

March 18, 2015 – Speculation and Legitimate Questions

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Over the past seven years, the most important specific influence on the price of silver (and gold) has been the activities of JPMorgan on the COMEX and in the setting of regulatory policy and governance. Therefore, it is reasonable to conclude that what this bank does next will have the greatest prospective influence on price. That's why I focus so intently on JPMorgan.

I try not to engage in excessive speculation when it comes to writing about silver, but some degree of speculation is necessary for that which cannot be seen openly. I also try to avoid dwelling on the hidden motives of those involved in the silver manipulation, preferring instead to concentrate on the mechanics of the manipulation and what is the most likely eventual result. But sometimes speculation is unavoidable to complete a premise. The trick, of course, is to only speculate in accordance with verifiable data and on a regular basis, review past speculations to see how close (or far) they were to the actual mark.

I first started speculating about JPMorgan and silver more than six years ago (before I started this subscription service), just after the infamous Bank Participation Report of August 2008 which indicated a US bank or two held an incredibly large percentage of the short side in COMEX silver (and gold). You may remember that was the report that led (forced) the CFTC into opening a formal investigation into whether silver was manipulated in price and in which the agency took five years to decide it was sorry it ever initiated the probe. I'll not rehash the episode here except as it pertains to the question of past speculations by me being close to the mark or not.

A few weeks after the release of that infamous report, but months before it was conclusively verified by the CFTC, I publicly speculated that there was only one US bank behind the big COMEX silver (and gold) short position, JPMorgan, as a result of the US Government arranging the takeover of the former big short, Bear Stearns. Let me be candid and confess to not recalling all the details of what drove my speculation at that time, but thanks to the Internet I can document that I did make that precise speculation.

http://www.investmentrarities.com/ted_butler_comentary/09-02-08.html

A couple of months later, in correspondence to various legislators, the CFTC did, in essence, verify that JPMorgan took over the big COMEX short positions of Bear Stearns. In the process and quite unintentionally, the CFTC certified that my speculation about JPMorgan was correct. Please know this is intended for the sole purpose of establishing whether past personal speculations were on or off the mark.

As it turned out, the CFTC merely confirmed what many had come to accept, namely, that JPMorgan was the big silver manipulator. I never was faced with any substantive disagreement about my speculation; I like to think because it was logical speculation based upon clear facts. It even led to class-action lawsuits against JPMorgan for manipulating the price of silver, although those suits were ultimately dismissed.

My latest speculation is that JPMorgan has used its dominant and monopolistic control of the short side of silver over the past four years to unfairly depress the price in order to accumulate a massive physical position of upwards of 300 million ounces at an artificially low price. Maybe there is some deeper motive for the silver manipulation, but that appears motive enough for me, at least over the past four years. I won't go into the reasoning for my speculation that JPMorgan has been a massive buyer of physical silver because I've already done so.

<http://www.silverseek.com/commentary/perfect-crime-13944>

Let me dispel any notion that there's anything personal about me focusing on JPMorgan when it comes to silver, as I just try to call them as I see them. According to government data, his bank has been at the heart of pricing for silver, gold and other metals for the past seven years and not to focus on it would be a mistake. I admit that I am almost alone in speculating about JPMorgan having acquired a massive physical silver holding and you must decide whether that is close to the mark. If you decide that this speculation sounds reasonable, then that opens the question of what that likely means for the future price of silver. If JPMorgan holds as much physical silver as I claim, is that good or bad for the future price?

The bad side would be if JPMorgan decided, on its own or in cooperation with others, to continue to depress the silver market for as far as the eye could see, since it would be in position to supply metal if a physical shortage began to develop. That, in conjunction with the ability to dominate prices through the ongoing COMEX paper manipulation would seem sufficient to keep silver prices smothered for a long time. In fact, given the dismal price performance of silver over the past 4 years and much more recently, this seems to be the outcome most expected by those who have contacted me.

I understand that current sentiment, although I don't agree with it. The fact that I have yet to hear any strong disagreement with my speculation that JPMorgan has acquired massive amounts of physical silver is of great personal interest. Folks seem to accept that premise (or at least don't argue with it), but seem to assume it will be bad news for future prices. Let's try to objectively analyze the bad side.

Certainly, if JPMorgan has accumulated the amount of physical silver as I claim, then it would be in a position to dump that metal on the market at any price it decided. In addition, given how the COMEX manipulation has operated for the past seven years (since JPMorgan's emergence as the manipulation's kingfish), its continuation would necessitate the continued heavy hand of involvement by JPM on the COMEX. In other words, it wouldn't be enough for JPMorgan to merely dispose of the physical metal it holds to continue the manipulation; it would still have to be the short seller of last resort on the COMEX. After all, when the technical funds flip to the buy side as they will at some point, they will not be buying physical metal, but COMEX futures contracts. If JPMorgan doesn't revert to its traditional role as the key short seller on the COMEX, silver prices will fly regardless of whether it sells physical metal.

I think belief in the bad side is a natural reaction to previous price performance; because prices have been horrid, sentiment is also horrid. However, what's missing the most is motive for an indefinite and permanent silver manipulation. The world is not going to be better off if silver remains artificially depressed in price, no matter how hard one tries to spin it. Certainly, if JPMorgan has acquired the amount of physical silver that I claim, it won't be better off if prices don't rise. In fact, this is the first time, since JPMorgan took over Bear Stearns, that the bank is ideally positioned for sharply higher silver prices.

