

## April 18, 2015 – Weekly Review/What Drives JPM

### Weekly Review

It was sort of a three peat this week as silver fell again by 25 cents (1.5%), just as it had over the two preceding weeks; but gold also fell by \$4 (0.3%) this week and not rising by that amount, as it had over the two previous weeks. As a result of the continued relative underperformance by silver compared to gold (the real three peat), the silver/gold price ratio widened again to just over 74 to 1.

The price ratio is approaching the top of its six month trading range as the price of silver languishes. Silver has been so grossly undervalued for so long that one must become numb to just how cheap silver has become relative to gold and just about everything else in the world in order to maintain one's sanity. If I didn't feel certain as to knowing the cause of silver's extraordinarily low price, I would have lost what little of my own sanity remains long ago.

If you are experiencing personal doubts as to your own sanity when witnessing silver's recent price performance, I can assure you that you are not witnessing the hand of the free market at work, but something else entirely. The bad news is that it is unknowable when the forces of the free market will reassert themselves; the good news is knowing that they must at some point.

Two weeks ago, the turnover or physical movement of metal brought into and taken out from the COMEX-approved silver warehouses was at a nadir and appeared to be cooling off. I openly questioned (myself) whether the four year old, frantic, unprecedented and unique to silver among all commodities physical conveyance was approaching an end and what that end would portend for price. I've been forced to put such thoughts on hold as a result of what transpired over the past two weeks, as the combined two week movement of metal was the largest two week turnover in memory, fully double the torrid 5 million oz average weekly movement of 2014.

This past week, more than 8.5 million oz of silver were physically moved either into or out from the six COMEX warehouses. Total COMEX silver inventories rose a relatively slight 0.8 million oz to 175.9 million oz for the week. Over the past two weeks, close to 20 million oz of actual metal was either moved into or taken out from the COMEX warehouses, while total inventories declined by mere 0.6 million oz. While this underscores the consistent observation of mine over the past year and longer that the frantic turnover in COMEX inventories were highly unusual in two regards – the outsized movement itself and the fact that total inventories hardly changed at all – there is a more specific explanation for the past two weeks. Yep, JPMorgan again.

Basically, JPMorgan accounted for all the COMEX silver movement this week as well as much of what moved during the prior week. This week, 4.7 million oz were moved into the COMEX silver warehouse of JPMorgan and because that metal mostly came from other COMEX silver warehouses, total movement is fully explained by the growth in JPM holdings. Last week 3.4 million oz came into the JPM warehouse, so the two week increase of 8.1 million oz is directly connected to the 7.5 million oz that JPMorgan took in delivery for the March futures contract. (Please remember there is a 6% – under or over – weight tolerance for delivered COMEX silver contracts).

Not only does the delivery data on the March futures contract confirm that JPMorgan took delivery of 1500 COMEX contracts in their own account, the physical movement of metal, mostly from other COMEX silver warehouses, also confirms JPMorgan continues to acquire actual metal and plans to hold onto it in the most cost effective manner (no outside storage fees). I've been beating on the drums about JPMorgan accumulating physical silver for quite some time (long before the ironclad proof of the March deliveries occurred) and it occurs to me my estimates of what JPM may hold may be a bit out of date.

I've been speculating for some time (six months or longer) that JPMorgan had amassed upwards of 300 million oz of physical silver in all forms since April 2011 (mostly in the form of 1000 oz bars, but also as much as 60 -70 million oz in Silver Eagles). It's been my private estimate all along that JPM was continuing to pick up additional quantities of actual silver at the rate of 5 to 10 million oz a month. It would appear that JPMorgan exceeded the upper band recently, but my point is that due to the passage of time and the continuing evidence that the bank is still accumulating silver, I must up my estimate of their total holdings to 350 million oz or more. I'll have more on JPMorgan later.

There's not much to report in sales of Silver Eagles from the US Mint, except that the pattern of sales reporting is still erratic and suggestive of a big buyer picking and choosing when to place buy orders. Reports from the retail dealer front suggest that broad retail buying is non-existent and at the lowest levels in years, if not decades. Despite the lack of retail demand, Silver Eagle sales far outpace sales of Gold Eagles, further cementing the big buyer premise in silver.

[http://www.usmint.gov/about\\_the\\_mint/index.cfm?action=PreciousMetals&type=bullion](http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion)

The changes in this week's Commitments of Traders Report (COT) came in close to expectations and in doing so, further confirmed that the CFTC did not report timely data in the gold report a few weeks back. There's no way these reports can be so accurately predicted every week and suddenly go haywire for just one week, other than being due to a reporting error.

This week, my expectations were for reductions in the headline number of the total commercial net short position for gold and silver, due to price declines during the reporting week. This week's expected commercial short reductions, following big increases in the preceding weeks as prices rose, were also expected to show a greater proportional reduction in silver compared to gold as a result of the greater (deliberate) price weakness in silver.

