March 27, 2019 – The Key Question

Every once in a while, I get a question from a subscriber that I know encapsulates something that is or should be on everyoneâ??s mind â?? including mine. I just got such a question, the answer to which Iâ??d like to share with you.

Hello Ted,

Long time follower. I appreciate all the work you have done and I thank you for it.

I understand your argument on how the futures markets set the price of silver, not the physical markets.Â But what I don't understand is if the price is being set artificially low, wouldn't we have reached the point where the physical demand can noÂ longer be met at these low prices?

If JPM has amassedÂ 800 million physical ounces and the price of silver is still low, thenÂ ***someone*** Â has been providing the physical supply to meet the demand.Â And according to your work JPMÂ has siphoned offÂ 800 million ounces for themselves on top of the legitimate demand.Â Â And yet the priceÂ is still low.

So yes, I do understand how for a period of time, even a few years, that the futures market can suppress the physical price of silver.Â But not forever.Â How do you square your theory on the futures manipulation with the reality that those who want physical silver haven't had any problem getting it?Â And an additional 800 million ounces by JPM?

Again, I appreciate your work.Â Thank you.

Bill

This question goes to the heart of the matter – the matter in this case which represents a lifetime of study and analysis. In one sense, Bill is asking when the manipulation will end; a question to which I can provide no precise timeline for the simple reason that no one can accurately time future events. But there is a depth to Billâ??s question that can and must be answered if one expects the price of silver to move substantially higher.

I wonâ??t spend time rehashing how COMEX futures contract positioning sets the price and instead jump into the specifics of where all the physical silver has come from to not only prevent a physical shortage, but to have allowed JPMorgan to accumulate at least 800 million ounces over the past 8 years, a rate of 100 million oz per year. (Actually, considering the 30 million oz that JPMorgan and its clients have taken in COMEX futures contract deliveries in December and March, plus the continued conversions of shares for metal in SLV, I believe JPM is now up to 850 million oz).

The 100 million oz per year that JPMorgan has accumulated in physical silver since May 2011 didnâ??t come from anyone specifically, it came from the collective daily output of the worldâ??s silver mines and recyclers. This can be seen in the widely accepted statistics. Over the past 8 years, the world has produced roughly one billion ounces of silver annually. Approximately 900 million oz of that 1 billion oz of silver gets consumed industrially or put into forms (jewelry and coins) that the world demands. That leaves approximately 100 million oz annually that is â??left overâ?• and available for investment (in 1000 oz bar form). In essence, I am claiming that JPMorgan has acquired all the left over silver annually for the past 8 years.

I donâ??t mean to give short shrift to the actual supply/demand fundamentals in silver, so please understand that I am offering a top-down perspective of those fundamentals. After all, I did spend many years studying every aspect of silver supply and demand before concluding such fundamentals had little bearing on price â?? something Bill stipulated to in his question. But I would like to point out that much of silverâ??s mine production comes as a byproduct of other metal mining, so low silver prices alone wouldnâ??t translate into reduced silver production. Of course, this byproduct production profile is a two-edged sword and when investment demand kicks in for silver sending prices higher, there will be no immediate increase in mine production.

Billâ??s question was where the silver was coming from that enabled JPMorgan to accumulate 800 million oz. My answer is from the left over amount each year. A slightly different, but highly relevant question is how the heck did JPMorgan manage to accumulate (Bogart is a better word) the entire left over amount of 100 million oz every year for the past 8 years? The short answer is by price manipulation and the criminal genius of JPM. What JPMorgan has pulled off over the past 8 years is a very big deal â?? in fact, it is the biggest deal in the history of the silver market. And no, I didnâ??t predict or expect it, although I did latch onto what JPMorgan was doing starting around 2013.

When I did see that JPMorgan was accumulating physical silver (and gold), it dawned on me instantly that this was the perfect, although highly illegal, solution for the dilemma that confronted the previous big COMEX silver short seller, Bear Stearns. Since there was no way a big COMEX silver short seller could buy back a large short position as prices rose without causing ruinous losses, the only real solution was to amass an equally large physical position to offset the paper short position. This idea dawned on JPMorgan in early 2011, when silver prices rose to near $50 amid clear signs of a developing physical shortage as it held a fairly substantial COMEX short position and no physical holdings. In this case, you might say that necessity was the mother of JPMâ??s invention of accumulating physicals.

