June 14, 2023 – An Old Issue Becomes New

The recent emergence of a managed money trader in COMEX silver futures holding as many as 10,000 contracts or the equivalent of 50 million oz (less than that now) on the short side raises anew an old issue â?? legitimate speculative position limits. The issue, for those who may not be familiar with it, rests on the timeless commodity regulatory principle that speculators should not be allowed to hold such excessive derivatives positions so as to create either too high or low of a price in any regulated commodity.

To be sure, speculators are required in order to facilitate legitimate hedging, the prime purpose of futures trading, but not to an extent where the speculators are dictating prices to the actual world of commodity production and consumption. Such limits have been in place for nearly a century in certain commodities, such as the grains, although they do change over time. Position limits are like Mom, the flag and apple pie â?? not something anyone would oppose outright; any debate concerns the specifics of what those limits should be and who decides.

The issue of legitimate position limits, particularly in COMEX silver futures, had been around for more than 25 years and reached a climax when Gary Gensler was sworn-in as chair of the CFTC in 2009. Gensler hit the road running in a quest to institute legitimate speculative position limits, not in silver, but in energy products â?? as extremely volatile crude oil and other energy markets were the feature of the day back then. It was just that there was no way that legitimate limits in silver could be excluded should widespread position limits be enacted. After much arm-twisting, and backroom dealings and compromises, a new position limits regime came into being as part of the Dodd-Frank Act in 2010.

However, those most opposed to speculative position limits, namely, the Â big banks, exchanges and large trading houses, quickly eviscerated the Act through the courts and the effort to install legitimate positions limits, effectively, ended. The final nail in the coffin for enacting legitimate speculative position limits in silver (and other commodities) took place in October of 2020, when the CFTC, basically approved, along political lines, an order imposing no specific limits and left the administration to the exchanges on which specific commodities traded. In the case of COMEX silver, the CME Group had the final word. Iâ??d say this was akin to putting the fox in charge of the henhouse â?? but that would be an understatement of epic proportions.

Thatâ??s the old, with the new being the big managed money silver short. As I explained on Saturday, all managed money traders are speculators (not bona fide hedgers) whose trading is determined by a trading advisor. As such, under any conceivable legitimate speculative position limits regime, these traders should be the prime subjects of such limits. Yet, allowing a 50 million oz short position by a single speculator makes absolutely no sense. Thatâ??s more than any mining company (save one) produces or any consumption by a single entity inÂ a year â?? so how can the regulators (the CFTC and the CME Group) stand by and allow such a large and exclusively speculative position to exist?

On a practical matter, how could such a large and exclusively speculative position not have had an artificial depressive influence on the price of silver?Â Many scratch their heads, confused about why the price of silver doesnâ??t seem to be in step with the actual fundamentals, including actual demand outpacing actual supply. The answer is obvious, namely, actual supply/demand fundamentals arebeing overwhelmed by speculative positioning on the COMEX â?? as is evident in COT report data.

It always used to be that it was the 4 biggest commercial shorts on the COMEX that single-handedly accounted for enough new short selling on every silver price rally that kept a lid on prices. On a number of occasions, for example, JPMorgan held a net short position in COMEX silver futures of 40,000 contracts (200 million oz). However, over the past decade, the managed money traders have, as a group, become extremely large short sellers in silver â?? but always establishing large short positions on lower, not higher prices. Â It has been a quite curious phenomenon, because whenever the managed money traders did get heavily short in silver, they never, to my knowledge, were able to collectively profit on their silver short positions.

In fact, despite it being easy to discern that collective managed money shorting drove silver prices lower and the subsequent buyback and covering of those short positions drove prices higher, the regulators pretended not to notice â?? as if it was perfectly legitimate for speculators to be driving prices and not the actual supply/demand fundamentals. The â??cover storyâ?• was that no one managed money trader was amassing an individual position that was dictating prices, so the regulators were able to look away.

But that cover story was blown away when, over three weeks in April, a large individual managed money trader had amassed a short position as large as 10,000 contracts (50 million oz). That put a lie to any claim of a legitimate speculative position limit in silver. You could stand on your head and whistle â??Dixieâ?• and not come close to legitimately explaining how a 50 million oz short position held by a single speculator would not be manipulative to the price of silver â?? that is, for anyone other than the CFTC or the CME Group.

Whatâ??s so interesting about the large individual managed money position is that it was a short position. If this managed money position or any other speculative position of this size had developed on the long side, with an upside influence on price â?? how confident would you be that the CFTC and CME Group would simply look away, as they have done with the short position? Considering the historical record, any conclusion that such a large long position would be tolerated would be a foolâ??s bet. Lady Justice may be blindfolded and commodity regulation is supposed to be impartial, but that isnâ??t what Iâ??ve observed over my adult life.

Still, it will be interesting to observe in the fullness of time just how the would-be regulators react as and when the tables are turnedÂ and the jig is up for the silver manipulation (which I still believe is soon). I wonder if they will sit by and pretend nothing is wrong with 50 million oz individual speculative long positions, just as they have ignored the big managed money short position? Or is just a rigid enforcement of whatever speculative position limits are supposed to be on the long side only? Whereas the country seems to be divided between left and right on political fronts; on the regulatory side in silver, the division appears to be the difference in the rules between long and short. Thatâ??s just plain wrong.

