December 14, 2016 – The Royal Flush

The Royal Flush

In order to make a point, I'm going to address a very popular question, by giving the answer first and then providing the question. The answer does involve a bit of imagining on your part. I ask you to picture yourself at the highest stakes poker game imaginable, where quite literally many billions of dollars are at stake and in which you have just been dealt the indisputable best hand possible – a royal flush. Please accept that you are guaranteed to win.

It's the last deal of the game with winner take all. The pot is enormous and all the other participants have been dealt very high and normally winnable hands and are flush with funds and every player is intent on raising and re-raising as each new bet is made. You have plenty of betting funds left and know that you must win in the end; so it is obvious that you will sit back and enjoy the circumstances and hope the raising and re-raising will continue for as long as possible, making the once-in-a-lifetime pot as large as possible Â? tens and hundreds of billions of dollars.

The most popular question in silver and the one I ask myself daily is when will JPMorgan finally decide it holds enough silver and let the price rise? The answer is only when it has to. By virtue of its massive physical holding of silver, which is more than 550 million oz (and growing), JPMorgan has as much incentive to rush the price resolution as you would have to end early the imaginary poker game. JPMorgan has been guaranteed to win the real silver game of a lifetime ever since its physical holdings came to exceed its COMEX paper short position, a threshold it crossed in late 2011 or early 2012. Ever since then, JPM has sat back, content to add to its physical silver holdings at decreasing prices, because it knew it must win in the end.

As much as a royal flush in poker, silver is guaranteed to be a huge winner for JPMorgan for the simple reason that the bank controls the market. Don't believe me? Then try explaining how it is possible, since acquiring Bear Stearns in 2008, that JPMorgan has never taken a loss, only profits, on every COMEX short silver position it has ever taken, all while being the largest short holder? Not only does JPMorgan have a perfect record on the short side of COMEX silver futures for nearly nine years running; for the past nearly six years, making paper profits (in the billions of dollars) by shorting paper contracts was not even the bank's greatest achievement. That honor must be reserved for JPMorgan's accumulation of more than half a billion ounces of actual metal, all on price declines it rigged itself. Based upon those two circumstances, is it possible for any entity to demonstrate greater control over any market than JPMorgan has done in silver?

WhatÂ?s most remarkable about what JPMorgan has achieved in silver is that it occurred in full view. Certainly, a review of JPMorgan's financial performance in shorting COMEX silver futures, based upon Commitments of Traders (COT) data, reveals the bank never took a loss or bought back short positions at prices higher than originally shorted. Normally, holding massive short positions on a volatile commodity like silver would be thought to be very risky and lead to losses at some point Â? at least once in a while. Except, of course, if the game was rigged. As the largest and most successful short seller in COMEX silver futures over the past nine years, JPMorgan was the unquestioned primary silver price rigger.

But JPMorgan is so smart and powerful (and crooked) that it figured out an even better means of enriching itself, apart from the billions of dollars it made in shorting COMEX silver futures cumulatively since March 2008. The successful and profitable short selling campaign that JPMorgan orchestrated in COMEX silver is predicated on declining prices. There's no way massive short selling can be profitable if prices rise, instead of falling. Further, even if you succeed for years in successfully rigging prices lower (as I claim JPMorgan has done), sooner or later prices will fall to such ridiculously low levels that they then must rise, most likely in the same ridiculous manner in which they fell. At some point, the jig would be up on the downside rig job. This is so basic, that it would be foolish to think it would be lost on JPMorgan Â? the smartest player of all.

JPMorgan knew, when it started to acquire physical silver in April 2011, that this was the only way it could successfully conclude its wildly profitable long term shorting campaign in COMEX silver futures. The only thing it couldn't know was how much physical silver it could acquire before the COMEX paper shorting scam ran its course. But there was no way the bank would ever pull the plug on its control of the COMEX price discovery process while there was physical silver still to be acquired. Not while it was holding the best Royal Flush ever. No one would end the game early in these circumstances and it is unreasonable to expect JPMorgan to do so.

Therefore, silver investors are better advised to focus on the Â?whatÂ? instead of the Â?whenÂ?, although I will admit this falls into the do as I say and not as I do category. Besides, since when can anyone ever know the Â?whenÂ?? The Â?whatÂ? is easy Â? silver is as cheap as dirt because it has been paper shorted into the ground and on top of that there is compelling evidence that the premier world financial institution has amassed more of it on a physical basis than any private entity in history.

Over the past few years, I've tried to outline from where JPMorgan has accumulated its historic hoard of physical silver. Conversions of shares to metal in the big silver ETF, SLV (of which JPM is the custodian), led the way, but there were important sources of supply from skimming the highly unusual COMEX silver warehouse movements and direct purchases of Silver Eagles from the US Mint. Interestingly, all these sources of actual physical supply to JPMorgan began around the same time Â? April 2011.

