

March 1, 2023 – On The Edge

A new director has been appointed at the Enforcement Division of the CFTC, replacing the acting director. The new director, Ian McGinley, comes with strong credentials in prosecuting complex financial crimes and, like the past few enforcement directors, hails from the US Attorney's Office of the Southern District of New York. Here's to wishing Director McGinley the very best in rooting out and ending the long-running COMEX silver manipulation, something that has eluded his predecessors for decades.

<https://www.cftc.gov/PressRoom/PressReleases/8667-23>

I recall writing similar sentiments upon the arrival of newly appointed Enforcement Division Directors going back 15 years or so, always with the hope it wouldn't turn out to be a case of "meet the new boss, same as the old boss". Unfortunately, despite investigations, formal and otherwise, white papers and for the past decade, complete radio silence on allegations of an ongoing price manipulation in COMEX silver, the manipulation still lives on – proven, no less, by data published by the CFTC, in the form of the weekly Commitments of Traders (COT) reports (now delayed).

While I intend to add Mr. McGinley to my list of officials I send all my articles to, it seems that developments beyond his or anyone's control would appear close to interceding in terminating the 40-year silver manipulation – with or without official action from the federal agency expressly-created to end such manipulations. Of course, I'm speaking of the not-to-be-messed-with growing physical shortage of silver in the wholesale market.

It would appear that all the signs (shrinking inventories and extremely frantic physical turnover) emanating from the physical silver market as a result of silver prices being kept suppressed for decades by manipulative positioning of paper contracts on the COMEX have come home to roost, or nearly so. The final sign, COMEX commercial (bank) buying on their deliberate take down in price over the past month would seem to complete the picture and sets up what could be the ultimate test of whether the manipulation is ending. Whenever this latest deliberate price take down is ended (I think it's mostly done), the ultimate proof will be in whether the collusive commercials on the COMEX then add or don't add to concentrated short positions on the next rally that develops.

Long-time readers know that I hold this out as the only thing that really matters and on every silver price rally over the decades the concentrated short position of, essentially, the four largest commercial shorts has always increased to the point of capping the rallies (although there have been signs of that changing over the past year or so). What's so interesting is that Director McGinley has come aboard at what appears to be the precise time the big concentrated commercial shorts on the COMEX may soon have to decide if the scam goes on in the next silver price rally or not.

I also can't help but wonder whether Director McGinley was fully briefed on who had been the main manipulator of the silver price over much of the past 15 years, namely, JPMorgan. While JPM has laid pretty low since its \$920 million fine and deferred criminal prosecution agreement in September 2020 for manipulating precious metals prices on the COMEX, it got off easy because the Justice Department limited its case to spoofing and not JPM's overall manipulation of silver and gold prices. By the way, deferred criminal prosecution cases are quite rare, yet this was the second one for the crooks at

JPMorgan, as it got one in 2014 for its role in the Bernie Madoff scam.

And while JPMorgan has laid somewhat low in overtly manipulating silver prices of late, it is still the dominant "read monopolistic" force in precious metals, something that Director McGinley knows or will come to know if he inquires. The latest sign of that is how JPMorgan turned up as the main issuer of COMEX silver deliveries over the past two days in the March contract, issuing more than half of total deliveries, including from its house account for the first time in a year. McGinley will not have to dig deep to uncover the role of JPMorgan over the past 15 years, or the facts of the ongoing COMEX silver manipulation – the real question is will he? He will if he understands how much the public has been hurt by this manipulation and if he is true to his oath of office.

Next is the matter of the delayed COT reports. While there have been no new updates from the CFTC since Feb 24; according to that statement, the Commission intends to expedite the publishing of delayed reports with the goal of getting current by mid-March, now only two weeks from today. Therefore I would imagine the next report, for positions held as of February 7, may be published later this afternoon and after I send this article out. If that's the case, then the COT report for positions held as of Feb 14 may be published this Friday. In any case, I'm not going to write a separate analysis for each delayed report and will summarize any reports published in the weekly review.

