March 16, 2022 – No Choice

A week ago, it was the strongest margin call tornado to ever strike the banks (mostly US banks) in NYMEX crude oil, COMEX gold and silver and LME nickel, to the point of threatening the financial system itself. At its peak, the tornado saw a handful of banks out $20 billion (or more) in NYMEX crude oil alone, plus billions more in gold, silver and nickel.

Conditions proved so dire in nickel, that the LME actually defaulted in every sense of the word, in order to save the banks, led by JPMorgan. No actual contract or exchange defaults occurred (or were reported) in oil, gold or silver, as the sharp engineered price smash since the price highs of a week ago got the bank shorts off the hook. With the benefit of hindsight (under which no one is ever wrong), itâ??s easy to see the banks had no choice but to rig a sharp selloff, or for the regulators (the CFTC and CME Group) to look the other way.

The alternative, of course, was for the regulators to have stepped in well-before prices had risen and cracked down on the banksâ?? concentrated short positions in oil, gold and, especially silver. But having failed to do so, for decades, the regulators also had no choice to remain silent and to pretend not to notice as the banks resorted to their only recourse available (aside from simply defaulting, as they did on the LME), namely, rig prices lower in the hopes of relieving margin call pressure and shaking out enough long participants to save the day.

While I wonâ??t pretend to have â??calledâ?• for this selloff, the conditions for the selloff were as clear as could be â?? the bearish market structures in COMEX gold and silver â?? which could only result in a full pants down blowoff to the upside or yet another wash, rinse, repeat flush out to the downside. However, what I believe I was most clear about was that in the event of a sharp selloff, in the face of near universal recognition that silver was in a profound physical shortage on both a retail and wholesale basis and, quite frankly, was singularly depressed in price by every possible absolute and relative measurement, that if we did selloff sharply, that all those expecting higher prices would see why we sold off.

It was my hope and expectation that regardless of the reasoning and approach that backed the pronouncements for higher silver prices â?? be they technical, momentum, or actual supply/demand fundamentals â?? that any failure to immediately liftoff would elicit universal recognition for the real reason why. That reason, of course, is the manipulative paper positioning on the COMEX, driven by the obvious collusive behavior of the commercials (banks). So obvious is it that this was the sole cause behind the selloff that all I can do is await that collective verdict. But any analyst or commentator that fails to make this connection is suspect in my mind.

Cutting to the chase, since we have tipped to the downside, weâ??re back to the question of how much of a cleansing of paper positioning would constitute a sufficient flush out? In NYMEX crude oil, based upon last weekâ??s COT report and expected changes in this Fridayâ??s report, the $35 drop from the peak seems sufficient through yesterdayâ??s trade to have flushed out the required number of speculative longs.

I hadnâ??t mentioned it before, since it was somewhat esoteric, but the managed money speculative longs (the main counterparties to the bank shorts) appear to have positioned themselves for the price run up in crude oil mostly by buying heavily in bull spreads, or the buying of nearby months and simultaneously shorting of more deferred months, to play the increasing backwardation. However, that process now appears to be largely complete, with the managed money bull spread longs sufficiently liquidated (although that is clearly a guess on my part).

In COMEX gold and silver, the market structures in each market were bearish as of the latest COT report and itâ??s not likely (or even possible) for the market structures to have turned bullish over the brief time of the selloff so far. We havenâ??t even penetrated any of the key moving averages to the downside in gold and silver (or crude oil, for that matter). So, if we are to witness a typical complete flush out to the downside, including a decisive penetration of all key moving averages, then we have a long way to go before we bottom and turn up in gold and silver â?? including the routine brain-dead managed money shorting. But, despite the selloff so far, Iâ??m not so sure we get the typical blasting to the downside from this point.

Perhaps thatâ??s wishful thinking on my part, but there are a number of developments that argue against yet another full-fledged wipeout to the downside in silver. First, thereâ??s the aforementioned pronounced physical tightness, both retail and wholesale, plus the fact that silver â?? of all commodities â?? is dirt cheap by any measurement possible. In fact, it borders on the absurd that with actual silver physical conditions as tight as they are, and with just about everyone who is semi-conscious a raving bull that we are still staring down the gun barrel of a potential flush out to the downside. And all this just as what many consider a major market â?? LME nickel â?? goes into default because a number of short sellers got into trouble.

