April 5, 2023 – A Surprise Move By OPEC?

Before I address the price action this week in silver and gold, please allow me some brief comments on what I wrote about a week ago. The theme of last Wednesdayâ??s article, â??Not Just in Silver and Goldâ?•, was to explain that the phenomenon of futures market positioning that dominates and determines prices (and not real-world fundamentals) was not limited to COMEX silver and gold, but extended to other markets, like crude oil and copper. Crude oil is, of course, the most important commodity in the world, while copper is considered the most important industrial metal.

I went on to discuss how managed money and other technically-oriented derivatives positioning had reached extreme levels of bullishness in crude oil and copper, because such traders had amassed near-record levels of short positions. I contended that crude oil and copper prices were as low as they were, not because there was any great oversupply in the actual markets, but because the oversupply was in the form of short derivatives positions on the part of speculative technical traders and that prices would rise significantly as and when those short positions were reversed.

Several days after Wednesdayâ??s article, leading members of OPEC, the oil-producers cartel, announced what appeared to be a surprise cut in oil production of 1.66 million barrels a day (on top of previously agreed upon cuts of 2 million barrels a day). The â??surpriseâ?• announcement sent oil prices higher by a sharp $5, driven principally by those speculators buying back short positions.

https://www.reuters.com/business/energy/why-is-opec-cutting-oil-output-2023-04-03/

At first, I thought the announcement by OPEC to be in the â??surpriseâ?• category, but soon thereafter, it didnâ??t appear to be much of a surprise at all, but a carefully planned and extremely well-timed event. (Please understand, as an energy consumer, Iâ??m not â??rootingâ?• for higher oil prices or cheering OPEC on, I am simply trying to objectively best understand the circumstances). The main element for me concluding that the announcement was no surprise was the recollection of something I wrote back on August 24 â??â??Between a Rock and a Hard Placeâ?•.

https://www.butlerresearch.com/august-24-2022-between-a-rock-and-a-hard-place/

In that article, I quoted the rather remarkable comments of the Saudi Arabian oil minister who openly complained that futures market and other derivatives positioning was setting the price of crude oil artificially and not actual market supply/demand fundamentals. As I think you know, this has been my main theme for decades when it comes to silver (and gold), so, naturally, I was not only taken aback but also highly encouraged by theÂ oil ministerâ??s comments, since his words confirmed my findings.

Cutting to the point of why I donâ??t feel the action by OPEC was a surprise is that the agreement to cut production had to be prearranged and not some last-minute spontaneous mutual decision. As you know, getting the individual member countries in OPEC to agree to production cuts is historically akin to herding cats. Therefore, the agreement was prearranged and kept confidential, and not suddenly agreed upon at the last moment.

More than anything else, the announcement was extremely well-timed in that it came as speculative short positions had already reached peak levels and the process of collective short covering had already begun. The timing of the announcement couldnâ??t have been better (from OPECâ??s perspective) and that was seen in the sharp one-day rally of $5 a barrel. Looking forward, the surprise production cut has all the appearance of being a meaningful event in a market already destined to trade higher based upon an oversold derivatives market structure.

Of course, given the nature of silver mine production (including its almost-unique profile of production as a byproduct of other metals mining), it would be highly unrealistic to expect a cartel of silver mine producers to replicate OPECâ??s actions. For one thing, such an action would be illegal for those producers which might fall under the jurisdiction of US antitrust law. However, the good news is that no such actions are required in silver, because the years and decades of price suppression due to the ongoing COMEX price manipulation have set the stage for something much more powerful than any OPEC-like production cut in silver.

