

August 3, 2022 – So Far, So Good

A little over a week ago, the managed money shorts in COMEX silver (and gold) futures looked as if they owned the world and were in full control, with silver prices barely above the \$18 mark, the lowest they had been in more than two years and with the managed money traders holding their largest short position in more than three years.

On the 40,000+ contracts of the new silver shorts added by the managed money traders in COMEX silver futures over the past several months (not including the 20,000 long contracts they sold and liquidated), as of last Monday, July 25, the managed money shorts were ahead by more than \$600 million, by far the largest collective open profit held by these traders in history or a bit over \$3 per oz (\$15,000 profit per contract). Never had the managed money traders held such large open (unrealized) profits on the short side of COMEX silver futures (even though they had held larger silver short positions in contract terms in the past).

On the subsequent two-dollar silver rally that began late last Wednesday, the managed money shorts in COMEX silver gave back (perhaps temporarily, perhaps not) \$400 million of their \$600 million open silver profits, or two-thirds. Undoubtedly, a decent number of the managed money silver short positions were bought back and covered on the sharp recent rally, so even if silver prices preceded to fall back to new lows, the increase in unrealized profits to the managed money shorts would not equal the peak of last Monday, July 25.

While I don't pretend to have a lock on the detailed roadmap of future silver prices, seeing the managed money silver shorts give back, within days, the majority of the open profits on their record (risk-adjusted) short positions established over months, did not come as a big surprise; since the managed money silver traders have never profited collectively on the short side of silver in a meaningful way on a realized basis – no matter how much they may have been ahead on an unrealized basis. I believe I have asserted this on too many past occasions to quantify, but hundreds, if not more.

In order for the managed money traders to close out and convert large unrealized open profits on the short side to realized profits on a collective basis would require their commercial counterparties to sell and sell short on lower prices in order to accommodate the managed money shorts. Not only has this never happened in any COMEX metal, I would bet we'll see the Second Coming before the collusive COMEX commercials ever accommodate the managed money shorts in this manner. The commercials only buy on lower prices and sell on higher prices – a key component of the COMEX silver manipulation for 40 years.

Since the managed money shorts and their collusive COMEX commercial counterparties just behaved as fully-expected on the recent price jolt to the upside, I would opine that so far, so good, as far as the prospects for my very bullish outlook are concerned. I suppose some very small chance exists where the commercials might try to lure some number of the managed money shorts which did just rush to cover short positions back onto the short side, but the multi-hundred million dollar set back just experienced by the managed money shorts should have taken some wind out of their sails for enthusiasm for re-establishing new short positions.

Instead, the odds still favor a further push to the upside at some point in the very near future. While I do believe there has been substantial managed money short covering and even perhaps new buying in the just-completed reporting week, until proven otherwise, the odds still favor the commercial selling as being of the raptor long variety and not aggressive new short selling by the former big commercial shorts. At the risk of repeating myself, the absolute key factor in the next big move in silver (and gold) is whether the former big concentrated commercial short sellers add or don't add new shorts aggressively on higher prices.

Yes, I know these big COMEX commercials have always added new shorts in sufficient quantities on every single silver rally over the past 4 decades, despite my repeated suggestions that they may not — so I don't need to be reminded that I've batted .000 to this point, in this regard. But the reason I'm hitless at this point is that new shorting by the largest COMEX commercial shorts is the absolute proof of a manipulation that has persisted longer than any manipulation in history. As and when the big commercials don't add new shorts on a silver rally the silver manipulation will have ended and prices will be set free for the first time in any of our lifetimes. That, I would propose, is a very big deal — the biggest, in fact.

It's not just the duration of the COMEX silver manipulation and the increasing attention it has received from an ever-increasing audience that leads me to the opinion that this price manipulation is on its last legs. It's much more the hard data indicating that the big commercial manipulators have taken extremely unusual and unprecedented steps to buy back and eliminate more of their existing short positions in COMEX silver and gold than ever in history.

Knowing that the concentrated short position is the absolute key to the continuation of the silver manipulation, and witnessing in real time the largest reduction of that key component of the ongoing manipulation, how could I not sit up and take notice? After all, it's not like we don't have hard and relatively recent evidence of what happens to price when an extremely large and concentrated short position gets bought back and ceases to exist.

