

## August 25, 2021 – Accumulated Knowledge

If I had known then,

What I know now

Red Mosquito â?? Pearl Jam

Perhaps the only real benefit to growing in age is in what you learn along the way. While there are no do-overs, there is the opportunity to put what one has learned, most often the hard way, to practical use. When you have studied silver for as long as I have, more than 35 years, the time seems to have gone by in a blur of thoughts, too difficult to remember or recite all the many lessons along the way. So let me just take up from what I consider the two most critical developments along the way â?? the introduction of the first open-ended silver ETF (Exchange Traded Fund), SLV in 2006 and the takeover of Bear Stearns by JPMorgan back in early 2008. Remarkably, both developments took place more than 20 years after I first delved into silver in 1985.

I consider these to be the most important developments in silverâ??s journey because not only did they alter the price path of silver, there is every indication both will continue to do so. In the case of SLV and all the other highly successful silver ETFs that followed, more than 60% (1.25 billion oz) of the worldâ??s total supply of 2 billion oz in the form of 1000 oz bars are now held in these publicly traded investment vehicles. By comparison, all the gold ETFs in the world hold just 5% of the worldâ??s gold bullion, despite gold ETFs getting off to an earlier start.

However, the real importance of SLV and all the other silver ETFs is not what they have accomplished to date, but what they are set to do in the future. While there can be long time periods where the cumulative holdings in the silver ETFs can remain static (weâ??ve just gone through such a period for the past 6 months or so), they still remain a â??live wireâ?? for resurgent physical silver investment demand â?? being established and in place to accommodate near instantaneous demand from a world, quite literally, awash in almost incalculable buying power that is seeking a home. In other words, the real message of the silver ETFs is not only the large share of the worldâ??s silver supply they have already captured, but what they are poised to capture in the future. Itâ??s hard to overstate the importance of the silver ETFs.

The other big development was the emergence of JPMorgan as the key player in silver (and gold) since 2008, including what this said about the US Governmentâ??s role in the ongoing manipulation and the future price prospects of the metal. Within months of the takeover, clearly arranged by the US Treasury Dept and the Federal Reserve, it became obvious that JPMorgan had taken over as the leading short seller in COMEX gold and silver futures due to revelations in the Aug 2008 Bank Participation Report. Based upon that report, the CFTC was moved to initiate a formal investigation into silver, even though it had just issued its second 16-page public letter denying there was anything amiss with the concentrated short position months earlier.

The problem with the CFTCâ??s formal investigation into silver in late 2008 was that it ran up against agreements JPMorgan had made with the US Treasury Dept and Federal Reserve as part of the

takeover of Bear Stearns and the CFTC had to back down (not that it was eager to take on JPM in the first place). This gave JPMorgan a free rein to do as it wished in silver and gold, which the bank took full advantage of in loading up on the short side on price rallies and buying back those shorts on price rigs lower, in concert with the other COMEX commercials.

Things went along swimmingly for JPMorgan and the other commercial manipulators until late 2010, when a developing physical shortage led to run up in silver prices to nearly \$50 into April 2011, causing multi-billion unrealized dollar losses for JPM and the other big commercial shorts. Looking into the abyss, JPMorgan resorted to its tool box of dirty trading tricks and was successful in rigging silver prices sharply lower, eventually eliminating its big open losses and cutting off the developing physical shortage. But aside from saving its hide, JPMorgan awoke to the reality that silver was destined to future physical shortages and it took it upon itself to permanently insure against a certain recurrence of a coming physical shortage.

Here, JPM fashioned a solution so genius that it never occurred to me beforehand, although I did pick up on it within a year or so from when the bank put its plan into play. JPMorgan saw, in early 2011, that it needed to accumulate physical metal to protect itself against future price escalations. So successful was JPM in fashioning a perfect defense for its COMEX short position, that far from quitting when it had enough physical silver and gold to protect itself, it continued to accumulate physical metal, turning its holdings into perhaps the greatest profit-generating opportunity ever.

