https://www.investmentrarities.com/ted-butler-commentary-november-10-2008/

The real story in silver (and gold) since March 2008 is the story that revolves around JPMorgan. I know many may be put off by me referring to JPMorgan as a market crook, but based upon the evidence from the public data, thatâ??s how I see it. Since March of 2008 through today, on every single silver and gold price rally, JPMorgan has added just enough new COMEX short positions to cap every rally and then proceeded to buy back those added shorts eventually at lower prices. In the process, JPM has never taken a loss, only profits.

When silver prices soared into early 2011 and JPMorgan temporarily suffered large unrealized losses on its COMEX short positions, it still didnâ??t cover at a loss, but rode it out, eventually buying back short positions at a profit, as always. But the experience persuaded JPMorgan to revise its approach somewhat and while it continued to add shorts on every rally, it also embarked on its final solution â?? to accumulate as much physical silver and gold as possible. It succeeded beyond its wildest expectations; amassing 750 million ounces of physical silver and 20 million ounces of physical gold.

Just to put this into perspective, Iâ??m saying that JPMorgan holds around half of all the worldâ??s entire stockpile of silver in the form of 1000 oz bars. I know that sounds outrageous and impossible to many, but I can assure you that I do not make this claim loosely. I can also assure you that I consider my reputation to be more important than anything I possess.

But of all the things JPMorgan has managed to achieve over the past ten years – never taking a loss and accumulating massive amounts of physical silver and gold on the cheap â?? nothing comes close to what it has been able to achieve over the past few months. On the recent $3 decline in silver and $130 decline in gold, JPMorgan has managed to buy back its entire COMEX short positions in each. In silver, this is the very first time JPMorgan has held no COMEX short position and only the second time it has held no short position in COMEX gold (the first time was on the big gold price decline in 2013).

All told, JPMorgan bought back 90,000 contracts of COMEX gold contracts (9 million oz) and around 45,000 COMEX silver contracts (225 million oz), all at big profits. It took several months and a large amount of trading chicanery and double crossing, so much so that JPMorgan was the only trading entity even capable of such a feat. To my mind, this is the precious metals trading equivalent of sending a man to Mars and back.

Now that JPMorgan has achieved the near-impossible, itâ??s practically impossible not to conclude that it did so for the reason of setting itself in position for a price rally like no other before. I suppose itâ??s possible that we get a delayed or partial rally before the big one, but the odds-on bet has to be that JPMorgan envisions and intends a different kind of rally ahead â?? otherwise, why do what it just did? This appears to be the culmination of a ten year journey for JPMorgan (33 years for me) and it sure doesnâ??t look like weâ??re looking at a garden-variety rally ahead.

Shortly after I posted publicly last weekâ??s article, â??Is the COT Report Still Valid?,â?• commentary on my article was posted by Chris Powell, from GATA, suggesting that I consider the possibility that JPMorgan may be operating in the silver and gold markets as an agent under orders from the US Government and not as a principal for its own account (as I believe). I want to thank Chris for offering his input and Iâ??m not kidding when I say itâ??s much better for an article to generate interest than to be ignored.

http://www.gata.org/node/18501

Since I know this is a widely-held opinion, namely, that the US Government is behind the silver and gold manipulation, ostensibly to defend the dollar, I have always considered this to be a possibility and believe I have written about this previously. Since there is no question that the regulators have continuously evaded specific questions and allegations of wrongdoing by JPMorgan in the silver and gold markets from myself and others, thatâ??s reason enough to admit to the possibility of US Government involvement.

Throw in the fact that the US Government assisted or arranged the pivotal takeover of Bear Stearns by JPMorgan, instantly thrusting JPM into the role of being the biggest COMEX gold and silver short in early 2008 and there would have to be something wrong with you if you didnâ??t suspect some level of governmental involvement.

On the other hand, Iâ??m still more persuaded, based upon the continuing flow of data that JPMorgan is acting on its own behalf in its silver and gold activities. No doubt that JPMorgan extracted some type of â??free get out of jail cardâ?• on its takeover of Bear Stearns and that has accounted for the CFTC turning a blind eye towards JPMâ??s egregiously corrupt behavior in silver and gold; but thatâ??s very different from the USG orchestrating things. What things?

Well, for starters, how about JPMorgan never taking a loss, only profits in all its COMEX silver and gold dealings over the past decade. And for the bank amassing 750 million oz of physical silver and 20 million oz of gold over the past 7.5 years at artificially-depressed prices. Since when did the US Government become a ruthless profit-motivated precious metals trading and physical metal acquisition machine? And since when hasnâ??t JPM been such a ruthless trading machine?

Having stipulated, both today and previously that anything is possible, Iâ??d like to raise a completely different point in whether it is the US Government or JPMorgan behind the silver and gold manipulation. That point concerns what to do about it in either case. The problem with the silver (and gold) manipulation being a government-run operation makes doing anything about it problematic. Please allow me to explain.

Across the world, people in every country blame the government for a wide variety of ills, both perceived and real. In a very real sense, blaming the government has always been a national pastime, as citizens in Argentina, Turkey, China, and Russia and elsewhere would certainly attest. As such, blaming the government has become so commonplace so as to make it difficult to do anything about it â?? save changing the leaders of the government. In cases of widespread and collective grievance, such changes have and will be made.