For the decade ended in early 2018, NYMEX palladium had an extremely large concentrated short position held by insider exchange commercials, at times even greater in real world terms than existed in COMEX silver, as prices remained between \$500 and \$1000. But starting in early 2018, no doubt prompted by the same physical tightness evident in silver today, the concentrated commercial short position started to shrink, freeing the price of palladium to rise to more than \$2000 and \$3000 over the next few years. The message is unmistakable — eliminate a big concentrated short position and prices will fly.

But silver is much different than palladium, in that it is a primary investment asset whose history dates back thousands of years, whereas palladium is a relative newcomer, having been first discovered a couple of hundred years ago and with a much smaller investor base. My point is that there must be at least a thousand potential investors in silver, ready to buy as soon as prices begin to lift off, for every potential investor in palladium. So, a doubling or tripling of the price, like occurred in palladium when the concentrated short position dissipated, must be adjusted much higher in silver, given its much greater potential investor base.

The most compelling question in silver is why have the former big commercial shorts been so single-minded and determined to reduce their concentrated short position like never before? Is it because

they intend to replace and re-short their just-covered short positions a few dollars higher in silver and a couple of hundred dollars higher in gold? Or do they intend to simply stand aside and not re-short, as they did in palladium four years ago? As always, either way a rally of some significance is in store, but the rally will be of historical significance in the event the big shorts act like they did in palladium (my bet).

No doubt, this analysis is unique and not what is widely disseminated, but it is backed by hard data, primarily in the weekly Commitments of Traders (COT) reports. That doesn't mean that the things typically advanced as influencing the price of silver or gold, like inflation, the dollar, interest rates, other markets, the latest political intrigue or even actual supply and demand will remain as meaningless to price as they have to date, but not to recognize that silver and gold prices have been determined on the COMEX in the contest between the commercials and managed money traders is missing the most important price influence. And within that most important price influence, nothing comes closer to supreme importance than whether the former commercial concentrated short position is reinstated on higher prices or not.

As far as what Friday's new COT report might indicate as of yesterday's cutoff for what has been the sharpest price rally in silver and gold in many months, I sense greater relative deterioration (managed money buying and commercial selling) in silver than in gold. Both metals rallied sharply, silver by \$2 and gold by more than \$80 and total open interest fell in both, silver by 11,000 contracts and gold by 28,000 contracts, but 25,000 contracts of the decline in total open interest in gold appeared to be related to deliveries, which mechanically reduces total open interest.

As already touched on, the short position of the managed money traders in silver was much greater relative to the managed money short position in gold and while the 50-day moving average was touched in each (and perhaps exceeded slightly in gold in yesterday's trading), this moving average was not upwardly penetrated on a closing basis in either metal. My sense is the relatively much larger losses to the managed money shorts in silver prompted more relative short covering in silver. I can imagine 10,000 to 15,000 contracts of managed money buying in silver (hopefully, not too much more) and around that amount or a bit more in gold, given the gold market's larger size.

This amount of managed money buying (primarily short covering) will no doubt sound disappointing to many, but considering how large the managed money short position grew to in silver and sharpness of the rally, I'm not convinced it's the end of the world. Whatever the amount of managed money buying, it still looks to me to be the start of more pronounced managed money buying on higher prices.

Of much more significance is the nature of the commercial selling. My base case is that the raptors (the smaller commercials holding large long positions) were the commercial sellers and not the former big concentrated shorts adding to new short positions. The raptors are much quicker on the sell trigger than the big commercial shorts, seeking to buy back liquidated longs in order to sell on higher prices, as has been evident for many years. This despite the average price that the raptors established their current net long position being close to \$22. The raptors just seem to be more interested than the big commercial shorts in "making markets".

Generally speaking, the big commercial shorts have tended to come in and add shorts at the tail end of silver rallies, after the smaller raptors have exhausted their long liquidation. However, if the data in this or subsequent COT reports indicate aggressive new shorting by the former big commercial shorts at such low prices, my end of the manipulation premise would come under question. Remember, I

donâ??t control what these crooks might do, Iâ??m just trying to anticipate their actions based on what makes sense for them.

As a consequence of what I believe may have occurred over the just-completed reporting week, I would expect a sharp reduction in the posted concentrated short positions of the 4 and 8 largest shorts in silver, perhaps by close to 40,000 contracts for the big 4 short position (including both managed money and commercial traders), from last weekâ??s 44,621 contracts. If so, this would be the lowest big 4 concentrated short position in at least 8 years. Iâ??m hopeful that Iâ??ll be able to draw a bead on the commercial-only component of this position, but it may take a few more reports.