Turning to other matters, based upon the price weakness on Monday and Tuesday, we still appear stuck in the unresolved status of whether we first move lower to induce maximum managed money technical fund selling and then move sharply higher in price or just skip the potential down move and proceed immediately to the upside. Both gold and silver came quite close to an upside penetration of the 50-day moving average in each as of last weekâ??s end, but the downdraft at the start of the week casts doubt on an upside breakout.

Iâ??m still concerned about gold price weakness inducing price weakness in silver, due to the large big 4 concentrated short position in gold, but it doesnâ??t have to play out that way. I am looking over my shoulder at the approaching end to the second quarter and first half and am mindful how that might influence collusive commercial strategy, but there are so many moving parts to the price puzzle in gold and silver â?? principally driven by positioning on the COMEX â?? but even the quarter end fits in time-wise with a fairly quick resolution.

As far as what to expect in Fridayâ??s new Commitments of Traders (COT) report, gold was mostly lower over the reporting week, suggesting some improvement (manged money selling and commercial buying) in its structure, while silver was higher early in the reporting week before giving back most of the gains into yesterdayâ??s cutoff. Overall, it looks as clear as mud to me, so Iâ??ll just focus on trying to decipher the report afterward and the all-important category changes, particularly in silver. I do believe that most of the sharp increase in total Â open interest in silver (16,000 contracts) was due to phony spread creation as we approach first delivery day in the July contract at the end of the month and has no real bearing on net positioning changes.

I am increasingly struck by what appears to me to be an outpouring of articles and commentary concerning just how bullish the actual supply/demand picture is in silver and how the price is too cheap in relation to the actual fundamentals. However, I always end up a bit disappointed after reading the commentaries, because there is rarely any attempt at explaining why the big disconnect between what is and what should be in terms of the price of silver.

This is exactly the predicament I faced 38 years ago when Izzy Friedman challenged me to explain silverâ??s then-low price ($5 and less). It took me a year, before it dawned on me that silverâ??s low price was due to manipulative short selling on the COMEX and that explanation has held true for the decades through the present. Back in 1985, there was absolutely no consensus of any type that the price of silver might be manipulated by excessive short selling on the COMEX.

Today, I sense there are more observers than ever that have come to be convinced that such a manipulation exists. This makes the lack of mention of the COMEX connection in the myriad of current articles pointing to silverâ??s low price in relation to its actual supply/demand all the more puzzling. I mean, if you are going to take the time to compose an article pointing out that silverâ??s price is too low in relation to its current supply/demand fundamentals, shouldnâ??t some effort be made in trying to explain why the disconnect exists?

In attempting to answer this quandry, I have come up with two reasons. One, it is still not fashionable (or perceived as safe) for most commentators to point to the COMEX silver manipulation as the reason for the price disconnect â?? despite the absence of any other plausible reason. Particularly when household institutional names are involved, like the cooks at JPMorgan or the shysters and bucketshop operators at the CME Group, I can understand how many new commentators would be reticent tocast aspersions at such institutions. Â Whether thatâ??s due to lack of knowledge or cowardice, Iâ??mnot sure.

Two, the consistent low-price feeds into the narrative in that price is always the most powerful message of all as an influence on the collective thinking. Even the most ardent bulls develop doubts in the face of silverâ??s generally consistent low price. It is precisely because silverâ??s price has languished for so long that breeds doubt and uncertainty among even the most bullish silver advocates. (In my case, itâ??s more a case of anger at the regulators and not doubt).

The irony is that because the price of silver has remained artificially-suppressed for so long, it breeds doubt that the price will ever break free from the shackles of the COMEX manipulation. Certainly, it has lasted for far longer than I ever imagined. Even today, at a time when I believe I am more bullish than ever before, I can see another potential and deliberate price take down for the reason Iâ??ve previously mentioned. But whether we get that final flush out or not must be put into proper perspective â?? Iâ??m talking about a possible $2 or so price smash versus a ten to twenty times larger up move (for starters).

While I am well-aware of the various negative feelings (doubt, fear and anger) that are felt by silver investors as prices are continued to be suppressed, may I suggest trying to stop thinking exclusively in the present and imagine your feelings in the future when silver prices will more closely be connected to actual supply and demand. One thing is for sure â?? as and when silver breaks its yoke of manipulation, Â all the negative feelings of today will be but a distant memory. So, try not to dwell on the negative feelings, as they serve no good purpose. Instead, take advantage of the silver price gift presented.

As a result of a couple of inflation reports this week and the just-announced Fed move to pause this month in raising interest rates, gold and silver prices were bent a bit lower than Fridayâ??s close, but havenâ??t cracked decisively to the downside (yet). Then again, inflation, interest rates and just about everything else in the world of finance andÂ the economy have little bearing on silver (and gold) prices, to my mind â?? all that matters in COMEX paper positioning. I anticipate the day that will no longer be the case and sense strongly that day is closer than ever before.

Ted Butler

June 14, 2023

Silver – $24.15Â Â (200-day ma – $22.24, 50-day ma – $24.63, 100-day ma – $23.47)

Gold – $1966Â Â Â Â Â (200-day ma – $1848, 50-day ma – $2000, 100-day ma – $1951)

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