August 11, 2021 – The Bad, The Ugly and The Good

In the space of two trading days, the world of gold and silver prices was turned on its head. On Friday and Monday, silver plunged to its lowest level of 2021, gold touched its low for the year and the silver/gold price ratio also rose to its most undervalued level for silver of the year. Not that anyone needs reminding, let me first run through the bad and ugly aspects of the price smash before getting into what was good about it. And yes, the bad and the good overlap.

Typically, such outsized moves occur against a backdrop of great volatility in other markets, but not this time â?? the extreme price declines in gold and silver were largely self-contained and glaringly specific. As such, it becomes easier to see that there was an intentional and deliberate motive to the bombing of gold and silver prices not camouflaged by movements in other markets. It was clear to see that the smashing of gold and silver was quite unique and specific. Itâ??s bad enough when investors suffer sudden large markdowns in their holdings, but much worse is the thought that the losses were deliberately inflicted. Thatâ??s what pushes it into the ugly stage.

Not to keep beating a horse long dead, but the two-day price smash was purely a COMEX paper positioning production, designed and executed for the specific purpose of inducing as much non-commercial selling as possible, so that the commercials could buy as many contracts as possible. As a matter of certainty, this will be confirmed in Fridayâ??s new Commitments of Traders (COT) report, which will undoubtedly feature non-commercial selling and commercial buying. Anyone not seeing this simply refuses to see.

So, once again, a relative handful of large traders manipulated gold and silver prices to their own advantage in paper COMEX dealings with the net result of creating sharp markdowns in the non-COMEX holdings of actual gold and silver metal and mining investments everywhere â?? not just on the COMEX. Thatâ??s the problem with the COMEX silver and gold price manipulation â?? it doesnâ??t matter that 99% of precious metals investors donâ??t deal directly on the COMEX â?? everyone, like it or not, is affected by it. If thatâ??s not ugly, I donâ??t know what is.

COT data over the years reveal that in COMEX silver futures not much more than 150 large reporting traders populate the COMEX, once you eliminate the spread traders from the totals. In COMEX gold futures, the number of large reportable traders is a bit over 200, once spread traders are eliminated. (In silver, holding 150 or more contracts makes one a large trader, while the number in gold is 200 contracts).Â Since the number of large reporting traders hasnâ??t changed much over the years, itâ??s reasonable to conclude the identities of the traders havenâ??t changed much as well. There has been no great influx or departure of large paper traders on the COMEX â?? the same large traders operate today as operated over the decades. Therefore, any trading shenanigans are orchestrated by the same traders over and over.

Additionally, we know from the weekly COT report concentration data, as well as the data in the monthly Bank Participation Report, that the actual number of traders which dominate COMEX trading is a fraction of the total number of large reporting traders and they are mostly banks on the commercial side. I speak continuously of the 4 and 8 largest shorts and in reality, the actual number of large traders which, effectively, control prices are not much more than that. Certainly, no one would suggest that the smaller non-reporting traders which may number in the thousands exert much, if any real control or influence on price â?? except as being induced into selling at times by the larger controlling traders.

My point is that the data make clear that a small number of the same large traders (mostly banks on the short side) over the past decade and longer have come to dominate COMEX pricing and, in turn, dictate prices to every corner of the silver and gold world â?? including to the 99% of investors and mining companies which choose not to deal on the COMEX. Think of how absurd this is.

Imagine if you would that highly-intelligent aliens from the far reaches of the universe discovered our planet and were able to dissect and analyze our complex systems. They would quickly deduce that silver was mined, refined and consumed in many countries and that billions of people throughout the world depended on it for the conveniences and necessities of modern life and for investment. What they would find this week was that silver and gold prices plunged dramatically in price over two trading days as a result of a few large paper COMEX commercial traders succeeding in inducing other traders (mostly managed money traders) into selling maybe 10,000 net paper silver contracts and 30,000 gold contracts (more or less), the paper equivalent of 50 million silver oz and 3 million gold oz.

Would not the aliens marvel at how 50 million paper silver oz could impact the price of the 2 billion silver oz in 1000 oz bar form, as well as the 2 billion oz or so of silver in other forms in the world? How about the 6 billion oz of gold in the world having the price set by 3 million paper gold oz changing hands? Would not the aliens marvel at how just a few large paper traders could so utterly dominate and dictate prices to all the many millions and more of non-COMEX participants?

Also quite ugly is that a federal regulatory agency was created and exists for the primary purpose of preventing the price manipulation just witnessed. Â However, the CFTC apparently has a definition of price manipulation in silver different than that of precious metals investors. According to the CFTC, both going back in history and as recently as its public statement this Feb 1, only when silver prices rise does there exist the possibility of manipulation. Silver prices just fell about as sharply as they rose into Feb 1 (with no legitimate explanation, I might add), and the Commission appears to not have noticed. The spectacle of a federal regulator with its hands on the scale of justice is about as ugly as it gets.

