June 2, 2021 – All Eyes On The COMEX

Itâ??s hard to read or listen to anything regarding the price of silver without some reference to the COMEX (the Commodities Exchange, Inc.). Thereâ??s good reason for this, as this exchange is the largest precious metals derivatives exchange in the world and has been for decades. As such, it is at the heart of the price setting mechanism for silver and other metals. To some, this is normal and the way it should be; to others (such as myself), this distorts the price of silver away from what it would be if the COMEX didnâ??t exist.

Certainly, there can be no denial that short term price fluctuations are generated on the COMEX, as the ongoing daily interactions between real producers of silver and the industrial and investment buyers of that metal wouldnâ??t cause the sudden price moves generated in COMEX paper contract dealings. Besides, the plethora of government prosecutions and settlements and convictions for spoofing and other short-term shenanigans serve as ample proof that short term silver prices are set on the COMEX.

The idea of the mis-pricing of silver due to dealings on the COMEX is embraced by more each day, including more than 90,000 new participants on reddit/#wallstreetbets in just the past few months and countless thousands elsewhere. No other commodity, not even gold, commands such public fervor as silver. This is no accident. Even the slightest objective digging into the facts surrounding silver points to an extreme disconnect between its price and the true supply/demand of the metal. Thatâ??s where the focus on the COMEX comes into play.

Iâ??ll spare you today my lecture on how the concentrated short position of a handful of traders is responsible for silverâ??s continued suppressed price, as I am confident in time that will come out. Instead, I would like to share a couple of new thoughts on the COMEX and its parent organization, the CME Group, Inc. For the benefit of full disclosure, I have included the CEO of the CME Group as well as its top regulatory official on all the articles I have forwarded to the CFTC and JPMorgan over the years, although I have never received a reply from anyone.

First, it seems to me that if an individual expressed repeated allegations of impropriety and illegality about the business practices of say, the New York Stock Exchange or the NASDAQ, that individual would hear from those organizations, particularly if the allegations were as specific as mine concerning the concentrated short position in COMEX silver futures.

But when you add in a growing grassroots movement, such as reddit/#wallsteeetbets, a reasonable person would conclude any organization facing such anger and contempt as the COMEX receives on silver, that the parent organization would strive to set the record straight and dismiss the allegations. That is, if the record could be set straight on the facts alone.

One thing I learned a long time ago is that when the baptism of enlightenment strikes someone on silver, as it struck me and countless others, now including the tens of thousands of reddit participants, it is not easily extinguished. Certainly, a continued suppressed price will not put out the fire, but only inflame matters. The CME Group is sadly mistaken, if it feels that ignoring the ongoing price manipulation on the COMEX will dissipate under continued price suppression.

It is a delayed reaction on my part to the Commodity Futures Trading Commissionâ??s May 3 response to my March 5 letter, in which the Commission did a complete about face from what it had previously wrote in 2004 and 2008 about the concentrated short position in COMEX silver futures that inspires these final thoughts about the CME Group. The CFTC is, obviously, the primary federal regulator, while the CME Group is the designated self-regulator in COMEX silver dealings, an SRO (a Self-Regulatory Organization), with the legal power and responsibility to make sure that its markets, at a minimum, are not manipulated but run fair and square. This regulatory structure makes the CME Group the front-line regulator of silver.

When the CFTC responded in lengthy public letters in both 2004 and 2008 that it found nothing wrong with the concentrated short position in COMEX silver futures (even though it initiated a formal investigation into this same matter later in 2008), it, essentially, let the COMEX and CME Group â??off the hookâ?• for having to respond to an issue that the Commission itself felt an obligation to respond to. After all, the federal regulator, the CFTC, took charge of the matter and it wouldnâ??t have been appropriate for the self-regulator, the CME, to say or do otherwise.

But in the Commissionâ??s new response of May 3, it certainly didnâ??t maintain that it found nothing wrong with the concentrated short position this time around.Â True, it didnâ??t rule the COMEX short position as being manipulative, but as it explained, it couldnâ??t comment on such matters under the law. Plus, it did say that it shared my concerns with the two divisions that matter â?? Market Oversight and the Enforcement Divisions.Â Again, this was about as starkly different a response it could issue compared to what it said in 2004 and 2008.