What the events in LME nickel prove (aside from the fact that JPMorgan has been shown again to be the master market criminal of our time) is what happens when short sellers get in over their heads and rush to buy back short positions on higher prices. In other words, what just happened in LME nickel (again) shows what happens when short sellers have shorted too heavily. The remarkable thing in LME nickel is that unlike COMEX silver, nickel wasnâ??t cheap when the short covering commenced in earnest â?? having been at all-time price highs **before** prices suddenly doubled in little more than a few hours and causing the LME to stop trading, bust trades and thoroughly disgrace itself (again).

Of course, the positive thing about the default in LME nickel is that it serves as a template for what will happen in COMEX silver should the concentrated shorts ever try to buy back short positions on higher prices â?? something that has never occurred. All those calling for significantly higher silver prices as and when the concentrated COMEX commercial monopoly on the short side ends (myself certainly included) were just given graphic proof in LME nickel that they are correct. Only, the example in LME nickel woefully understates the actual situation in COMEX silver.

For one thing, the concentrated short position in COMEX silver is the most extreme of all commodities, making the equivalent short position in LME nickel (where accurate statistics are not available) look like a joke. Had there been close to an equivalent concentrated short position in LME nickel, the shorts would have been destroyed long before the one-day doubling of price that caused the exchange to default. In COMEX silver, the concentrated short position has existed for nearly 40 years â?? fully explaining the depressed price over this time. No other commodity, except COMEX silver, has been similarly suppressed for so long.

Whatâ??s frustrating is that while most everyone seems to recognize that silver is super-cheap, the sole reason for the depressed price â?? the concentrated short position â?? is hardly mentioned.

Iâ??m hopeful that the events in LME nickel might contribute to greater appreciation of the concentrated short position in COMEX silver – not that nickel had a similarly-sized manipulative short position (it didnâ??t), but because of the basic short and short covering connection.

Perhaps the most unfortunate aspect to the ongoing COMEX silver manipulation is the complete and utter failure of the regulators (the CFTC and CME Group) to do anything about it. Heck, they wonâ??t even acknowledge a problem might exist, despite a growing chorus of public commentary and this behavior is by some who swore an oath to uphold the law. Unfortunately, it appears the regulators also have no choice but to pretend there is nothing wrong with 8 or fewer banks to maintain a strangle-hold on the short side of silver more extreme than in any other commodity. After all, how can a regulatory organization acknowledge it missed the most obvious price manipulation â?? its number one mission â?? for decades and avoid its own demise?

Looking ahead, regardless of whether we face another clean out to the downside, itâ??s hard to imagine the persistent and growing physical tightness in both retail and wholesale forms of silver dissipating under the prospect of continued depressed prices. Thatâ??s simply not how the law of supply and demand works. Low prices encourage demand and discourage supply. The last thing missing presently in silver is a lack of demand or an avalanche of supply – precisely because prices are too low. Continued low prices will only exacerbate the current tightness. So, while the collusive and concentrated COMEX commercial shorts may succeed in pressing prices lower still, we must look ahead to see where this will turn out. You donâ??t increase supply and reduce demand â?? which what is needed in silver – with low prices.

Of course, there has to be something accounting for actual supply being sufficient to satisfy demand in silver of late and, as Iâ??ve been reporting, the explanation has been JPMorgan supplying sufficient quantities of physical silver in the form of deliveries on the COMEX and, most likely, in selling shares of SLV. JPMorgan has issued, in its own house account, 33% of the total silver contracts (3419 out of 10,373) issued this month in the March deliveries, after delivering hardly any in the previous year. Thatâ??s more than 17 million oz in COMEX deliveries (and maybe 30 million oz in sales of shares of SLV).

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

I would contend that these physical sales of silver by JPMorgan have prevented the developing physical shortage from resulting in higher prices. In the truest sense possible, the release of physical silver from JPMorgan has enabled the collusive COMEX commercials to have their way with silver prices. Without the physical sales of silver by JPM, prices would have had to rise. In effect, JPM bailed out the concentrated COMEX silver shorts. Itâ??s not hard to see where JPMorgan got the physical silver to deliver, as it spent nearly a decade accumulating physical silver (and gold), and, in effect, is the only entity holding physical silver in sufficient quantities with which to deliver.