In other words, the damage and harm to the free law of supply and demand in silver has been so severe after 40 years of price suppression on the COMEX, that no â??quick fixesâ?• or other remedies are required at this point to send silver prices soaring upward. In fact, so prolonged and extreme has been the price suppression in silver that the tables have switched completely from â??when will silver explode in price?â?• to â??what can prevent a silver price explosionâ?•? Best I can determine, the only answer to the latter question is whether JPMorgan will provide enough of its accumulated physical silver (and gold) hoard to contain prices, as I discussed on Saturday and in this abbreviated public article.

https://silverseek.com/article/jpm-again

JPMorgan, always a big presence in precious metals for decades, has come to completely dominate the space since acquiring Bear Stearns 15 years ago. Since then, other bank competitors have generally faded as JPM has ascended. As a consequence, I have tried to chronicle JPMorganâ??s rise to near-absolute control of gold and silver since discovering it took over as the big COMEX silver and gold short selling crook in 2008 because that is what the public data indicated. The data included CFTC and Justice Dept investigations along the way, as well as fines and a deferred criminal prosecution agreement for COMEX price manipulation, but regardless, JPMorgan has always prevailed in remaining king of the hill in all matters gold and silver. (As a matter of full-disclosure, I have always sent copies of my article to JPMorgan and the regulators over this entire 15 years, or a total of some 1500 articles).

Therefore, it canâ??t be considered surprising that the resolution of the long-developing physical silver shortage has come down to what JPMorgan does or doesnâ??t do â?? in the sense of how much of what I would estimate to be a billion ounces of physical silver it has accumulated over a decade it is willing to donate and sacrifice to keep the shortage at bay. The bad news is that should JPMorgan so desire, it could supply enough physical silver to keep the shortage conceivably in check for several years. Of course, continued low silver prices in that event will do nothing to resolve or eliminate the silver shortage, except to prolong and intensify the shortage.

The good news is much more varied, starting with the potential jeopardy that will accrue to JPMorgan should it decide to fully satisfy the ongoing silver shortage by sacrificing its accumulated hoard. As was just seen in the April gold deliveries, JPMorganâ??s outsized percentage share of those deliveries stood out like a sore thumb and was clearly manipulative on its face. Yes, the regulators will prefer to look away, but the odds are great that should JPM chose the complete disposal option in silver, it will be detectable and at some point, the regulators may be shamed into reacting.

Plus, JPMorganâ??s continued criminal dominance of gold and silver is not likely to go unnoticed in important investment circles. There are tremendous numbers of potential investors, sitting on near-unimaginable massive amounts of buying power, looking for sound investment opportunities. As and when the true story in silver (the shortage and JPMâ??s role in donating its metal to prolong the shortage) starts to get out, JPMâ??s accumulated hoard of silver could be absorbed and taken from it in a relative flash.

It all comes down to it being impossible to resolve a physical commodity shortage brought about by decades of super-depressed prices by continued depressed prices. Impossible. So instead of focusing on when the moment of upward ignition may occur (definitely in the do as I say, not as I do department), focus instead on the inevitability of silver prices moving sharply higher at some undetermined point. Admittedly, when price action heats up, itâ??s natural to believe weâ??re on the precipice of the big move up. At the same time, given the decades of the ongoing COMEX price manipulation, itâ??s important to maintain a long-term perspective and not get carried away with the immediacy of a price explosion. JPMorgan and other price manipulators on the COMEX are powerful and eager to exploit those overly leveraged. The only real solution is to not hold positions on such a leveraged basis that a sudden sharp sell-off would cause you to lose positions.

If JPMorgan and the whole of the COMEX werenâ??t corrupt, silver wouldnâ??t be priced as low as it is and has been for 40 years. The law of supply and demand guarantees that will change and change big, but we must get from here to there in the face of the same extreme cunning corruption that has existed for decades. While itâ??s impossible to eliminate completely the emotional surges that come with a sharp pick up in price volatility, itâ??s more imperative to maintain a sense of balance and recognize the price journey ahead will be both long and jagged. The goal is to get to the end emotionally intact and holding enough of a silver position to have made the journey immensely worthwhile.

