
January 18, 2023 – DÃ©jÃ Vu Times Two

On Saturday, I indicated that I was quite puzzled by the reluctance of the managed money traders in both COMEX gold and silver to more forcefully load up on long positions on what has been a very impressive price rally in both metals. I went on to speculate that the reluctance to add greater long positions by the managed money technical funds was the result of hidden influence from the commercials that held the brokerage accounts of the managed money traders. I'd like to continue in this vein.

First, let me quantify what I'm talking about when I point out that the managed money traders haven't bought near as many new longs as they typically do on the near-\$300 rally in gold and \$6 rally in silver over the past two or three months. Certainly, there has been significant total buying by the managed money traders on the rally in gold and silver prices, but the buying has been predominantly of the short-covering variety, as opposed to new long positioning. (I'm using the COT report of Nov 1 as the starting point and last week's COT report of Jan 10 as the end point).

Over this period, the managed money traders have purchased a total of 103,215 gold contracts (10.3 million oz), but only 38,391 contracts have been new longs, with the balance being short covering. In silver, the managed money traders have purchased a total of 28,669 contracts (143 million oz), but with only 8875 of those contracts being new longs, the balance being short covering.

Now, I would agree that considering how large the managed money short positions in COMEX gold and silver were back on Nov 1 (and earlier), it wouldn't seem to be much of a surprise that so many short contracts were bought back (mostly at a loss). The wonder is in the how the heck the managed money traders got so heavily short in the first place and my answer to that is that they were tricked into such massive short positions by (largely) the same collusive and crooked commercial shorts that have arranged the price manipulation that has endured for 40 years in silver.

In hindsight, the managed money traders which allowed themselves to get so heavily short last year were every bit the dupes and dummies I made them out to be at the time. After all, whenever the managed money traders have gotten heavily short in gold and silver over the years, they've always lost collectively - so the recent losses can't be called a surprise. And as I indicated on Saturday (and before then), I believe the commercials which serve as the prime brokers to the managed money traders unduly influence the managed money traders to the commercials' advantage - and the record would seem to bear that out.

However, the real wonder is in how the managed money traders, in addition to their lopsided bad bet on the short side in COMEX gold and silver last year, have now remained rather light on the long side, despite every technical signal to get long. Knowing how the commercials have continuously hoodwinked and snookered the managed money traders over the years and decades, it's hard for me to believe that these traders are now so light on the long side by accident. In fact, there are very few "accidents" when it comes to the COMEX commercials' treatment of the managed money traders.

I mentioned on Saturday, how I recalled a past time when the managed money traders got extremely light on the long side of silver in the fall of 2010, around the same mid-\$20 level we are at now; and

how silver proceeded to run to near-\$50 some six months later. I'd be lying if I said it doesn't feel that way to me at this time as well. I went back to the COT report data for that time and was reminded just how much the managed money traders lightened up on the long side of COMEX silver back then; just about halving their long position around the \$22 to \$25 level and thereby missing what was the biggest upside move in silver in 30 years.

Thinking about it further, I also remembered a previous time, back in 1979-1980, when close to the same thing happened. Back then, I was a commodity broker at Drexel Burnham and my main business was soliciting and handling client accounts run by CTA's or managed money trading advisors. I was a highly competent broker, but had yet to uncover the COMEX silver manipulation, which occurred five years later, on a challenge from Izzy Friedman. Anyway, since my main business in 1979 was handling managed money accounts for clients, and because I always strived to be as professional as possible, I came to know all the intricacies and goings on in these accounts.

What I learned from first-hand experience was both the positives and negatives of dealing with managed money trading advisers, the vast majority of which followed a "technical" approach meaning, essentially, buying as prices moved higher and selling as prices moved lower in the hopes of catching a big trend. These managed money technical trading accounts strove to abide by the "golden rules" of trading, such as letting profits run and cutting losses short and applying prudent money management principles of position diversification and risk-control never loading the boat on any one position.

