

## March 3, 2021 – Getting Closer to Home

Although it's been 50 years since that tune by Grand Funk Railroad was on the pop charts, it's been playing in my head since reading an article on Bloomberg Law on Monday (hat tip to John Adams from Australia). First, here's the song <https://www.youtube.com/watch?v=8cR1-UAPPos>

And here's the article <https://news.bloomberglaw.com/health-law-and-business/spike-in-silver-prices-has-similarities-to-gamestop-trading-regulators-on-alert>

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The article was written by attorneys from Clifford Chance, a "white shoe" law firm said to be among the ten largest in the world, whose clients are typically large financial institutions. I'm highlighting the article because I believe it is the best I've read to date describing the circumstances and likely potential outcomes from the recent kerfuffle in silver prices and the whole silver short squeeze movement on social media.

Initial reactions to the article mostly interpreted it as leaning toward the CFTC investigating any wrongdoing on the part of the many retail buyers on Reddit and Robinhood and elsewhere as artificially boosting the price of silver; but a closer reading suggests that is just one of the possible outcomes and, from prior regulatory precedent, not one that the CFTC has pursued in the past. I have to emphasize that this was a well-thought out piece that needs to be read carefully to capture its essence.

Where I get off invoking Grand Funk is because the article came close to capturing the core of my allegation that the price of silver has been suppressed by an excessive institutional short position on the COMEX, held by a very small number of traders. The article cites the case of the "London Whale" when in 2012 a trader from JPMorgan amassed a large short derivatives position in credit default swaps that ended in multi-billion dollar losses to the bank (along with nearly a billion dollars in fines) when other hedge funds detected the vulnerability of the short position and successfully attacked it.

The Bloomberg Law article points out that the CFTC could have moved against those attacking JPM's large credit default swap short position, but chose to focus on JPM for amassing the large short position in the first place. That precedent, the article suggests, could be the template for the CFTC to focus on a large short position in silver should such a short position exist and it could be shown the shorts were "defending" the short position.. Alternatively, if it were to be shown that large institutional long traders were goosing the price, the regulators could come down on them.

The authors of the article did not suggest they knew which it was – large long "momentum" traders seeking to boost silver prices artificially or large short traders seeking to "defend" their positions by suppressing prices. The intent of the article was to lay out the case as objectively as possible without taking sides. Again, they did a magnificent job, in my opinion. All that said, let's look at facts not included in the article.

First, the comparison of silver with GameStop is curious. Yes, there does appear to be a Reddit/WallStreetBets connection as related to a large short position in each and a resultant price rally. But GameStop rose as much as 25-fold (2500%) within a matter of days, while the best silver was able

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to manage was maybe 15% or so before falling back. A 15% rally is enough to trip off a CFTC investigation?

In addition, the short position in GameStop was documented as 70 million shares (equal to total shares outstanding) at year end and is now down to 16.5 million shares, clear proof that the more than 75% reduction in shorted shares bought back drove prices higher. In silver, few can even identify the big concentrated short position and those that can will note that little short covering has occurred.

So, it comes down to a matter of whether big institutional longs "goosed" the price on the limited silver price rally or whether the subdued rally was the work of big institutional shorts "defending" their short positions by capping prices with additional silver short sales as the attorneys at Clifford Chance stipulate. Here we are fortunate to have verifiable documentation from the CFTC itself, in the form of its weekly Commitments of Traders (COT) report. And if the agency is seeking to uncover whether it was institutional longs goosing or institutional shorts defending the price, what better data to examine than its own?

The data in the COT report couldn't be clearer. For the reporting week ended Feb 2, which encompassed the entirety of the three day \$4 (15%) silver rally, the 4 largest shorts added 6672 contracts (33.4 million oz) of new COMEX shorts, while the 4 largest longs "get this" sold and reduced their long position by 3700 contracts. In fact, the managed money traders, most often considered price momentum buyers, actually sold more than 5000 longs that reporting week. (Smaller non-reporting traders were big buyers that week, so if the CFTC tries to show many hundreds of small traders are responsible for price manipulation, it will get laughed out of court).

