

## March 25, 2015 – Looking Back and Ahead

### Looking Back and Ahead

I had an interesting email exchange with a subscriber that reminded me that I should review an issue that I wrote about nearly two years ago. It was a case where I discovered something pretty special, but that didn't turn out the way I had envisioned. Now, after contemplating subsequent events and price history, I think the whole experience is quite instructive. By the way, this wasn't the central point of the email exchange; it was more a trigger that jogged my memory.

In mid-2013, towards the end of the historic six month price beating that took gold down nearly \$500 (30%) and silver by more than \$12 (40%), I uncovered that JPMorgan had flipped its concentrated 75,000 contract short position in COMEX gold futures to a concentrated long position of nearly 85,000 contracts (please check the archives). Both JPMorgan's short and long gold positions were more than 20% of the entire COMEX market and only a drunk monkey wouldn't view such market corners as manipulation on its face. I got the information from COT and Bank Participation Report data.

So clear was the data showing JPMorgan had a corner on both the short side of gold (at \$1700) and subsequently a long side corner (at under \$1200), after deliberately rigging gold prices lower, that I actually filed a formal whistleblower complaint with the CFTC, something I've not previously disclosed. I wasn't holding my breath waiting for the CFTC to crack down on JPM, but having witnessed others trying to claim they exposed the silver manipulation of JPMorgan, I figured I'd stake a claim on gold just to be safe, something I never did in silver. I knew the agency's own data proved JPMorgan had manipulated the gold market by its dominant and controlling market shares, but I also knew the CFTC couldn't do jack about it, because of the unwritten law that nothing is ever amiss in precious metals trading.

Because JPMorgan's flip from a short corner to a long corner in COMEX gold was truly profound and unprecedented I reached the most plausible conclusion (based upon all the facts as they were known at the time) that this was the best reason for gold to move sharply higher in price. Having rigged gold prices sharply lower and pocketing well over a billion dollars on the short side, JPMorgan had an even larger long position at depressed prices, so why wouldn't they then rig prices higher? While plausible, my conclusion didn't pan out. Instead, JPMorgan used its controlling long position in COMEX gold to cap the rallies of \$100 or \$200 that occurred whenever gold dipped below \$1200 an ounce. JPM made very decent trading profits as it reduced and increased its controlling long position along the way, and currently appears to be almost absent from concentrated positioning in gold on the COMEX.

In retrospect, it is now clear that JPMorgan decided to use its controlling long market corner in COMEX gold to contain or stabilize the price of gold instead of scoring a big gain by rigging prices sharply higher (which it could have arranged easily). Some might even commend the bank for putting a floor under the price of gold, because it looks very clear to me that if JPMorgan hadn't established a long market corner in COMEX gold when it did, gold prices would have fallen much more than the \$500 they did fall in the first half of 2013. I suppose some would attribute JPMorgan's dominant role on the COMEX as bona fide market making; you know, providing liquidity and smoothing out price volatility.

While there is no doubt that JPMorgan, single handedly, stopped the gold price descent in 2013, there is also no doubt that it also caused gold prices to fall in the first place. The problem is that no one, at least openly, has appointed JPMorgan as the price setter for gold and silver and its activities are contrary to commodity and antitrust law. But instead of steering into the question of who may be secretly authorizing JPMorgan to manipulate gold and silver prices, let me reflect on all this in a different way.

The subscriber suggested that because JPMorgan did use its previous long market corner in COMEX gold to cap subsequent gold rallies rather than rigging a price explosion was support to the popular collective sentiment that holds that the massive physical silver hoard that I allege JPM now holds will also be used to continually depress the price of silver. On the surface, I accept that as a valid point, but I come up with a much different opinion upon further consideration. In fact, the more I think about it, the more I become convinced that JPMorgan's interests and the interests of those who envision a shockingly higher price of silver are aligned. In particular, I think JPMorgan's liquidation of its COMEX gold long market corner had an overriding silver connection.