Not the largest, but clearly the most transparent source of physical silver supply for JPMorgan has been in deliveries against COMEX futures contracts. From zero ounces in April 2011 to 5 million oz in April 2012 and onto more than 80 million oz today, the COMEX silver warehouse of JPMorgan has become the largest in the COMEX system. This year, JPMorgan has taken delivery of more than 6000 net silver futures contracts (contracts stopped minus contracts issued), all in its own proprietary trading account. That's more than 30 million oz of silver acquired by JPMorgan, most of which eventually found its way into the bank's COMEX warehouse. What is truly remarkable when you study the data, is how glaringly dominate JPMorgan has been in stopping silver deliveries this year (last year too).

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Shortly after the current COMEX December delivery commenced earlier this month, I estimated that JPMorgan may take (stop) the maximum number of silver contracts allowed in a single month, 1500 contracts or 7.5 million oz. As it turns out, through yesterday JPMorgan has already taken 1400 silver contracts. JPM last stopped the full 1500 contracts allowed last May and took less than that amount in the four other traditional delivery months of the last year (excluding the current month). Previously, I had attributed JPMorgan stopping less than the full number of silver contracts allowed on those occasions to the bank not wishing to tighten the wholesale physical market to the point of sending prices higher.

Therefore, I was somewhat surprised when it became clear that JPMorgan intended to take so many silver deliveries this month. Then it dawned on me that the main reason JPMorgan stood for so many silver deliveries this month is because it knew that one of its customers would make a sizable silver delivery this month of nearly 700 contracts or half of what JPMorgan stopped in its own name. At the least, JPMorgan had to know before anyone else that its customer would make such a large delivery and also knew that the 700 contracts involved wouldn't add to physical tightness, giving the bank a green light to take many more contracts than in more recent months.

Like so many other things, JPMorgan acquiring silver in its own name from a customer suggests a strong conflict of interest and, quite literally, stinks to high heaven. The big stinker, of course, is the bank being the dominant COMEX paper short, never taking a loss and driving silver prices lower for years on end, while being the largest stopper of COMEX silver deliveries and accumulator of physical silver at those same depressed prices. Remember, I am basing this on public data from the CFTC and COMEX and if you have any questions about this, please let me hear from you. I would also ask you to consider in what far away universe would JPMorgan's actions be considered proper or legal?

The bottom line on all this is that silver will go when JPMorgan deems it so. There's nothing we can do to affect the timetable, so it's counterproductive to even think in those terms (although it sure is natural to think that way). There is only one way to handle an event that is certain to occur, but at a time that can't be pinpointed Â? by preparing for the certainty beforehand. JPMorgan's downward manipulation of the silver price in order to accumulate the largest hoard of silver in history further assures the outcome. The whole manipulation is somewhat complex (until fully vetted), but the preparation for it is as simple as it gets Â? buy and hold silver, about as hard as falling off a log.

For the better part of the year, up until the past month or so, the principle measurement I consider Â? COMEX market structure in silver and gold Â? had been bearish. The record large commercial short position and corresponding managed money long position, which peaked in the summer, led to me calling the structure extremely bearish on numerous occasions. I didn't claim to know how it would turn out, just that it must be resolved and if it turned out how it always had in the past, prices would move lower. That was then and this is now.

Now the market structure is no longer extremely bearish or bearish at all; it is bullish or extremely bullish, depending on how many more managed money traders can be persuaded to sell longs or add shorts. Particularly in silver, there has been ample opportunity and reason for managed money traders to sell and sell short to this point and such selling has appeared to have run its course. Now the key moving averages have come down and are Â?snuggingÂ? current prices, meaning even a rally of mediocre proportions (50 to 75 cents) would penetrate the 50 and 200 day moving averages in silver. Such a penetration should set off significant managed money buying and quickly reveal whether the big commercials, including JPMorgan, will add aggressively to short silver positions. Needless to say, this will determine silver prices, just as it always has done in the past.

As far as what this week's COT report may show, it's now more a question of analyzing the details than in making predictions. The commercial net short position in gold would appear to have again shrunk a bit considering the new salami slice price lows during the reporting week, but that pattern didn't appear in silver. The main consideration is not how many commercial contracts were bought as the commercials would buy as many as they could; the real question is how many managed money contracts were lured into sale, both in long liquidation and in new shorting. I wouldn't know how to predict that.

I was a bit disappointed, given the bullish market structure that exists in COMEX gold and silver, that today's announcement of an interest rate increase by the Federal Reserve was used as an excuse to smack prices, but hardly completely surprised. I've never factored interest rates into the gold and silver price equation, as I can't see the connection. But I do know that Fed announcements, like the monthly employment report, are used as cover stories for bursts of computer generated buying and selling. Given the dramatically improved market structure, it is only a matter of time before the price surprises come to the upside.

Ted Butler

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Silver – $17   (200 day ma – $17.75, 50 day ma -$17.39)

Gold – $1150   (200 day ma – $1278, 50 day ma – $1235)

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