As such, it puts the CME Group in a much different position that it was in 2004 and 2008. No longer is the Commission letting the CME Group off the hook by declaring the Commission found nothing wrong with my allegations. In fact, it ups the ante on pressure for a response from the CME to allegations that the COMEX silver futures market is a manipulated market. To a self-regulatory organization being accuse of running an illegal and manipulated market would seem to be fighting words. Yet that is what I am accusing the CME of â?? running a crooked market. And the situation is made worse by the growing and independent criticism coming from the reddit crowd, whom Iâ??m not involved with.

In simple terms, the CME Group, a large publicly-traded corporation has been the main facilitator of the decades-old silver manipulation by allowing a handful of large traders to suppress the price with uneconomic and concentrated short sales. Without the assistance and tactic approval of the CME, the manipulation could have never existed. As such, it appears to me that as and when silver shakes off the shackles of the manipulative short selling, the CME Group will become a prime candidate for lawsuit for allowing something to occur it should have prevented. Yes, I know the CME is among the most formidable legal powerhouses and owns and controls any number of important elected officials, but the facts are so clear on its liability that it is a cinch someone will try to sue it.

But there is a way out for the CME Group that the Commodity Futures Trading Commission took a pass on, namely, merely explaining a few simple things. Like why COMEX silver has had the largest concentrated short position of any commodity in real world production terms. And why the biggest shorts have never bought back short positions on higher prices. And how silver prices can remain, essentially, unchanged despite numerous reports of a growing physical silver shortage. Direct answers to these questions will go a long way to explaining the matter away with little muss nor fuss.

Moving on to other matters, yet another well-written article concerning the ongoing shortage of everything and troubles in the world of supply chain logistics appeared in the NY Times the other day (it may be paywall protected, but I think can be accessed for free by registration). What made the article stand out was that it traced our current troubles back to Toyota Motorsâ?? introduction of Just in Time manufacturing and inventory control systems which date back more than 40 years.

https://www.nytimes.com/2021/06/01/business/coronavirus-global-shortages.html

The article in the Times stirred my memory of an article I wrote 19 years ago about taking my 23-year-old son to buy a pair of Timberland boots. Ross is now 42, with two sons of his own and as productive a member of society as is possible. In that old article, I explained how, thanks to just-in-time manufacturing and inventory, we couldnâ??t get his boots in his size and came home empty-handed. I went on to describe how that same cause affected palladium and the Ford Motor Company (which turned out to be a precursor of later and larger problems in palladium). I concluded with how this would come to silver one day, in the form of industrial user inventory panic buying. (For what itâ??s worth – silver was $4.50 back then).

https://www.investmentrarities.com/ted-butler-commentary-march-5-2002/

What I found fascinating about the new Times article was that it offered a no-nonsense remedy for our current shortage of everything â?? build inventories. Of course, thatâ??s easier said than done in times of shortage and attempts to build inventory by some will only exacerbate existing shortages â?? but some things are unavoidable.

Turning to silver, while Iâ??ve been harping recently about its unique position of being just about the only item in current shortage that is also an investment vehicle, that in no way diminishes its attraction for inventory building by users. In fact, silverâ??s unique dual demand profile â?? investment item and vital industrial component â?? sets the stage for a price blowoff that canâ??t be avoided. The only thing preventing that blowoff are a few big short crooks on the COMEX â?? whose ability to continue to suppress prices appears quite limited.

While silver prices are much closer to the price highs of the past ten months than the lows, there is no denying that prices are still consolidating since the highs of last August after surging from the artificial lows of last March. Ten months seems quite long when you focus intently on an item on a daily basis, as most of us do. On the other hand, ten months, or ten years for that matter, is but a blip in the full scope of time.Â Itâ??s all a matter of perspective.

Whatâ??s more important, while you are waiting for silver to surge higher, is to check and recheck the basic premise, even to the point of understanding why it hasnâ??t surged higher by now. This is something I do and have done continuously for many years and the more I do it, the more comfortable I become that silver has a destiny with prices so high as to sound outlandish to those not digging into the facts deeply enough. We all get hung up on the daily price action, so itâ??s important to look away from price to check if our understanding of the basic premise is intact.

