

May 9, 2015 – Weekly Review/Discovery Process

Weekly Review

It didn't much feel like it, but the price of gold and silver rose this week (silver for the second week in a row), although the gains were muted. Gold ended \$9 (0.8%) higher and silver finished up by 32 cents (2%). As a result of silver's relative outperformance, the silver/gold price ratio narrowed in by a half a point to under 72.5 to 1, with the ratio remaining smack dab in the middle of the extended trading range.

I still feel that one shouldn't interpret the flat trading range of either the relative price of silver to gold, or the absolute price of each metal as an indication that we are anywhere near a free market equilibrium price, particularly for silver. Current prices are solely and exclusively explained by activities on the COMEX, as will future prices be so explained. That's the reason, although I live and breathe thinking about silver that I spend less time on silver's actual supply/demand fundamentals. For the time being, the actual metal fundamentals don't matter a whit; price is a function of what happens on the COMEX, particularly when it comes to JPMorgan.

As it turns out, COMEX positioning is strongly bullish, including a surprisingly bullish reading for gold in the current COT report, following a couple of weeks of surprisingly bullish readings for silver. Since the COMEX operators tend to treat gold and silver the same, as is evidenced by the usual joined at the hip price action, any development good for gold is usually good for silver. More on that in a moment.

Turnover, or the physical movement of metal brought into and taken out from the COMEX-approved silver warehouses remained somewhat subdued this week, at 2.5 million ounces, but I only have data for four days (if I don't write them down, I can't retrieve them). Total inventories rose a marginal 0.2 million oz to 174.9 million oz, as whatever magnet is keeping total inventories stuck around the 175 million oz mark is still in force. I want to believe that the cooling off in COMEX silver warehouse movements might indicate JPMorgan may be getting its fill of silver from that source, but that is little more than hopeful thinking on my part at this point.

JPMorgan is still stopping (taking) silver deliveries in its own house account, as expected, in the May COMEX futures contract, having taken over three million oz so far. It still looks like JPM will take another million oz or so before the delivery period is over. This is in addition to the 7.5 million oz the bank took in the March delivery period.

The standout physical silver development this week has been the withdrawal of 5 million oz from the big silver ETF, SLV. Since price action has been subdued (but a bit higher) and trading volumes very much on the low side, the big withdrawal from SLV would appear unusual and counterintuitive. The most (only) plausible explanation for the withdrawal is the same one I have espoused on these pages for quite some time — a big buyer is converting shares into metal for the purpose of acquiring physical silver and avoiding the 5% ownership reporting requirement imposed by the SEC. I further believe this is the work of JPMorgan and represents the mechanism by which the bank has amassed the bulk of the 350 million oz I claim it has acquired over the past four years. I'll have more on JPM's historic accumulation of silver later.

After reporting on Wednesday that the US Mint had sold 783,500 Silver Eagles in two days after going 4 or five days with no sales, the Mint reported a scant 50,000 additional coins sold over the past two days. This is precisely the extremely erratic, but very high, level of sales that I claim indicates the presence of a big buyer, as opposed to Silver Eagles being bought by the much broader retail public. Of course, I can't certify that the big buyer is JPMorgan, but everything I look at points to the bank.

In addition, the Canadian Royal Mint reported sales this week for 2014 of Silver Maple Leafs and the same pattern that has characterized the US Mint was clearly revealed. The pattern is of sharply reduced sales of gold coins, down close to 40% from the prior year, while sales of silver coins hit another new record, in this case more than 29 million Silver Maple Leafs sold. Let me cut to the point here — the big buyer of Silver Eagles has also been accumulating Silver Maple Leafs (and probably other newly produced silver bullion coins. Over the past four years, in addition to buying 75 million Silver Eagles, the big buyer has bought, at a bare bones minimum, at least 30 million oz of Canadian Maple Leafs or more than 100 million oz of silver in bullion coin sales alone. I'm convinced JPMorgan is the big buyer.

