

## March 8, 2023 – A Few Absolute Certainties

So much for my suggestion that the price bottom was in for silver (and gold), based upon the price reversal to the upside last week (how dare they rain on my parade). I suppose in my next life I should better prepare for short-term prognosis, but for this life I'm stuck with being a basic commodity supply and demand guy, with a special emphasis on the deliberate collusive commercial COMEX positioning which determines price. I admit that knowing what these COMEX commercial crooks are up to is not the same as anticipating correctly what they will do in the short term.

Some quick observations about yesterday's price bloodbath. I am always amazed about how violently and uniformly COMEX metals can get smashed lower for what I would submit are bogus reasons. Yes, the dollar swooned and stock markets cratered, but try thinking that through logically and you'll tie yourself in knots. Besides, aren't silver, gold, copper and platinum different metals with their own unique supply/demand fundamentals? So where's the justification and legitimacy of them all moving in price lockstep?

The kicker is that usually following an across-the-board price smash, we wake up to, basically, unchanged pricing the next day, as if nothing of consequence occurred on the violent price beat down. I would submit that this price pattern is a neon-sign indication that paper-positioning has supplanted actual supply/demand fundamentals in clear violation of commodity law. Thanks a lot, CFTC, for being so on top of things. Don't know what we would do without you.

Still, there are a number of things that can be relied upon, to the point of absolute certainty. One is that when severe physical tightness develops in a commodity, like in silver or copper presently, continued or even lower prices will not alleviate or cure the physical tightness – only higher prices can eliminate a physical shortage. The only question is one of timing, namely, the waiting for the ironclad law of supply and demand to kick in – hence, the compelling logic behind the statement that "the cure for low prices is low prices".

The "waiting", if long enough, does tend to trip off all sorts of doubts that the law of supply and demand may not kick in, but that's mostly due to the inherent frailty of the human condition. If the law of supply and demand were ever to be permanently eliminated, capitalism, as we know it, would cease to exist. In the case of metals priced on the COMEX and other futures exchanges, there is a compelling additional reason for anxiety that the law of supply and demand might not bring about the higher prices necessary to eliminate a physical shortage. That additional reason revolves around a special factor that a closely-knit group of market participants (classified as "commercials") deliberately manipulate prices to take advantage of a different closely-knit group of traders (classified as managed money traders).

So deliberate and, generally, successful has been the commercials mastery over the managed money traders in COMEX silver, gold, copper and platinum, that it's little wonder it has lasted for 40 years. Let me rephrase that, there's little wonder – the commercials have pressed their advantage for four decades; the real wonder is why the managed money traders have allowed themselves to be deliberately lured into and out from positions to their own disadvantage and to commercials' advantage. (Another wonder, of course, is the depth of malfeasance on the part of the CFTC in allowing the pricing scam to exist for so long). – Some would argue that there must be some deeper

conspiracy explaining the managed money traders playing the constant sucker and fool, but regardless, the data confirm the commercials always seem to come out on top.

So dominant have been the commercials over the managed money traders that certain invaluable lessons have been learned over time. One is that on every significant price decline over the past 40 years, the commercials are always big net buyers and the managed money traders net sellers. This is the essence of the ongoing COMEX price manipulation and if the managed money traders didn't always sell on price weakness and buy on price strength, there would be no price manipulation, as they are the enablers.

The problem is that over time, the constant snookering of the managed money traders has resulted in silver (and other) prices being lower than would have resulted if the deliberate COMEX positioning had never existed. In turn, this has clearly punished silver investors and silver producers. The greatest harm, of course, is that the manipulative pricing scheme on the COMEX has interfered with the normal functioning of the law of supply and demand, the cornerstone of our economic system.

All that said, there is one final sure thing that can be relied upon and which is about to kick-in. The sure thing I speak of is that the managed money traders have never collectively profited on a realized basis whenever getting heavily short in COMEX silver. Of course, "heavily short" is somewhat subjective, in that the level of short positions considered heavy held by the managed money traders does vary over time, so let me define what I'm saying in more objective terms. Over the past year, the managed money gross short position in COMEX silver futures has ranged from 12,000 contracts or so on the low side, back when silver was \$26 or more a year ago, to nearly 60,000 contracts when silver fell under \$18 last September. (The first thing you should note is that the managed money traders are always least short at market tops and most short at market bottoms).