But enough of this ugly talk, as the good news now in place far outweighs all the negative recent vibes. On a personal note, I am gratified by the near-universal reaction that it was a deliberate manipulation that led to the price smash on Friday and Monday. Of course, there will always be a few obstinate types who would deny the silver and gold manipulation even when faced with unimpeachable evidence to the contrary, but I was genuinely taken aback by how many who witnessed it were generally spot on in their assessments of what happened. Never before had there been such agreement on what took place.

Itâ??s quite personal for me because I can vividly recall the doubt, disbelief and skepticism I faced decades ago when I tried to make the case of COMEX silver manipulation. Even my departed friend and silver mentor, Izzy Friedman, took quite a few years before he accepted my version of why and how silver prices were manipulated on the COMEX â?? despite the fact that it was his challenge to me to explain silverâ??s low price in the face of documented deficits that led to my one-year struggle to uncover the answer in 1985.

Of course, once Izzy came to see the manipulation, he jumped in with both feet, coining phrases such as â??slicing the salamiâ?• (to describe the series of successive new price lows that motivated managed money selling) and â??full pants downâ?• (what would happen in the end to the big shorts) and the â??moment of trueâ?• (when the physical silver shortage took place).

However, itâ??s not just personal memories that encourages me to see that so many now recognize the price suppression on the COMEX. At this point, the question has evolved from whether and how silver prices are manipulated to how long the manipulation can last? Whatâ??s now most encouraging about the near-universal recognition that paper positioning on the COMEX does manipulate prices, is that itâ??s much more difficult for a great scam and fraud to continue as more come to recognize it. Great scams and frauds thrive in secrecy and wither under wide exposure.

And if there is anything that can motivate the CFTC to wake up from its regulatory stupor, it is the changing tide of public opinion, as no federal regulator seeks to be out of step with the publicâ??s will. Compounding the CFTCâ??s growing dilemma, along with the CME Group and the Justice Department, which have also failed spectacularly to end the silver price manipulation, is that none can even openly address simple questions â?? like providing a legitimate explanation for why silver has the largest concentrated short position of all commodities in real world terms. While frustrating, itâ??s good that no one can answer â?? because there is no legitimate answer.

Also quite good is that the deliberate price smash had its intended effect, namely, allowing the commercials to buy as many gold and silver contracts as possible at the expense of selling by the intended victims â?? the non-commercial paper COMEX traders. No one just bombs prices at the most illiquid times for no reason. Not only is the reason obvious, weâ??ll get to measure precisely just how effective the commercials were in pulling off their latest scam when this Fridayâ??s COT report is published for positioning changes through yesterdayâ??s cutoff for the reporting week.

As I indicated above, Iâ??m expecting fairly big positioning changes, but it must be remembered that the market structures in both COMEX gold and silver were already quite bullish going into the latest price smash. In silver, the concentrated short position of the 4 largest traders was already at near-three years lows, while the 8 largest traders were at six-year lows. Undoubtedly, these benchmarks will be set lower in Fridayâ??s report, by how much depending on expected strong buying competition from the smaller commercials (the raptors).

In a nutshell, while itâ??s nothing but ugly about what a few large COMEX traders accomplished, aided and abetted by a federal agency intent on not enforcing the law, now that the dirty deed has been done, itâ??s nothing but good news for what likely lies ahead. Let me touch on a few recent developments that seem aligned with my expectations of much higher prices ahead.

I am simply astounded that in the face of the very sharp price declines in silver, accompanied by extremely high trading volumes on Friday and Monday, that there has been no reduction in the holdings in the worldâ??s silver (and gold) ETFs, particularly in SLV. Â I allow a dayâ??s delay for physical holding changes in SLV in response to high volume rallies or selloffs, so the holdings for the trading action of Monday and Friday should have been posted by now. I had been expecting as much as a 10 million oz reduction in the holdings of SLV, but as of last night, no reductions have been reported in SLV or in any of the other silver ETFs. Now, perhaps redemptions will be forthcoming, but I am bounded by my publishing schedule.

I canâ??t help but think that the lack of redemptions in SLV might have something to do with the lack of a reduction in the short position of SLV, also reported last night. Although the short report is about the hardest to handicap (at least for me), I had been expecting a (large) reduction in the short position on SLV, considering how much it had grown and that we did have a fairly steep decline in prices within the two-week reporting period ended July 30. Instead, the short position in SLV rose again, not tremendously, but nonetheless higher to 31.5 million shares (ounces), the highest it has been in years (without looking it up). The short position in GLD rose as well.

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

Being astonished by both the lack of redemptions of physical metal in the SLV over the past few days in the face of the high-volume price smash and the lack of a reduction in the short position in SLV, I canâ??t help but think thereâ??s a connection. The connection is this â?? physical tightness. Â I had been leaning towards the belief that the persistently large short position in SLV of late was due to the lack of physical metal in sufficient quantities for deposit. Now, with no redemptions in SLV when there normally â??shouldâ?• have been due to the high-volume price smash, it appears that one big motivation for the price smash was to allow the big short seller(s) in SLV the opportunity to finally buy back short positions.