And while I donâ??t sense or expect that the big commercial shorts added aggressively to new shorts in the just-completed reporting week, I should at least mention that the possibility exists that they may have bought back and covered a number of short contracts into the raptor selling on higher prices. As you may recall, this has been a â??dreamâ?? scenario of mine for quite some time, although I have yet to see evidence of it occurring to date.

Perhaps Iâ??m relying too much on logic in trying to decipher what might be best for the former big COMEX commercial shorts at this point, but it seems to me they have created their very best opportunity to date for walking away from a silver price manipulation that has endured for 40 years. Perhaps they will be able to squeeze some additional reduction in their now greatly diminished concentrated short position, if they can trick the managed money traders (or the raptors) into selling more contracts, but itâ??s hard for me to envision truly significant additional quantities at this point. Compared to the set up in LME nickel back in March, or the set up in NYMEX palladium in 2018, or the failure of Bear Stearns in 2008, the former big COMEX commercial shorts have achieved a remarkably low remaining short position in silver (and gold), particularly after being abandoned on the short side by JPMorgan in 2020 and suffering large multi-billion-dollar losses ever since.

All that remains is the final resolution of sharply higher silver (and gold) prices and the former big commercial shorts content to bid goodbye to their evil ways of shorting into that final rally. A resolution, I might add, that solves a number of other related potential problems, such as letting the regulators off the hook for having failed to address the silver manipulation for decades and quieting down the growing chorus on social media about silverâ??s weird and highly counterintuitive low price in the face of nothing but bullish prompts.

I suppose there might be some very small chance that the coming explosion in silver (and gold) prices might be widely and publicly traced to the former big commercial shorts breaking with tradition and not adding aggressively to shorts for the very first time, but the odds are overwhelming that most will remain oblivious to the real reason for the explosion. This most likely outcome will shield both the big collusive COMEX commercials and the regulators alike from criticism and is what makes this method of resolution highly preferable. After all, and has been previously mentioned, how can the regulators crack down on the big COMEX commercials for ceasing their former manipulative ways for not adding price-suppressive short and highly non-economic short positions?

While the failure of silver and gold prices to upwardly penetrate their 50-day moving averages the past few days is understandably disappointing, itâ??s important to recognize that this is simply a function of short-term timing. Itâ??s mathematically impossible for prices not to upwardly penetrate this and all the moving averages at some point, given the realities of price and time. This is particularly true when the extent of the price decline over the past five months is considered. And Iâ??m not even considering

the still-extremely bullish market structures that exist in COMEX silver and gold. Therefore, I suppose some debate is possible about the timeliness of the coming upside penetrations of the moving averages in silver and gold (with me taking the under in terms of timing), but no debate is possible about the inevitability of the upside penetrations. It's not often when you have mathematical certainty on your side, but this is one of them.

As and when those upside price penetrations do occur, managed money buying (short-covering and new buying) will commence in earnest. What this means is a complete or near-complete reversal of all the managed money selling over the past five months, about the most intense in many years and in some real sense, the most intense selling ever. Coupled with the extraordinarily large commercial buying, particularly by the former big commercial shorts, this sets up what I have referred to as The New Moment of Truth, namely, whether the former big concentrated commercials shorts add new short positions to cap and contain prices or whether they stand aside so as not to repeat the folly that occurred to Bear Stearns in 2008, or in palladium in 2018, or in LME nickel earlier this year, or what the big commercial COMEX shorts had to endure for the past couple of years (since being abandoned by JPMorgan).

So, in the do as I say, not as I do department, stop fretting about the failure of silver (and gold) prices to soar on any given day, because all your fretting won't change a darn thing. Instead, try to objectively recognize the rather small amount of time remaining until the New Moment of Truth occurs and try to position yourself in the best manner possible. To be sure, once this moment arrives, the days of bargain silver will be gone with the wind.

Ted Butler

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Silver – \$19.95 (200 day ma – \$22.94, 50 day ma – \$20.50, 100 day ma – \$22.29)

Gold – \$1778 (200 day ma – \$1841, 50 day ma – \$1796, 100 day ma – \$1855)

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