April 3, 2024 – Still On the Edge

I received an email from an old Drexel Burnham friend the other day, in which Bill pointed out that with gold making new all-time price highs, it meant that anyone short gold had a loss of some type. And with silver closing at one-year highs yesterday, it meant that anyone short silver over the past year is also in the loss column. Billâ??s note was a welcomed reminder of the makeup of the market structure in COMEX gold and silver futures.

Billâ??s note got me to thinking further (always dangerous) and brought to mind an article that I penned six months ago, titled, â??The Bonfire of the Silver Shortsâ?•, in which I dug through the financial results involved in an explosive move higher in silver prices. With the benefit of hindsight, I must now include gold in my analysis, seeing how much gold prices have rallied recently. Hereâ??s the old article https://silverseek.com/article/bonfire-silver-shorts

Over the past five weeks to the yesterdayâ??s close the price of gold Â rose by as much as $250, with the price of silver rising as much as $3.50. Using round numbers, and ignoring the complexities of the detailed break downs I usually cover in my analysis of the Commitments of Traders (COT) report, today Iâ??m going to keep in simple. The total open interest in COMEX gold futures (minus market neutral spread positions) over the time of the $250 rally, averaged 425,000 contracts (42.5 million oz). In silver, the average total open interest (again, minus spreads) averaged 140,000 contracts (700 million oz) over the $3.50 rally

The math here is simple â?? on the $250 rise in gold prices resulted in a loss (mostly open and unrealized) to those short gold and an open and unrealized profit to those long of more than $10.5 billion ($250 X 42.5 million oz). In silver, the unrealized losses to the shorts and profits to the longs come to just under $2.5 billion ($3.50 X 700 million oz). In both markets combined, the total open gain and loss comes to $13 billion in little more than a month. In futures contracts, as in any derivatives contract, there must be an equal number of longs and shorts, although of course, the distribution of those holding the longs and shorts arenâ??t equal. But the distribution of the number of traders holding long and short positions in this example doesnâ??t matter in this example because Iâ??m just measuring the total number of longs and shorts and total losses and profits.

Now, letâ??s get into the ramifications of such large and sudden losses and profits in COMEX gold and silver futures markets. Obviously, the longs are dancing with such large and sudden unrealized profits, while those short are suffering immensely. Further, the longs, essentially, donâ??t have to do anything as a result of the large rally, although of course, if they choose, they can sell, hold or buy more. The shorts on the other hand, must do one thing at least and that is put up enough new margin money to maintain exchange or their brokerâ??s minimum margin requirements. Thus, the pressure is always on the shorts in a large price rally and vice versa in a large price selloff. Â And, as always, prices can reverse, completely switching the current advantage held by the gold and silver longs. In fact, that has been the usual outcome in past large rallies over the years and decades. Itâ??s still an open question as the final results of this large rally (although this rally does look different in many ways).

The first point I would make is that given the financial stress put on the COMEX gold and silver shorts on the current rally, it wouldnâ??t surprise me in the least that more current shorts would choose to cut their losses and buyback their short positions, requiring other existing shorts to add to their short positions in order to maintain the level of total shorts necessary to keep prices in check. At least, that is what typically occurred on past gold and silver rallies over the years and decades. However, should a sufficient number of â??replacementâ?• shorts fail to supply the sufficient number of shorts as those shorts abandoning the short side, then prices could further explode.

So, the main point here, particularly in silver, is that COMEX short-covering alone could provide the fire power to propel prices sharply higher and no new longs are required to drive prices sharply higher. But as I have also maintained all along, it will be the new buying of shares of the gold and silver ETFs that will provide all the new buying necessary to drive prices sharply higher and based upon the large buying in gold and silver ETFs so far this week, that appears to be occurring.

Iâ??d like to add another point here that is more along speculative grounds than the points I have made to this point. As you know, I have always strongly petitioned the regulators, including the CFTC, the SEC, the OCC and the Department of Justice for what I have alleged to be a continuing silver price suppression on the COMEX, in OTC derivatives and in SLV (excessive shorting). Admittedly, the Â results have been mixed, but have succeeded in exposing important matters related to how markets function compared to how they should function (according to commodity law). I may be presumptuous, but I detect a change in regulatory thinking of late.

As an example, back in Feb 2021, at the height of the #silversqueeze movement, the CFTC was quick to come out and pronounce all was good and under control in silver as prices touched $30, the highest prices had been in nearly a decade. As it turned out, recorded world silver inventories did hit 1.7 billion oz (briefly), the highest they had ever been at that same time, lending a sort of legitimacy to the CFTCâ??s claim that it was only speculation driving silver prices at the time. Fast-forwarding to today, recorded silver inventories are some 400 million oz less than they were three years ago, prices have been lower ever since and every day, we get a new sign of the depths of the ongoing physical silver shortage. And up until very recently, the physical silver shortage has been driven by industrial consumption, with investment demand lacking. Now however, it seems silver investment demand in the ETFs is about to kick in with a vengeance, providing a one-two punch worthy of comparison with the great boxer, Joe Lewis.

