

## January 15, 2020 – The Genius of JPMorgan

Yesterday, JPMorgan Chase, the largest bank in the US, reported record earnings of \$8.5 billion for the fourth quarter and roughly \$35 billion for the full year. These are net profits, after all expenses and costs are subtracted from gross revenues. It is no understatement to call JPMorgan a profit-generating machine.

My interest in the bank, of course, comes from the perspective of gold and silver. The connection is that JPMorgan is the largest player, by far, in all aspects of gold and silver. Always among the top players in the gold and silver space for decades, what pushed JPMorgan to the very top was its takeover of Bear Stearns in 2008 which resulted in JPM taking the place of Bear as the largest short seller in COMEX gold and silver futures.

It is said that necessity is the mother of invention and I confer on JPMorgan the title of genius for its solution to a serious problem it found itself in early in 2011 when silver ran up to near \$50 while the bank was heavily short and holding open losses of close to \$3 billion. While JPMorgan did succeed in crushing the price starting on May 1 of that year and eliminating its large open losses, it knew it needed a permanent solution to what would be a recurring problem in the future, namely, how to mitigate against future run ups in the price of silver (and gold), since it intended on continuing to be the largest short in COMEX futures.

That JPMorgan's solution was simple in no way detracts from it being termed genius. In hindsight, nearly 9 years after being conceived and implemented, JPM's solution is only more genius. Since the bank was the largest short seller in the largest paper (derivatives) precious metals market in the world, the COMEX, it was not possible for JPMorgan to buy other paper contracts on the COMEX or elsewhere to offset its short paper positions. Such paper derivatives buying would cancel out each other and immediately eliminate JPM's role as largest COMEX short seller and with that elimination end the bank's leading role and influence on price. Besides, any attempt by JPMorgan to buy large quantities of COMEX contracts would immediately show up in Commitment of Traders (COT) and Bank Participation reports. (I would remind you that I first discovered JPMorgan's leading role in COMEX dealings as a result of the Bank Participation report of August 2008).

Faced with the insurmountable obstacle that buying paper contracts to offset its dominating and price-controlling paper short position was not possible, JPMorgan came up with the perfect and only solution to protect itself from future run ups in silver and gold prices – it decided, in 2011, to buy real metal to offset its paper short positions. Normally, it is assumed that those holding or dealing in physical metals use the paper futures market to hedge or offset the risks of price change by selling futures and other derivatives contracts against physical holdings.

What made JPMorgan's solution so genius was that it simply reversed that same equation and bought physical silver and gold against what was a preexisting paper short position. It certainly didn't hurt that the COMEX futures market had become so large over the years that paper contract positioning had become the sole price influence and such positioning dictated prices to the real physical world of gold and silver. If COMEX futures positioning hadn't become the main price influence for gold and silver the futures market tail that wagged the physical market dog JPMorgan's genius solution would not have been possible.

But more observers than ever recognize the price dominance of COMEX futures positioning; it's just that JPMorgan recognized it before anyone else and, most importantly, put that advanced knowledge into actual practice by buying more physical silver and gold over the now-near nine years since early 2011 than anyone in history. It took me a couple of years to discover what JPMorgan was up to and to this day there are those who still refuse to see what JPM has accomplished, namely, using its control of price by being the largest COMEX short seller to accumulate a massive hoard of physical silver and gold on the cheap. Truly, JPMorgan has come to master both the physical and paper markets in gold and silver

My latest estimate of what JPMorgan has acquired is 900 million oz of physical silver (at an average price of \$18 per ounce) and 25 million oz of physical gold (at an average price of \$1200). In dollar terms, JPM's total acquisition cost is \$46 billion for the silver and gold combined. That may seem like way too much money to be spent on physical precious metals, but in the case of JPMorgan, the cost represents little more than a year and a quarter of reported profits. Plus, the physical metals accumulation took nearly nine years, not 15 months.

Perhaps a better way of looking at it would be to consider the implausibility of JPMorgan acquiring an equivalent paper long position on the COMEX. 900 million oz of silver is the equivalent of 180,000 COMEX silver contracts and 25 million oz of gold is the equivalent of 250,000 COMEX gold contracts. It would be impossible for JPMorgan, or anyone else, to acquire that many COMEX contracts without notice or great impact on price. Impossible.

It would also be impossible for any one entity to acquire 25 million oz of physical gold in a year without notice or effect on price, since that would represent 25% of total world annual mine production. In the case of silver, it's even more preposterous to imagine anyone being able to buy 900 million oz in a year since that would represent more than 100% of silver annual world mine production. But by stretching that over 9 years makes the acquisition all the more feasible – 3% of annual gold production and 10% of silver annual production – a snap for an entity as well-funded and capable as JPMorgan.

Quite deliberately, I have failed to this point to label JPMorgan as the criminal genius that I have in the past, so as not to detract in any way from what the bank has succeeded in doing in its physical silver and gold accumulation and what it portends for future price levels. I suppose it would be convenient to point to the US Justice Department's labeling of JPM's precious metals desk as a "criminal enterprise" in which RICO statutes have been invoked, but I've often referred to JPMorgan as criminal in its precious metals dealings long before the DOJ came along. Besides, the DOJ, up until now seems to have a specific focus on spoofing, something I consider peripheral to what JPM has done.

My main justification for accusing JPMorgan of criminal behavior in gold and silver dealings is the fact that it accumulated its massive physical metal holdings while being the largest COMEX short seller for nearly 9 years. It wouldn't matter if I was the only person in the world to hold that was wrong and criminal – I know it's wrong and criminal. Besides, I send everything I allege to JPMorgan and the regulators and have yet to hear any objection, threat of denial.

