July 18, 2018 – It’s Not Personal; It’s Just Business

While oneâ??s financial circumstances are about as personal as it gets, itâ??s important to be as objective as possible when making financial and investment decisions. I know this is easier said than done, most particularly after assets have had a very long stretch of either outperformance or underperformance. Itâ??s just as hard not to become overly enamored and overweight in assets that have outperformed for a long period of time as it is not to give up and reject assets that have gone through a long period of underperformance. After all, this is the essence of collective investment behavior â?? everyone wants to buy and hold that which has gone up and sell or shun what has gone down.

At the same time, collective investment behavior when carried to excess can create markets and assets that can become extremely overvalued and subject to severe selloffs or undervalued to the point of creating genuine opportunities for great gain. It always looks brightest at market tops and most bleak at market bottoms due to the collective nature of investorsâ?? desire to buy that which is going up and to sell that which has been going down.

Itâ??s especially hard not to take it personal at times like these in precious metals since they have been the absolute worst performers in a sea of outperforming assets for seven years. To add insult to injury, both gold and silver have declined by about 10% in price recently, gold from its most recent top three months ago and silver from its top of barely over a month ago. Any asset can and does drop 10% on a regular basis, but after seven years of going nowhere good in price, the latest move down certainly qualifies as an emotional backbreaker for many.

Thatâ??s why it is important to realize that thereâ??s nothing personal about what has been occurring in gold and silver â?? no one is out to punish precious metals investors: they are just incidental collateral damage in a much bigger business. And itâ??s not just precious metals investors who have become collateral damage in this bigger business; everyone involved in the mining and production of gold and silver and other metals, as well as those using and consuming the production have become non-participants in the price setting process. What the heck am I talking about â?? how can everyone involved in precious metals have no input when it comes to price?

The answer is simple and easily documented â?? prices for precious metals and other commodities are set by futures market positioning in which few to none of the actual producers, consumers and investors participate. In their place has emerged a highly specific and unique set of futures traders completely separate and distinct from those producing and consuming the commodities in question. While very small in number, these other unique paper traders assume collective positions so incredibly large so as to crowd out and replace completely any price influence from actual producers and consumers alike. Think Iâ??m kidding?

As outrageous as my contention may sound, one need look no further than weekly US Government - published data to confirm what I say. Basically, futures trading has evolved to little more than the group of price momentum (technical fund) traders classified in the managed money category on one side and other traders, primarily classified as commercials, but increasing including other traders (even within the managed money category) on the other side.

The bets being placed on either side of what is essentially a giant private poker game have become so large so as to dictate prices to the world at large â?? including actual producers, consumers and investors. These bets, purely speculative in nature and by regulatory definition, have only grown larger, as evidenced in a string of recent records in managed money positions â?? meaning the artificial pricing is becoming more pronounced. And â??artificialâ?• is not strong enough of a word to describe the situation; manipulative is much more accurate.

Commodity pricing has been taken over by speculative paper traders on the COMEX and other exchanges and such pricing has become the outcome of a closely-held business â?? a business which excludes actual producers, consumers and investors and only includes technically-motivated managed money traders and those taking the other side of their paper bets.

To be sure, itâ??s completely absurd (and illegal) that these few large paper traders get to make the prices that the rest of the world must take, but thatâ??s the way it is. Itâ??s simply a business and not intended to be personal to the worldâ??s producers, consumers or to you and me. No one matters to these few large paper traders and thatâ??s why we shouldnâ??t take it personal.

What we can do instead, it seems to me, is to put this certain knowledge of how prices are set to constructive use. History has demonstrated that the technical funds in the managed money category are largely the dupes and stooges in the private betting game that has come to set prices. Data from the Commitments of Traders (COT) reports over the years show a consistent pattern of price declines after the technical funds get extremely long and price rallies after the technical funds get extremely short.

Currently, the technical funds are heavily positioned to the short side in gold, silver, copper and platinum, holding record or near-record short positions. This is highly indicative of an impending rally of significant proportions. By definition, such extreme short positions could only come into existence on the type of rotten price action that has occurred to date. While no one (or at least me) can know in advance the full extent of managed money technical fund shorting or the precise price bottom until after each has occurred, the odds of a bottom are better when previous record positioning extremes are at hand â?? like now.