These were the attributes of these accounts, along with an implied promise that if there was to be a major price move, either higher or lower, in any of the commodities or markets dealt in, the trading advisor would catch that move and even if there turned out to be many more losses, due to the cutting of those losses quickly (by stop-loss orders), the overall performance of the account would be profitable if there were a few big moves to offset the more numerous losses. And largely, it worked out that way for years and it turned out to be a profitable approach for my clients and myself plus, since the trading advisor directed the buys and sells, it eliminated any concerns of "churning" or of the broker trading for the sake of generating commissions. It was a very clean business in that regard.

Of course, there were also drawbacks or negative features to the managed money business model. Among them was the fact that the broker (me) got compensated even if the client endured what seemed to be an endless string of closed out losses, even though that was fully-explained beforehand. But, hands down, the worst feature was the repetitive experience of the trading advisor latching onto a big winner and then holding on to the position until after much of the profits evaporated even though "letting profits run" was an integral feature of the program. It hurt when a very large profit largely disappeared because the moving averages or other price signals didn't allow for the taking of profits before a large price reversal occurred.

To combat against very large profits evaporating, for a select number of clients which felt the same way, I would set up separate accounts to "hedge" very large profits in the managed money accounts by selling short against the very large "open" long profits and locking in the profit. It wasn't perfect, but it mostly worked although I never used it in silver.

Back in 1979, silver started the year priced around \$7 and by the early fall, had climbed to the high teens. Those managed money accounts that traded silver had open profits approaching close to \$50,000 per contract on such a move an enormous overall profit for accounts funded by \$25,000

to \$100,000. Seeing as silver had never been so high in history, the general feeling among clients was to sell and book the profits (it was my feeling as well). I believed our collective prayers were answered when the trading adviser decided to sell around the \$17 level and book the enormous gains.

Of course, as it turned out, silver would go on to double and more over the next few months, before finally collapsing into "Silver Thursday" on March 27, 1980; providing a clear example of being careful about what you wish for because you just might get it. For sure, had the trading advisor waited for the proper technical sell signal of a downside penetration of the moving averages in silver, the entire gain would have evaporated. But, still it's easy to ponder the profits had he decided to pull the plug at \$27, \$37 or \$47 instead of \$17.

I raise this issue because, in addition to what occurred in late 2010 when the managed money traders lightened-up their long positions in silver in the low \$20's, only to see prices rise to near-\$50 a few months later, this feels like my second brush with *dÃ©jà vu* in silver and reduced managed money long positions. While it is true that the run up in silver prices into 1980 was the result of an upside price manipulation by the Hunt Bros., no doubt ended by collusive commercial insider dealings on the COMEX and how the run up in 2011 ended largely the same way the resolution this time around looks to be different.

To be sure, there is an obvious commonality between the lower-than-usual managed money long positions not inhibiting a great rise in silver prices, as I hope I just established. However, it also seems to me that there are some very substantial differences between what occurred in 1980 and 2011 and the present time, aside from lower-than-normal managed money participation on the long side.

In 1979, the \$17 price of silver in the early fall of that year was, by far the highest price ever seen in silver several times greater than the highest price silver had attained in history. In 2010, the silver price in the low to mid \$20's was the highest price in 30 years, so there was a legitimate case in 1979 and 2010 to feel that silver was very high in price and susceptible to a sharp decline no doubt responsible for the managed money reluctance to hold large numbers of long contracts.

Today, however, at \$24, silver is still more than 50% lower than the non-inflation adjusted peaks of 1980 and 2011, and most observers consider silver to be the most undervalued commodity in the world. That was not the case in 1980 and 2011, to say the least. That's a big difference making the reluctance of the managed money traders to get more heavily long pointing to this being the work of deceptive influence on the part of the collusive COMEX commercials. If my contention is correct that the collusive COMEX commercials are responsible for persuading the managed money traders to, thus far, refrain from plowing more heavily onto the long side of silver and gold (so that the commercials could avoid selling heavily), what does this portend from here?

It seems to me that one of two things might unfold from this point. One, the managed money traders do decide to add aggressively to long positions in silver and gold on higher prices and the collusive COMEX commercials which have refrained from selling (or were not required to) short just as aggressively will do so on higher prices. In other words, the lack of managed money buying and commercial shorting to this point will eventually occur on higher prices. While possible, that is not what I see as the most likely outcome although future COT reports will tell the tale.