Questions have been asked that if my contention is correct, particularly in regards to the 100 million+ coins purchased, how in the world can JPMorgan dispose of or sell hundreds of millions of ounces of silver without flooding the market and causing prices to crash? My friends, this is what JPMorgan does as a regular part of their business — accumulate and then liquidate massive market positions before most people get out of bed every morning. It is second nature to them. In my opinion, this silver will be sold before most people realize they bought it in the first place. Buying 350 million oz of silver was the hard part, selling it will be a snap.

I know some will doubt this, particularly when it comes to my allegations that JPMorgan has purchased more than 100 million oz of Silver Eagles and Maple Leafs. They will ask, does JPMorgan intend to sell these coins on Ebay or by sending agents to hundreds of coin shops in the hopes of selling the coins? Others will ask why it would pay a \$2 premium over silver in the first place. As I think I've explained previously, the big buyer is exploiting a loophole in the law that requires the Mint to produce to whatever the demand might be. So JPMorgan artificially depresses prices via short sales on the COMEX and then demands that the US Mint sell it all the Silver Eagles it demands. It doesn't care it is paying \$2 over the spot price; JPM wants all the silver it can get its hands on. It's part of the perfect crime.

But what about selling the coins I claim JPMorgan has acquired? The answer is the coins will not be sold as coins, but melted into 1000 oz bars instead. In fact, most of the 100 million+ oz of coins may have already been melted and cast into good delivery bars. Considering that the coins are the same purity as 1000 oz bars, melting is a simple and a low cost process, no more than 50 cents an ounce and most likely a lot less than that. So JPMorgan has a \$2.50 per ounce additional cost basis for buying the coins in the first place (coin premium plus cost of recycling); so what? If it can sell silver eventually at more than \$100 an ounce, as I believe, does the \$2.50 additional cost basis matter even a little? Forget Ebay and coin shops, these coins will be sold as good delivery bars.

The changes in this week's Commitments of Traders Report (COT) featured a modest increase in the headline number for silver and a significant decrease (improvement) for gold. A week ago, I had expected big reductions in the total commercial net short positions of both metals, given the sharp price weakness after the Tuesday cutoff thru Friday. On Wednesday, as a result of price strength on Monday and Tuesday, I was reduced to hoping for no worse than unchanged for the reporting week. Clearly, the gold price rally on Monday and Tuesday was a low enough volume affair that did not involve much technical fund buying and commercial selling.

In COMEX gold futures, the total commercial net short position declined by a very significant 32,700 contracts, to 74,200 contracts. Save for two weeks in March of this year and a few weeks in November when gold plunged to multi-year price lows, you can count on one hand the number of times that we've seen lower readings in the total commercial net short position. This is an unquestionably bullish market structure setup for gold and it's hard to see how it could have deteriorated since the cutoff.

By commercial category in gold, the four big shorts bought back an additional 6500 short contracts, while the big 5 thru 8 shorts bought back 5500 short contracts and the raptors (the smaller commercials away from the big 8) added a whopping 20,600 contracts of new longs. You could just about hear the music from the Three Musketeers, so orchestrated was the commercial activity during the reporting week. The big 4 and big 8 short positions, as well as the long position of the raptors are all in the strongly bullish category on an historical basis. Can the collusive commercials eke out even more bullish readings by slicing the gold price salami to new lows? Of course, that's always possible, but COT market structure is akin to hand grenades and horseshoes, where close enough is good enough and a hand grenade just landed ten feet away. Maybe a new hand grenade gets lobbed even closer (on new price lows), but the gold market is structured to move higher, even if prices temporarily move slightly lower from here.

On the sell side in gold during the reporting week, it was, as usual, a technical fund affair as traders in the managed money category sold close to 28,000 contracts, including nearly 16,000 contracts of long liquidation and more than 11,700 contracts of new shorts. The total number of long contracts on the long side of managed money dipped to just under 99,000 contracts. You can also count on one hand the number of times the amount of managed money gold longs has dipped below 100,000 contracts over the past six years and this low historical number strongly suggests very limited further liquidation on lower gold prices from here.