Here’s my speculation. After all the petitions Iâ??ve made to the Justice Department recently (and they have been numerous), I believe it has finally dawned on it that there can be no denying that the evidence of a physical silver shortage is compelling and that the only possible explanation for the shortage is that silver prices are too low. Further, my explanation that the too-low prices have been caused by the 40-year manipulative scam on the COMEX is the only real explanation. Coming to accept this, I believe the DOJ may have reached the conclusion that it has no business continuing to look the other way (and effectively, siding with the crooked and collusive COMEX commercials). Instead, the DOJ may now embrace the opinion, as it should, that fighting a price increase in silver is pointless. Silver needs a price increase (and a very large one at that) to balance the law of supply and demand and the Justice Department should know this by now.

Further, I believe the DOJ knows this and this change of opinion might be reflected in the current silver rally. As I recently wrote, I donâ??t expect the DOJ or CFTC to openly admit both regulators blew it over the past many years in failing to properly deal with the COMEX silver manipulation. At this point, working behind the scenes to stop fighting the necessary rise in silver prices is enough, as I recently wrote. At a bare bonesâ?? minimum, there would appear to be little reason, at this point, for the regulators to press for lower prices, as thereâ??s no way for the deepening physical silver shortage to be resolved without much higher prices.

While I have been somewhat hesitant to proclaim that the recent price action in both gold and silver indicates that the tide has reversed against the collusive COMEX commercials and we are now witnessing my long-departed friend and silver mentorâ??s, Izzy Friedmanâ??s, prophecy that one day, the COMEX shorts would get caught on the short side and be forced to cover (the full pants down premise), at the same time, current conditions appear more conducive to that conclusion than ever before. I have been conditioned to believe that a wooden stake mustÂ be driven through their evil hearts of the collusive COMEX commercials at high-noon, in order to proclaim them officially dead. Â But it sure looks like the COMEX shorts may be in big trouble. Even if they do arrange a price rig job to the downside, they must now go deeper by Â extent of the recent rallies in gold and silver. Whereas it would have taken a downside blast of $2 in silver and $100 in gold to get the managed money traders to sell, itâ??s now more like $3.50 or more in silver and more than $200 in gold, making such a selloff more egregious.

I continue to maintain that the COMEX is a closed circuit and phony trading venue that exists to accommodate a handful of large paper speculators and in the process gets to set the price of silver (and gold). While I believe the revelation that the COMEX king wears no clothes may be at hand and that could propel prices sharply higher, I still believe the real impetus for higher silver prices will be buying in the silver ETFs. And if the buying in the silver ETFs over the past few days is any indication, such buying has kicked in with a vengeance, with the highest trading volume in years yesterday. I would estimate that upwards of 20 million oz are â??owedâ?• to the SLV and other silver ETFs through trading today.

The difference, of course, between trading in COMEX futures and the silver ETFs, is that the buying of new futures contracts rarely involves the actual delivery of physical metal, while the net new buying of shares of most silver ETFs (SLV, PSLV, ZKB, Wisdom Tree, SVR, and others, along with their counterparts in gold) involves 100% physical metal purchase. The only way new metal is not deposited on net new purchases of these â??hard metalâ?• ETFs, is if the new shares purchases are met with short sales, which has only been a problem in SLV to this point. The recent doubling of the short position on SLV is a case in point and while this short position is hard to predict (for me), it appears the next short report, due April 9, is likely to show another big increase. While I still believe the short selling in SLV will be ultimately bullish in the end, I am girding myself to resort to complaining to the S.E.C. and BlackRock, yet again (since no one else has ever stepped up to the plate).

As far as what to expect in Fridayâ??s new COT report, over the holiday-reduced 4-day trading week, gold prices rose as much as $100 to new all-time highs, while silver prices rose as much as $1.35 to new yearly highs. As such, one would expect for there to be managed money buying and commercial selling. As to how much and what the detailed-category changes might be, Iâ??m going to take a pass again, as I have in recent weeks and let the report speak for itself. I will say that as much as an aficionado of the COT report as I have been for decades, I have also maintained that one day, the report will take a backseat to developments in the real world of silver and sense we are getting quite close to that day.

So, while I have tried to convey an either or, in my drop first, then pop or pop with no price drop, the latter seems to have the upper hand at this point. I have consistently maintained that when we do get the true price pop in silver, it will be one for the record books, for the simple reason that you donâ??t undo a 40-year price suppression without a price violence commensurate with that extended time period.

Ted Butler

April 3, 2024

Silver – $27.10Â Â Â Â Â Â (200-day ma – $23.54, 50-day ma – $23.66, 100-day ma – $23.79)

Gold – $2315Â Â Â Â Â Â Â Â Â (200-day ma – $2003, 50-day ma – $2099, 100-day ma – $2075)

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