In COMEX gold futures, the commercials reduced their total net short position by 4700 contracts, to 103,600 contracts. (I had guessed a reduction of at least 10,000 contracts, but came closer when considering the key managed money category). All three commercial categories bought gold contracts; the big 4 bought back 400 short contracts, the big 5 thru 8 covered 2300 short contracts and the raptors added 2000 new longs.

On the sell side of gold, the traders in the managed money category (the technical funds) sold just over 7600 contracts, including the liquidation of 2300 long contracts and the new short selling of more than 5300 contracts. Where I would still categorize the COT structure in gold (and silver) to be more neutral than anything else, since gold is, in terms of the headline commercial net short position, 50,000 net contracts away from its most bullish reading (on March 24) and 100,000 contracts away from its most bearish reading (on Jan 27); in terms of the key managed money category it is a bit more bullish overall. I'll come back to this in a moment.

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In COMEX silver futures, the total commercial net short position was reduced by 6600 contracts, to 43,900 contracts total. (I had a low conviction estimate of at least a 5000 contract reduction and was happy that it was greater, particularly in the managed money category). By commercial category, it was mostly a raptor affair as the smaller commercials away from the big 8 bought 5900 new long contracts, increasing their net long position to 20,700 contracts. The big 4 (read JPMorgan) bought 1200 short contracts back, while the big 5 thru 8 sold 500 new contracts short. I'd peg JPMorgan's net short position at 17,000 contracts, down 1000 contracts for the week.

On the sell side of COMEX silver futures, as was the case in gold, the traders in the managed money category (the technical funds) sold more contracts than the commercials bought on balance; a total of more than 8600 contracts, including nearly 3000 contracts of long liquidation and more than 5600 contracts of new shorting. Also as was the case in gold, while the COT structure in silver is still neutral overall, not only is it better after this reporting week, the managed money category indicates no more than 5000 contracts of further long liquidation (if there is any merit to the premise of a 40,000 contract non-technical fund core long position) and no more than 7000 to 8000 new short positions to take us to recent extreme bullish readings.

On Wednesday, I commented that the COMEX is artificially setting the price of silver and gold by means of a purely private betting game (aka bucket shop) comprised exclusively of speculators with no real producer or consumer participation. I attempted to prove this by pointing out that the managed money category accounts for 90% of contract position change on both price declines and increases. Since managed money traders are defined by the CFTC and the exchange as being pure speculators (as opposed to legitimate hedgers) there can be little doubt that they are just that: speculators. And the same can be said of the financial institutions trading against the managed money traders; since no legitimate producers (miners) or users are involved in the game, the commercial traders are also nothing more than speculators.

I hope you recognize that the 90% figure of all positioning is a very conservative estimate on my part, when it comes to typical managed money participation. In fact, the percentage is, at times, much greater than 100%. In recapping last week's COT report and compared to their commercial counterparties, the managed money traders in gold accounted for 160% of commercial positioning (7600 contracts vs. 4700 commercial contracts) and in silver, the managed money traders accounted for 130% of commercial positioning (8600 contracts vs. 6600 commercial net contracts). I'd like to see someone from the CFTC or the CME try to explain how this wasn't proof of manipulation on its face, but neither appear to be forthcoming on any serious market matter.

It occurred to me that a good analogy for those seeking to understand why I emphasize the COT report as the key price determinant in gold and silver is to view the contents of the report as the gas tank of an automobile. As history has shown consistently, COT positioning holds the fuel that drives price change. When the gas tank is full (defined as maximum managed money short positions and minimum long positions), prices are positioned for a probable upward journey of undetermined distance. When the COT gas tank is close to empty (meaning maximum managed money long positions and minimum short positions), the upward price journey is likely to end soon. So where are we now in the COT gas tank analogy, empty or full? Actually, neither.

I would imagine we have COT gas tanks in gold and silver that are more than half-full, capable of fairly impressive upward price journeys. And considering the current outside circumstances away from the COT structure, it's real easy to visualize plenty of catalysts that could propel higher prices in the near term. But there's a catch. (You did know there was a catch, didn't you?) Sometimes, when the COT gas tank in gold or silver is full and the price journey commences, the journey extends until the gas tank is empty (and the managed money traders are heavily long and minimally short). Sometimes is not the same as always.

Sometimes, when the COT gas tank is full and the price journey commences, the journey can be abruptly cut short even though there is plenty of gas left in the tank. So even with a half tank of gas left, the driver may decide to turn around and go back to the start and refill the gas tank. The driver, of course, isn't any of us — JPMorgan is the driver. If JPMorgan decides any price journey that has commenced has gone far enough, they have the power to turn around and fill the tank up again, no matter how little or far advanced the journey has been to that point. It reminds me of the time, half a century ago, when whatever friend who was able to borrow his parent's car for the day decided where we all would go. It was referred to as the driver's veto, as whoever was driving had sole control of that day's travels.

I don't like to be wishy-washy, but the gas tank is half full and JPMorgan (or other commercials) is in the driver's seat. There's just no way of knowing in advance if we will travel upward in price forthwith or turn around and experience lower prices and the resultant filling of the managed money gas tank for a delayed upward journey. For now, at least, JPMorgan has the driver's veto and all we can do is buckle up.

