April 10, 2019 – A Position Impossible To Duplicate

Iâ??m going to take a break from complaining about JPMorganâ??s evil ways and illegalities and instead give it the proper credit for conceiving and implementing the greatest accomplishment ever achieved in the history of silver. Iâ??m talking about JPMâ??s accumulation of 850 million ounces of physical silver over the past 8 years â?? an achievement so magnificent that, quite frankly, it can never be duplicated. No one can ever buy as much silver as JPMorgan has bought for anywhere close to what it paid. Most importantly, JPMorganâ??s magnificent accomplishment is the single most bullish factor for silver, hands down.

JPMorganâ??s remarkable accumulation of physical silver (and gold) is far from universally recognized, with many others openly denying the thought that the bank has acquired so much physical metal. To be sure, there is no unassailable or documentable proof that shows, without question, that JPMorgan has accumulated 850 million ounces of physical silver (or 20 million oz of gold). If there was such ironclad proof, I wouldnâ??t have to make the contention â?? it would be widely known and built into the price. But an important reason the price of silver is so low is precisely because the world is largely unaware that JPMorgan has acquired close to half of all the industry standard silver (in 1000 oz bar form) in existence throughout the world.

As hard as it may be to believe, JPMorgan has acquired many times more than the two previous 100 million ounce acquisitions of silver, first by the Hunt Brothers by early 1980 and then by Warren Buffett in 1997. But not only has JPMorgan bought nearly 8 times more than either the Hunts or Buffett, it has done so on declining prices (thanks to its control of prices on the COMEX). Still, it took 8 years for JPMorgan to acquire its physical stash, whereas the Huntsâ?? and Buffettâ??s acquisition occurred over a much shorter effective period of time. Â No doubt that the declining price of silver since April 2011, when JPMorgan began its epic accumulation, has contributed mightily to the worldâ??s lack of recognition of what the bank has accomplished.

Certainly, JPMorgan has remained mute on what it has accomplished over the past 8 years, as should be expected. After all, it would in no way serve JPMâ??s interest to reveal it was accumulating massive amounts of physical metal as that would just invite buying competition and upward price pressure. In addition to it making absolute sense for JPMorgan to remain mum on its massive physical metal accumulation, the bank is in a unique position to keep its acquisition completely under wraps. All told, JPMorgan holds some $13 billion of physical silver and $26 billion of physical gold. How the heck do you hide $40 billion on your balance sheet?

While there is always a lot to hide on most balance sheets, JPMorganâ??s balance sheet contains $2.5 trillion in total assets, so hiding a bit over 1.5% of those total assets is no big deal, given JPMâ??s army of accountants and lawyers and its use of special purpose entities expressly created for such purposes. No one sees anything on JPMâ??s books that it doesnâ??t want you to see. Clearly, JPMorgan doesnâ??t wish anyone to see its silver and gold holdings.

But make no mistake, it is only in terms of the size of JPMâ??s balance sheet where 850 million oz looks small. By every other metric available, 850 million oz of silver is shockingly large. For one thing, it is same amount or more than what the world mines in an entire year, in addition to being nearly half of all the silver in industry standard form in the world. Even more remarkable is that because silver is a vital and indispensable industrial commodity, after all the required industrial and other total fabrication demands are satisfied, there are only 100 million ounces â??left overâ?• annually and available for pure investment purposes.

Therefore, in essence, JPMorgan has managed to acquire 100% of the 100 million oz of silver left over annually and available to the worldâ??s investors for the past eight years. By contrast, the 20 million oz of physical gold acquired by JPMorgan over the past 8 years, even though it cost twice as much as the silver purchased, represented only 2% of all the new gold produced over the same time. This not only highlights the extreme and historic price discrepancy between the two metals, but demonstrates that JPMorgan believes silver to be super cheap relative to gold. Why else would it buy such a large percentage (100%) of all the new investable silver available over the past 8 years?

