June 1, 2016 – Hidden in Full View

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After studying the silver market closely for more than three decades, I find it nearly unbelievable that its single most important price factor is widely unknown. Admittedly, the vast majority of the investment world has little interest in silver and that's unlikely to change any time soon. But underappreciation has its merits in the investment world. After all, silver does have a history of climbing in price higher and faster than just about any other asset and a multitude of factors now point to another massive price move higher ahead.

The factors favoring a big move higher revolve around the incredibly small amount of physical silver available for investment as a result of most of the silver produced over the centuries having been used up in industrial applications. That, in combination with the fact that more investment buying power exists today than ever in the history brings to mind the words of the famous silver speculator, Bunker Hunt, Â?silver is an accident waiting to happen.Â? Granted, silver also has a history of plunging more than other commodities, but since prices have already declined by 70% from the peak of five years ago, the next big move will, undoubtedly, be up.

Still, even among those who follow silver closely, remarkably little is mentioned about the one factor that just about guarantees much higher silver prices ahead. That factor is that the US's biggest and most important bank, JPMorgan Chase, has accumulated the largest privately owned stockpile of physical silver in world history over the past five years Â? 500 million ounces. Only the US Government owned more silver than JPMorgan, but that was nearly a century ago and came when silver was used in common coinage. The US Government once owned several billion ounces of silver, but today holds no silver, having completely eliminated its holdings.

Further, the US Government never held silver with the intent of seeking a profit. In contrast, the only reason JPMorgan has acquired half a billion ounces of actual silver is for the express purpose of making as much of a profit as possible. By simple logic, JPMorgan will make the largest possible profit on its silver holdings only if the price of silver climbs to the highest levels possible. Simple reasoning also dictates that those holding silver, along with JPMorgan, will profit immensely when the bank does what it can to insure the highest possible price for silver. I'll get into what JPMorgan must do to insure the highest possible price for silver in a moment, but first let me establish that the bank has acquired 500 million ounces of metal.

Most people think of banks as being involved in mortgages and checking accounts and are surprised at first at the thought that JPMorgan even deals in commodities, like silver. But the truth is that for many years, JPMorgan has been the largest US bank dealing in Over the Counter (OTC) commodity derivatives contracts in gold and silver. Even though JPMorgan always dealt big in commodities, its path to accumulating half a billion ounces of actual silver took a very specific and traceable route.

In addition to being the largest dealer in OTC precious metals derivatives contracts, JPMorgan was suddenly thrust into the role of being the largest dealer in gold and silver on the COMEX, as a result of being asked (by the US Treasury and Federal Reserve) to take over the failing investment banking firm Bear Stearns in March 2008. Few knew at the time that Bear Stearns was the largest short seller in COMEX gold and silver and its takeover by JPMorgan resulted in JPM being thrust into the role of it being the biggest short seller.

While it would appear that JPMorgan came to acquire Bear Stearns by government request, data from a different government agency, the CFTC, clearly indicate that JPMorgan came to dominate and manipulate silver pricing by means of maintaining and adjusting the largest concentrated short position in COMEX silver futures. (For the record, I complained to the regulators that what JPMorgan was doing was manipulative to silver prices and succeeded in generating a CFTC investigation into the matter. Still, the manipulation continued).

As a result of being able to sell short virtually unlimited quantities of COMEX silver futures contracts as prices rose and then buying back those contracts as it then caused prices to fall, JPMorgan made many hundreds of millions of dollars in the years immediately following its takeover of Bear Stearns in early 2008. But because the continued manipulation resulted in silver being priced too low for too long, by late 2010, signs of a physical shortage began to appear, in accordance with the immutable law of supply and demand, and silver prices surged to nearly $50 by April 2011, from as low as under $9 in late 2008. This caught JPMorgan flat-footed in holding COMEX short positions and necessitated it teaming up with the CME Group (owner of the COMEX) to rig the steepest selloff in modern commodity history, which pulled JPM's short bacon from the fire.

