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## August 15, 2018 – The Lemmings Rush To The Sea

Upfront, there is much scientific evidence that dispels the notion that lemmings, small gerbil-like rodents living in extreme northern climes, periodically commit mass-suicide by rushing off cliffs into the sea. The misperception was the result of Disney documentary many years ago. However, it is true that lemmings are prone to sudden population explosions that result in mass dispersals in search of food. Still, the vision of great numbers of lemmings rushing off cliffs into the sea remains vivid in many minds.

In fact, I can't shake the image of the managed money technical funds which have plowed so heavily onto the short side of COMEX gold and silver (and other metals) as little more than mindless lemmings in an act of mass financial suicide. To be fair, the outcome of the technical fund mass migration onto the short side of gold and silver and other metals is still very much up in the air, so it's quite possible that I'm incorrect in assuming the technical funds will meet a bad fate in the end.

While it's true that the technical funds have never collectively exited from an extremely large net position (either on the long or short side) with large realized profits in either silver or gold, I suppose it's always possible that it could be different this time. Of course, should the technical funds prevail for the very first time and walk away with big collective realized profits on the short side that will completely undermine my (and others') basic premise of how the COT market structure works. Therefore, let me deal with this highly important matter as objectively as possible.

Given the stakes involved, let me start by tracking the outcome of the current epic contest in the money scoreboard manner I did when the managed money technical funds ran up enormous unrealized profits and the commercials equally massive open losses in the summer of 2016. As a recap, the technical funds built up an enormous net long position in COMEX gold and silver futures and the commercials a commensurate net short position on gold and silver's run from \$1050 to \$1375 and \$14 to \$21, respectively. At the peak in prices, the technical funds were ahead and the commercials were in the hole by around \$4 billion, the largest such unrealized profits and losses in memory. By the late fall of 2016, the open profits and losses were offset by falling prices and were finally closed out more or less with no realized gain or loss. You could say the technical funds, once again, snatched defeat from the jaws of victory.

Currently, as I'm sure you know, the metals markets are configured exactly the opposite as they were back in the summer of 2016. Instead of record managed money long positions, we now have record or near-record managed money short positions. And I'm not just talking about COMEX gold and silver, as the record technical fund short positions exist in all the New York-traded metals (including copper, platinum and palladium) as well as to the base metals traded in London.

The single most astounding thing to me is how obvious and clear is the cause of the recent pronounced weakness in precious and base metals, namely, due to purely speculative excessive short selling by technical funds and the fact that almost everyone, including the miners of all these metals, go along with the price destruction as if it were normal and an everyday occurrence. Government data prove unequivocally that excessive speculative short selling is destroying prices and no one bats an eye. I find this incomprehensible.

It's one thing for silver to get smacked for more than 4% today, as the total dollar value of all the silver mined in the world in a year is less than \$12 billion and many are aware how corrupt is the COMEX. But copper and other base metals have gotten smacked by the same percentage or more and copper is ten times the size of silver. Are all the world's miners out to lunch or out of touch? But, I'm going to set aside these thoughts and deal with the matter at hand of how the lopsided and excessive speculative short position will get resolved. Make no mistake, there is some type of certain resolution ahead.

I think the best way to present the coming resolution is in the manner of a money scoreboard of how the technical funds are doing. Since the COT report of June 12, the managed money technical funds have added roughly 125,000 short contracts in gold at an average price of \$1240 and 40,000 short contracts in silver at an average price of \$15.75. This is not the entire technical fund short position, just the amount added over the past two months. This is through the COT report of Aug 7 and as and when new technical fund shorts are added or subtracted, I will include those calculations.

As of today's close, on the continued metals price blast to the downside and with gold (Dec) trading around \$1185 and silver around \$14.50, the technical funds are ahead around \$50 on their newly added shorts or nearly \$700 million and \$1.25 ahead on their newly added silver shorts or an additional \$250 million. Combined, the managed money technical funds hold \$950 million in open and unrealized profits on shorts added since Jun 12 thru Aug 7.

Not to confuse matters, but we can't translate those open and unrealized gains to the technical funds as identical losses to the commercials because some commercials, the smaller raptors, are long, while the bigger commercials who were short, including JPMorgan, have been buying back short positions at profits. So unlike the situation in 2016, where the technical funds were massively long and the commercials were massively short, the commercials are much more mixed this time. To keep things simple, I'll just focus on the technical funds' short positions; with the question being will they be able to convert their big unrealized profits on the short side into big realized gains.

While I intend to report on ongoing developments in the technical fund money scoreboard as objectively as possible, let there be no mistake that I anticipate that when the current lopsided short position of the technical funds is finally resolved, the current open profits will be replaced by realized losses. The only question I have is how large the realized losses will be; with the formula being the larger the price rally the bigger the realized losses to the technical fund shorts in the end. And while \$950 million in the unrealized profits held by the technical funds on newly added short positions is far from insignificant, it is a rather small percentage of the \$4 billion in open profits they held on the long side in the summer of 2016.

Trying to remain object, just because the technical funds managed to fritter away their \$4 billion open profit in gold and silver on the long side in 2016, does it mean they will eventually fritter away the \$950 million open profit they currently hold on the short side. However, to my mind, the odds of the technical funds getting lucky when they hold big long positions seem to be much better than them getting lucky when they hold big short positions. When the technical funds are heavily long, there is always an outside chance of new big buying coming from other sources, including from big commercial shorts getting overrun and throwing in the towel (Izzy's Full Pants Down premise).