In hindsight, JPMorgan was obviously successful in causing silverâ??s price to decline sharply, starting on May 1, 2011, and thatâ??s when its physical silver accumulation began. By controlling prices on the COMEX, JPMorgan was able to accumulate physical silver on the cheap, all while continuing to rake in billions of dollars in paper trading profits from the hapless managed money technical funds. A sweeter and more perfect scam has never existed.

Now we come to heart of Billâ??s question, namely, when does this scam come to an end and is it possible for JPMorgan to accumulate another 800 million oz? The answer is straightforward in the sense the scam will be over when JPMorgan is no longer able to accumulate physical silver on the cheap, for any number of reasons, not the least of which is investment buying competition (Iâ??d put law enforcement action as now being very low on the list).

The â??left overâ?• amount of silver each year available for investment demand has been taken exclusively by JPMorgan for the past 8 years precisely because there was no competing investment demand. The reason there was no competing investment demand was because the price has gone down, essentially, for the past eight years, due to the collective human investment characteristic of only buying assets that move up in price. Itâ??s like what came first, the chicken or the egg? No rising prices, no collective investment demand. No collective investment demand meant that JPMorgan could buy the entire left over amount.

As far as Billâ??s question of whether JPM could amass another 800 million oz, I suppose that might be considered possible if one assumed silver would decline in price over the next 8 years in a fashion similar to what it declined over the past 8 years. But how likely is that? It would be a mistake to assume the past 8 years were normal in any way given all the facts. For one thing, when JPMorgan began accumulating physical silver in 2011, quite literally, no one knew what it was up to. Even to this day, there are many which dispute JPMorgan is acquiring physical silver. But itâ??s closer to the truth that many more are now aware of just what JPM has pulled off. At a minimum, from a knowledge perspective, the past 8 years canâ??t be replicated based upon what we knew then and what we know now.

As to how much additional physical silver (and gold) JPMorgan can acquire, no one can know. I fully admit that JPM has long passed the point at which I considered silver good to go to the upside. That was due to me recognizing early on that JPMorgan had come up with the answer to a riddle I had always assumed to be unsolvable, namely, the dilemma of how to buy back the large and manipulative COMEX short position without going broke. There is a curse to seeing things early at times and this certainly proved true for me.

Because the criminal genius of JPMorgan of buying physicals as an offset to an otherwise impossible to cover manipulative short position was so unexpected by me, when it dawned on me what JPM had crafted, I was way too quick to assume the scam would end when it got JPM off the hook. That is, by the time that JPMorgan had accumulated 300 million oz by early 2014, I began thinking that the prime mission was accomplished and silver could take off at any time. Simply put, I was dead wrong. Mea maxima culpa.

Since JPMâ??s criminal solution was not only genius but accomplished quite easily, once the short position was amply offset by physicals, there was no reason for the bank to stop the accumulation at that point. By continuing to rig prices lower on the COMEX and by continuing to generate paper trading profits, JPMorgan turned its genius defensive solution into an offensive weapon by continuing to accumulate physical metal. In the process, what was the criminal genius solution to covering the short position was converted into a profit opportunity almost impossible to calculate.

The modern history of silver is dominated by the famous Hunt Brothersâ?? manipulation and physical accumulation of 100 million oz of silver around 1980, followed by Warren Buffettâ??s accumulation of nearly 130 million oz 18 years later. Now JPMorgan has come along, acquiring more than 200 million oz in the COMEX warehouses alone and it barely serves as a footnote in history. Altogether, JPMorgan has amassed 850 million oz and relatively few are even aware of the epic accumulation. Others deny JPM holds any silver. Go figure.

I canâ??t say how much more physical silver (and gold) JPMorgan can accumulate, but itâ??s only a matter of time before enough investment buying kicks in to sop up the 50 to 100 million oz currently left over and available on an annual basis to deprive JPM from what has been its exclusive share over the past 8 years. In dollar terms, that comes to $750 million to $1.5 billion at current prices, a truly piddling amount in world investment terms.