Having looked into the abyss with its big short position as silver soared into the April 2011 price highs, it suddenly dawned on JPMorgan how little actual silver existed in the world and at that time it decided that the right side to be on in silver was the long side, not the short side. I fully admit to considering JPMorgan, at least as far as its dealings in silver are concerned, to being a criminal enterprise; but I also consider them to be the smartest crooks around. My definition of smart would include learning from one's mistakes and being on the wrong side in the run up in silver prices in 2011 is what convinced JPMorgan to buy as much silver as it could.

But deciding to buy as much silver as it could and actually buying the metal are two very different things, even if you happen to be JPMorgan, with virtually unlimited buying power and market capability unmatched. One doesn't just blink one's eyes and place a market order to buy half a billion ounces of silver and call it a day Â? takes time, patience and cunning. Particularly considered how little available investable silver exists in the world. No matter how rich or powerful JPMorgan may be, buying 500 million physical ounces of silver, given the realities of actual available supply, would take years Â? as has turned out to be the case.

JPMorgan knew and knows that the amount of real world silver available for sale is limited by a few indisputable facts, namely, there isn't much to begin with (say 1.3 billion oz in the form of 1000 oz bars) in the whole world and of that amount only a small percentage is ever available for sale at current prices Â? no more than a few percent. Compounding the small amount of truly available supply from existing holders is the bedrock certainty that most of the silver newly mined and produced is spoken for and consumed by a variety of industrial and other fabrication demands Â? investment demand must compete with those other demands, a circumstance highly unique to silver. For the past few years, less than 100 million silver ounces were available annually for investment after other silver demands were met.

There has been no large amount of silver sold by those holding it over the past five years, but also there has been no big buying by these or other investors Â? call it a wash. In essence, because those in the investment world were neither buying nor selling physical silver over the past five years, JPMorgan could only buy the Â?leftoverÂ? silver Â? the amount of newly produced silver not consumed in other fabrication demands. It's taken five years for JPMorgan to acquire 500 million oz for good reason Â? that was all it could buy without driving prices higher.

JPMorgan has used a variety of methods in accumulating its massive silver hoard, as I have previously detailed. As the leading dealer and largest warehouse on the COMEX, as well as the official custodian and leading authorized participant of the world's largest silver ETF, SLV, JPMorgan was in a privileged and special position to have acquired, effectively, all the newly available silver in the world for the past five years. Despite a compelling desire to shield its silver accumulation from public scrutiny, some important visible clues have emerged pointing to JPMorgan's actions since April 2011.

Among them are the opening of the JPMorgan COMEX silver warehouse in April 2011, as well as the commencement of an unprecedented physical turnover of only silver in the COMEX inventories, which continues to this day. Due to the large weekly Â?churn,Â? JPMorgan was able to skim off hundreds of millions of silver ounces, which were brought into its COMEX warehouse and other non-public warehouses. From zero ounces five years ago, the JPMorgan COMEX silver warehouse has grown to the largest COMEX warehouse, holding nearly half (70 million oz) of the total COMEX inventories. In 2012, JPMorgan cleared out and transferred 100 million oz it held on behalf of holders in SLV out of its own London warehouse to make room for silver to be held in its own name. JPMorgan started to take delivery on futures contracts (despite being a big paper short) and over the past year or so has taken 45 million oz in total deliveries, taking close to or the full amount allowed monthly. It's not far from the truth to say that JPMorgan has been nearly the exclusive acceptor of COMEX silver deliveries.

Perhaps the cleverest method JPMorgan has employed to acquire physical silver has been as the leading purchaser of newly produced Silver Eagles from the US Mint and Silver Maple Leafs from the Royal Canadian Mint over the past five years. All told, JPMorgan has acquired over 100 million Silver Eagles and 50 million Silver Maple Leafs during this time, and maybe a lot more. As I have also previously explained, I believe JPMorgan has melted down these coins into 1000 oz bars to best prepare for sale eventually.

