August 31, 2022 – Why, What and How?

I continue to be impressed by the number of commentators who have come to focus on the positioning changes on the COMEX as central to the price-setting mechanism for gold and silver prices, among many other markets. Itâ??s no understatement to say that more observers than ever point to the Commitments of Traders (COT) report in their analysis of gold and silver. This is true even among those who continue to resist or seem reluctant to label COMEX positioning as manipulative, which is more of puzzle. After all, if prices are determined by the repetitive change in positions between, principally, the commercials and the managed money traders on the COMEX, as near-everyone has come to agree â?? and not changes in real supply and demand â?? is that not the definition of price manipulation?

It's also no secret that the process of the positioning changes in futures contracts on the COMEX involves, essentially, a trading â??gameâ?• in which the commercial traders (mostly banks) always seem to arrange to maneuver their main counterparties, the managed money traders, into and out from positions by having gained control of the short-term pricing mechanism to the benefit of the commercial traders. This is the â??whatâ?• of silver and gold price setting.

The commercials have achieved short term price control – or the ability to dictate prices in the very short term â?? over the decades through a variety of dirty trading tricks, like spoofing, which is the entry of large orders that are immediately canceled and intended to move prices higher or lower, which is illegal and has resulted in many hundreds of millions of dollars in fines and some recent criminal convictions against mostly the banks and their traders. Despite the massive fines and other penalties imposed on the banks and their traders, those imposing the fines, the regulators at the CFTC and DOJ, have stepped back from finding that the spoofing and other short term dirty trading tricks were part of a much broader effort by the banks to control and manipulate prices on a longer-term basis, as I allege.

Were the regulators to have found that the banks and their traders had manipulated (suppressed) silver prices on the COMEX for decades, they would be forced to take measures that could have resulted in the ultimate financial ruin of systemically-important financial institutions. For example, fining JPMorgan $920 million or getting criminal convictions against two of its former traders for spoofing is a far cry from pressing the bank for a long-term price manipulation, which, if successful, could have resulted in an avalanche of civil suites that could have brought JPMorgan to its knees. After what happened to Arthur Anderson in the Enron debacle, it would be unrealistic to assume the US Government would go after JPM or any other systemically-important bank for a long-term metalsâ?? manipulation.

As far as â??howâ?• the commercials have managed to pull off the long-term silver price manipulation on the COMEX, it has to do with the methodology employed by the managed money traders for trade selection. The most important and active component of the managed money traders category arethose relying on technical trading signals to buy or sell, either to initiate or close out positions. Theseare mostly trend following traders who, basically, buy as prices rise and sell as prices fall, withparticular emphasis given to moving average penetrations. Knowing this, the commercials use theirability to influence and control prices on a short-term basis, to get the managed money technicaltraders to buy or sell, so that the commercials can take the other side of whatever the managed moneytraders buy or sell.

Over the decades, the commercials have come to completely dominate the managed money traders, to the point where whenever the commercials have succeeded in getting the managed money traders to accumulate truly massive net long or short positions in silver (or gold), the managed money traders never were able to convert large unrealized profits into actual realized profits on a collective basis. That did change starting in the summer of 2019, when a combination of an extended price move higher in gold and silver (and an abandoning by JPMorgan of its short positions) resulted in collective realized profits to the managed money traders and losses to the commercial shorts for the first time â?? although well-off peak unrealized levels. However, it has yet to occur where the managed money traders have collectively profited on the short side, although the jury is still out on the current large unrealized profits for the managed money shorts in silver.

As far as the â??whyâ?•, this would seem, at least to me, to be fairly simple as money makes the world go around and we are talking about a money game. Some may advance that the silver manipulation has lasted for so long, decades, that there has to be some type of government involvement, but even here, money is involved in some way. Perhaps the government is backstopping the banks in some way, at least by default in not prosecuting the banks for manipulation, but the banks sure seem capable of concocting a wide variety of money-making schemes either with or without government assistance. The â??whyâ?• is not worth getting worked up over, as the â??whatâ?• and â??howâ?• matter most.