None of this is intended to minimize JPMorganâ??s physical gold holdings. If it were a central bank and not a financial company, JPMâ??s gold holdings would place it in the top ten of the largest central banks, ahead of the Netherlands. Itâ??s just that proportionately, JPMorgan holds a much larger position in silver, in every term except in dollar amount.

Most remarkable of all is how JPMorgan came to begin acquiring physical silver 8 years ago and then how it actually pulled of the almost unbelievable feat of accumulating 850 million oz. To do this, we must go back in time and be mindful of the expression â?? â??necessity is the mother of invention.â?•

There is now little question that after JPMorgan took over Bear Stearns in March 2008, it became the largest silver (and gold) short seller in COMEX futures. According to former Commissioner Bart Chilton, the resultant combined silver short position of JPM and Bear Stearns was so large that it required a waiver from the CFTC. The waiver was largely ignored, as JPMorgan learned there was great profit to be made by shorting in near unlimited quantities to satisfy all paper buying and then when those paper buyers turned to sellers for JPMorgan to buy back its short positions at prices which proved to be distressfully low to the original buyers and profitable to JPM.

For the two and a half years that followed its takeover of Bear Stearns, JPMorgan, essentially, minted money by shorting silver rallies and buying back those shorts at lower prices when the paper buyers turned tail and sold. But in the fall of 2010, an unusual physical tightness began to develop in the silver market, largely the result of ETF buying. Against this surging physical silver investment demand, JPMorganâ??s paper short sales were largely ineffective.Â By the time silver prices hit close to $50 at the end of April 2011, JPMorgan was underwater and in the hole to the tune of $2 or $3 billion on its COMEX short positions and needed desperately get prices down. At the same time, JPMorgan needed to insure it never again faced such a predicament.

By necessity, JPM hit upon the solution to both its immediate need to create sharply lower prices and, more importantly, to insure it never found itself in the predicament of being short silver in a physical shortage. To bring about a dramatic reversal to the upsurge in price, JPMorgan simply colluded with other big COMEX commercial shorts and the exchange itself to rig prices sharply lower on a Sunday evening, May 1, by $6 and begin to cause selling by momentum traders. The ploy worked and within a month or two, silver prices fell to near $30, breaking the back of the developing physical shortage.

But JPMorganâ??s greatest stroke of genius was not the short term solution it created by suddenly rigging prices lower starting on May 1, 2011, but in its long term solution of never again placing itself in jeopardy by being overly short paper COMEX silver contracts. JPMorgan came to realize that the one sure antidote to ever getting hooked on the short side of silver again was to hold a physical position equal to or greater than whatever paper short position it may hold. Not holding any paper short position was also a solution to not getting hooked as well, but not shorting would mean that JPM would no longer control the price of silver.

So rather than give up the control on price given to JPMorgan by virtue of its ability to sell short unlimited quantities of COMEX futures contracts, JPM chose to keep its price control, but also immunize itself against loss by building up an offsetting silver physical position. It was a strategy that can only be called genius. So genius that to this day, it has eluded the recognition of most market observers and participants despite being the most critical factor possible. It took me a couple of years to realize what JPMorgan was up to after it put its master plan into operation.

Other strokes of genius by JPMorgan in its master plan to accumulate physical silver came from its unique role in the world of silver. Long an important player, perhaps the most important player, in the world of storing and distributing physical silver, JPMorgan was able to use its established role to accumulate physical silver in ways not available to others. For instance, it was already the official custodian of the worldâ??s largest silver exchange traded fund (SLV) since its inception in 2006, responsible for the physical storage of silver for the trust. This put JPM in the cat bird seat for converting metal in the SLV to its private ownership. Over the course of 8 years, JPM came to own at least 250 million ounces by ongoing conversions of shares into metal. Of course, one of the key features of converting shares of SLV into physical bullion is the non-reporting status of holding metal rather than shares.

