June 15, 2022 – Entrapped?

So, what do you do when, instead of an expected immediate liftoff for gold and silver prices, as I tried my best to outline on Saturday (and recently), you wake up instead to a vicious, in-your-face smackdown, like we got on Monday (and into Tuesday)? Well, the first thing you do is recognize that no one knows the short-term price wiggles in advance, no matter what the data may show. More importantly, you get right back on the horse that threw you off and examine all the data and your original analysis, to uncover what went wrong.

At the risk of sounding stubborn and stuck on a false premise, and with the benefit of hindsight, it seems clear to me that Mondayâ??s price blast to the downside was strictly a result of the collusive commercials on the COMEX herding those managed money traders in silver that escaped the short side (or added longs in gold) on Fridayâ??s rally, back into the fold. In other words, there was more managed money buying on Fridayâ??s rally than I estimated and the commercials aimed to get those who bought back onto the sell side.

The good news is that the collusive commercials appear to have succeeded, likely topping off the rocket fuel tanks in silver and setting the stage even better than I described on Saturday for a price-liftoff of significant proportions for both silver and gold (as well as copper and platinum). Â I will confess that my initial reaction to waking up on Monday only to be greeted with a price smash and not the price surge I had expected, was not the reasoned argument I am now presenting, but the ongoing flow of data â?? price, volume and changes in open interest â?? helped clarify things.

Before I launch into what I believe is now the better-than-ever, more improved set up for a price ride higher, let me be sure to outline what it is that may make my take wrong. Quite simply, if the COMEX commercials can lure in significantly greater numbers of managed money selling in silver and gold than what now exists, then the only way that new selling could be arranged is on lower prices. Of course, should that occur, that will result in an even more-bullish set up, but will come only with additional price pain first â?? about as welcome as the arrival of the grim reaper.

The important point here is for you to understand that futures contract positioning on the COMEX is all that matters to price direction â?? and nothing else â?? and when the commercials have maneuvered the managed money traders to the best of their (collusive and manipulative) ability, that is when prices will surge higher. That you can take to the bank as objective and dead solid certain â?? the only variable is the subjectivity of any individual (like me) to predict in advance the point of maximum managed money selling.

The idea that COMEX futures positioning between the commercials and managed money traders determine prices is unassailable and, quite frankly, itâ??s perplexing to me to see how that is not a universal truth at this point. Then again, this isnâ??t simple stuff and the first time one looks at a Commitments of Traders (COT) report is, way too often, the last time as well. Thatâ??s just the way it is. On the other hand, while the market structure configurations as depicted in the COT reports always explain silver and gold price movements, predicting future price movements is, necessarily, iffier. Seeing the future is always more difficult than explaining the past.

All that said, as a result of the early week price smash, it seems to me that not only have the commercials succeeded in herding back onto the sell side any managed money sheep that broke away on Fridayâ??s rally, but also in doing so, the commercials appear to have set a trap for the managed money traders, particularly in silver, of epic proportions. This entrapment (perceived by me) looks to be the final piece in a jig saw puzzle of factors calling for sharply higher silver prices.

Perhaps the best way to look at this is to remove completely all consideration of COMEX futures contract positioning from the silver price equation. I know I insist that such positioning is the sole determinant of price, but I want you to forget that for a moment and look only all the usual things typically bandied about as being important to determining silver prices. Just humor me for a moment and remove COMEX positioning from consideration of the price of silver.

Just about everything I look at currently would appear to be wildly bullish for silver. World production is stagnant at best and demand, both industrial and investment is strong. On the production side, the continued low price discourages new (and existing) mine production, while the soaring costs of production also serves as a head wind. On the industrial side, the largest single component of demand â?? silverâ??s use in solar panels â?? seems guaranteed to soar, thanks to persistent sky-high energy prices.

On the investment side (where silver is the only true duel industrial/investment demand commodity), the recent surge in inflation rates and the swooning of other investment markets, like stocks, bonds, cryptocurrencies and perceptions of trouble to come in real estate, seem guaranteed to stimulate silver investment demand from investors fleeing other markets, whenever silver prices rise high enough to set off the hoards of investors who buy only when asset prices rise.

With the price of most asset classes now in collective retreat, for the first time in recent experience, it would appear that the prospects for higher silver prices have never been better. Certainly, few would argue that silver isnâ??t the cheapest asset of all, on any reasonable relative or absolute metric â?? including against the one asset, gold, that can be traced back for thousands of years.

Thus, it would appear that on every possible measurement available, silver is dirt cheap – which vastly improves its standing as a preserver of capital or a safe haven in uncertain times (like now) â?? and we already know its price is capable of doubling relatively quickly, since it has already done so numerous times in the past. Just about every metric possible point to silver being the near-perfect investment at this time. Thatâ??s another way of saying that silver is the absolute worst asset to sell short, as precisely what makes it such an ideal asset to own, makes it terrible as a candidate to sell short.

Now, I would ask you to put back the same COMEX futures positioning I just asked you to remove. Without the COMEX positioning that I contend is the sole determinant of price, silver is now the best investment asset of all, by every measure most people have considered important over the past 50 years of my professional adult life. But when you add the COMEX positioning factor back into the current wildly bullish set up that exists without it, it becomes hard for me to contain my overall bullishness. Â Without the COMEX positioning, silver is flat out bullish; with it, the price set up becomes other worldly.