However, I didnâ??t just run through the basics to take up space. Of concern to most now is how much longer will the commercials continue to press silver and gold prices lower in their quest to achieve maximum managed money shorting? Unfortunately, the answer will only be known for sure after we make the price turn higher. In fact, I donâ??t think even the commercials know in advance, as they are more concerned with getting the managed money traders to sell as many contracts as possible (so that the commercials can buy). Considering that we are at the highest levels of managed money silver shorting on a multi-year basis, it would appear we are close to the maximum level of such shorting, particularly after the price beating this week.

What I am most sure of is that when the price turn higher comes, it is likely to be abrupt and there are some things I can say for certain about the current COMEX market structure, including that the specific issue most important to me, namely, that the concentrated commercial short position in silver is now the lowest it has been in decades. In the Saturday review, I mentioned that the commercial-only component of the big 4 concentrated short position was down to around 26,000 contracts (out of a total big 4 short position of 42,730 contracts, which included a managed money short). And it would seem to me that the commercial-only component of the 4 biggest shorts will be lower in this Fridayâ??s report, based upon trading through yesterdayâ??s cutoff for the reporting week.

Since I believe that the concentrated short position has always been the key to the ongoing COMEX silver manipulation, please allow me to try and put the current reading into recent historical perspective. First, JPMorgan, the long-term ringleader on the short side of COMEX silver and gold, since acquiring Bear Stearns in 2008, completely abandoned the short side on the historic drop in prices in the spring of 2020, when silver plunged below $12 and gold below $1500.

The remaining big 4 commercial shorts held a net silver short position which increased to more than 65,000 contracts (325 million oz) as silver prices rose to $30 on Feb 2, 2021, the highest the concentrated commercial short position had been for a year prior or since. This is the concentrated short position that prompted me to write to the CFTC (through my local congressman) and that the Commission responded to in May 2021, saying they would consider my concerns and pass them along to their divisions of Enforcement and Market Oversight. It was the first time the Commission didnâ??t disagree with my concerns about the concentrated short position in silver, having strongly disagreed publicly in 2004 and 2008, in lengthy letters, as well as on other occasions earlier.

Therefore, it would be correct to say that since my letter to the CFTC in early 2021, the commercial concentrated short position in COMEX silver had dropped by close to 40,000 contracts (200 million oz) or more than 60%, as of last weekâ??s COT report. Of course, I canâ??t state definitively that the CFTC had taken any action behind the scenes to cause the commercial concentrated short position to drop so precipitously by warning or jawboning the big commercials â?? but then again, such an action canâ??t be ruled out either.

More recently, on April 19, 2022, with silver priced around $26, the commercial concentrated short position was just shy of 52,000 contracts, down from where it was on Feb 2, 2021, but much closer to the highest levels it had been at since that previous peak. With the highly-engineered price decline of $8 (30%) over the past four months, last weekâ??s commercial-only component of the concentrated short position is 50% lower and at multi-decade lows and, most likely, even lower in the COT report on Friday.

As remarkable and encouraging as this reduction has been, no one can predict the exact low in the commercial concentrated short position or the exact high in managed money shorting in advance. But considering the backdrop of a plethora of ultra-bullish indicators from the physical market â?? the newest being a premium of cash 1000 oz bars to the nearby futures contracts on the COMEX, something Iâ??ve never seen â?? I can just about taste the point of maximum managed money shorting in silver.

At that point of maximum managed money silver shorting, the equation then flips to the abruptness and strength of the coming rally and beyond that to the ultimate question of whether the former big COMEX commercial shorts add aggressively to new shorts on the next rally. As far as the abruptness of the coming rally, weâ??ve already had a bit of a trial run in that regard over the past month and from my perspective, the signs appear to be encouraging concerning the key question â?? whether the big former commercial shorts will add aggressively to new short positions.

At the price lows of a month ago, when silver was trading at close to the $18 level, we did experience an abrupt and rather sharp two-or-three-day rally of around $2.50, ostensibly centered around a Fed meeting. On that rally, some 16,500 managed money short contracts were bought back and covered and this is what drove silver prices higher into the COT report of Aug 16. Since then, silver prices have rolled over and declined and most of the managed money short positions have been replaced and this weekâ??s new COT report should confirm that.