In the COT report of Feb 7 (the most recently published), the managed money traders were short just over 29,000 contracts, up from 15,000 contracts short in December with silver prices above \$24. As of yesterday's close, to the reporting week ended March 7, I'd estimate the managed money short position is now more than 40,000 contracts, about where it was in October when silver was still around \$18. I do not think the managed money traders will put on another 20,000 additional short contracts to get to what they held last September, but if they do, that will require lower prices.

One good thing is that it is fairly easy to calculate the average collective price at which the managed money traders establish and liquidate positions, which explains why I can say that they have never collectively cashed in profitably whenever they have established big short positions. To be completely frank, neither have I observed the managed money traders getting completely annihilated when heavily short silver (or gold), as the commercials have generally been quite merciful and accommodating in selling to the managed money traders when they rush to cover short positions (kind of like not killing the goose that lays golden eggs).

I'd estimate that the roughly 10,000 new short contracts the managed money traders added as of Feb 7 (since Jan 17) had an average price of just over \$22 and if they have added another 10,000 (or more) shorts as of last night's close, then the average price of all the 20,000 added short contracts has an average price of \$21.50 (or less). At \$20 silver, the 20,000 added shorts are in the black to the tune of \$150 million collectively. If we move lower and the managed money traders add more new short positions on lower prices, the open and unrealized profit of the managed money traders will grow accordingly.

Back at the price lows of summer, the collective open profits of the managed money shorts climbed to more than \$600 million. Eventually, and as has always been the case, the managed money traders gave back all those open profits, as will most assuredly occur this time, regardless of how much their profits may grow before prices turn higher and those open profits dissipate. To be sure, I'm not relying solely on the fact that the managed money traders have never collectively achieved realized profits after getting heavily short silver for my certainty they will give back all their open profits this time as well. It is not just their impeccable track record I'm relying on, it's how the game is structured and played.

In order for the managed money traders to collectively book realized profits on big short positions in silver requires most of them to buy back a large number of short silver positions at prices lower than their average price of going short. That sounds simple enough, but in order for the managed money traders to buy back shorts at lower prices than they originally sold, someone must sell to them at those lower prices. The only someone remotely capable of selling in the quantities required for the managed money traders to buy back their short positions are the commercials the very same traders which tricked the managed money traders to go short in the first place.

Not to tempt fate, but the chance of the commercials turning around and selling and selling short at the low prices necessary for the managed money traders to close out their shorts profitably is beyond anything imaginable. The surest thing possible is that the commercials will only sell to the managed money traders after silver prices have risen and the managed money traders have frittered away any open profits. It's even hard for me to contemplate any circumstances in which the commercials turn sellers on lower prices than currently exist. I consider this the most absolute of all certainties.

Therefore, it is just a matter of time before the managed money traders sell and liquidate every silver long position they are capable of selling and sell short every contract they are capable of selling short. And after that, there is no reason for the commercials to rig prices lower. I thought that precise moment occurred last week and was wrong wrong in trying to be a hero and predicting the precise turning of the tide but not wrong in assessing the overall condition of the market structure. This may appear to be a simple case of declaring every new price low as the low, but there's a bit more to it than that.

In fact, one of the signs previously missing in trying to gauge the extent of new managed money shorting has been the curious case of no increase in total open interest on the price decline to date. Certainly, an increase in total open interest is not always required for there to be an increase in managed money shorting. This was clearly seen in the Feb 7 COT report, as total open interest in silver declined by nearly 5000 contracts, even as managed money shorting increased by more than 8000 contracts. But that was on the first big breakdown in prices and once a price decline gets rolling, you generally need to see an increase in total open interest as an indicator of increased managed

money shorting.

