August 10, 2022 – Moving Averages on Center Stage

As I start this article this morning, the new CPI report was just released and the slower than expected rate in inflation resulted in a surge in stock futures, a drop in interest rates and, much to my surprise, a pop higher in gold and silver prices. Of course, it remains to be seen how prices fare over the rest of the day.

Up front, I donâ??t consider inflation much of an influence on gold and silver prices, along with all the other popularly-held reasons for why prices should rise, like the dollar, the Fed, or any of the things offered as reasons to be bullish or bearish. Perhaps that makes me a bit of an oddball, but after studying the mechanics of what makes prices tick for decades, particularly in silver, Iâ??m convinced that none of the things typically bandied about as causing prices to rise or fall actually do so. Iâ??d even include actual changes in physical supply and demand as not influencing prices, although I fully concede that cannot be forever.

Instead, I remain laser-focused on what I am convinced is the main, if not sole driver of silver (and gold) prices â?? paper positioning on the COMEX, principally between two main counterparties, the commercials (banks) and the managed money traders (mainly the technical funds). Donâ??t worry, Iâ??ll try not to rehash (again) the whole story Iâ??ve laid out on numerous past occasions and today focus on the key tool used by the commercials to hoodwink the managed money traders for more than 40 years â?? control and mastery of the key moving averages.

As an admitted (and perhaps hopeless) advocate of actual supply and demand being the paramount price influence, due to my background and experience in commodities, witnessing how often prices can move with no regard to the real fundamentals requires an appropriate explanation. This is what led me to discover, on a challenge, that silver prices have been manipulated on the COMEX for more than 4 decades. Considering that weâ??re talking about an overshadowing of the primal force driving silver (and other commodity) prices, then I must be talking about an even more powerful force than actual supply and demand. I am.

What could possibly be more powerful than actual supply and demand as the prime price influence on a world commodity? Â Simply put, enough large investors, wielding through the power of leverage, even more influence on price than the law of supply and demand. Or put differently, a large enough speculative paper force to overwhelm the actual metal fundamentals in silver. For it to be possible for paper dealings to overwhelm actual metal fundamentals â?? a somewhat absurd premise on its face â?? it would require that the paper dealings be much larger than the actual metal dealings. And this is the case, in spades, when it comes to COMEX paper dealings.

To be sure, Iâ??m not talking about total trading volume on the COMEX, which so many cite. Total trading volume is, essentially, unimportant because close to 99% of COMEX trading volume, as is the case of everything trading on the worldâ??s exchanges, is, effectively, day trading between sophisticated computers and not overnight positioning and as such has little bearing on day to day or week to week price change. It wouldnâ??t make a difference to price if billions of ounces of silver were day-traded on the COMEX on a daily basis

What I am talking about are the real overnight positioning changes on the COMEX, as are recorded in

the weekly Commitments of Traders (COT) report. Last week, for example, the managed money traders in COMEX silver bought back more than 12,600 short contracts (63 million oz) on a two-dollar rally over a couple of days. It takes the world close to four weeks to produce that much silver in physical terms and a handful (10 or 15) paper shorts bought that much in two days. In gold, a handful of managed money traders bought more than 30,000 paper shorts on an $80 rally, or 3 million oz, much more than was produced or consumed or changed hands in physical terms, also in only a couple of days.

What causes the managed money traders to suddenly buy or sell the prodigious quantities of paper silver (and gold) contracts that they do buy and sell? The answer is price in relation to the moving averages. In last weekâ??s case, the key moving average in question, the 50-day moving average wasnâ??t even decisively penetrated to the upside in silver or gold, it just came close enough to spook and set off managed money short covering.

The fact is that the modern investment world has gone momentum or moving average, stark-raving mad. Look, I understand it, once prices are trending, they are much more likely to continue to trend in the same direction than change and reverse. Every good hedge fund operator or large investment manager seeks to be in tune with the price trend of the moment. And the best measure of a price trend is the moving average in every market traded. Thatâ??s the purpose of moving averages. Considering the massively-large amounts of investment capital and leverage that exists today, more than ever in history, itâ??s no wonder that the investment flows are having a super-charged effect on prices â?? enough to overwhelm the actual fundamentals in silver.

Following the break below the 50-day moving average in silver and gold in late April, prices continued lower for the next four months, reinforcing and encouraging the managed money traders to increase short positions by historic amounts. Any signs that actual physical conditions were tightening, even as a result of the lower prices brought about by increased paper selling on the COMEX, were ignored by the managed money sellers, as such fundamentals are expressly excluded. All that mattered was that prices were moving lower and nothing else.

Look, either youâ??re a technical or quantitative trader (a quant) or youâ??re not. If you are such a quant, if prices go lower, you sell and keep selling – until prices go higher, in which case you reverse and buy. While I understand the motivations of the technical funds, I also think I understand how these technical funds and quants may have been massively swindled by their main counterparties in COMEX silver (and gold), the commercials. Every single contract that was sold by the managed money traders in COMEX silver on the price decline over the past several months, more than 300 million oz, was bought by the commercials. Even if the jury is out on how accommodative these same commercial buyers will be when silver prices rise and the managed money technical funds seek to buy, as soon as the moving averages decisively penetrate the key moving averages, there can be little question that the managed money traders will seek to buy. Itâ??s what they do.

The question that I have raised all along concerns not whether the managed money traders will seek to buy as prices turn higher, as thatâ??s a no-brainer; but how accommodative will the former big commercial silver shorts be in selling into that near-certain managed money buying. Forget near-certain, certain managed money buying. I say the former big shorts wonâ??t be aggressive in re-shorting silver, but that will become obvious in any regard. Make no mistake, the answer to this question is the Big Kahuna of questions for all silver investors.

