August 16, 2017 – Blessing or Curse?

Blame it on the tendency to be become more philosophical as one ages, but for whatever the reason, Iâ??ve been entertaining the question of whether itâ??s better or worse to know the real story in silver. I would define the real silver story as the version that holds that the price is set by COMEX futures contract positioning between trading counterparties completely detached from the actual production and consumption of the metal. Since COMEX trading is disconnected from real world silver production and consumption, the price is artificial, by definition. Upon closer examination from there, all sorts of further findings become visible, such as JPMorganâ??s epic accumulation of physical silver over the past six and a half years and the shocking failure of the CFTC, the federal commodities regulator, to pursue its prime mandate, preventing price manipulation.

So the thought keeps popping into my head about whether itâ??s better or worse in knowing whatâ??s really going on in silver; since the price artificiality continues, even when it runs counter to the general understanding of how prices are set and is contrary to commodity law (excessive speculation). As it is with knowing the precise details of sausage-making, maybe it would be better not to know in silver as well, seeing how thereâ??s little apparent benefit in knowing to this point. But few would advocate the rejection of knowledge over ignorance, so deliberately not seeking out the real silver story is not a legitimate option.

Still, given the overt artificial price discovery process in silver and how incredibly long it has lasted, one canâ??t be blamed for thinking at times that itâ??s more a curse than a blessing to know whatâ??s really going on. So let me explore a bit the curse side of knowing the real silver story. For one thing, itâ??s a curse to understand why silver prices move, but still not be able to predict short term movements beyond fairly wide parameters. Donâ??t misunderstand me, predicting short term price movements in anything is impossible enough so that virtually no one should expect consistent success, but in silver itâ??s a bit different. Knowing that the price is manipulated means that short term movement is dependent entirely by what those doing the manipulating are thinking and scheming. Reading, from afar no less, someone elseâ??s mind can get very frustrating.

Itâ??s also a curse, at least to me, to constantly monitor a crime that has been in progress for far too long and see those committing the crime continuing to profit. While many are profiting from the silver manipulation, none are as much as JPMorgan and the CME group, owner/operator of the COMEX. JPMorgan because it is the largest short seller on the COMEX and figured out how to use its power to cheaply acquire more physical silver than anyone in history and the CME because it rakes in continuous trading fees from the manipulated trading. Itâ??s just not pleasant watching these crooks continue to prosper. I do take some small satisfaction out of getting to specifically label JPMorgan and the CME Group as crooks and sending it to them without much fear of reprisal; but Iâ??d be lying if I said I would prefer to do that indefinitely (as opposed to seeing the manipulation end).

A very special curse exists in that there is a separate US federal agency created by Congress to ensure that what is the real story in silver could never occur. The CFTC makes it clear that its prime mission is to protect the integrity of the futures markets and prevent price manipulation. Yet the agency has failed its prime mission in silver to an extent that would thought to be impossible, namely, the

COMEX silver futures market is now completely void of legitimate industry presence.

Forget that the CFTC should seek to guard against excessive speculation in the price discovery process; in COMEX silver, the trading is exclusively speculative since thereâ??s absolutely no legitimate hedging taking place. Published data from the CFTC show clearly that all COMEX silver positioning is between managed money technical funds aligned against the commercials and all other traders looking for a piece of the technical fundsâ?? hides. Silver miners and industrial users are just not part of the trading equation.

An added curse is that the CFTC has stopped responding to legitimate inquiries and allegations about the exclusive speculative composition of COMEX silver trading. If pressed, I would imagine the agency coming up with something sounding reasonable, in way of an excuse for the lack of legitimate hedging on the COMEX; such as thatâ??s just the way modern trading has evolved. But that would be lame at its core, since thereâ??s no excuse for allowing speculators to hold exclusive control of trading.

