April 10, 2024 – Tilting Towards a Price Melt Up

In trying to objectively evaluate whether silver prices will undergo a sharp selloff or a price explosion (or both), following the sharp rally of recent weeks, let me attempt to include the factors on either side of the equation, starting with those factors pointing to a selloff. First, there is the strong record of what has transpired in the past whenever we have rallied sharply, achieving â??over-boughtâ?• technical indicators and strong deterioration in the market structure on the COMEX (big managed money buying and commercial selling). Over the past decades, a sharp price selloff has been the usual result when such conditions have existed. It is a strong pattern hard to argue against. In fact, it encompasses the â??wash, rinse, repeat processâ?• a remarkably large number of observers have come to recognize.

As such, this set up cannot be dismissed out of hand. At the same time, however, there are a number of things somewhat different in the current COMEX market structure that bear mention (before I get into the factors arguing for a price melt up). While I canâ??t dismiss the overbought technical considerations, not being a bona fide card-carrying technical advocate, neither could I abandon long-term silver positions on the basis of such considerations. Concerning the sharp deterioration in the COMEX market structure, I am also taken aback by the lack of big 4 and 8 aggressive new shorting on the rally, a sharp departure from the past and a key element of my analysis for decades â?? although I remain dependent on future COT reports in this matter.

Therefore, the basis for a sharp selloff in silver prices resides in past outcomes when technical and market structure considerations are close to parallelling those conditions currently in place. At the same time, when one takes away these two general bearish factors, the technical and market structure considerations, it is near-impossible to construct a bearish case in a manner related to much else â?? such as the price of silver being so high, either on an absolute basis or relative to anything else (like gold), that would make much sense. Yes, if silver prices do selloff, it will be due to deliberate futures contract positioning on the COMEX, same as it has been for 40 years.

Having acknowledged the possibility of a sell-off and the reasons it could occur, there are more reasons than ever to suggest such a sharp silver selloff may not materialize as it has in the past. For one thing, those short silver (and gold) on the COMEX, have come to suffer greater open losses in a shorter period of time than any previous time on record. I would assume that many of the shorts in COMEX silver futures are also short in gold, for the simple reason those inclined to short either metal would also be inclined to short the other as well. Therefore, I find it reasonable to combine the short positions in each metal for broad financial calculation purposes. Doing so, leads to the rather cut and dry calculation that as of last nightâ??s close, the combined total open loss to the gold and silver short sellers is $18 billion ($14 billion in gold and $4 billion in silver). And all this has occurred since Feb 27.

This is, undoubtedly, the largest such open loss on record in the shortest time and the most obvious observation is that there was no intent or secret master plan by the shorts to put themselves intoÂ a financial hole amounting to $18 billion. This record large open loss was not deliberately planned by the shorts by any stretch of the imagination, regardless of whether they wiggle out from it to any degree. Having been caught off guard by the run up in gold and silver prices, the shorts certainly havenâ??t been in control to this point and, it seems to me, that puts them behind the eight-ball in terms of turning the tide of gold and silver prices lower from here. Iâ??m not saying the shorts are finished at this point â?? just that they are in greater jeopardy of losing control than ever before. You can also be absolutely certain that the shorts have had to deposit nearly every dollar of the $18 billion of open losses accruing to them in the form of near-daily deposits of additional margin requirements, because themâ??s the rules. No way has this resulted in bolstering or strengthening the shorts in any way.

To this point, I have been somewhat amazed that the shorts havenâ??t panicked yet, with many rushing to buy back short positions, thus driving gold and silver prices even more sharply higher than what weâ??ve seen. The only way of measuring this is by studying the COT reports and up until now, I have yet to detect the expected widespread short covering commensurate with the price rise and resulting losses to the gold and silver shorts as is readily calculable. But it does seem to me that the COMEX gold and silver shorts, or at least a good number of them, will soon reach the breaking point should prices continue to rise. Even for those who insist that the largest COMEX gold and silver shorts (the big 4 and 8) are secretly financed and are fronts for government masters, that still leaves nearly half the shorts outside that classification and I know of no legitimate suggestion that government entities are backstopping the smaller shorts. And if the smaller shorts in gold and silver do attempt to bail out and rush to buy back short positions with the 4 and 8 big shorts replacing them, that will be clearly visible in the COT report. As it stands now, the 4 and 8 big shorts have hardly added any new short positions on the silver rally over the past 5 reporting weeks, although that can change ahead.

But it is not just the current financial plight of the COMEX shorts that suggests to me that the odds are tilting towards a melt up in silver prices. One has to consider that silver prices have been manipulated and suppressed by COMEX futures positioning and someday, that manipulation must end. The effect of this 40-year manipulation is now clearly visible in the form of the deepening physical shortage and once that state of shortage is reached, prices must rise sharply at some point. And that is something to keep in mind even if the shorts do manage to arrange a selloff. Put this on fast-forward â?? since we are already in a physical silver shortage due to too low silver prices, how in the world could even lower prices fix the shortage? Thus, there is no question that we have to get sharply higher silver prices in any event, due to the deepening physical shortage â?? the only question is the shortsâ?? ability to get out from the financial mess and jeopardy they currently find themselves in by arranging a selloff first.