The first observation I would make is that what JPMorgan achieved in COMEX gold futures could never be achieved by the bank (or anyone else) in COMEX silver futures. At its peak, JPMorgan held 85,000 contracts net long in COMEX gold futures, roughly 25% of total net open interest. That came about because there was sufficient technical fund short selling, along with physical gold liquidation (in GLD) brought about by the historic gold price drop. But silver's price dropped even more dramatically and JPMorgan was unable to completely cover its COMEX silver short position, although it did whittle it down substantially. Even though the speculative selling in COMEX silver was large, it was not large enough to allow for the establishment of a large concentrated long position in COMEX silver by JPMorgan or any other entity.

But where JPMorgan couldn't establish a concentrated long holding in COMEX silver futures while it did in COMEX gold futures, the four year engineered price drop did allow JPMorgan to do something much better — the accumulation of a massive physical silver position. Don't get me wrong, JPMorgan most likely would have established a concentrated long position in COMEX silver futures if there was sufficient counterparty selling to accommodate such a position, but there wasn't sufficient counterparty selling in silver where there was in COMEX gold futures. And if JPMorgan did try to build up a concentrated long position in COMEX silver futures, that buying would have prevented silver prices from collapsing as much as they did.

So what I'm saying here are a number of things. First, that there is a difference between a COMEX futures long market corner as existed in gold in 2013 and a physical market corner that I claim exists in silver by JPM now. Quite simply, the physical gold market is simply too large for any one entity to control the equivalent of 30% of all the gold bullion that exists, as JPM does in physical silver bullion. There are more than 3 billion ounces of gold bullion in the world (out of 5.5 billion oz of world gold in all forms). For any one entity to own 30% of the 3 billion oz of gold bullion would mean a holding of 900 million oz, more than three times what the world's largest holder of gold, the US Government reportedly holds. And 900 million oz of gold would be worth more than a trillion dollars and beyond even JPM's buying power.

Certainly, if JPMorgan wanted to buy physical gold, it would have and, in fact, was a notable stopper of COMEX gold deliveries for a time during which it maintained its futures market corner on the long side in 2013. But JPMorgan didn't appear as interested in acquiring physical gold as it continued to acquire physical silver, even to this day.

I recognize that what I'm saying is that JPMorgan couldn't build up a concentrated long position in COMEX silver futures, but could and did build up a concentrated long position in physical silver. I further recognize that the bank couldn't build up a concentrated long position in physical gold, but could and did establish a concentrated long position in COMEX gold futures.

Finally, I think I recognize that the market realities that dictated and allowed for what JPMorgan could and couldn't do turned out to be extremely fortuitous for JPMorgan (the opposite of bad things happening to good people). That's because, in a very real sense, JPMorgan was forced to buy physical silver if it wanted to be extremely long silver, since it couldn't get big net long in COMEX silver futures. Imagine that being forced to buy the best form of silver. The good news is that JPMorgan's interests, no matter how they were achieved, are now aligned with silver investors.

Looking back on what has transpired over these past four years and JPMorgan's role in gold and silver, I can't help but feel it solidifies many of my previous beliefs. Of course, JPM didn't let gold rip to the upside back in 2013 as I expected when it held a long market corner in COMEX gold futures; but I think I understand the reason now. JPMorgan's prime interest was in securing physical silver and it wasn't finished with its silver accumulation at the time it held a long market corner in COMEX gold futures. Because letting gold rip to the upside then would have likely caused silver to jump in price as well, causing JPM to pay up for physical silver, JPM instead capped the price of gold to assist it in keeping silver prices low for further accumulation.

I firmly believe that JPMorgan made the conscious decision to amass a great hoard of physical silver as a result of its near death experience on the short side into early 2011. That market realities dictated that it could only do so in physicals and not in COMEX silver futures must be one of the greatest ironies ever. Still, the choice between paper or physical, as well as the choice between silver or gold is made clear in what JPMorgan has pulled off. If I am correct in my speculation that JPMorgan has acquired 300 million ounces or so of physical silver over the past four years, this would confirm many of the points about gold and silver that I've made in the past.