More important is trying to understand why JPMorgan would bail out the COMEX shorts and what it intends in the future. Here, of course, we are forced to speculate, as none of us can know what JPM intends. Despite the obvious relief that JPMorgan has provided to the big COMEX silver shorts (an illegal act, but who cares, since itâ??s JPM), and the selloff that relief has enabled, it is important to recognize that JPM exists for one purpose and one purpose only â?? to make as much money as it can. So, while JPMorganâ??s release of physical silver has impacted silver prices negatively in the short term, it is still a few tens of billions of dollars ahead from where it was just two years ago.

Therefore, my best effort to explain JPMâ??s obvious release of physical silver is that in its perspective, now was not the right time to allow silver to explode in price. With everything going on in the markets and in the world, it appears to me that JPM, for its own reasons, decided that now was not the time to let silver run free. Try to think of this as JPM owning the golden goose (its massive physical silver and gold holdings) and instead of cooking and killing the goose, it seeks to preserve the gooseâ??s laying of golden eggs for as long as possible, by not killing those (like Bank of America) immediately, but keeping it alive and able to pay on its counterparty position for as long as possible.

Iâ??ve also considered what others have suggested in the past, namely, that JPMorgan will never let silver prices run free and will use its accumulated stockpile (in excess of one billion oz) to keep silver from ever rising in price. But this alternative version is in conflict with JPM not maximizing or pressing its advantage which is very unlike JPM. And I reject completely the idea that JPMorgan originally acquired all the physical silver and gold it did accumulate at the direction of the US Government.

The bottom line on all this is that we are still set up to explode upward in silver, but that one entity, JPMorgan, controls the timing. Hey, JPM controls just about everything in every market (with LME nickel being a current example), so Iâ??m not suggesting anything really different in silver. Â But the bright side to all this is that any investor, large or small, can do something constructive about this in silver that canâ??t be done in most things, like nickel. How does an investor seek to capitalize on the LME nickel default? I wouldnâ??t begin to know how an investor could buy nickel directly. But with silver, there are countless ways to own silver away from the COMEX and that is a big and positive factor. Plus, since silver is so cheap, due to the manipulation, itâ??s available at close to inflation-adjusted all-time price lows. Heck, forget inflation-adjusted â?? try to name a vital commodity trading at 50% of its price high of more than 40 years ago or 11 years ago.

As far as what to expect in Fridayâ??s COT report, given the sharp price takedown through yesterdayâ??s cutoff, an improvement in market structure seems inevitable. Gold was down as much as $130 over the reporting week, with silver down a much as $2, although none of the three key moving averages in each were penetrated to the downside. Therefore, it seems impossible for there not to have been commercial buying and managed money and other speculative selling (since the commercials always buy on sharp selloffs â?? itâ??s written in the Bible).

The only question is how much commercial buying occurred and by which commercial categories, as well as the selling mix of the managed money and other assorted speculative sellers. I canâ??timagine the commercial buying to be reported coming close to the previous monthâ??s more than100,000 contracts of commercial selling in gold, or more than 35,000 contracts of commercial selling insilver, and such a complete unwinding represents the bear worst-case from here. Putting exactnumbers on Fridayâ??s report seems impossible, but I would expect managed money long liquidationin silver and gold, along with smaller non-reporting trader selling in silver.

The big shorts in gold and particularly in silver were clearly bailed out by JPMorganâ??s release of physical metal and it remains to be seen how aggressively the bailed-out shorts press their advantage, since they always seemed to go for the jugular in the past. Of prime concern is how many analysts and commentators who were and are bullish recognize why we sold off.

The sharp downdraft in gold and silver prices these past few days certainly brought great relief to the 8 big COMEX gold and silver shorts â?? and just in time for the upcoming close to the first quarter. At publication time, the 8 big shorts were better off by a massive $2.7 billion, to $11.9 billion from Fridayâ??s close. Similarly, Bank of Americaâ??s open loss contracted by an even sharper $4 billion to $7.4 billion. JPMâ??s total profit on its physical silver and gold holdings and derivatives position held by BofA slipped to $36 billion

Ted Butler

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Silver – $24.90Â Â Â Â (200 day ma – $24.20, 50 day ma – $23.88, 100 day ma – $23.67)

Gold – $1915Â Â Â Â Â Â Â (200 day ma – $1817, 50 day ma – $1867, 100 day ma – $1836)

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