Finally, the curse of curses is that even though the facts underlying the ongoing silver manipulation are readily available, the real story has not been widely-embraced, or at a minimum, not widely-embraced enough. The dilemma here might have something to do with this being a private subscription service, which by definition limits public exposure. Â Itâ??s not that the topic of manipulation is not discussed enough; itâ??s just that there are too many competing versions, none of which directly deals with the purely exclusive speculative nature of COMEX futures trading.

Enough attention to the curse side of the things; the blessing of knowing whatâ??s really going on in silver is that the alternative – not knowing – isnâ??t a legitimate option. Would anyone not encourage their child to learn as much as possible? Dumber is never better than smarter. But even this is moot, as once the silver manipulation is recognized, it canâ??t be unlearned. Besides, it is truly a blessing to understand why the price of silver moves as it does, even if the very short term is unpredictable. Itâ??s all about past, present and future. I believe I know why silver did what it did in the past, donâ??t know the very short term and believe the facts point to sharply high prices ahead.

The price history of silver is well-known and is available to anyone who cares to look. The trick here is making sure oneâ??s market premise matches up precisely with past historical overall price cycles. It canâ??t be hit or miss, like silver moves with the dollar sometimes and other times not. Iâ??m convinced that COMEX futures positioning determines price and meets the test of always working and it can be proven in that the managed money technical funds, on a collective basis, have never once beaten the commercials in COMEX silver trading. Please think about that.

Never have the commercials collectively turned tail and closed out positions – long or short â?? at great loss to the commercials and at great profits to the technical funds. Never is a long time. For sure, the commercials have had times when they were deeply underwater in terms of open losses (remember the $4 billion financial hole they were in last summer?), but that only proves my point â?? no matter what the circumstances, the commercials always prevail in the end. Sooner or later, regardless of what happen in the interim, when the open positions are eventually closed out â?? the commercials always come out ahead, with either big realized profits or by whittling down big open losses into no losses on a realized basis. Always.

What do you call a two-sided contest or competition where one side always wins or breaks even and the other side always loses or breaks even? A fixed contest or rigged competition would come to mind.

Iâ??m not saying that the managed money technical funds will never prevail in the future â?? under the premise that anything is possible â?? just that they have never once prevailed over the commercials and the commercials have always beat the technical funds. This is all based upon COT data and explains why COT data has become increasingly popular â?? because it is based upon the commercials winning and the technical funds losing, something that has always occurred.

In essence, COMEX silver futures trading is not only disconnected from the real world of supply and demand (because no real producers or consumers participate), it is also a rigged game in that the commercials always prevail against the managed money technical funds. Superimposed against these two unassailable facts sits a federal regulatory agency whose existence is intended to prevent both circumstances. Is it possible to have a greater regulatory failure?

Despite all this and, in fact, because of it, Iâ??m convinced that what has prevailed in the past and continues in the present cannot possibly continue in the future. The net result of the highly-rigged COMEX silver market is a price that must rise substantially in the not so distant future. The COMEX price discovery process is corrupt and rigged and cannot be defended. That which canâ??t be defended is destined to be defeated.

On to developments, mostly price-related, since Saturday. What weâ??ve witnessed, over the past five trading days (thru yesterday), while not without precedence, was still quite rare. Itâ??s not often that a dramatic price/repositioning cycle occurs within a reporting week, but the price action through yesterdayâ??s cutoff suggests something similar to that may have occurred.

Generally, it takes some time, say weeks to months, to reposition tens of thousands of COMEX silver contracts. Most typically, the commercials arrange for a series of new price highs or lows, particularly mindful of penetrating important moving averages, to get the technical funds to gradually commit to the long or short side â?? a practice also known as â??slicing the salamiâ?•. While we did witness pronounced salami slicing in COMEX silver to the downside, both starting on April 18 and June 6, as the technical funds loaded up on the short side, there hasnâ??t been much salami slicing in silver to the upside. Instead, it appears whatever buying the technical funds do in silver comes in much thicker chunks than would usually be considered to be salami slices.