The evidence is clear "the 4 biggest institutional shorts added virtually all the new short positions the week of the silver price rally and ended up with their largest short position in nearly a year. The 4 largest longs, as well as all other institutional longs were big net sellers as well. Thus, according to the learned "white shoe" lawyers at Clifford Chance, there is proof the big shorts were defending (capping) prices and the complete absence of any proof or the slightest indication of institutional price goosing. It just can't get any clearer.

So how in the world can the silver price suppression continue to exist? I believe I know the answer to that question and a big part of the answer comes as a personal confession. The answer involves the mechanics of the price suppression being so complicated and sophisticated that it remains largely unseen – hidden in full view. It's not hidden to me, but it is hidden to most. Here we have the recent outbreak of a social media movement involving tens of thousands – akin to spontaneous combustion "about squeezing the silver shorts, yet not one in a thousand can identify the silver short position that should be squeezed.

The personal confession part involves me not doing a good enough job in explaining the short position. I've had 35 years to explain it and while more observers than ever have concluded that silver is manipulated and suppressed in price, not near enough understand exactly how the scam works. More people know, intuitively, that silver is artificially depressed in price, but not the mechanics of the manipulation.

Trying to be objective, I think it's more a matter of the issue being complicated than in me not trying hard enough to explain it, but the result is the same, namely, the manipulation still exists. I know when I talk of the concentrated short position, peoples' (hopefully not many subscribers') eyes glaze

over. It has taken years for the COT report to be included in market analyses, yet the idea of concentration, a subsection of the report, has been raised by so few commentators that I find it embarrassing.

Let me try to make it simple – the price of silver is as cheap as it is because 4 or fewer large institutions hold a massive short position and are defending their position by adding new short positions whenever prices rise. As a result of this price defense, the concentrated short position in silver is way out of line – much larger – than in any other commodity. It's also true that the big shorts buy back added short positions on rigged price selloffs and have managed to keep prices contained for decades. But overall conditions are not favorable for the big shorts to contain silver prices for much longer.

While I freely admit at failing to do a better job in explaining something I see so clearly, please do not take that to mean that we are not getting much closer to home – with home being defined as the silver price suppression coming to an end. Yes, it is coming to an end much later than I would have imagined and at a pace that now seems surreal in the same sense of slow motion experienced in a car accident. However, the overall circumstances are not that much different than what I previously envisioned – an investment surge, soon to be followed with an industrial user surge.

All the signs are there; the tightest and highest premium retail shortage on record and clear indications of wholesale tightness like never before, as there is no other way to describe the prospectus changes in SLV and SIVR. The massive three day deposit of 110 million oz into SLV, followed by redemptions of 70 million oz smacks of big accumulation of physical metal via conversions. Sure, the big shorts won't go down without a fight and must be expected to rig sharp selloffs (like today), but suddenly they are in the fight of their lives, what with apparent physical accumulations by both big buyers and an army of smaller buyers. There's no question that in the final analysis, physical trumps paper and that is precisely what is unfolding.

On a broader perspective, away from the remarkable developments specific to silver over little more than the past month, the longer term outlook for silver has never been brighter. The ongoing push to electrification in every aspect of modern life, the move towards clean energy, the obvious signs of strain on resources of every type (particularly metals) and the strains and breakdowns in supply lines of every type all point to silver being in much greater demand than can be supplied.

I have to laugh at those declaring that a shortage in silver is impossible. Not only is a shortage possible in any industrial or consumable commodity, the signs of shortage in silver in every form are everywhere. What's lacking is any reasonable expectation for some sudden surge in supply. Demand is no more than the ability to write out a check in a world being flooded with money creation; while supply requires the blood, sweat and tears of physical production and the many years of mine development needed to bring physical supply to market.

And the nonsensical stories that the big shorts are fully hedged with physical silver are sounding more and more desperate. What's the purpose of holding physical silver that is fully hedged? Who would do such an asinine transaction on a long term basis? If one is worried about silver declining in price, then sell it and move on. The constant talk of the big shorts holding physical metal is one of those things that sort of sounds good until you think it through and discover it makes no sense.