Of course, weâ??ll have to wait, once again, for the next short report on Aug 24 to know for sure, but in the interim, I would ask you to keep in mind the prospectus change back in February that warned short sellers in SLV. At some point, if we donâ??t see a significant reduction in the short position on SLV, BlackRock, the trustâ??s sponsor, will have to contend with a violation of its stated intent. For the rest of us, if my premise is close to being correct, it suggests extreme physical silver tightness â?? not something readily apparent from the price action on its face.

Stepping back a bit, a ran across a short and interesting read from Barry Ritholtz on our financial world that is, quite literally, awash in cash. Barry lists nearly 20 investment sectors that have responded to the inflow of unprecedented money creation by powering to new highs and Iâ??ll leave it up to gold and silver investors to guess what sector has not joined in the party (courtesy of the COMEX price manipulation).

https://ritholtz.com/2021/08/so-much-cash/

I canâ??t shake the thought that if those super-intelligent space aliens stuck around to ponder our current circumstance, just what they would think of the tsunami-like flood of money awash in the world, measured in the many trillions of dollars. And how all the silver in the world in the one form that matters most â?? in 1000 oz bars â?? could continue to be valued at less than $50 billion when there are clear signs that there is not enough to go around.

I wonder what the aliens would think of the fact that one Bitcoin ($46,000) is worth nearly twice as much as a thousand oz bar of silver â?? even though there are nearly ten times as many Bitcoins as there are thousand oz bars of silver and only one of which is required to sustain modern life as we know it. Would they not wonder what our educational and financial institutions are teaching and communicating? I also canâ??t help but wonder if before their departure back home, perhaps not to return to earth for some long time, if the aliens just happened to buy a few bars of silver just for the heck of it.

Thereâ??s clearly no question that the price smash has been of clear benefit to the 8 big COMEX gold and silver shorts. Following last weekâ??s price declines, which reduced total losses by $1.6 billion to $9.1 billion; at publication time the losses were further reduced by $500 million to $8.6 billion. This is down from the $10.1 billion loss of the second quarter (June 30) and close to the $8.3 billion loss at the end of the first quarter (March 31). As has occurred in the past, Iâ??ve been asked if the big shorts are in position to eliminate their losses and close out their remaining short positions completely. Simply put, I donâ??t think so.

Not for a moment would I underestimate the treachery and guile of the COMEX commercial shorts, but regardless of how skilled and corrupt they may be, they are still bounded by the realities that exist. For one thing, please remember that while the big 8â??s total losses have been trimmed substantially of late, they are trimming those losses by actually booking realized losses and not the usual profits or break evens at worst they experienced up until June 2019. If the 8 big shorts were as all-powerful as they were prior to two years ago, they wouldnâ??t be taking actual losses of any magnitude, no less being in the hole for a billion dollars per trader on average.

Plus, the big 8 shorts have lost their main protector and benefactor, JPMorgan, who flew the short coop long ago, leaving the remaining big shorts to flounder in its absence. But more than anything else, the big shorts are bounded by the reality that they need counterparty selling in order for them to completely buy back their entire short positions and itâ??s hard to see just where that non-commercial selling would come from. I did lay out how it might be possible for the big shorts to buy back a lot more of its concentrated short positions if the managed money traders embarked on an all-out short selling campaign, but that is looking less and less likely.

In fact, the existing and projected market structures in silver and gold already closely resemble how the structures appeared after the epic price smash in March 2020. One of the standouts of the structure back then was how the managed money traders, while they did aggressively liquidate long positions, completely avoided adding to short positions aggressively or at all for the first time in years. Not shorting was a wise move for the managed money traders in the impressive rallies that eventually resulted and I canâ??t help but think the traders involved are glad they didnâ??t add to shorts back then and are not likely to aggressively short on this go-around either. And if big new shorting doesnâ??t emerge from the managed money trades, then I canâ??t imagine what would provide the counterparty selling the 8 big shorts need to close out their short positions.

Therefore, the key to the silver (and gold) universe is still what the 8 big shorts intend to do on the next rally â?? do they add aggressively to shorts on the next rally (as they always have in the past) or do they stand aside and let prices soar (and even buy)? Not only would I continue to play it as the big shorts not adding aggressively to shorts from here on out, I canâ??t help but think this recent deliberate rout to the downside may be the signal that this is the grand finale in a manipulation that has run for decades.

Ted Butler

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Silver – $23.55Â Â Â Â (200 day ma – $25.02, 50 day ma – $26.17, 100 day ma – $26.27)

Gold – $1755Â Â Â Â Â Â Â Â (200 day ma – $1819, 50 day ma – $1816, 100 day ma – $1803)

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