And should JPMorgan begin to dispose of its massive silver stockpile into increased physical investment buying and that becomes known to other big buyers, JPM's physical position wouldn't last long in terms of dollars. 300 million oz at \$20 an oz (30% higher than current prices) comes to \$6 billion, an amount that would be gobbled up quickly were it to become available for sale by JPMorgan. In effect, JPMorgan, if it sold its silver stash at any price close to current prices would be squandering all the (illegal) efforts it expended in acquiring the stash in the first place and unnecessarily rewarding new buyers. That's not like the JPMorgan I've observed in the past.

When JPMorgan took over Bear Stearns' giant short position in COMEX silver (and gold) in early 2008, it had every incentive to force prices lower; which it did. What would you do if you were short tens of thousands of silver contracts and owned no physicals? But as a growing physical silver shortage developed into early 2011 and prices soared, JPMorgan realized it was on the wrong side of the market equation and made the conscious decision to get on the right side of silver. So it began to use its dominant control of prices on the COMEX, not just to continue to profit on short side paper speculations, but with the added goal of picking up physical silver on the cheap. To just say that JPMorgan succeeded would be the understatement of all time.

If my speculation is correct and JPMorgan has acquired upwards of 300 million ounces of physical silver, it would not be an overstatement to call this the commodity coup of all time. Not only did JPMorgan buy three times as much silver as did the Hunt Brothers or Warren Buffett, it did so on sharply declining prices as opposed to the sharply rising prices caused by the Hunts and Buffett. And there was a lot more silver in the world at the time of the Hunts and Buffett's acquisitions, making the JPMorgan feat that much more spectacular. Almost unbelievably, JPMorgan bought roughly a third of all the silver bullion in the world at progressively lower prices. Of course, it did take JPM four years to do so and involved a blatant downside price manipulation on the COMEX, not something attributable to the Hunts or Buffett.

If JPMorgan has acquired the amount of physical silver that I have speculated, what is the bank's likely ultimate plan and motive? Considering that this is an organization devoted to maximum profit at the core of its purpose, it seems undeniable to me that it would seek maximum profit on its silver position. And whereas JPMorgan's accumulation of physical silver was in conflict with the interests of silver investors over the past four years, JPM's ultimate liquidation of its silver position is now very much in accordance with the interests of silver investors. I don't think this makes JPMorgan any less of the market crook I have always held them to be; this is just an acknowledgement that sometimes the interests of the legitimate and illegitimate can be aligned.

It would appear that if JPMorgan holds as much physical silver as I suppose, at some point that becomes a very good thing. Certainly, JPMorgan is now positioned to make a lot more money if silver prices rise sharply than if they intend to keep prices depressed by disposing of its metal at low prices. It is easy to overcomplicate things in an increasingly complex world; the real trick may be in trying to keep things simple.

Moving on to current market developments and as I await any reaction to today's Federal Reserve statement, JPMorgan has continued to stop or accept the bulk of deliveries issued against the COMEX March silver futures contract. As of today, JPM has taken 1122 delivery notices (5.61 million oz) of the 2001 total notices tendered so far this month, or 56% of the total. The bank still looks on track to accept another 200 or 300 silver deliveries into the end of the month. While certainly not during every active COMEX delivery month, JPMorgan has been a featured stopper of silver deliveries on enough occasions over the past few years to fully support my speculation of a massive physical accumulation by the bank.

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

Likewise, the reported sales of Silver Eagles by the US Mint has continued to suggest the presence of a large buyer (and who better than JPM?). The somewhat erratic reporting schedule of Silver Eagle sales, the relative closeness to the Mint's full production capacity, the relative very high level of Silver Eagle sales to sales of Gold Eagles (and Buffaloes), combined with persistent reports of tepid retail demand continue to point to the presence of a large buyer. And if there is a big buyer and that buyer is not JPM, then that would be most peculiar (mama).

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Let me comment on silver (and gold) price action over the past few days while I await the reaction to whatever the Fed has to say. Not that whatever the Fed says has or should have anything of real substance to do with the price of silver or gold away from being a convenient cover story for whatever computer algorithms develop. Although I'm convinced that relying on price behavior to form opinions in a manipulated market is kind of silly considering prices are artificial by definition; recent price action does seem to be in conformity with my recent market structure commentary. By that I mean prices seem to be behaving as if were at the tail end of technical fund selling on the COMEX.

The commercials have been rigging new price lows in the metals to induce maximum technical fund selling and I believe they have succeeded, as evidenced in recent COT reports.

I would guess through the reporting week ended yesterday and to be reported on Friday, the commercials have reduced their total net short position in COMEX gold by a further 10,000 to 15,000 contracts and by 3000 to 5000 contracts in silver. Undoubtedly, we are that much closer to the final price bottom in terms of exhausting technical fund selling potential (my definition of a price bottom). Of course, while I'm convinced that I have the market equation stated correctly, it is nearly impossible to know beforehand when the last technical fund sell order will be filled and at what price. But we are at least 125,000 contracts in gold and 30,000 net contracts in silver closer than we were seven weeks ago, to say nothing of being \$150 in gold and nearly \$3 in silver closer to the price bottom.

In a departure of sorts from previous reactions with Federal Reserve statements, the price of gold and silver rose sharply after today's release. Whether the bounce sticks remains to be seen, but it does still appear to me to confirm that we are reaching the end of technical fund selling, if we are not already there. I've never understood why anything said by the Fed would impact the price of silver, so I'll be content with no negative price reaction this time. Compared to actual positioning on the COMEX and the accumulation of physical silver by JPMorgan, any announcement by the Fed would seem to be beside the point in silver.

Ted Butler

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Silver – \$15.82

Gold – \$1164

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