Bill didnâ??t ask, but as far as what JPMorgan intends to do with its accumulated physical silver and gold, the most plausible and only real answer is to do what JPM does, namely, make a lot of money.

The only real way for anyone to make money on an asset purchased like silver or gold is to sell it at a higher price. When and at what price is open for debate, but not the basic arithmetic of the equation.

Therefore, the real question is not how much more JPMorgan may buy, but what comes after that, namely, how high will JPM squeeze the price higher. Itâ??s clear that JPMorgan didnâ??t acquire its physical metal on a lark or a whim; it did so with a sophistication and market skill that many fail to comprehend even after it is explained in detail. This goes to the core of how JPMorgan makes big money â?? by first acquiring and then distributing assets in great size.

Whether it still may acquire a bit more physical silver and gold canâ??t be precisely determined; but it is dead solid certain that JPM intends to dispose of what it has accumulated at as high a price as possible and will use every trick in the book to sell as high as it bought low. In fact, JPMorgan has already achieved the much more difficult step in a two-step process; having already accumulated what is to be distributed. The hard part was accumulating the metal, by comparison the distribution will be a breeze, particularly for a market crook like JPMorgan..

Eight years is an incredibly long period of time for an asset accumulation process to last and to everyone except JPMorgan the time elapsed seems interminable. But there has been no reason for JPMorgan to have rushed this along and that explains why it has taken so long. Thatâ??s also the argument for why it can continue a bit longer, although not indefinitely, as indefinitely means no big payday for JPM. With so much time having lapsed and metal accumulated by JPMorgan, to say nothing of the growing awareness of what it is up to, the smart bet to me is to be fully positioned; not trying to guess the day of price liftoff.

Turning to other matters since the Saturday review, gold and silver prices were higher on Monday, only to turn lower into today. Based upon my interpretation of the current COMEX market structure, I am much more bullishly inclined than otherwise, but the experience of the past 8 years mandates an appreciation that prices can move lower even when you expect otherwise.

Still, after a $100+ move higher in gold and close to a $1.50 move higher in silver since the Nov lows, the amount of potential managed money buying is much more skewed to the upside than is selling to the downside. And in the unfortunate instance of a further flush out to the downside, the market structure automatically becomes more bullish. But truth be told, Iâ??m quite tired of the 8 year intentional drag on prices and am in no way rooting for a more bullish market structure.

As far as this Fridayâ??s COT report, I would imagine managed money buying and commercial selling in gold of some moderate proportions, given the rally in gold of as much as $20 during the reporting week as well as four days of closing above both its two key moving averages. Iâ??ll leave out contract predictions due to the roll overs and spread liquidation ahead of this Fridayâ??s first notice of delivery for the COMEX April gold contract. As always, my main interest in the April gold delivery will be what JPMorgan may be up to. You may recall that JPMorgan was the biggest stopper in the February delivery, both for itself (3000 contracts) and on a net basis for clients (4910 stopped and 3004 issued).

For the silver COT report, prices surged after last weekâ??s Fed announcement, temporarily penetrating the 50 day moving average, but failed to close over that level through yesterdayâ??s cutoff, although prices ended several cents higher over the reporting week. Given that silver prices have acted much weaker on a relative basis than gold, Iâ??m hopeful for not much managed money buying and commercial selling. One of the tradeoffs for weak price action is that it usually doesnâ??t entail managed money buying and commercial selling deterioration (he said hopefully).

We are much closer to setting new price highs in gold than new lows with nowhere near a truly negative market structure set up, but the problem with manipulated markets is that prices dance to the tune of the manipulators. Even if a price move higher may appear to be in the manipulatorâ??s (JPMâ??s) best interest, as appears currently to be the case in silver and gold, thatâ??s always on a best guess basis. If JPMorgan thinks it can squeeze out a bit more buying by inducing managed money selling, then we will go lower. But this is as far from the start of the painful process that began 8 years ago as can be.

Ted Butler

March 27, 2019

Silver- $15.28Â Â Â Â Â Â (200 day ma – $15.16, 50 day ma – $15.57)

Gold – $1309Â Â Â Â Â Â Â Â (200 day ma – $1252, 50 day ma – $1308)

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