The upshot of all this is that JPMorgan pulled off the financial deal of all time; profiting to the tune of billions of dollars while it ran its sell short on rising prices and buy back on falling prices COMEX scam for more than a decade and then abandoning the short side after it had built up a massive physical metals position at suppressed prices along the way. Criminal? Sure. Genius? Doubly sure. And now with a deferred criminal prosecution agreement with the Justice Dept safely tucked away, JPM remains untouchable while it is in position to count the tens of billions of additional profits it will make as gold and silver prices soar in the years to come

Before I get into developments since the weekly review, let me dig into something I initially missed in discussing the silver COT report on Saturday. I didn't pick up on what I missed until a day or two later. I had discussed how by commercial categories in silver, the 4 big shorts basically stood pat, how the raptors bought a chunky 6700 new longs and how the big 5 thru 8 added 2400 new shorts. It did strike me at the time how that was an unusual mix, with the standout odd feature being how the big 5 thru 8 traders stood out â?? selling short pretty aggressively in sharp contrast to the big 4 and the smaller commercials. And this after a pretty clear pattern of the big 5 thru 8 shorts reducing short positions for months.

Then it hit me, namely, I was still assuming the big 5 thru 8 were all commercials, as had been the case for quite some time. At the same time, however, I was reporting that the managed money traders had gone heavily short, adding more than 13,000 new short positions over the past two reporting weeks. What I missed was that the new managed money shorting had thrust at least one of them into the ranks of the big 5 thru 8 traders, something that had regularly occurred in the past â?? just not recently. Further calculations suggest that the one managed money trader I believe is now in the big 5 thru 8 short category is likely short around 4000 contracts or so, which has the mathematical effect of further reducing the true concentrated commercial short position of the 8 largest traders by that amount.

The bottom line is that the concentrated short position is even lower in terms of commercial

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involvement and is much more bullish than I conveyed on Saturday. An added feature is that it accentuates and makes more critical the question of whether the 4 and 8 big silver shorts will add to short positions on the next rally, which is the key determinant ahead. For sure, the next rally will cause the newly-short managed money traders to turn tail and rush to buy back recently added shorts. The smaller commercials (the raptors) will most likely also sell on that rally, booking profits, but such selling will not be enough to satisfy all the managed money and other non-commercial buying that will come in on higher silver prices. It will take big 4 and big 8 shorting to stop the rally or the rally will not stop.

The greatly anticipated (at least by me) new short report on securities was released last night and indicated, instead of the sharp reduction in the short position on SLV, the big silver ETF, I was expecting, a slight increase was reported. The short position on SLV grew by 0.6 million shares to 32.2 million shares (ounces). This is the largest short position in years. My expectation of a large reduction, of course, was due to the price walloping silver experienced in the reporting period ended August 13, along with the lack of redemptions of metal from the trust for the period involved.

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

Even though I allowed for the possibility of no big reduction in the short position on SLV, I can't shake the feeling that this is a big deal for a number of reasons. As I had written recently, any lack of reduction in the short position on SLV was most likely due to the short sellers having sold short in lieu of having to deposit the physical metal due to a lack of available metal. I still feel that way even more so now. While the reporting period for the short report does not dovetail precisely with the COT reporting weeks, over the past two reporting weeks there was a reduction of nearly 17,000 contracts (85 million oz) in the total commercial net short position on the COMEX, among the largest two-week reductions in history. Generally speaking, large reductions in the COMEX commercial net short positions in silver closely mimic reductions in the short positions on SLV. Not this time, so the question is why not?

I think the biggest factor is that there is a big difference between short positions on the COMEX and those in SLV, in that for the most part, the COMEX is more "paper" compared to SLV. Only COMEX short positions held late into the current delivery month can be considered to represent bona fide metal delivery obligations, whereas every outstanding share of SLV is supposed to be backed by an ounce of silver (minus the accumulated management fee).

Let me not beat around the bush I find the lack of reduction in the short position on SLV to be very bullish because it points to continued extremely tight availability of good delivery 1000 oz bars. At the same time, however, the short position on SLV represents what could be a big problem for BlackRock, the sponsor (owner) of SLV. How so?

Back at the time of the run up in silver prices into late January/early February, the short position on SLV fell by 7 million shares, from 24 million shares to 17 million shares as of January 29. From that point, the short position has nearly doubled to just over 32 million shares, the highest level in years. The problem for BlackRock is that the prospectus changes in SLV of early February spelled out for the first time that physical silver was tight enough that there could be no assurance enough new metal would be available to the trust. The prospectus changes also included a stern warning to short sellers of SLV, with the clear implication not to hold excessive short positions.

I'll leave it to BlackRock to decide what it considers to be too much of a short position in SLV, but

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we're already there by my standards. I mentioned on Saturday the sharp subscriber who pointed out years ago that the short position on SLV represented "phantom" shares on which BlackRock shareholders received no management fee "thus cheating those shareholders. Putting a pencil to paper, the current short position on SLV of 32 million shares represents shares worth \$700 million. On an annualized basis, that means BlackRock shareholders are being deprived (cheated) out of \$3.5 million in uncollected management fees on SLV (at the annual rate of 0.5%). Short sellers don't pay management fees on the shares they sell short.