The good news is that yesterday's price smash, finally resulted in a significant increase in silver's total open interest of more than 5000 contracts – highly indicative of a sharp increase in managed money shorting. There was an even larger increase in total gold open interest, but since we're in the prime rollover period before the big April gold delivery period, when the establishment of phony spreads inflates open interest, I'm not inclined to believe the increase in gold's total open interest was directly related to new managed money shorting. Even though gold was down a chunk pricewise, no new price lows were established and no new key moving averages were penetrated, both additional arguments against heavy new managed money shorting. To be sure, gold's market structure is bullish in my opinion, but by comparison, silver's market structure is other worldly bullish.

It's a shame that the CFTC is still so far behind in expediting delayed COT reports (and that it failed to follow my suggestion of publishing the most current report first), but actual positioning has not been delayed – look no further than yesterday's price smash. The delayed COT reports can be published at any time, but detailed analyses of weeks' old data doesn't seem to be a particularly worthwhile exercise to me. So I'm going to adopt the same suggestion I gave to the CFTC, namely, assessing the most likely current positioning first and then working to fill in the blanks as delayed reports are published.

As of yesterday's cutoff (March 7) for the reporting week that was originally scheduled to be published this Friday – in other words, an up-to-date guesstimate for current positioning – I would estimate that the managed money gross short position in silver may be closer to 45,000 contracts than the 40,000 contract number stated above. I would further guess that the total commercial net short position in silver (the headline number) is now down close to 15,000 contracts (from 29,700 contracts on Feb 7). I'm going to skip guessing on the concentrated short position of the 4 and 8 largest traders as I'm pretty confident managed money traders are now in those categories.

For gold as of March 7, I would guess a 20,000 contract (or more) reduction in the headline commercial net short position from Feb 7. For both silver and gold, I plan to use the interim delayed COT reports to adjust my current guesstimates accordingly. Again, these are not predictions for the next delayed report(s), but more of an estimate as to where we are now – in the manner of the great Gretzky skating to where the puck will be and not where it's been.

In that same manner of looking ahead, whenever the current run of commercial rigging to the downside is complete (if not already), there remains the matter of what the commercials intend to do on the coming certain rally. Surely, the raptors (the smaller commercials apart from the big commercial shorts) will sell out long positions at profits as the managed money traders rush to buy back short positions suddenly (and no doubt mysteriously to them) in the red from being in the black, but the real question is what the 4 big commercial shorts intend to do. I've tried to resist my usual prediction that they will stand aside and let silver prices finally fly skyward – as I didn't want to jinx things.

Still, as silver prices climb above the key moving averages, say back to the \$24 or \$25 level and the raptors have profitably peeled off all or most of their recently added longs, that's when the 4 big shorts must increase their concentrated short position to prevent prices from rising sharply. After all, this is what they have always done. But let's just step back a bit and consider what things will look like at that point.

As I described above, the current condition of the wholesale physical market is super-tight, tighter than I've ever witnessed. This is borne out with the continued and some might say structural inventory drains and high turnover in the COMEX warehouses and in SLV. These continued inventory drains and turnover certainly existed as silver traded in the \$24 level of recent months and it's hard for me to imagine how a rally back to that level would somehow increase silver mine production or decrease fabrication demand -- alleviating the ongoing supply/demand crunch.

Therefore, should the 4 big silver shorts do as they always have done and cap and contain prices around the \$24 or so level, that's not going to resolve the physical supply/demand crunch one bit. So why do it? The only conceivable reason would be to smash prices lower and get the managed money traders back on the short side -- which will benefit the smaller raptors much more than the big 4. But the key is still big 4 aggressive short selling in order to cap prices -- otherwise prices may finally run.

The bottom line (at the risk of jinxing it) is that there has never been a better time (because of the pronounced physical tightness) for the big 4 to step aside. Of course, the ghost of my good friend and silver mentor, Izzy Friedman, would say -- let them go short and they'll get their pants pulled down when the physical moment of truth arrives. Either way, the basic logic of buying and holding silver at current prices should turn out to be final absolute certainty.

Ted Butler

March 8, 2023

Silver – \$20.15 (200-day ma – \$20.99, 50-day ma – \$22.85, 100-day ma – \$22.01)

Gold – \$1820 (200-day ma – \$1783, 50-day ma – \$1872, 100-day ma – \$1802)

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