But itâ??s hard to imagine concerns about a silver or gold manipulation becoming so widespread that it would convince the collective majority of citizens to rise in opposition. Please donâ??t misunderstand me â?? Iâ??m not speaking about what is right or wrong, as the metals manipulation is clearly wrong; just what is practically addressable. There is little that could be practically undertaken if it is the US Government directing the silver and gold manipulation â?? and thatâ??s coming from someone who has tried as much or more than anyone else to generate regulator action.

On the other hand, specific public allegations of criminal activity directed at public companies, particularly financial institutions, like banks, are quite rare and when made, even rarer for them to go unaddressed. In fact, Iâ??m not aware of any previous instances of pointed and specific allegations of criminal wrongdoing ever directed at a bank like JPMorgan. Sure, plenty point fingers after violations are revealed and settled; but before? Publicly accusing a bank like JPMorgan before any official finding of violations is just not done because retaliation is swift and harsh. How many thousands and tens of thousands of lawyers does JPM have at its command to attack any claims of wrongdoing?

Yet, thatâ??s precisely the case here â?? Iâ??m publicly calling JPMorgan a stone cold crook in its silver and gold dealings. And truth be told, I was quite frightened of the consequences of doing so when I first started to make such allegations ten years ago, mainly out of concern for my family. Thatâ??s because it is unheard of a large public company of any type to ignore complaints alleging criminal activity. After ten years, any fears I had have disappeared.

My point is that governments everywhere let complaints roll off their backs like ducks in the rain; but never is that the case with public or private companies, especially banks and financial companies, like JPMorgan and the CME Group. Iâ??m further convinced, through the passage of time, that the only reason JPM and the CME have not responded is because they are both guilty as charged.Â Therefore, Iâ??d like to suggest to GATA and others to press the issue. I accept the possibility that the US Government may be behind the manipulation, but even if JPMorgan is only acting as their agent, there is more to practically do about it by making JPM the focal point.

To my knowledge, GATA has three board members, Chris Powell, Bill Murphy and Ed Steer. Ed has already become fully convinced that JPMorgan is the chief player in the silver (and gold) manipulation, as anyone who reads his daily newsletter will attest. Bill now talks more about silver and JPMorgan than he does about gold, a marked reversal from the past. In the most constructive sense possible, Iâ??d like to suggest that GATA go all the way and focus on JPMorganâ??s activities as its main thrust. After all, that seems to be the direction it is headed anyway. In practical terms, it will be much easier to crack JPMorgan, than the US Government.

As far as new developments since the Saturday review, there was an unusual transaction in the expiring September COMEX silver futures contract yesterday, in which around 880 contracts were opened, the equivalent of 4.4 million oz. Since this undoubtedly involves physical delivery of some type, the size of the transaction is noteworthy. When such large, late-month transactions have occurred in the past, delivery is typically made that same day, shedding immediate light on who the buyers and sellers might be. Not this time, as todayâ??s delivery notices donâ??t seem to reflect any connection with the 880 newly-added open contracts. More should be learned in the next few days.

However, it is most likely that there was one principle entity who was either the buyer or seller with other traders (plural) either making or taking delivery. It is also quite possibly that there was only one main entity on either side of the transaction. Unfortunately, there is much yet to be learned about the transaction. Certainly, I couldnâ??t detect any clues from the transaction in yesterdayâ??s trading, which was basically flat, but with a bit of â??jerkyâ?• price action. The transaction was most likely executed on a spread basis (given the lack of liquidity in the Sept contract), but there was no hint in the closing spread differentials. The one thing I believe the transaction highlights is that, up through now, there is a marked difference between physicals and COMEX paper transactions in that I think a straight one day purchase or sale of 4.4 million oz in any venue away from the COMEX would have a more profound impact on price. I think this is just another confirmation that COMEX paper transactions drive the price of silver. Finally, given the extremely depressed price of silver, it would seem more reasonable that a buyer was initiating the transaction, unless the seller was in distress.

As far as what Fridayâ??s Commitments of Traders (COT) Report might indicate, I donâ??t sense much positioning change in silver, since there was little overall price change and no moving average penetrations over the reporting week. Of course, Iâ??ll be paying special attention to any further concentrated long liquidation as well as what the technical fund shorts may have been up to. However, I wouldnâ??t be surprised to see some managed money buying in gold and would be very surprised if there wasnâ??t significant managed money buying in copper, platinum and palladium, all of which featured fairly decisive upward penetrations in key moving averages on yesterdayâ??s cutoff for the reporting week.

As you know, there has been a coordinated price takedown in all the metals over the past few months, all driven by managed money technical fund selling and it was only a matter of time before that selling was reversed. Whether this is the start of a major coordinated reversal to the upside remains to be seen, but such a move will come in time and I can think of no good reason why it wouldnâ??t be at hand. Temporary fake outs to the upside that fail are always possible and also as always, we pays our money and takes our chances. Since a big move higher is due (and overdue), I wouldnâ??t take the chance of missing it.

Finally, in the money scoreboard of how the newly-added (since June 12) technical fund shorts in gold and silver have fared; on Fridayâ??s close, I pegged them as being ahead $825 million in open and unrealized profits, up $50 million for the full week. At todayâ??s closing prices, the newly-added technical fund shorts have given back about $175 million on the price rallies thru today, leaving the funds ahead by $650 million. While not insignificant, the open profit is still very much just that, unrealized, and down from the peak in open profits of $950 million four weeks ago. Iâ??m still expecting those open profits to evaporate in the end and then some.

Ted Butler

September 19, 2018

Silver – $14.30Â Â Â Â Â Â Â Â (200 day ma – $16.18, 50 day ma – $15.01)

Gold – $1208Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1287, 50 day ma – $1215)

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