The second possible outcome and most likely to my mind, is that the managed money traders never get massively long and the former big commercial shorts are never required to add new short positions

aggressively. This is what occurred in both 1980 and 2011, namely, the managed money traders never got loaded up on the long side and, essentially, missed the whole move up (as well as the subsequent crashes, to be objective). As on both previous historic price runs in silver, the managed money traders will also miss the move up this time. In fact, this was the precise intent of the commercials which I claim are most responsible for the managed money traders not having bought more aggressively to this point.

One additional fact suggesting that the managed money traders will not build up the type of long positions they have in the past is that because prices are now well-above the typical close-out points for long positions should prices then decline (the moving averages), should prices continue to climb, the amount of potential loss grows larger. This is definitely a consideration that might prevent greater managed money long positioning on higher prices.

Of course, my second and preferred outcome to this developing drama is also tantamount to the end to the decades-old silver price manipulation, no small occasion. Let's face it, this long-term manipulation must end someday and it always seemed to me it would end when it was most convenient to the manipulators. Yes, there will have to be an element of Izzy's â??full pants downâ?? premise, just that those most responsible for the long-term manipulation, like JPMorgan, won't be having its pants pulled down – it will be whoever the most recent commercial shorts are left holding the bag.

The biggest difference between the two prior great run ups in silver prices and what looks likely to occur the next time, is the developing physical silver shortage. To be sure, there was a bit of a physical shortage in the both the run up in 1980, as the Hunt Bros. were aggressive buyers of both physical silver and futures contracts; as well as in 2011, due to aggressive buying in the silver ETFs, mostly SLV. However, in 1980, any physical shortage could be traced to the Hunt Bros and related parties. In 2011, the buying in the silver ETFs was legitimate and non-manipulative, but was driven by momentum buying by investors and as soon as JPM et al, lowered the boom on price on May 1, the momentum buying got reversed.

This time looks different, in that the physical shortage has developed before silver prices surged. In fact, it would appear that it was the low price that was most responsible for the developing shortage this time. Further, it appears that the most recent buyers over the past couple of years have no intention of selling until silver prices are much higher â?? about as opposite a circumstance as possible than existed in 1980 or 2011.

Does this mean we go straight up from here, with no possibility of sharp selloffs first? While it's certainly possible that we could suddenly take off higher and never look back, the fact is that the COMEX has been a cesspool of manipulative price activity for four decades and not being prepared for continued price manipulation in the short term would be fool-hardy. We'll only know in hindsight when someone has finally put the wooden stake through the black heart of the COMEX price manipulation. But that day is coming and perhaps quite soon.

My real message is to approach the coming end to the silver manipulation with a goal of not getting shaken out should the collusive COMEX commercials arrange for yet another price smash. The surest way of doing this is to avoid leveraged positions of the type that would cause you to lose positions because margin calls could not be met. While it's hard not to focus on the short-term action, the big money will be made by sitting on fully-paid for positions, trying to ignore the short-term price gyrations.

As far as what to expect in Friday's new COT report, both gold and silver made new intraday price highs for each day of the reporting week ended yesterday; with gold's price action appearing to be stronger than silver. Therefore, it should be expected that there would be some deterioration (managed money buying and commercial selling), more in gold than in silver. Total open interest in gold rose by 10,000 contracts and by 2000 contracts in silver.

We do appear to have passed the peak of phony spread creation in gold and a liquidation of such spreads now looks to be in order through first delivery day on the Feb contract at the end of this month. I'm hopeful the deterioration in gold won't be excessive (as was the case last week) and the choppy price action in silver is reflected in not much deterioration.

Ted Butler

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Silver – \$23.60 (200-day ma – \$21.20, 50-day ma – \$22.74, 100-day ma – \$20.92)

Gold – \$1906 (200-day ma – \$1787, 50-day ma – \$1795, 100-day ma – \$1742)

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