If you look at price charts for COMEX silver and gold over the past six months or so that include the 50 and 200 day moving averages of each, you canâ??t help noticing that gold has moved both above and below its key moving averages in a very regular and proportional series of price advances and declines that are almost equidistant in terms that gold price peaks have been above the moving averages by roughly the same amount and duration as price lows have been below those same moving averages. In addition, the position changes in COMEX gold futures have been precision-like in terms of the COT market structure premise.

Compared to gold, there has been a different price/positioning pattern in silver. We did hit the most extreme technical fund long/commercial short position in COMEX silver futures history as of April 18, but silver prices never moved much above its moving averages (as was the case in gold), before experiencing the unprecedented 17 consecutive day decline and silver was barely allowed to move decisively above its moving averages in the price tops of June 6 and as of last week. Itâ??s as if the commercials are reluctant (afraid?) to let the technical funds load up on the long side of silver, where they donâ??t appear worried at all about letting those same funds buy as much gold as they want.

Further, I think this reluctance of the commercials to have the technical funds plow onto the long side of silver is present in the unusual price action of the reporting week ended yesterday. For the first three days of the reporting week, through last Friday, silver prices jumped strongly above its 50 day moving average and quickly traded at the 200 day moving average for the first time in months. On Saturday, I opined that maybe 20,000 to 30,000 technical fund contracts may have been purchased as of Friday.

Silver prices didnâ??t do much on Monday, but got slammed pretty good yesterday. Even though the 50 day moving average wasnâ??t penetrated to the downside (yet?), any technical fund contracts bought in the reporting week through Monday were suddenly 40 or 50 cents lower than purchased and many were likely resold on yesterdayâ??s price smash. I still think Fridayâ??s COT report will show sizable managed money buying and commercial selling, but less than would have been indicated had silver prices not been slammed yesterday. However, yesterdayâ??s intra-reporting week reversal in silver is in keeping with my sense that thereâ??s some type of reluctance on the part of the commercials to head off a big rush of technical fund buying in silver.

Unfortunately, the reluctance by the commercials to let the technical funds buy silver could mean that the commercials fully intend to rip silver prices back below the 50 day moving average and induce technical fund selling, perhaps to the point of inducing the technical funds to resell and re-short all the COMEX silver contracts bought and bought back over the past few weeks. However, there is no guarantee a complete repositioning of the technical funds to the short side in silver will be achieved and instead, prices could still rip higher from here. Admittedly, it has not unfolded exactly as I would have envisioned to this point, but my price explosion premise is not completely dead yet. The fact is that there is still much more room for technical fund buying and much higher prices in silver than there is room to the downside; but there is enough potential room to the downside that it cannot be ruled out.

Not only do I sense the hands of JPMorgan at work recently in silver, I sense its presence is stronger than ever. Recent COT data suggest to me that JPM may have added 10,000 short contracts (50 million oz) over the past few weeks through last Tuesday, always a disturbing sign. At the same time, the bank has appeared to be more aggressive than usual in accumulation physical silver. Therefore, this weekâ??s COT report will be of particular interest on several fronts. As far as expectations for this Fridayâ??s report, Iâ??d still expect a 20,000 contract increase in the total commercial net short position in silver and an increase of 30,000 to 40,000 net contracts in gold net commercial shorts.

The price snapback in silver today still leaves us down in price for the week, but much closer to an upside penetration of the 200 day moving average than a downward penetration of the 50 day moving average. Yesterday at this time, the odds would have seemed to favor the downward penetration overwhelmingly. As I said, knowing the real story in silver is not much help in the ultra-short term, but neither is any other approach. What the real silver story does suggest is that the inevitable resolution of the manipulation will result in sharply higher prices and considering just how low prices are currently to where they will be one day, not being anything but fully exposed to the upside seems foolhardy.

Ted Butler

August 16, 2017

Silver – $17.05Â Â Â Â (200 day ma – $17.11, 50 day ma – $16.54)

Gold – $1287Â Â Â Â Â Â (200 day ma – $1233, 50 day ma – $1255)

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