JPMorgan also (and not coincidently) opened its own COMEX warehouse in April 2011 and the amount of silver in that warehouse has grown to 150 million oz, largely as a result of it taking delivery on futures contracts in its own proprietary trading account over the years. In addition, recent evidence suggests JPMorgan holds at least another 50 million oz in other COMEX warehouses, so that makes a total of at least another 200 million oz owned or controlled by JPM.

Also starting in April 2011 was the commencement of the theretofore unprecedented physical movement of silver in and out of the COMEX silver warehouses. All told, more than 200 million ounces of silver were moved in and out annually, a total of approximately 2 billion oz over the past 8 years. JPMorgan used this unprecedented physical turnover to skim off and acquire another 200 to 250 million ounces in addition to the 200 million oz it owns or controls in the COMEX warehouse system and the 200 to 250 million oz acquired by SLV conversions. That puts JPM up to 700 million ounces.

The remaining 150 million ounces+ that JPMorgan acquired came from the Silver Eagle and Maple Leaf bullion coin programs offered by the US and Royal Canadian Mints from 2011 to 2016. Since there was no limit on the amount of coins to be produced and sold and how the coins would be sold at the prevailing price of silver the day of sale (and controlled by JPM on the COMEX), JPMorgan was able to buy as many coins as the Mints could produce. Many say that JPMorgan would never pay the $2 premium plus the expense of melting the coins into 1000 oz bars as I contend, but to get ownership of 150 million+ total oz, JPMorgan would ransom its first born. Besides, at $50 to $100 or higher silver, will the extra $2 matter at all?

Iâ??d estimate the average cost of the 850 million silver oz that JPMorgan has acquired over the past 8 years to be around $18 per ounce or a bit over $15 billion in total. At current prices, JPM has an unrealized loss of around $2 to $2.5 billion on its physical silver holdings. Interestingly, JPMorgan is ahead by roughly that same amount on its gold holdings (20 million oz bought at an average cost of $1200 per ounce). More importantly, JPMorgan is ahead at least $5 billion in combined COMEX silver and gold realized paper trading gains over the past 8 years, putting it way ahead in total paper dealings and physical holdings.

The only unknown is when JPMorgan will move to capitalize on a position, by its nature, that canâ??t be duplicated by any other entity. Itâ??s not as if there arenâ??t numerous world entities, many hundreds or more, that couldnâ??t afford to spend $15 billion to buy 850 million ounces of silver. Itâ??s simply a case that it couldnâ??t be done if attempted. The only reason JPMorgan was able to do so was that it controlled the price by virtue of its dominant role as the COMEXâ??s leading short seller and its leading role in the world of physical silver. Even then it took JPM 8 long years.

Quite simply, no one can duplicate what JPMorgan has achieved, not in 8 years or in 80 years, if ever. But it appears to be destiny that someone will try, particularly as JPMorganâ??s epic accomplishment is recognized. And if thereâ??s a better reason to buy silver than to ride on JPMorganâ??s coattails and those that will try to copy what it has done, Iâ??m not aware of it.

As far as what Fridayâ??s Commitments of Traders (COT) report may indicate, the reporting week ended yesterday was definitely mixed, featuring flat to weaker prices for the first three trading days in both gold and silver (including Thursdayâ??s new salami slice price low), followed by price strength Monday and yesterday. This makes predictions iffy, but I donâ??t foresee dramatic revisions in overall market structure.

Therefore, the market structure remains quite bullish, particularly since JPMorgan appears to no longer hold short positions in either COMEX silver or gold. As and when the next rally takes hold, all eyes (or at least mine) will turn to the key question of will JPMorgan add to shorts or let the price rip higher? The answer, unknowable at this time, is all that matters.

Ted Butler

April 10, 2019

Silver – $15.23Â Â Â Â Â Â (200 day ma – $15.09, 50 day ma – $15.49)

Gold – $1313Â Â Â Â Â Â Â (200 day ma – $1252, 50 day ma – $1310)

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