What Drives JPMorgan?

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I try to stick with the mechanics of the silver manipulation, namely, the almost indisputable evidence that the price is set in strictly speculative dealings on the COMEX. I say "almost indisputable" evidence to allow for a future dispute and not because the evidence has resulted in any type of current dispute. This is seen in the lack of any response by the CFTC's Enforcement Director to any of the many emails sent to him regarding JPMorgan and silver. The easiest way, apparently, of dealing with questions that can't be answered legitimately, is not to answer at all.

But that's not to say that the mechanics of the COMEX silver manipulation are all that observers are interested in. It's natural to wonder not just how a great market crime is being pulled off, but why? And even though I tend to go light on the motivations behind the mechanics of the manipulation, that doesn't mean I don't think about them constantly. After all, it's basic human curiosity to imagine the complete story behind the incredibly peculiar circumstances in silver.

Certainly, there are any number of potential explanations for why silver and gold have been manipulated in price and since the motivations are mostly hidden, it generally comes down to what one believes. I'm no different, except that because I do concentrate on the actual data and mechanics of the manipulation, I have my own template for which theory of motivation to believe. My basic metric is that the theory of motivation must be in conformance with all or most of the known facts and at the very least, not be in strong conflict with any one fact.

With that preface, let me pass along a guess on the why part of the JPMorgan/silver connection from a close associate. I'm not saying this is the absolute last word on motivation, just that it's not in conflict with any of the known facts and conforms to as many facts as any theory I've thought of independently. It goes like this: JPMorgan, as a result of feeling angry at having been forced to pay close to \$20 billion in fines and penalties for wrongdoing at Bear Stearns in mortgage dealings occurring before JPM took it over at the government's request, is intending to use the profits it earns on silver to even the score.

When the penalties began rolling in due to past infractions at Bear Stearns, the CEO of JPMorgan, Jamie Dimon, was and is consistent in denouncing them as being unfair since the US Government dragged JPM into acquiring Bear. (On several past occasions, I have expressed empathy for Dimon's position). So, there is no conflict in the speculation that JPMorgan feels betrayed by being dragged through the mud by regulators, mostly for the past sins of Bear Stearns based on the public record. Mr. Dimon has been adamant that he wouldn't do the Bear Stearns deal again if he could turn back time and it's very conceivable that he could be really angry at the hypocritical regulators.

What appeals to me with this take on JPMorgan's motivation in accumulating a massive physical silver position at artificially depressed prices is that it fits so closely with just about every fact that comes to mind. I get the feeling that JPMorgan had misjudged the extent of the wrongdoing in Bear Stearns' mortgage dealings at the time of the takeover (March 2008) and neglected to demand full indemnity in advance should future wrongdoing be uncovered. In this sense, Mr. Dimon's alleged anger might also be enhanced by the regret of overlooking an important detail.

With silver (and gold) it was much easier for JPMorgan to see the potential negative fallout from acquiring the world's largest concentrated short position in silver and gold. If anything, JPMorgan is among the smartest and well-connected financial institutions of all and it is impossible to think it wouldn't know the implications of holding a clearly dominant and manipulative market position. I would say that JPMorgan knows the details and nuances of market manipulation better than anyone, including the CFTC. As such, it is inconceivable that JPM wouldn't have demanded an ironclad indemnity for any future wrongdoing in silver and gold well beyond the meaning of the term "free get out of jail card."

I'm still convinced that JPMorgan, despite certainly securing all the necessary indemnities against penalties for manipulating silver and gold, did not recognize the investment potential of silver in March 2008. For this reason, the bank was content to milk the cumulative hundreds of millions of dollars it took out of the COMEX silver market on the short side until April 2011. Only then, when it faced the prospect of a runaway market to the upside due to the developing physical silver shortage, did it expand its continued manipulation on the COMEX to include, in addition to continued illicit profits on paper short positions, the goal of accumulating the largest private hoard of physical silver in history. Having accomplished that, it is easy to imagine the upward price journey could commence whenever the driver decided.

The most fascinating aspect to my associate's speculation on JPMorgan's motivation is that, if it is accurate, it may also provide a type of formula for gauging how high the price of silver may run when it runs in earnest. We can roughly quantify the out of pocket dollar amount of the penalties expended by JPMorgan for Bear Stearns on the regulators' double-cross at \$20 billion. Throw in, if the bank is really angry at being stabbed in the back, another \$10 billion or so in wasted resources and damage to its reputation in litigating the mortgage mess and roughly \$30 billion would be needed to be made on silver to truly get even financially with the two-faced bureaucrats.

So the formula revolves around at what price of silver JPMorgan would make up all the fines it feels it was unfairly subjected to. Assuming that the bank holds 350 million ounces and adjusting for its likely cost basis (\$7 to \$8 billion), my back of the envelope calculations suggests a silver price a somewhat higher than \$100. Of course, JPMorgan could shoot for a higher price to recover much more than it paid out on the mortgage penalties since it holds the driver's veto in silver.

Ted Butler

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Silver – \$16.25

Gold – \$1203

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