Everyone can see that silver prices surged higher from less than $12 in March 2020 to nearly $30 by August and then traded between $23 or $24 and $29 since August. Looking at a price chart (everyday) only reinforces our price awareness. More difficult to see or remember is what transpired â?? event wise â?? over the past 14 or 15 months. Hereâ??s what I remember.

I remember or have come to know JPMorgan closing out all its COMEX silver and gold short positions

14 months ago and turning around and lending 300 million oz of silver to Bank of America and how that silver largely accounted for the bulk of the 500 million oz of silver that found its way into the worldâ??s silver ETFs and into the COMEX warehouse inventories. I remember JPMorgan settling with the Justice Department and CFTC last September and agreeing to a (yet another) deferred criminal prosecution agreement not to manipulate silver and gold any more. I remember how at the price lows of March 2020, both JPMorgan and the remaining 8 big shorts in silver and gold were dead even on their positions â?? JPMâ??s physical holdings of 1.2 billion oz silver and 30 million oz of gold and the 8 big traders, short positions in COMEX gold and silver. Today, JPM is ahead $30 billion and the 8 big shorts are out $14 billion (to say nothing of Bank of Americaâ??s $3 billion loss on leasing).

I also remember how prior to this January, there was no such thing as a grassroots reddit/#wallstreetbets movement in silver with close to 100,000 extremely enthusiastic members erecting buy silver billboards across the country. I remember how prior to the start of this year, there were no notable shortages of retail silver and sky-rocketing premiums and extended delivery delays. I remember when the US Mint, in accordance with law, produced enough Silver Eagles to meet public demand and didnâ??t blame the worldwide shortage of silver for not doing so. I remember how only a few held the CFTC in utter disrespect for not doing its job of preventing a manipulation of the price of silver, compared to the many of today. One of these days I hope to look back and remember when the many first realized that it was the concentration on the short side of COMEX silver that had prevented the price from reaching true free market levels.

So, while the price of silver has consolidated over the past 10 months, the underlying events have come fast and furious. Trying to balance these two phenomena mandates we try to step away from the daily focus on price (admittedly easier said than done) and keep in perspective the swirl of actual events. I guess it comes down to how important it is for silver prices to surge immediately or a bit later. Very few other investments are held to the immediate performance or else standard and neither should silver.

As to what we might expect in this Fridayâ??s COT report, I donâ??t imagine much positioning change. There were only 4 real trading days in this reporting week and the most exciting pricewise was yesterdayâ??s initial price surge, mostly in silver, but that faded into the close. Over the reporting week, total gold open interest fell by more than 20,000 contracts, but that looked mostly the result of deliveries. Silverâ??s total open interest was up by less than 1500 contracts, so itâ??s hard to envision much net positioning change. As always, what the 4 big traders do, among other categories, will be of maximum interest.

Iâ??d be negligent if I didnâ??t mention the effect the reddit-type crowd is having on selected â??memeâ?• stocks, like AMC, GameStop (still) and others that came under attention in January. While aspects about the trading phenomenon seem completely insane to me, I believe that whatâ??s occurring in these stocks is a direct harbinger of whatâ??s to come in silver for the simple reason that the silver story is a hundred times better than the story in any of the stocks exploding in price. Yes, silver has the 4 and 8 big shorts to contend with, but increasingly, these big shorts look doomed. Besides, in the long run (and maybe the short run) the big shorts are only making it better for those buying silver at suppressed prices â?? although that is not the big shortsâ?? intent.

Just about a year ago, gold rocketed higher by around $400 in little more than two months and silver ran by $12 over that same time.Â While no one can predict such movements in advance, everything I look at tells me that the reasons for such a move currently are a heck of a lot more persuasive today than they were back then.

At publication time, prices for gold and silver are slightly higher from where they closed on Friday, putting some additional financial pressure on the 8 big COMEX gold and silver shorts. At current prices, the 8 big shorts are another $100 million+ underwater, putting their total loss at more than $13.9 billion.

Ted Butler

June 2, 2021

Silver – $28.25Â Â Â (200 day ma – $25.83, 50 day ma – $26.40, 100 day ma – $26.41)

Gold – $1910Â Â Â Â Â Â (200 day ma – $1848, 50 day ma – $1794, 100 day ma – $1795)

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