I canâ??t help but believe that the collusive COMEX commercials have deliberately trapped the managed money traders into the largest short position (and smallest long position) that could possibly be arranged. I admit that I might be wrong in the sense that perhaps thereâ??s still a bit more managed money selling the commercials can arrange, but whenever the process is complete, the managed money traders will be trapped.

At that point of the maximization of managed money selling, the commercials will be at a point when they can derive maximum profits by doing nothing â?? with nothing being defined as simply not selling on higher prices when the managed money traders seek to buy those rising silver prices, both to cover existing short positions and add new longs.

Iâ??m fully aware that we have been at very similar situations in the past and on every one of those past set ups, the commercials have chosen to sell back to the managed money traders, taking enormous profits in the case of the raptors who were long and aided and abetted by new short selling by the legacy big shorts which always added enough new shorts to cap and contain all previous rallies. Thus, although the managed money shorts always lost collectively whenever they had gotten short heavily, the losses werenâ??t crippling and the goose that laid golden eggs for the commercials, lived to play and lay golden eggs for another day.

Therefore, it is always possible and some would say more than probable, that the same outcome lies ahead, namely, that the commercials will let the managed money traders off the hook yet again and agree to sell on rising silver prices as has always occurred previously. Â I fully understand this and further stipulate that on all such past similar set ups, of which there have been too many to count over the years, I opined that the commercials would stand aside and refrain from selling aggressively, allowing silver prices to truly explode.

This continuous contention of mine even predates the formation of this subscription service some 13 years ago and owed its origin to the countless debates I had between my dear departed friend and silver mentor, Izzy Friedman, about previous set ups. Izzy, as I have recounted, was that the commercials would fail when holding a maximum short position – his â??full pants downâ?• premise. I always opted for the premise that prices would soar when the commercials were least short and maximum long. Since there has been no true silver price explosion to date, neither Izzy nor I have been correct. In my defense, I would contend there was always a fairly significant rally whenever the commercials were least short that could be acted upon.

In any regard, while I would continue to argue that the maximum chances for a silver price explosion would be when the commercials are least short and most long, like now, for the same reasons I have always raised, there is a very special reason for me to feel this way at this time. As I indicated above, I canâ??t recall a time when all the stars, planets and moons have been as aligned as they are now for a sudden and shocking revaluation of the price of silver. I hear the term, â??the great resetâ?•, often and must confess that I am not quite sure of its validity in the general sense. But I would whole heartedly agree with there about to be a great reset when it comes to the price of silver. In fact, Iâ??ve been waiting for the great reset in the price of silver from when Izzyâ??s challenge led me the baptism of understanding as to why silver was so darn cheap to begin with.

Now, after what is going on near 40 years, there is not the slightest doubt in my mind that it has been COMEX positioning at the core to why silver is so cheap. And knowing from history that all price manipulations must end and end suddenly, all that remains is trying to anticipate just when the sudden end to the COMEX silver manipulation will arrive. Would it end when it was most beneficial to the manipulators (the COMEX commercials), or would it be when it was most harmful to them (aka, full pants down)? Itâ??s got to be one or the other.

The advantage to playing it my way is that, by definition, silver prices are always much lower after the commercials have whittled down their short positions and beefed up their long positions, as opposed to when they are maximum short and minimally long. The added kicker is that when the commercials are minimally short, like now, is that a price rally of some significance is practically assured.

As far as what Fridayâ??s new COT report might indicate, the sharp selloffs into yesterdayâ??s end to the reporting week, interspersed with the late-day rally on Friday, suggests managed money selling and commercial buying, although itâ??s difficult to say by how much, given the already quite bullish condition of the market structure in both gold and silver. I would expect new managed short selling in silver, hopefully re-instating the shorts which covered in the prior reporting week and maybe more. In gold, the new managed money longs that plowed into gold on Fridayâ??s rally will likely be gone and, hopefully, then some.

Handicapping short-term price moves is always a foolâ??s errand, made more so on dayâ??s (like today) that feature interest rate decisions by the Federal Reserve. I find such days and the reasoning applied to what that means to silver (and gold) prices particularly tiresome, since prices move strictly the way the COMEX commercials wish them to move. Although, I donâ??t discount the commercials using Fed decisions as a cover story for whatever that suits them â?? that includes perhaps using the Fed as an excuse to get things rolling to the upside. Of course, time will tell.

Gold and silver prices have recovered from the two-day blast to the downside, but prices are still lower as I send this to have lowered the total loss to the 8 big gold and silver shorts by $800 million to $7.6 billion â?? although prices are moving around like a Mexican jumping bean. Â Incidentally, the silver raptors are in the hole to the tune of around $200 million on their net long position of, at least, 36,000 contracts – a loss they could cause to disappear in a flash whenever they choose.

Ted Butler

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Silver – $21.75Â Â (200 day ma – $23.49, 50 day ma – $22.91, 100 day ma – $23.66)

Gold – $1838 Â Â Â Â (200 day ma – $1843, 50 day ma – $1882, 100 day ma – $1890)

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