Even allowing for the unusual circumstances created by the recent roll over from the August contract to December in gold, which involved a higher than normal $18 premium, today is the second day that the 50-day moving average has been upwardly penetrated in gold (please use GLD as a guide). For silver, today is the third day that its 50-day moving average has bee upwardly penetrated. Weâ??ll see when I send this out later, whether the penetrations will persist into the close. But the important point is that these upside penetrations have occurred in each metal for the first time in nearly four months â?? a not insignificant period of time. Certainly, the managed money traders have had more than ample time to sell and sell short to their heartsâ?? content.

Now that the managed money traders have sold and the commercials have bought to what sure looks like the fullest extent possible, now should begin the reverse process, that of managed money buying and commercial selling. Any delay in prices rising might stall or drag the positioning process out a bit, but the die would appear to have been cast and itâ??s hard for me to see how the reversal process can be prevented from playing out. I sense that there is much skepticism about upward price progress given the price beating over the past several months, but investment sentiment plays little role in the positioning contest between the collusive COMEX commercials and the managed money traders on the other side, which look more and more like suckers and dupes (or dopes).

Iâ??m still convinced that the managed money shorts have been bamboozled and hoodwinked into going as short as they have in silver, primarily by the commercials rigging prices lower and consistently below the key moving averages. The commercials used the lure of the moving averages just like a fisherman would use a lure of a different type to catch a fish or a poacher setting a bait trap. And just like wild fish or animals, once ensnared, there is little the managed money short traders can do when prices turn higher, other than to try to flee by buying back their short positions (and adding to longs) on whatever higher prices are offered to them by the commercials.

Here, we are all quite fortunate in that we will be given an official US Government-published accounting of the progress of the managed money positioning reversal on higher prices in the weekly COT report, just as that same report detailed the managed money selling on the big price decline since March/April. Of course, the COT report wonâ??t come right out and label the managed money traders as the dupes and the commercials as the masterminds, but it will come close enough to doing this by documenting the positioning changes. Remarkably, it wasnâ??t that many years ago, when many referred to COT data as contrived and made up and not to be believed, even among those which are now staunch promoters of the report. Funny how some things change.

Yesterdayâ??s release of the new short report on stocks was another shocker for SLV, as its short position increased sharply yet again, this time by 8.5 million shares to 47.5 million shares (ounces), as of July 29. In the prior twice-monthly report, the short position had increased by a sharp 7 million shares to 39 million shares, as of July 15. Thatâ??s a 15.5 million share increase in a month or near-50% monthly increase, the largest in recent memory (years) and puts shares shorted as a percent of

total shares outstanding at an astounding 9%, by far the highest ratio in more years than I can recall.

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

What accounts for the astounding increase and total level of shares shorted in SLV, particularly considering a sharp reduction in the short position of its gold counterpart, GLD, to where its ratio of shares shorted to total shares outstanding is less than 3%? The most plausible explanation is that there is an extreme shortage and tightness in wholesale forms of silver (1000 oz bars) and those shorting shares of SLV have no choice but to aggressively short shares in lieu of depositing metal as is required by the prospectus.

Iâ??m sure Iâ??ll get around to rattling on BlackRockâ??s (the trusts sponsor) cage, but I must say I am somewhat flabbergasted by the necessity to sell short such quantities of shares of SLV and find it hard not to reach the sentiment of, â??Captain, the power is so maxed out that sheâ??s going to blowâ?•. Â Remember, the aggressive new short selling in shares of SLV has come at the same time of record commercial short-covering on the COMEX in silver futures, so it has to be related to not enough physical silver being readily-available for deposit. Plus, weâ??ve had redemptions in SLV of a record level, which looks more and more like the intentional conversions of shares to metal that I have contended all along, which looks quite bullish to me.

Finally, having come to reject the premise of a full pants down big commercial failure in COMEX silver, given the potential harm that would accrue to big commercial shorts who might be systemically-important financial institutions, the situation in SLV appears much more limited. After all, weâ??re talking (at this point) about potential liability for being out of position for perhaps tens of millions of ounces of silver and not hundreds of millions of ounces as could be the case on the COMEX.

As far as what to expect in Fridayâ??s new COT report, my first observation is that none of todayâ??s trading will be included, only in the following report (a week and a half from now), considering yesterdayâ??s close to the reporting week. Gold and silver prices were somewhat higher, although trading volumes werenâ??t on the heavy side, so I would imagine some deterioration (managed money buying and commercial selling), but nowhere near the amounts seen last week (he said hopefully and with his fingers crossed). In other words, I sensed a bigger and more urgent rush by the managed money shorts to buy and cover shorts in the prior week than this reporting week.

Iâ??m still convinced aggressive managed money buying lies ahead, most likely immediately ahead, as and when gold and silver prices continue to close over the 50-day moving average and eventually the 200-day moving average. While no one can blueprint in advance the precise short-term moves, the positioning process reversal appears to have started and should be treated accordingly. I suppose that means that itâ??s OK to get annoyed when prices donâ??t explode forthwith, just give it a bit longer. However, if we do start to get verification in the COT report data that the former big commercial silver shorts are adding aggressively to short positions, that would be a legitimate concern. But letâ??s wait for that (which may never come) before fretting about what will be. As I intoned recently, so far, so good.

Ted Butler

August 10, 2022

Silver – $20.60Â Â Â (200 day ma – $22.85, 50 day ma – $20.33, 100 day ma – $22.02)

Gold – $1807Â Â Â Â Â Â (200 day ma – $1842, 50 day ma – $1791, 100 day ma – $1847)

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