Turning to other matters, yesterday's COMEX warehouse statistics indicated that Scotiabank's

gold and silver warehouses have ceased to exist, either vaporized by aliens or more likely transferred to Manfra, Tordella & Brookes, an established COMEX-approved warehouse operator. I would imagine this brings Scotiabank at or close to its long-announced exit from precious metals, whose entry via the purchase of Mocatta Metals from Standard Bank a quarter century ago was ill-informed from the get go.

I don't know much about the particulars of this warehouse transfer, but do know that the overall environment for banks seeking to join in on the short side of COMEX silver (and gold) has darkened over the past few years. What with all the recurring regulatory fines and deferred criminal prosecution agreements for wrongdoing and manipulation in COMEX silver and gold, what legitimate bank in its right mind would willfully seek to engage in the vermin-infested world of the COMEX? Particularly now that the biggest crook of all, JPMorgan, has slipped out from its former price-controlling short position?

I know that the repeated price beatings in the midst of a documented physical silver shortage are particularly hard to reconcile, but that's the way it is. Yes, it would be better if the CFTC would get off its duff and address the matter directly and if the moronic excuses for why manipulation doesn't exist weren't offered so arrogantly, but that's also the way it is. Yes, it would be better if silver prices weren't manipulated and suppressed, but had that been the case, no one would have been able to buy silver as cheaply as has been the case.

As far as what to expect in Friday's COT report, we just witnessed one of the largest reporting week price declines in gold ever, as prices fell a full \$100 at yesterday's cutoff lows. Plus, in classic salami-slicing style, gold prices made new lows every day of the reporting week. Finally, total open interest declined by 14,000 contracts on the reporting week, although deliveries against the March contract likely accounted for a small amount of the reduction in total open interest. Considering the obvious intent (and success) of the big shorts to rig prices lower in order to induce speculative selling so that the big shorts could buy back more shorts, it must be expected that they were successful, probably to the tune of 10,000 contracts or so.

While silver also declined through the reporting week ended yesterday by a sharp near \$2 at yesterday's price lows, it acted better at times than gold. Coincidentally, silver's total open interest declined by 14,000 contracts, same as in gold, but there were heavier deliveries in silver which no doubt explained more of the open interest decline. Still, speculative selling and commercial buying on the order of 5000 contracts wouldn't be surprising, although how it breaks down by categories is near impossible to tell.

Although sounding quite repetitive, particularly in gold, the market structure continues to look extremely washed out and bullish, so that any further significant commercial buying and non-commercial selling would be akin to ringing blood out of the proverbial stone. However, that's the thing with historic wash outs - they always go further than one would reasonably expect. We appear to be there, or have already been there in gold, so it's hard for me to see much further downside from here - although I've been saying that for weeks.

In silver, it's different in that there is more room for improvement on a pure historic basis, but when one factors in all that's going on in the real world of physicals and the clamor about silver price suppression on social media sites, it brings to mind just how blatant the big shorts might get to finally rid themselves of as many shorts as they can to the downside. No one ever went broke overestimating just how crooked the big silver shorts might get with their backs up against the wall (as is the case presently). Then again, even assuming they are capable of rigging prices lower, then what? In that

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case, prices only explode further and faster.

I still can't shake the significance of the document prepared by the lawyers from Clifford Chance. It lays out the issues at hand in silver, citing both the precedents already established by the CFTC and whether it was a case of the goosing of prices by large institutional longs or of a price capping defense by large institutional shorts. It would appear that the only thing missed by the lawyers was the knowledge that the data answering that question was already published by the CFTC in its own COT reports.

At publication time, the 8 big shorts in gold and silver have continued to whittle down their total losses from Friday's \$9.7 billion, by a further \$600 million to \$9.1 billion, the lowest level since the last June's quarter and first half close. This is in line with gold closing at lows not seen since then. Once again, with gold down more than 16% from its all-time August highs and down nearly 10% from yearend, silver is down about 7% from its 8-year highs of August and about 1% from its yearend close. Accordingly, silver now accounts for a larger portion of the 8 big shorts' total losses than ever at \$3.6 billion or 40% of the total \$9.1 billion loss.

Ted Butler

March 3, 2021

Silver – \$26.20 (200 day ma – \$23.91, 50 day ma – \$26.54, 100 day ma -\$25.40)

Gold – \$1712 (200 day ma – \$1860, 50 day ma – \$1842, 100 day ma – \$1859)

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