Turning to short term price action, particularly, yesterdayâ??s near $1 up move in silver and near-$40 move in gold, both to roughly one-year highs, itâ??s hard to contain feelings the big move higher might be in play. Countering those feelings, of course, is the actual track record of prices turning lower just as they appear set to soar â?? due to heavy commercial selling, particularly of the new short-selling variety. This makes the new COT report scheduled to be released Friday of particular concern.

In gold, prices rose a sharp $60 over the reporting week, with the biggest chunk of the gain coming on the high-volume surge on yesterdayâ??s cutoff. Itâ??s hard to imagine anything but continued significant deterioration (managed money buying and commercial selling), as has been the case over the prior three reporting weeks of the gold price rally. With the gold raptor net long position down to a recent low of 15,800 contracts in last weekâ??s COT report, it will be interesting to see if these traders switched to net short and/or how much more the 4 big gold shorts added to short positions.

In COMEX silver futures, prices rose a very sharp $1.70 into yesterdayâ??s cutoff, so itâ??s hard not to imagine significant deterioration, with the key question being how much the 4 and 8 big shorts returned to new shorting â?? something notably missing over the three prior reporting weeks of silver price gains. While itâ??s always best to prepare for bad news, namely, a sharp pick up in big 4 shorting, particularly in light of yesterdayâ??s better than 7000 contract increase in total open interest and the reporting weekâ??s total increase of near 14,000 contracts, it is possible that much of the increase in total open interest might be spread-related, as we are in the peak season for such phony spread creation in silver. Such phony spread creation, if it has occurred, might soften significant positioning deterioration in silver.

While I anxiously-await Fridayâ??s COT report, as has been the case for some time, I donâ??t plan on taking any actions regardless of what the report may show. Being as fully-invested in silver as ever, the signs of physical shortage are such that as much as I study the COT data, the potential ramifications of the physical shortage are such that COT data have almost become secondary (as strange as it seems for me to write that). Of course, Iâ??m more than deeply interested in seeing how the concentrated short position in silver evolves in light of my longstanding opinions, but the signals from the physical world of silver are strong enough to almost drown out any conflicting signals from the COT data. Then again, to this point, there have been no conflicting signals from the silver COT reports â?? Iâ??m thinking more of what Fridayâ??s report may indicate.

Certainly, yesterdayâ??s high-volume silver (and gold) rally would appear to guarantee large deposits into both the silver and gold ETFs, none of which occurred today, meaning that much metal is â??owedâ?• to these ETFs. Now the question becomes whether enough physical metal, particularly silver, is available to deposit into the ETFs.

As much as weâ??d like to and as much as we try, itâ??s hard to reconcile yesterdayâ??s sudden high-volume surge in gold and silver prices, followed by the extremely-contained price action today. Fridayâ??s COT report will likely provide some insight, but trying to delineate deep meaning from short-term price action is always dicey, at best. A more meaningful approach, it seems to me, is to focus on the facts that are available and that should affect prices â?? rather than trying the opposite by looking at prices and then imagining what facts that may reveal.

The most important fact in silver is that all signs point to a developing physical shortage that, according to the eternal law of supply and demand, requires higher prices to resolve. The detailed future price road map to those required higher prices is never available, so itâ??s futile to pretend it exists. Instead, concentrate on what is available, namely, the knowledge that silver prices must move sharply higher at some unknowable future point (perhaps quite soon) and the fact that it can be bought and held at what are current depressed prices.

Even though Iâ??m convinced the big move higher in silver, due to market structure and other mechanical concerns, should prove shockingly explosive, even those thoughts should be secondary to the conviction of letting it play out regardless of oneâ??s own thoughts of how it may play out.

Ted Butler

April 5, 2023

Silver – $25.12Â Â Â (200-day ma – $21.07, 50-day ma – $22.34, 100-day ma – $22.67)

Gold – $2039Â Â Â Â Â Â (200-day ma – $1793, 50-day ma – $1904, 100-day ma – $1860)

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