Compared to silver, there is an extraordinarily large amount of gold in the world, not only in physical bullion form, but in dollar terms. It's not enough to say there is more physical gold in the world than silver in bullion form, the amount of gold in dollar form measures hundreds of times more than silver in the same dollar terms. In fact, JPMorgan's accumulation of physical silver and not gold sanctions that great difference. Because there is so much more gold, particularly in dollar terms, than there is silver in the world makes gold a much more stable market. Of course, that means that gold is more resistant on the downside than silver is, and that is an admirable trait when one is worried about price declines.

But when one is more concerned about making as large a gain as possible in an upside market, the advantage resides in silver. In very simple terms, had JPMorgan put the roughly \$7 billion+ it put into silver into gold instead, its potential profits would have been greatly reduced. A price target of \$2000, a bit higher than the old highs, seems both reasonable and optimistic for gold. Such a rise would translate into a 65% increase in the current price.

By contrast, a move to \$50 in silver again would result in a 200% gain in silver from current prices and could easily be several times that amount in my opinion. This isn't complicated math. On a big move higher, silver will vastly outperform gold and you don't need to search for other reasons for why JPMorgan bought silver instead of gold. JPMorgan is all about maximum returns and that it appears to have bought massive quantities of silver is the most understandable action the bank could have taken.

I have been struck by the reactions to my recent suggestions that we may be at the start of the big move up in silver. In a nutshell, I have detected little, if any agreement to my suggestions. Most seem to be resigned to silver remaining depressed and manipulated for as far as the eye can see. While no one has a lock on what the future may hold, I can't help but believe the near-universal conviction that the price of silver will remain suppressed is based upon the rotten price performance of the past few years. I don't deny that silver prices have truly been rotten, but if downtrends in price always remained in force, the price of everything would eventually move to zero. Silver can't go bankrupt or go to a price of zero, so prices must turn up at some point.

For a variety of reasons, not the least of which is that JPMorgan appears to be long physicals up the ying yang and the great setup in the COT market structure for both silver and gold, I'm still inclined to think the big move up in silver may be at hand. Of course, if conditions change, namely, if JPMorgan loads up on the short side of COMEX silver once again, I will change my opinion. But until that time, it still looks like silver (and gold) has the green light to the upside. And I suppose, if this is the start of the big silver move, then the negative collective sentiment should be considered a contrarian confirmation indicator for a price move higher.

In the news since the weekly review, the new short interest report for stocks indicated virtually no change in the short position of SLV, the big silver ETF. For the two week period ended March 13, the short interest in SLV rose less than 100,000 shares to just under 17 million shares (ounces). The short interest in the big gold ETF, GLD, rose more than 1.5 million shares to just under 13 million shares (1.3 million oz). I didn't have any firm expectations for this short report, mainly because all the recent reports have been a surprise, so I wasn't sure what to expect. Still, at 5% of total SLV shares outstanding, the level of short sales in SLV are not particularly outrageous although it should be closer to zero to be legitimate considering the nature of the hard precious metals ETFs. Any sharp increase in the SLV short position would be a concern; for now not so much. <http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

JPMorgan continues to take the lion's share of COMEX March silver deliveries and as of today has taken 1349 contracts (6,745,000 oz) of the total 2303 contracts issued or 58% of the total. This is close to earlier expectations and JPM looks in line to stop another hundred or so contracts for delivery this month. It also is in harmony with my speculation about JPM acquiring physical silver. [http://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

Undoubtedly, there has been deterioration or an increase in the total commercial net short positions in COMEX gold and silver as a result of the sharp increase in price in both markets during the reporting week that ended yesterday. It would almost be impossible that the technical funds weren't buying or that the commercials weren't selling on the price rise. It's only a matter of how many contracts were positioned and who among the commercials the sellers were – the big shorts or the raptors. I'm hoping for an increase of no more than 10,000 contracts in silver and no more than 40,000 contracts in gold and really hoping for no large increase in the big four short position in both COMEX gold and silver. In any event, we'll know a lot more come Friday afternoon.

Finally, I recorded an interview with long-time subscriber Matt Demeter on Saturday. I'm not comfortable giving interviews for a variety of reasons, but I made an exception because Matt is a friend. <http://www.demeterresearch.com/audio/>

Ted Butler

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Silver – \$17

Gold – \$1197

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