So, between the damage being done not only to shareholders of SLV (of which my wife is one) and silver investors of all types, since the heavy short sales on SLV depress the price of silver in all forms, and the shareholders of BlackRock, the short position in SLV stinks to high heaven. I'm hoping that BlackRock remembers the prospectus changes it authorized back in February and takes quick action to remedy what is an all-around bad (but bullish) situation. I don't plan on letting too much time transpire before I stir up the folks at BlackRock and their very high-brow and expensive attorneys for another round on the short position on SLV.

I would like to take a moment to point out another bullish aspect to the short position on SLV, aside from the obvious bullish impact on price the buyback of the shorted shares would involve. Back in February, when silver had what I still consider a minor "hiccup" to the upside, the markets were involved in the great "meme" stock turmoil at the time, typified by GameStop and other heavily shorted stocks which exploded upward in price. Remarkably, while the meme stock frenzy has somewhat subsided, it is far from a distant memory. I recall how back then, for a short period of time, SLV was considered to be part of the meme stock episode, although the short position on SLV didn't come close to matching the size of the short positions on GameStop, AMC and the others.

Since then, as I've just indicated, the short position on SLV has increased to levels not seen in years, while the short positions in many of the meme stocks at the time have been greatly reduced. I do remember writing, separately, how the short position in Tesla grew so large that when the shorts were bought back, the price of Tesla stock literally exploded by hundreds of percent. An historical comparison reveals that the short position in SLV as being much less than the short position on Tesla over the years, in terms of total shares outstanding. However, current comparisons indicate an entirely different story presently. The most recent short statistics indicate that the short position on Tesla is only 3.3% of total shares outstanding, while the short position on SLV is now up to 5.5% of total shares outstanding.

<https://www.wsj.com/market-data/quotes/tsla>

My point on all this is that SLV is more of a short covering candidate and potential meme stock today than it was back in February when some were featuring it that way. Of course, the short position that matters most in silver is that of the 4 largest shorts on the COMEX and, as I've been reporting, that short position has been methodically and dramatically reduced over the past few months. The key question is whether the big shorts return to the short side aggressively (I still think not). But I can easily see the reddit crowd focusing on the short position in SLV.

As far as what to expect in Friday's new COT report for positions as of the close yesterday, the first three days of the reporting week featured flat price action in gold and down price action in silver, followed by fairly sharp rallies Monday and yesterday. Trading volume, however, remained very much on the low side for both metals over the entire reporting week. Gold prices did hit and penetrate its 50-

day moving average and hit but did not penetrate the 100 and 200 day moving averages. In gold, I would imagine additional managed money buying, following that result in the prior week, although I wouldn't know how to represent that in numbers of contracts.

After being lower over the first three days of the reporting week in classic salami slicing, silver prices did rally on Monday and yesterday, although not coming close to its key moving averages. In the past reporting week, the managed money traders in gold rushed to buy back shorts even though the key moving averages were not hit and I'm wondering if the silver managed money shorts did the same this week. I just don't know and will await the bloodless verdict of the report on Friday.

Chalk it up to the fantasies and delusions of an old man, but I still sense we are on the cusp of a major market event, particularly in silver. At the risk of sounding like a broken record, it all depends on what the 4 big shorts do on the coming rally - do they stick their heads back into the lion's mouth after, quite skillfully, reducing their concentrated short position by amounts greater than I would have guessed possible? Or do they take advantage of their greatly reduced short position and let silver prices run like the wind - for the first time in any of our lives, unencumbered by manipulative short sales?

To that end, I am thunderstruck by the near-universal lack of focus on this one very specific issue - the concentrated short position in COMEX silver. It's hard for me to comprehend, since the number of commentators pointing to a silver manipulation is the highest ever. Just what is it that they think has manipulated prices if it isn't the short position of the 4 largest traders on the COMEX?

At publication time, the 8 big gold and silver shorts have added close to \$500 million to total losses now amounting to \$9.6 billion.

Ted Butler

August 25, 2021

Silver – \$23.90 (200 day ma – \$25.89, 50 day ma – \$25.28, 100 day ma – \$26.11)

Gold – \$1794 (200 day ma – \$1813, 50 day ma – \$1794, 100 day ma – \$1809)

**Date Created**

2021/08/25