So what does JPMorgan's magnificent and criminally genius solution of the accumulation of physical metal as an offset to its paper short position mean for future price? Had JPMorgan stopped accumulating physical silver at the 200 million oz equivalent level of its past peak COMEX short position levels and stopped at the 7.5 to 10 million oz levels in gold that reflected its past peak gold COMEX short positions, I would have concluded it would be super-bullish for future prices. But seeing how JPMorgan has vastly exceeded any possible levels of what it had been short on the COMEX in silver and gold dealings, super-bullish is woefully inadequate to express how bullish the situation has become.

The profit-generating machine that is JPMorgan has assembled the largest privately-held position in physical silver and gold in history. It is unreasonable to conclude it did so for reasons unrelated to profit. Normally, I would say that it's just a matter of time before JPMorgan decided to ring the cash register, but even that statement is inadequate to describe what has occurred to date. So skillful and persistent as JPMorgan has been in its accumulation of physical silver and gold that it is already close to \$9 billion ahead on its gold holdings (25 million oz times \$350+). And if gold climbs another 30% to \$2000, as just suggested by Bridgewater Associates, the world's largest hedge fund, JPMorgan's total profit on its 25 million oz physical long position will amount to \$20 billion and that excludes silver. But wait there's more.

For the past nearly two years, I have been writing of a coming double cross by JPMorgan of the other large COMEX commercial short sellers. In actuality, the double cross is already in play and continuing, but that doesn't diminish in the slightest that there is likely much more damage to befall the big commercial shorts at the hands of JPMorgan. Recently, I have been writing about the record open losses of several billions of dollars that have been accruing to the 7 biggest COMEX shorts, while at the same time pointing out that JPMorgan is already ahead by \$9 billion on its physical gold holdings. If that is not clear proof of an ongoing and highly successful double cross, then I don't what is.

Finally, the chance of a regulatory intervention by either the DOJ or CFTC seems increasingly remote, also attesting to the power of JPMorgan. Both regulators seem extremely intent on avoiding any issue other than spoofing, making a market solution the only solution possible. After proclaiming for 35 years that no price manipulation existed in silver, the CFTC can't possibly assert now that JPMorgan was up to no good by being the biggest paper short seller and largest physical accumulator. Ditto the DOJ, which would never do anything to undermine the largest and most systemically important bank in the nation. Let's face it, JPMorgan holds all the get out of jail cards it needs to be left alone.

The combination of JPMorgan being ideally positioned for an historic surge in the price of gold and silver and the other big shorts being as poorly positioned as is possible is not a work of fiction but of fact, based upon public data published by the CFTC. This is what sets the stage for a dramatic price rise in gold and silver. Should Bridgewater Associates be proven correct about gold surging to \$2000, the additional damage to the big shorts is almost incalculable.

That is not to say that the big COMEX shorts should be expected to roll over and give up without a fight and the price weakness on Monday and Tuesday is clear evidence of that. For those paying close attention, the price weakness had all the earmarks of being deliberately created by the big shorts, based upon the timing of the selloffs (coming when trading volume and liquidity were at their lowest). But the old price-rigging games seem to have lost much of their effectiveness, based upon the limited amount of managed money selling that has resulted over the past few months. I still would imagine those new longs that have come into the market from late-December onward might be at risk of selling by the deliberate downward rigging of prices, but even there, I'm not entirely convinced.

All we can do is monitor price actions and future COT reports to determine which it will be, namely, the big shorts succeeding in not only jiggling prices lower, but getting sufficient numbers of managed money traders to sell or completely failing to do so. It's also important to recognize the key role that JPMorgan plays in determining the outcome.

As far as what the COT report will indicate on Friday, I'm going to once again refrain from predictions and concentrate on what the report may reveal. The reporting week that ended yesterday covered one of the most tumultuous trading weeks in memory, seeing as it started with last Wednesday night's price explosion on the Iranian missile attack, to be followed by fairly steady selling through yesterday's close. Trading volume was heavy, but total open interest only increased by 11,000 contracts in gold and was flat in silver. I am unsure what impact spreads may have had in gold. What I will be looking (and hoping) for is whether the big commercial shorts continued to close out short positions, as was evident in the prior COT report.

As far as the open losses accruing to the 7 big shorts in COMEX gold and silver, the price weakness on Monday and Tuesday brought some relief, but today's rally blunted much of the improvement enjoyed by the big shorts. At publication time, gold was still lower from Friday's late close by around \$4 and silver was lower by five cents or so. This would indicate the big shorts reduced their total open and unrealized losses by around \$150 million from Friday, meaning to around \$4.9 billion, still higher by a billion dollars from the record yearend mark to market loss of \$3.8 billion. There's no way the top financial people at the institutions involved are not monitoring this on a daily or more frequent basis.

At this point, it would be hard to imagine any of the chief financial officers and risk officials at the organizations holding the largest COMEX gold and silver short positions not be well-aware of the impact, both to date and potentially to come, of the financial scoreboard to which I refer. But what to do about the open losses is no simple matter. I'm sure all are now aware of the predicament in which they are in and how the temptation to just rush and aggressively closeout the short positions would result in a price surge that will only magnify the losses. But the longer they delay and resist buying back short positions may just delay and amplify the losses in the end. I certainly don't feel sorry for the financial organizations holding big short positions in the least, as their predicament seems almost biblical in scope. After sowing manipulation for decades, they will surely reap a bitter harvest. All excepting the criminal geniuses at JPMorgan, to be sure.

Ted Butler

January 15, 2020

Silver – \$18.05 (200 day ma – \$16.51, 50 day ma – \$17.35)

Gold – \$1558 (200 day ma – \$1433, 50 day ma – \$1493)

**Date Created**  
2020/01/15