When the technical funds are heavily short, as they are now, the number of traders which might turn

big sellers is more limited. Yes, some of the smaller commercials which are long (the raptors) might get into financial difficulty and be forced to sell. And there has existed the possibility that the big new concentrated longs in silver might sell, but that's about it. And even if there was selling from either of these sources, then what? At that point, there would be little is any selling potential left.

I don't foresee in any event JPMorgan, which has pulled off the near-impossible in completely buying back its gold short position (all 90,000 contracts) turning around and re-shortening gold at these or lower prices. I can see JPM buying gold contracts to get even more net long, but all that would mean is that the stage would be set even more bullishly.

Did I foresee the steepness of this recent decline? No. Does the steepness of the decline invalidate the COT market structure premise? Not in the least. What will invalidate the basic market structure premise that I have adhered to for decades is if the technical funds prevail on a collective basis and convert big open profits into realized and booked big profits. Not some of the technical funds, but most of them. It's important to set the parameters of when a closely-held market premise is no longer valid and I just did that. Now it's time to watch and see if that occurs.

What it will take for the COT market structure premise to be proven invalid is if sufficient sellers come into the market and allow the technical fund shorts to buy back and close out their short positions profitably. This is very much a two-step process, the technical funds have only taken the first step â?? putting on the short positions. We must reserve judgment of their success or failure until after they have completed step two â?? buying back their shorts. For sure, the short selling will be closed out at some point and it is only then will we be able to declare technical fund victory or defeat.

Because I don't think the premise will be invalidated, I look at the current price smash as the technical fund lemmings going over the cliff. As they go over the cliff in great numbers, they drag prices lower still. It is only after all the technical fund lemmings that can go over the cliff have gone over that we'll be able to judge their buyback of shorts. But this is what it comes down to â?? either the technical funds have come to rule the world and they will now dictate the prices they desire or they have set themselves up for a rude awakening and we are on the cusp of an historic move higher.

In case I have been unclear to this point, I see this as the most opportune buy point ever in silver (and gold and other metals). I continue to advocate that margin be avoided at all costs, as I have all along, but at the same time I now hold more crazy call options than ever before, despite watching an incredible amount already expire worthless and way too much money already been flushed down the drain. The difference between outright margin and getting leverage via a call option is that one can determine the ultimate downside in advance with buying options.

But where do I get off saying this is the most opportune time to buy silver? It's not just because the price is so low. Or because it's more needed than ever in our all-electric and electronic world. Or because the mismatch between what can be bought in terms of available physical metal has never been lower when compared to world investment buying power. Or because silver has already demonstrated twice that it can go to \$50 in a short period of time. Of course, it is all those things and more and that is ample reason enough to buy silver. But there is one thing that towers over all the other compelling reasons for why this is the most opportune time to buy silver.

For the first time since I started following silver closely more than 30 years ago, the bad guys, particularly the baddest guy of all, JPMorgan, have never been better positioned to let her rip to the

upside. When I think back to 1980, the reason the silver rally stopped at \$50 was because the COMEX insider shorts (led by Mocatta) changed the rules. The same thing happened in 2011, when JPMorgan worked to kill the rally. In both instances, the controlling insiders were positioned on the short side. That's no longer the case, as JPMorgan has used the last seven and a half years to position itself on the long side, both by virtue of its massive physical long position of 750 million oz in silver and 20 million oz in gold and by its recent aggressive buying back of its COMEX short positions.

In essence, JPMorgan and other commercials have succeeded in removing themselves from the short side of silver and gold and in their place have arranged for the technical funds as their replacement. Yes, there must be a long for every short in every futures contract, but for the first time since I've been immersed in silver, the big shorts are no longer the insider commercials. I think that's the key feature.

As far as what Friday's COT report will indicate, since there has been continued price weakness through the reporting week, including Monday's sharp price smash, there is likely to be more managed money selling and commercial buying; making the market structure more bullish (I know, I know, enough with all this bullishness).

Today's dramatic price smash won't be included in Friday's report, but if there were significant technical fund buying and short covering, then it's hard to imagine why prices would have fallen so sharply in the first place. I will be closely monitoring Friday's and subsequent reports to see what, if anything, the new big concentrated longs in the managed money category may have done. These 4 or less traders have suffered a baptism of fire and margin calls in the silver price smash and are roughly down \$300 million on the long positions added since April. Will they hold or will they fold?

Finally, there was a fascinating article in Monday's NY Times about an independent analyst said to be virtually alone in predicting the current economic turmoil in Turkey and its collapsing currency. It seems the analyst had been predicting this since 2011 and by the time his predictions came true, most stopped listening. I'd be lying if I said I didn't see some interesting parallels.

<https://www.nytimes.com/2018/08/11/business/turkey-lira-crisis.html?rref=collection%2Fsectioncollection%2Fbusiness&action=click&contentCollection=business&...>

Not only are silver and gold (and all other metals) deeply oversold on just about every conceivable measurement, the current price of silver is a full two dollars below its 200 day moving average while gold is more than a hundred dollars below its 200 day moving average. Not only does this allow for sharp rallies at any time, it makes such rallies more likely to occur.

Ted Butler

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Silver – \$14.45 (200 day ma – \$16.48, 50 day ma – \$15.96)

Gold – \$1185 (200 day ma – \$1296, 50 day ma – \$1251)

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