The only real way for the record technical fund shorting not to result in an eventual significant rally would be if the private betting game that has prevailed and grown over the years is thrown on its head. This would involve the technical funds turning the tables on the commercials and other traders on the opposite side of technical funds, including the most powerful trader of all, JPMÂ Â Â Â Â Â Â Â organ. As Iâ??ve written previously, there is always some small chance the technical funds could get lucky when they are extremely long, even though that has never occurred.Â But Iâ??m hard pressed to see how they would stand any chance of prevailing when they are heavily short, like now. I guess it comes down to who do you think has who over a barrel? I donâ??t think thereâ??s a chance of the technical funds on the short side of gold and silver putting JPMorgan over the barrel.

The data show that JPMorgan has been the single biggest buyer in COMEX gold and silver on the recent price decline; in gold, for the past three months or so and in silver for the past five weeks. As a result, JPM has significantly reduced its paper short position in each and the bank now holds its largest net long position in each due to its massive physical ownership of each metal. In simple terms, this means that JPMorgan has never been better positioned for an upside move in gold and silver than now. JPM may get even better positioned on still lower prices, but that only strengthens the bullish case. To me, thatâ??s an invitation to cast aside personal feelings about asset erosion and to keep it strictly business-like and do the same as JPM. It may not be easy emotionally, but the right way is not always easy.

Yesterday marked the end of a reporting week in which not only did gold and silver set new full year price lows, but it was as close to as perfect a daily price salami slice to the downside as previously witnessed. The very last thing one could say about the reporting week ended yesterday was that it was accidental in any way; its fully-intended purpose was to lure as much technical fund selling into the market as possible. It sure looks like mission accomplished.

Based upon high trading volume and sharp increases in total open interest in COMEX gold and copper, it would appear there was heavy new managed money technical fund shorting (although possible new spreading transactions might be another explanation). Goldâ??s total open interest increased by 25,000 contracts over the reporting week and copper by nearly the same, so there should be hefty increases in new managed money shorting, although itâ??s hard to guess how much because these positions were so large going into this week. There was an increase of close to 5000 contracts in silver total open interest, so new managed money shorting would appear to be in order as well.

However, the wild card in silver is the extent (if any) of liquidation in the newly created concentrated long position. Weâ??ll get to see if last weekâ??s 4000+ long contract liquidation was a harbinger of additional liquidation or a one off. Since thereâ??s no way to accurately handicap this, I wonâ??t try â?? but Iâ??ll be looking at the results with this in mind. One of the good things about the COT report this week is that we wonâ??t have to wait long to see what happened over the just ended reporting week.

On a broader note, this weekâ??s move to new one-year price lows in gold and silver adds fresh salt to the wounds of price performance over the past seven years. Considering the mindboggling growth in world money and debt creation and in the value of investment assets of all types over the past seven years, the singular failure of gold and silver to react stands out like a sore thumb and demands an explanation. Yet no credible explanation has been forthcoming.

This is particularly true in silver, since total industrial and other non-investment fabrication has more than kept pace with mine production. The stark fact is that once you factor out the necessary world demand from total production, the amount of silver left over for investment is less than ten percent of total production, no more than 100 million oz a year and now likely less. Putting that amount into dollar terms by multiplying by the current price and weâ??re talking about a billion and a half dollars or so; an absolutely miniscule amount when compared to all the damn money in the world. (By the way, while I am extremely bullish on gold for all the reasons Iâ??ve highlighted recently, almost all the new gold produced each year is available for investment of some sort and amounts to more than $120 billion or 80 times the amount of silver available for world investment).

These are easy to verify facts and at the very least should beg the question why has the price of silver been declining and has been so cheap over this time. And I guarantee you that if there were no such things as extremely excessive speculative positioning on the COMEX and JPMorganâ??s leading role in what has been a clear manipulation, there would be no legitimate explanation at all. Rather thanwrite all those details here again, how about an audio interview I just did with fellow subscriber MattDemeter, along with Bubba Horowitz.

https://libertytalk.fm/paper-manipulation-has-kept-the-price-of-silver-low-for-years/

Ted Butler

July 18, 2018

Silver – $15.58Â Â Â Â Â Â Â Â Â Â (200 day ma – $16.63, 50 day ma – $16.39)

Gold – $1228Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1302, 50 day ma – $1283)

Date Created
2018/07/18