However, what makes the COT report for the period ending Feb 7 so interesting, regardless of whether it is published this afternoon or not, is that the big selloff commenced within this reporting week, specifically, the near \$100 gold price and \$2 silver price smashes on Feb 2 and Feb 3. Originally, before the CFTC announced the delay in publishing COT reports, I had estimated as many as 30,000 net gold contracts and 10,000 net silver contracts may have been sold by the managed money traders, in this reporting week, ended Feb 7.

But in further considering the price action for this reporting week, now I'm not so sure. I do think that many contracts may have been sold by the managed money traders, but since there was strong price action into the morning of Feb 2, I believe there was significant managed money buying into what were new intraday price highs in both silver and gold. What I'm saying is that 30,000 net contracts in gold and 10,000 net contracts in silver were probably sold by the managed money traders as the commercials rigged prices lower, but since the managed money traders likely bought more into the price highs of Feb 2, I now question if the net selling by these traders will be that high in the COT report as of Feb 7.

More importantly, of course, is not what the positioning on the COMEX was on Feb 7, but what it is as of yesterday's close to the current reporting week – which we won't get for weeks. That's why I suggested the Commission start publishing the most current data first and fill in the previous reports as time allowed. As far as a prediction of how the most current positioning sits as of yesterday, I would estimate that there has been some 40,000 net contracts of gold sold by the managed money trader and 20,000 net contracts in silver from the last published report for positions as of Jan 31.

Turning to other matters, on Saturday, I made a brief comment about how the March/May COMEX silver spread differential had tightened in to 12.6 cents from 20.6 cents at the start of February and how this was somewhat unusual and, by itself, an indicator of physical tightness. At the risk of sounding a bit "wonky", I'd like to more fully explain what I was talking about.

Generally speaking, most of the time, the gold and silver spreads on the COMEX trade at full contango

or full carrying charges. Since gold and silver are considered by many to be inexhaustible in terms of supply (a notion I basically agree with for gold, but, obviously, not for silver), the spread differentials between the various months on the COMEX usually reflect the cost of carry, or what it would cost to take (stop) delivery of a near month as it enters the delivery period and hold (or carry) the physical commodity until the next delivery month comes up for delivery and the physical commodity is then redelivered and the transaction is closed out.

The costs include standard storage and insurance charges, with the biggest expense being the cost of tying up the cash necessary to hold the physical commodity until the next delivery or, in other words, current interest rates (since these cash and carry transactions are financed at prevailing short term interest rates). Last year, for instance, before interest rates started rising sharply, the spread differentials between the various COMEX trading months in gold and silver were quite tight, reflecting the then-very low short term interest rates. Today, with such interest rates close to 5%, the spread differentials have widened significantly to reflect the far-higher interest rates.

In a simple illustration, on Feb 1, with the spread differential between March/May silver at 20.5 cents or annualized at \$1.23, and with the price of silver near \$24, the annualized cost of carry was 5.125%. Subsequently, short term interest rates rose by around 0.25% through today, the day of the start of the March delivery process and all things being equal, the March/May silver spread differential should have also widened by that same 0.25%, or to 5.375%. However, instead the March/May silver spread differential narrowed yesterday in to 11 cents, or 66 cents annualized, which at a silver price of \$20.96, came to 3.15% – a notable tightening. This may not seem like much, but these spread transactions require minimal margin of around 2 cents (\$100) per spread or so, making a 9.6 cent (\$460) move either quite profitable or expensive to holders.

Please be sure that this was a spread movement unique to silver, as on Feb 1 the equivalent cost differential in the comparable April/June gold spread was 5.22% and as of Monday was up to 5.49%, reflecting fully the increase in short term interest rates over the past month. The only plausible, if not possible explanation for why the spreads in silver tightened as dramatically as they did was due to the short sellers in the March/May spread sensing the developing physical silver tightness, causing them to be much more aggressive in buying back the spreads – causing the spread differentials to narrow so noticeably. Thus, another indicator of physical silver tightness.

The new short report on stocks indicated that the short position on SLV fell by a bit over 3 million shares to a shade under 37 million shares, as of Feb 15. This is the lowest short position in SLV in six months, or back to when I started complaining to the SEC and BlackRock about the excessive and likely, concentrated, short position in SLV.