Other factors supporting a melt up in silver prices include a resurgence in investor buying in the silver ETFs, after a long period of little to no buying. Admittedly, the resurgence in silver ETF buying is quite recent and has yet to stand the test of time, but more than 30 million oz of physical silver have recently been deposited into the various silver ETFs, led by SLV. And it was fully-expected that such buying would occur when silver prices moved higher, setting off the kind of collective investor momentum buying prevalent in just about every stock nowadays. Should silver prices continue to move higher, such collective investor momentum buying would also be expected to persist. No big revelations here.

What this new silver ETF buying means is a further crunch in the wholesale physical market, as this new investment buying joins with the already-strong industrial demand for silver â?? bringing the highly unique dual demand profile for silver into full bloom. That this dual demand wholesale crunch may be occurring just as retail demand for silver has collapsed is yet another unprecedented development few could have foreseen, but joins with all the other unprecedented developments in silver that seem to occur on a regular basis. Itâ??s important to remember that developments in the wholesale market for silver (for 1000 oz bars) far exceed any developments in the retail market for silver involving coins and small bars.

I also sense a change of thinking on the part of the regulators, particularly at the Department of Justice and CFTC, which I believe are now more aware of the damage and distortion that 40 years of price suppression and manipulation on the COMEX has wrought on the real world of silver. I certainly donâ??t expect any â??mea culpasâ?• or admissions of past grievous errors in the regulatorsâ?? mishandling of the now-obvious long-term manipulation of silver prices, as that would never happen in any event.

I would also request that you take notice of the flurry of recent articles and commentaries on silver, now that silver prices have popped a bit. Some point to the struggle between physical market developments and the ongoing large paper short positions on the COMEX, while others point to the incongruity between the actual supply/demand fundamentals in silver and price, with no regard to the decades-old price suppression on the COMEX. But I canâ??t help but believe that both kinds of commentary do nothing but confirm my findings over the past decades.Â Perhaps that sounds a bit self-congratulatory, but thatâ??s not my point. My point is that something must explain the projections of a moon shot in silver prices and the sudden awareness that silver price and supply/demand fundamentals are way out of whack, and for the life of me, I canâ??t see how it could be anything else but a 40-year COMEX price manipulation.

In summary, it appears to me that the odds have shifted, for the reasons just discussed, favoring that a silver price melt up may be at hand. I would never rule out one-last price smackdown, but would continue to point out that would be a temporary short-term development that would do nothing but further aggravate the already-critical physical silver shortage.

Moving on the other developments, the new short report on securities was released last night and indicated that, as of March 29, the short position on SLV, the big silver ETF, increased by around 2 million shares, to 32.2 million shares (29.3 million oz), much less than I feared. While the short position on SLV is more than double what it was a month ago, it is still lower by nearly half what it was at the peak of 60 million shares in Aug 2022. Also, I would point out that as large as the short position on SLV may be (and Iâ??m not trying to minimize it in any way), the total short position in COMEX futures Â (720 million oz) is more than 24 times larger, to put things in proper perspective. The relatively tiny increase in the short position on SLV, precludes me from writing to the S.E.C. (and BlackRock) at this time.

https://www.wsj.com/market-data/quotes/etf/SLV

A number of readers have commented on the developing price pattern in gold and silver, in which any selloffs are quickly met with renewed buying, driving prices higher after such selloffs. Remarkably, through yesterday, gold has made new price highs on eleven consecutive trading days, while silverâ??s number of consecutive new highs is up to eight days (using GLD and SLV as price barometers). I canâ??t help but believe that this confirms that the odds have shifted to favoring a price melt up.

I havenâ??t mentioned it in a while, but the run up in gold and silver prices would appear to have had a meaningful effect on the OTC derivatives holdings of Bank of America. It still appears to me that BofA is holding a billion oz of silver derivatives short, as well as at least 25 million oz of gold short (as of the most recent OCC quarterly derivatives report, as of Dec 31). With estimated sale prices of $23 for silver and $1800 for gold, that would amount to an open loss of $5 billion in silver and close to $14Â billion in gold at current prices or a total loss of close to $18 billion. This, of course, is separate and distinct from my calculations of total losses to the COMEX short sellers in gold and silver of $18 billion.

Hey, a few billion dollars here and a few billion dollars there, and pretty soon youâ??re talking about big money.

As far as what to expect in Fridayâ??s new COT report, the more than $2.50 price rise in silver and $100 price increase in gold, would suggest deterioration (managed money buying and commercial selling), according to the 40-year price/positioning pattern on the COMEX, with the actual amounts of contracts unclear to me. We did see an increase in total open interest of 5000 contracts in gold and 7500 contracts in silver, also suggesting market structure deterioration. As has been the case of late, Iâ??m going to refrain from contract predictions and dwell on the details of the report. Those details include big 4 and 8 developments, as well as what the big managed money short may have done.

Please remember that Â in my conclusion that the odds have tilted to favor a silver price melt up in the short term, I am speaking in terms of the odds, not of the certainties in the short-term. I do believe, however, that a silver price explosion is a certainty eventually. In fact, the wonder is that we havenâ??t had a silver price melt up to this point. All things considered, by any objective measurement, such a melt up should have occurred long ago.

Ted Butler

April 10, 2024

Silver – $28.15Â Â Â (200-day ma – $23.65, 50-day ma – $24.15, 100-day ma – $23.97)

Gold – $2355Â Â Â Â Â Â (200-day ma – $2013, 50-day ma – $2131, 100-day ma – $2081)

Date Created
2024/04/10