Likewise, the number of managed money shorts, at 76,100 contracts, is within spitting distance of the all-time record level of managed money gold shorts. This not only implies limited new additional short selling on lower prices; it also means that the rocket fuel tank is full or nearly so which means a tremendous quantity of built in buying exists when prices turn decisively higher. If the silver COT structure, as a result of spectacular improvements over the past few weeks, had been slightly better positioned than gold, it would appear gold's structure caught up in the latest reporting week.

In COMEX silver futures, the total commercial net short position increased by 3300 contracts to 37,300 contracts. Normally, such an increase would be troublesome, but I don't think that's the case this time for two reasons. One, there was no actual increase in commercial short selling, the increase in the total net position came as a result of raptor long liquidation as opposed to new short selling. That may sound confusing, but I don't know how to state it differently. Second, there has been such a spectacular improvement in the silver COT structure over the past few weeks that this week's adjustment doesn't look serious.

By commercial category, the big 4 bought back close to 600 short contracts and the big 5 thru 8 bought back close to 1000 shorts. The raptors sold 4900 long contracts, but their net long position is still hefty at 30,900 contracts, always a bullish indication. Because the ranks of the big 8 had been infiltrated by one or two big managed money shorts, I still can't draw a firm bead on how much of the big 8 concentrated short position is commercial or managed money.

In what could be just what I hoped for, the release of the companion Bank Participation Report yesterday indicates that JPMorgan's concentrated short position is less than I had been estimating by as many as 3000 contracts. I would guesstimate that JPMorgan is holding a net short position of around 14,500 contracts and while still high, is much lower than I had been thinking. This does accentuate the key point going forward ^ if JPMorgan doesn't add to its COMEX short position on the next silver rally, I can't see how that rally won't be the big one. If they do add, I suppose I'll have to start saying bad things about this crooked bank.

On the buy side of silver this reporting week, it was all technical funds and then some, as the traders in the managed money category bought over 5667 contracts, including 1861 new longs and the repurchase of 3806 short contracts. Again, considering just how well the managed money category has performed recently, I'm not overly alarmed at this week's deterioration. For one thing, at roughly 46,000 contracts, the long side of managed money may have only 6000 contracts of potential liquidation if my 40,000 non-technical fund core long position premise is valid. Secondly, with nearly 34,000 shorts still in place on the short side of managed money, we are still close to 4000 contracts higher than I thought this category could get a month or so ago. So even after losing 3806 existing shorts this reporting week, the COT market structure in silver still looks strongly bullish to me at this point. Throw in the spectacular positioning in gold this week and it's hard to imagine a big leg down in price.

Does that mean we can't move lower temporarily so that the commercials can fill the fuel tanks even more with additional technical fund shorts in both gold and silver? Hey, this is a crooked market and only a fool would pretend to know the full extent of commercial treachery. But it would be a mistake to deny that the only setup that matters in gold and silver pricing, namely, the COMEX COT market structure is anything but exceptionally bullish.

The Discovery Process

Someone famous (I can't remember who) said that the discovery process consists of seeing the facts that everyone sees, but seeing those facts differently than everyone sees them. This is the process, I believe, that has led me to discover several important findings in silver, starting with the discovery of the silver manipulation itself 30 years ago and more recently the discovery that JPMorgan has amassed the largest privately owned physical stockpile in history. I consider the JPMorgan silver acquisition to be the most significant development in the modern (last 50 years) history of the silver market.

I started writing about JPMorgan's physical silver accumulation nearly a year and a half ago and, quite frankly, thought I had beaten the issue to death and had become boringly repetitive in my writings about it. The very last thing, aside from misleading subscribers, that I ever want to do is to boor you by saying the same thing over and over. However, in a conversation with a long-time friend and fellow subscriber the other day, he asked me, very respectfully, to repeat the facts I was basing my claims about JPMorgan on. In an instant, I recognized that if the facts were unclear to him, they were unclear to many. So let take a minute to recap what I am basing my premise about JPM and silver on. I apologize to those who may have felt they heard it all before.