The most remarkable aspect to JPMorgan's massive physical silver accumulation is that it was able to do so on steadily declining prices, because, as you know, silver prices have declined from near the $50-mark over the past five years. How the heck did JPMorgan pull off buying 500 million ounces of silver on falling, not rising prices? Because the entire time JPM was buying silver, it was still managing the price lower on the COMEX by maintaining and managing its manipulative paper short position. This is truly the perfect crime Â? buying a corner on the physical silver market cheaply, by maintaining a short corner on the paper COMEX market. And I can't imagine who would be more capable of pulling this off over than JPMorgan, the best-connected and most powerful US bank.

Having accumulated the largest hoard of physical silver in history and being in position to reap the biggest profit in history should silver prices soar Â? what can JPMorgan do to bring that about? More amazing than anything else, the one thing JPMorgan can do to cash in like no one has ever done in silver is, well, nothing. That's not a misprint. All JPMorgan has to do to guarantee that silver prices will soar to the heavens and beyond is nothing; specifically, not sell additional contracts of COMEX silver short on the next big rally. You see, it has been JPMorgan who has put a cap on all silver rallies over the past five years in order to contain prices so that it could add to its massive physical holdings at cheap prices. The corollary to that equation is that when JPMorgan decides it has enough silver, as I believe it is close to now, the price will soar if it does nothing and refrains from adding new shorts on the COMEX.

The best part about this amazing story, in addition to being almost universally unknown and destined to be discovered, is that it offers the investment opportunity of a lifetime. All one has to do is what JPMorgan has done Â? buy as much silver as one is capable of buying – and then wait for JPMorgan to help itself. No complicated formulas, no risky leveraged schemes Â? just buy real silver for full cash payment and sit and wait. After all, that's exactly what JPMorgan has done and after five years, it wouldn't appear the wait will be very long.

Obviously, the above has little to do with near term pricing, which is still held captive to positioning changes in COMEX silver and gold futures contracts. So here is a quick review and outlook for those positioning changes, as well as other developments since Saturday's article.

As I mentioned over the weekend, the number of contracts remaining open in the big COMEX June gold contract is extremely large, although down after the first two delivery days. As of last night, an effective (after subtracting today's delivery notices) 8500 contracts remain open (equating to 850,000 oz of gold), the most I can recall after two delivery days. The large number of open contracts, quite naturally, brings visions of potential delivery congestion and a short squeeze. After all, the number of observers who have reached the conclusion that paper trading has come to control gold and silver prices, with that control likely to be broken when the shorts can't deliver sufficient physical metal, has grown tremendously. And it's no secret that I feel a physical silver shortage will and must break the manipulation eventually. While I feel a physical silver shortage is much more likely to occur than a physical gold shortage, it's hard to ignore the large number of contracts still open for delivery in the COMEX June gold contract.

Also as I mentioned on Saturday, JPMorgan has been the largest stopper or taker of gold deliveries (in its own house account) and with yesterday's deliveries has now taken 2554 of the total 5789 gold deliveries so far. As far as I know, there is a limit of 3000 contracts that any one speculator can stop in any COMEX delivery month in gold, so I guess we'll find out soon enough if that holds true, seeing how JPMorgan took nearly 50% of today's deliveries and that usually indicates it may be in position to take many more deliveries. I suppose if anyone can get dispensation from the rules it is you know who.

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

Considering the large number of open June gold contracts, it is easy to understand talk of a potential mismatch between what remains open for potential delivery and COMEX warehouse inventories, even though total inventories are close to ten times the amount represented by the remaining open contracts. Without rehashing the Â?registeredÂ? vs Â?eligibleÂ? inventory debate (I feel total matters more, regardless of the category), I would stipulate that there are an unusually large amount of open contracts remaining and can understand talk of a potential squeeze.