What I found so instructive about the silver price thrust higher was that the former big COMEX commercial shorts â??onlyâ?• added around 3000 new shorts on the rally and, subsequently, have bought back those added shorts and, hopefully, even more in the next COT report. Explaining why 16,5000 contracts of managed money shorts were covered and only 3000 new short contracts were added by the former bi commercial shorts was a combination of smaller commercial (raptor) long liquidation, as well as selling from other trader categories, including 5000 contracts of selling by unrelated managed money longs.

Making the 3000 contracts of new shorting by the former big commercial silver shorts look rather small was the corresponding increase in gold of some 40,000 contracts of new shorting by the former big commercial shorts, of which only 5000 contracts or so had been bought back as of the last COT report (although likely more in the new report on Friday). Certainly, compared to gold, the former big commercial shorts in silver would appear to have held back in aggressively adding to short positions on the $2.50 silver rally.

Is this a harbinger of things to come, or am I placing too much emphasis on what I have long-identified as the absolute key factor in silverâ??s future price performance? Time will tell, of course, but Iâ??ve long passed the point of questioning myself as to whether this is the key issue, as I have been trumpeting the importance of the concentrated commercial short position in COMEX silver for decades. Itâ??s not a case where Iâ??ve backed myself into a corner for proclaiming this is the critical issue for so long that I canâ??t back down now – itâ??s much more than that.

On every single silver rally of significance over the decades, the concentrated commercial short position of the 4 largest traders has increased significantly (the only exception was the rally in 2011, which was driven by physical tightness). Therefore, on any future rally in which the concentrated commercial short position doesnâ??t increase substantially, this will set off the â??bigâ?• silver rally. I will stipulate that it is possible that the big former commercial shorts may add aggressively to their shorts on the next silver rally, postponing the day of reckoning â?? but thatâ??s only because I admit to being an analyst and not a prophet of future events.

Iâ??m still more convinced that the next silver rally will turn into the â??big oneâ?•, based upon the totality of facts and data as I see them.Â First and foremost is the behavior of the former big commercial shorts themselves in buying back more shorts than in history (excepting the short covering accomplished back in 1980, when the big shorts broke the Hunt Bros.). I suppose itâ??s possible the historic recent short covering could be just a clearing of the decks in order to sell short on higher prices, but the confluence of bullish factors â?? more than Iâ??ve ever seen â?? argues otherwise.

Why go to the trouble of manipulating prices lower to buy back as many shorts as possible â?? precisely when more observers than ever are aware of the manipulation â?? only to have the bigformer shorts put their heads back into the lionâ??s mouth one more time? At some point, enough isenough, and as Iâ??ve always maintained, the big COMEX commercial shorts are among the mostcorrupt and crooked players in existence – but these guys arenâ??t dumb and they can read thehandwriting on the wall as well as anyone. Theyâ??re not buying hand over fist because they think theprice of silver is headed lower for long.

So, as bad as silver price performance has been, there is a very constructive side to the price beating and for the life of me, I canâ??t even conceive of an alternative explanation for everything that has transpired if not for the explanation Iâ??ve laid out. The kicker has to be Bank of America showing up on todayâ??s first notice of delivery day in the September COMEX contract and issuing close to 99% of the 5200 contracts (26 million oz) total contracts issued from its own house account. Yes, I still think BofA is dumb as dirt for winding up short a billion oz of silver in OTC derivatives and while they are now ahead by close to $5 billion at this point, the likelihood they will keep is next to nil

As far as what to expect in Fridayâ??s new COT report, itâ??s hard to imagine there not being significant managed money shorting and commercial buying as of the reporting week cutoff yesterday â?? plus more of the same as a result of todayâ??s price smack-down. The commercials have swung for the fences on this rigged selloff with the bases loaded and victory already assured and the only question is how far the winning hit will travel over the distant bleachers.

So, itâ??s time to put the negative emotions about how low the price of silver has fallen and focus on the historic opportunity at hand created by a set of circumstances so unprecedented and unique to silver that are so compelling so as being difficult to be believed. To be repetitive, the silver story is not one that could be dreamed up were it not for the preponderance of verifiable facts.

Ted Butler

August 31, 2022

Silver – $17.80Â Â Â (200 day ma – $22.49, 50 day ma – $19.63, 100 day ma – $21.18)

Gold – $1725Â Â Â Â Â Â (200 day ma – $1839, 50 day ma – $1769, 100 day ma – $1823)

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