The premise has to start somewhere and must be based upon facts that are incontrovertible, whether or not those facts were fully known at the time or came to be learned later. I'll start at the end of 2007, when the price of silver was less than \$15, but close to the highest price it had been in 25 years. At the time, the biggest concentrated short in COMEX silver (and gold) was Bear Stearns, which came into the role of the biggest silver and gold short by the positions being transferred from AIG.

From the end of 2007 to March 2008, the price of silver rose to \$21 and gold rose from \$800 to \$1000 and based upon the size of the short positions that Bear Stearns held (40,000 net contracts short in COMEX silver and 80,000 contracts in gold), the investment bank had to come up with much more than \$2 billion in variance margin money into March 2008. Bear was unable to do so and the US Government arranged for JPMorgan to take over Bear Stearns and its massive COMEX short positions in COMEX silver and gold.

Being highly capitalized and with the cooperation from the federal government, JPMorgan was able to turn silver (and gold) prices sharply lower into yearend 2008 and made well over one billion dollars as a result of falling metals prices and was able to greatly reduce the short positions it inherited from Bear Stearns. Not content to exit the short side of COMEX silver and gold, JPMorgan then repeated the process of selling short great additional quantities of COMEX short contracts on metals price rallies over the next couple of years and buying back those short positions when prices fell lower. All told, JPMorgan continued to extract great profits from the short side of COMEX silver and gold, to the tune of many hundreds of millions of dollars and even billions of dollars on a cumulative basis.

This process was repeated by JPMorgan in COMEX silver until the fall of 2010, when silver began to rise in earnest due to a developing physical shortage that drove prices to nearly \$50 by the end of April 2011. What I have constructed to this point I consider to be factual and what follows is reasoned speculation based upon certain other facts that can be seen by everyone.

On the run up in prices to \$50 in 2011, it became clear to JPMorgan that a physical silver shortage was developing and for the bank to try to fight it with additional paper short sales would be futile. Therefore, two decisions were made; one, it would be necessary to create such a large break in silver prices so as to fully break the momentum of the price rise and two, the developing physical shortage proved that silver was destined to blow sky high in time and JPMorgan decided it would position itself accordingly to be prepared for the big silver rally to come.

The big break in prices started on May 1, 2011 and did break the back of the silver price momentum to this day. Less visible is the evidence that JPMorgan began to acquire the biggest physical silver stockpile in history. In addition to the 100 million+ ounces that JPMorgan has acquired in US and Canadian newly-issued silver bullion coins over the past four years, here are additional key factors pointing to more than 350 million ounces of silver being acquired by the bank;

1. In little more than a month, as a result of the big break in silver prices starting on May 1, 2011, some 60 million ounces were liquidated from the big silver ETF, SLV, as a result of plain vanilla selling by investors who sold their shares in reaction to plunging prices. When net selling occurs in SLV, metal is automatically redeemed from the trust on a mechanical basis. The shares were sold and the metal was withdrawn from the trust as proscribed by the prospectus, but that doesn't mean the metal was dumped on the streets of London or ceased to exist. The metal fell into the ownership of someone and the most likely candidate was the entity that arranged for the selloff in the first place and the entity which stood to gain the most by the selloff, namely the biggest short, and that points to JPMorgan. JPMorgan picked up its first 50-60 million oz as a result of the May 2011 silver smack down.

2. Pressed for space to store the silver it planned to acquire, JPM opened its own COMEX warehouse in April 2011 and from zero ounces in 2011, that warehouse has turned into the biggest COMEX silver warehouse of all with nearly 50 million oz on deposit. The start date of the warehouse would only be considered coincidental by a CFTC or CME regulator. Perhaps more importantly, the start date proves intent by JPMorgan to acquire silver.

3. In 2012, JPMorgan physically transferred 100 million oz of silver from its own custodial warehouse for SLV to the Brinks warehouse in London, leaving ample space in the former SLV warehouse to store 100 to 200 million oz of silver that would come to be owned by JPMorgan and that would never require public disclosure. Not only is this the most

Date Created

2015/05/09