Offsetting the delivery short squeeze concern is the fact that the indicator most sensitive to a squeeze Â? price Â? is flashing no such warnings. Both the flat price of gold has been under pressure and the price differentials concerning the June delivery month have also not indicated any potential squeeze in progress. If a short delivery squeeze were to occur in the June gold contract, it would have to be reflected in one or both price indicators; but, at a minimum, in the June spread differentials. Since that has not occurred yet, it's not likely a squeeze is at hand. As always, things can change and this is the indicator which will show that.

In a broader sense, any delivery problem on the COMEX will, almost by definition, be a commercial problem, since gold and silver deliveries are overwhelmingly commercial affairs. Certainly, the managed money traders avoid making or taking delivery like the plague. And even if they or any other non-commercial traders demanded delivery that would be disruptive to price (and inconvenient to the commercials), the COMEX insider commercials would very likely unite against any delivery interlopers.

Moreover, the vast amount of COMEX deliveries are between the house or proprietary trading accounts of a few big banks, notably JPMorgan, HSBC and the Bank of Nova Scotia. JPMorgan does have a big client or two that issues and stops metal deliveries, but take away the deliveries made or taken by these three banks in their own trading accounts and there's not much to talk about in the delivery department. Therefore, it would seem highly unlikely for there to be a COMEX delivery problem that didn't involve these three banks.

And the problem with that problem is that, in my opinion, these big commercials own and run the COMEX for their own benefit, taking advantage of and snookering the technical funds on a recurring basis. To date, the managed money technical funds have been the goose that lays the golden eggs for the commercials, so the commercials would be killing the goose if they did anything to disrupt the flow of profits they derive from the technical funds. A severe delivery problem on the COMEX would threaten the commercials' future control like nothing else. For that reason alone, the odds of a COMEX delivery problem must be considered remote. I didn't say it couldn't develop, just that anything that stood to hurt the commercials with them not interfering is unlikely. (My JPM double cross premise excepted, of course).

The changes in this week's COT report should be significant, perhaps coming close to the big changes in last week's report. Gold made successive new price lows every day of the 4 day reporting week, although it managed to close higher for the day by yesterday's close. Thus, the string of continued salami slicing was clearly visible. Silver was fairly steady through last Friday, but it came in for heavy selling on new lows on Monday's Â?holidayÂ? which was combined with yesterday's trading. It's quite difficult to predict with accuracy, given the high volume and price volatility, but I would guess Friday's report to show another 40,000 contract reduction in the total commercial net short position in gold and a 5000 to 10,000 contract reduction in the silver commercial net short position. Remember, this is akin to pitching horse shoes or hand grenades.

Where I am not guessing at all is in the explanation of why gold and silver prices fell around $100 and $2, respectively, over the past month. It had everything to do, as is nearly always the case, with COMEX futures contract positioning and little else. By my guesstimates, around 100,000 gold contracts have been sold by the technical funds and other speculators and bought by the commercials over the past two weeks, the most ever. This is the equivalent of 10 million gold ounces and even though these are paper derivatives contracts and not real metal, it is the largest amount of gold to trade over the time period. In silver, as many as 20,000 contracts were sold by technical funds and other speculators and bought by the commercials. How could the concerted selling of 100 million oz of silver in two weeks not pound the price lower?

The key question, of course, is if enough managed money selling and commercial buying has occurred to indicate a bottom in price. While that is possible given the significant positioning changes to date, it's just as possible and even probable there will be more speculative selling and commercial buying ahead, based on the current market structure and historical precedents. Certainly, it goes without saying that if more speculative selling and commercial buying is seen, such buying and selling must occur on the continued setting of new price lows. That's because the managed money technical funds will only sell additional contracts (liquidating longs and adding shorts) if, as and when new price lows are established. No new price lows, no managed money selling (or commercial buying).

Please understand that I can't possibly know for sure the near term direction of gold and silver prices and any representation by me (or anyone else) to the contrary should not be relied upon. But it does seem to me that the comme

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