<https://www.wsj.com/market-data/quotes/etf/SLV>

I'm still of the opinion that the effective short position in SLV, is much less than is being publicly reported, say now well-below 15 million shares, as a result of the sudden big deposit of 25 million oz a month or so ago. As I described a short while back, I believe the reason the short position hasn't dropped by that amount is that it would potentially cause too close of a connection to the big deposit and have raised uncomfortable questions, starting with confirmation that the short position was exceedingly concentrated and held by one entity. While it's too soon to know for sure, we've had two 3 million share reductions back-to-back, and may still witness more of the same as time goes by.

I'm just glad the short position in SLV is headed in the right direction, namely, lower, as it does support my contention that the SEC and BlackRock recognize this and are working behind the scenes to get the short position down.

Summing up, while not impossible, continued sharp price smashes in silver and gold seem unlikely. I base this on a full month's worth of engineered price rigging by the COMEX commercials, which seems to be abating and, largely, run its course. In silver, all three of the key moving averages have been penetrated to the downside and in the last to be penetrated, the 200-day moving average, there seems to be no follow-through to the downside. Plus, technical indicators in silver, as well as gold, have hit oversold extremes not seen since the price lows of last fall.

The real wonder, however, is in how the collusive COMEX commercials were able to rig prices as sharply lower as they have, particularly in silver, in the face of what must be described as a growing physical shortage. Perhaps Director McGinley might think about the logic of lower prices in the face of varied documented evidence of a physical silver shortage. After all, such thinking is what led me to discover the COMEX silver manipulation in the first place, nearly 40 years ago.

Finally, here's an article I just wrote for Investment Rarities, Inc., which I thought subscribers might be interested in.

On The Edge

It appears that we are on the threshold of being able to buy silver at prices that will never be lower. Silver prices are set to embark on an upside price journey that will reward those who own it in life-enhancing ways. It only seems logical to buy what is arguably the most undervalued investment asset of all after it experiences a price drop. It's not just a question of being presented with the unexpected opportunity of what looks to be the final mark down of price in silver. It is more the near-certainty of the forces that will drive silver prices sharply higher. No greater upward price force exists than a physical shortage or more demand than supply. On November 18, the Silver Institute estimated a silver deficit (more demand than supply) in 2022 of 194 million ounces. Later, on Feb 8, the estimate of the shortfall of supply was revised upward to 253 million ounces, the largest physical deficit in decades.

These latest statistics from the Institute cap a decade in which silver supply hasn't increased while demand has. Silver's continued low price has discouraged new supply and encouraged new demand, resulting in the largest physical deficit in decades. The stagnant physical supply and growing demand is confirmed by the rather shocking draw downs in recorded inventories on the COMEX and elsewhere.

As to why the law of supply and demand doesn't appear to be working in silver, you only need look at the ongoing price manipulation by large banks on the COMEX, mostly through the short selling of paper futures contracts. However, the manipulative activities of the banks on the COMEX which caused the recent sharp selloff in the price of silver complete the prospects for an imminent price

explosion. These manipulative banks also see that the law of physical supply and demand is about to kick in with a vengeance and they are buying as many silver contracts as possible, in the only manner possible for them, namely, by rigging prices lower to induce speculative selling.

The bottom line is this – the physical deficit and shortage in silver has become so obvious and pronounced and the resultant draw downs (and turnover) in recorded inventories have become so extreme, that continued low prices seem near-impossible. Add to this explosive price mix a pronounced buying spree by those responsible for the long-term price manipulation and sharply higher silver prices are as close to guaranteed as possible. It's only a matter of time before silver prices surge and not much time at that. As an added bonus (as if one was necessary), the very high premiums on retail forms of silver have shrunk dramatically, offering buyers a separate and significant reason to take advantage of a price sale that won't last. It's been quite a long time that both wholesale and retail silver prices have been discounted and I expect that won't last for long.

(On a housekeeping note, I am switching to the May COMEX silver contract, from the March contract, which has entered the delivery period. This switch adds about 11 cents to the price of silver).

Ted Butler

March 1, 2023

Silver – \$21.10 (200-day ma – \$21.00, 50-day ma – \$23.12, 100-day ma – \$21.97)

Gold – \$1845 (200-day ma – \$1782, 50-day ma – \$1869, 100-day ma – \$1795)

Date Created

2023/03/01